



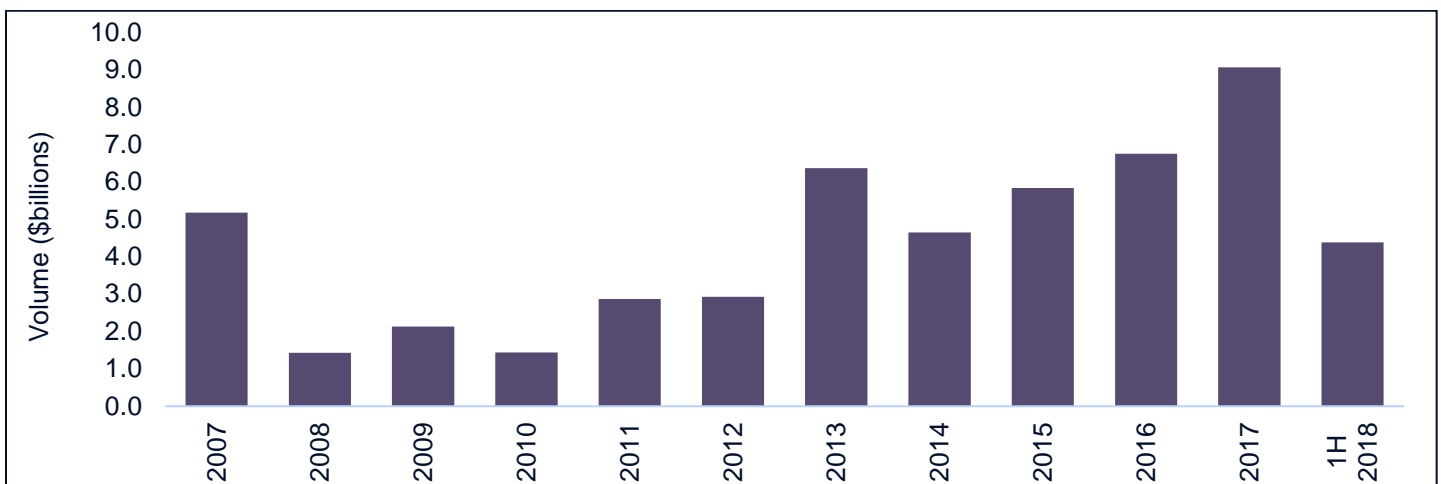
Multifamily Affordable Market Commentary– September 2018 Investor Interest in Manufactured Housing Communities Remains Robust

The ongoing increase in multifamily asking rents over the past several years has prompted many renters to seek lower cost housing alternatives, including renting factory-built homes located in a Manufactured Housing Community (MHC). Although most MHCs rent sites to owners of manufactured homes so owners may have access to electricity and other utilities, there are a number of these communities that also rent out manufactured housing units themselves. The combination of renewed renter and homeowner interest in living in MHCs has not been lost on some real estate investors. As a result, in 2017 the level of MHC transactions saw its highest volume since the end of the recession in June 2009.

Transaction Volume Continues to Rise

Although not a comprehensive source of data for MHC property sales, Real Capital Analytics (RCA) provides a window into the MHC sector. As shown in the chart below, last year was another banner year for MHC. Transactions involving MHC properties totaled an estimated \$9.1 billion in calendar year 2017 compared to an estimated \$6.8 billion in 2016. Investor interest in MHC continues to be strong, with RCA recording about \$4.4 billion in transactions in the first half of 2018.

MHC Transaction Volume (January 1, 2007 – June 30, 2018)



Source: Real Capital Analytics www.rcanalytics.com

Note: Transaction volume includes both sales of existing and the appraised value of refinanced MHC properties. Includes transactions \$2.5 million or greater

Seniors MHC Sales Dominate Individual Sales

With the oldest Baby Boomers now retiring, interest in MHCs restricted to age 55+ remains high – particularly since MHC can be an affordable alternative to homeownership and apartment rental. In fact, the top five individual sales of MHC properties by sales price in the first half of 2018 were age-restricted communities.

According to RCA, one of the largest sales of an MHC property in the first half of 2018 was the 612-site, age-restricted Everglades Lakes in Pembroke Pines, FL, which sold for an estimated \$72 million, followed by the \$34 million sale of the Mesa Dunes community with 416 sites located in Mesa, AZ. Another notable property sale was the 425-site, age-restricted Serendipity community in Fort Meyers, FL which sold at an estimated \$31 million.

One Property Turned Over in Less than a Year

However, one of the most interesting sales in the first half of 2018 was the 421-site Brookside Mobile Home Park in El Monte CA, which closed in an off-market transaction for almost \$73 million, according to RCA. Shopoff Realty bought the property just over a year ago in April 2017 for slightly less than \$53 million as part of a joint venture with Ladder Capital, a New York-based real estate investment trust (REIT).



While Shopoff made a few value-add changes, including working with the city to approve the building of carpools and streamlining park operations, the investors may have had an eye to the future as Brookside is less than 20 miles from downtown Los Angeles. This sale highlights one of the challenges faced by MHCs which commonly offer an affordable alternative to traditional housing types. Land becomes more valuable as cities expand, making it highly possible that the community will disappear and the MHC land will be re-appropriated for other use.

MHC Investing Goes Beyond REITs

While publicly-listed REITs have remained active in the MHC sector, private entities had the highest share of investment in MHCs through the end of July 2018, as seen in the adjacent chart. Private investors, which include privately-owned companies and real estate developers, represented 56 percent of MHC purchase volume through July 2018, followed by institutional investors with 33 percent. This category can include insurance companies, equity funds, and sovereign wealth funds. Public REITs came in third with an estimated 10 percent of purchase volume.

Foreign Investors Showing Interest

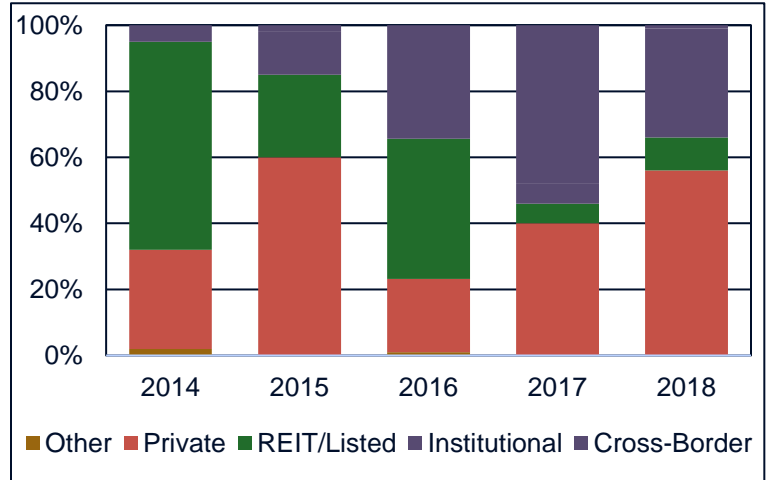
Foreign investors continue to show interest in MHCs. As shown in the chart to the right, foreign investors represented 48 percent of buyers in 2017 and 34 percent of buyers in 2016. However, foreign investment has been off to a slow start in the first half of 2018.

One newcomer in 2018 was Brazilian company Integra Solutions, which purchased two MHC properties totaling \$11 million in Stock Island, FL, which is adjacent to Key West. Canada has historically been the largest foreign investor in MHCs, investing an estimated \$2 billion in 2017, following investment of just under \$71 million in 2016 and just over \$40 million in 2015.

Canadian Company Remains a Top Investor

Brookfield AM, a publicly listed Canadian company, was the top MHC investor over the past 24 months, investing almost \$2 billion on 134 MHC properties. The second most active buyer was Yes! Communities, one of the largest owner-operators of MHC properties, which invested an estimated \$1.6 billion on 197 properties. The Government of Singapore Investment Corporation (GIC), which is the sovereign wealth fund of Singapore, rounded out the top three investors primarily due to the fact that its affiliates invested almost \$1.5 billion in 2016 to gain a majority interest on 178 MHC properties sold by Yes! Communities.

MHC Buyer Composition
January 1, 2014 – July 31, 2018



Source: Real Capital Analytics www.rcanalytics.com

Top 10 MHC Buyers (Past 24 Months)

	Buyer	Investor Type	Location	Acquisition (\$ M)
1	Brookfield AM	Publicly Listed REOC	Toronto (Canada)	\$2,000
2	Yes! Communities	Private REIT	Denver, CO	1,600
3	Government of Singapore Investment Fund	Institutional Sovereign Wealth Fund	Singapore, SGP	1,500
4	TPG Capital	Institutional Equity Fund	Fort Worth, TX	400
5	Equity Lifestyle Props	Publicly Listed REIT	Chicago, IL	190
6	Blackstone	Institutional Private Equity	New York, NY	190
7	Sun Communities Inc	Publicly Listed REIT	Southfield, MI	170
8	Meritus Communities	Private Developer/Owner	Oakland, MI	150
9	Carlyle Group	Institutional Equity Fund	Washington, DC	140
10	Investment Property Group MHC	Private Developer/Owner	Irvine, CA	130

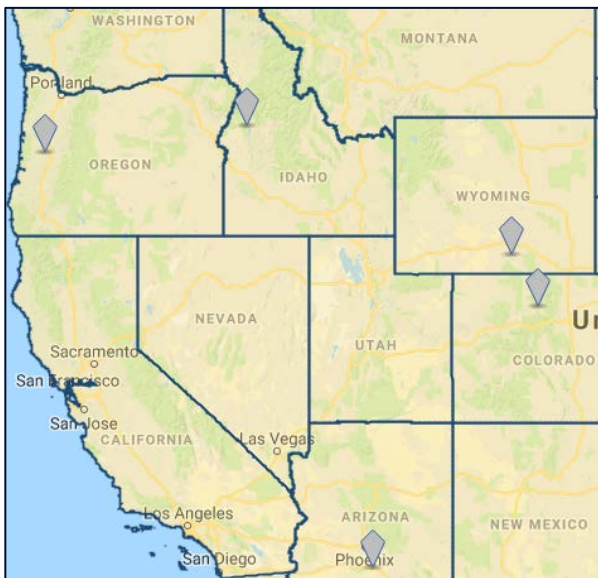


Few New MHC Properties Being Built

MHC properties are aging, with 68 percent of the stock having been built prior to 1980, according to MHC data vendor Datacomp/JLT. In fact, currently only six new MHC properties are estimated to be under construction, as illustrated in the map and table below.

One interesting MHC development under construction is Emerald Village, located in Eugene, OR. This MHC is slated to consist of 22 units, ranging in size from 150-250 square feet, according to data from real estate research firm CoStar Group, Inc. The project is meant to serve as transitional housing for homeless individuals.

MHC Under Construction – July 31, 2018



Source: CoStar Group, Inc.

MHC Identifier	Details for 2018 Delivery
315 Atigun Dr Valdez, AK 99686	Units Unknown Class C MHC
Quail Run 14010 S Amado Blvd Arizona City, AZ 85223	Units Unknown, Class C MHC
235 Eld Ln Donnelly, ID 83615	Units Unknown, Class C MHC
925 E Garnet Ave Granby CO 80446	Units Unknown, Class B MHC
Emerald Village 25 N Polk St Eugene, OR 97402	22 Unit Class B MHC Note: 22 of the homes will be affordable and range in size from about 150-250 square feet.
601 Spring Ave Saratoga, WY 82331	Units Unknown, Class C MHC Delivering 2018

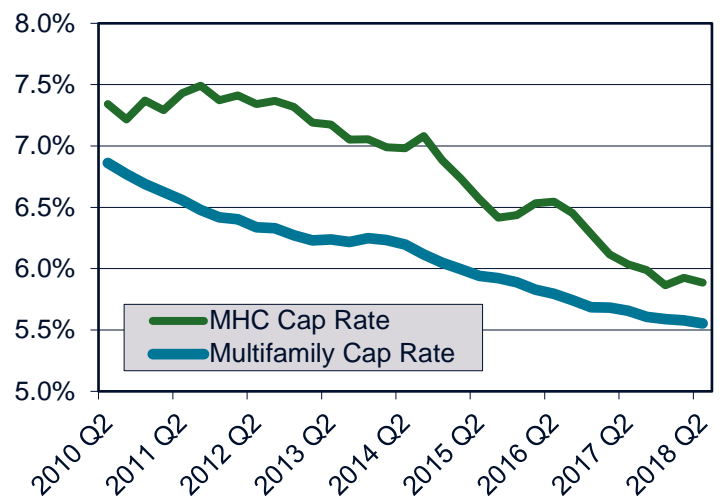
MHC Cap Rates Remain Low

With ongoing interest from a wide variety of investors, and few new communities being built, capitalization rates for institutional-quality MHCs have declined significantly in recent years, as shown in the adjacent chart. As of second quarter 2018, RCA estimates that MHC cap rates are 5.9 percent, slightly lower than the 6.0 percent cap rate RCA recorded for second quarter 2017. While the average MHC cap rate remains well above the national multifamily average cap rate of 5.6 percent as of second quarter 2018, it remains well below the most recent peak of 7.5 percent for MHCs recorded in third quarter 2011.

Average Sales Price per Unit Increases

The average price per MHC site was about \$54,000 as of the end of the first half of 2018, according to RCA. While this is about 35 percent higher than the estimated \$40,000 per site recorded as of fourth quarter 2007, it remains far below the \$154,000 average sales price per unit recorded for apartments.

Manufactured Housing Community Average Cap Rate vs. Multifamily Average Cap Rate



Source: Real Capital Analytics www.rcanalytics.com
Quarterly based on trailing 12 month average. Includes property or portfolio sales \$2.5 million or greater



MHCs Prevalent in Rural America

Apartment units are not the predominant rental type in rural America. Rather, 66 percent of renter households occupy single-family stock, 19 percent occupy apartments, and 15 percent occupy manufactured housing communities. While many of these manufactured housing communities are provided by an owner on an individual plot of land, others are located in MHC properties. Nearly 2,000 counties with rural census tracts have at least one MHC. In fact, about a quarter of all MHCs – more than 10,000 – are located in counties with rural census tracts, according to Datacomp/JLT.

Highest Concentration of Counties on East Coast

Although many counties have just one or two MHCs, some show a higher concentration. As shown in the map below, the two counties with the highest concentration of MHCs in rural census tracts are in North Carolina. Both Harnett and Randolph counties have over 70 MHCs each. Harnett County is located about 36 miles south of Raleigh and is considered part of the Research Triangle area. Randolph County is less than 30 miles from High Point, which is home to a variety of manufacturing plants.

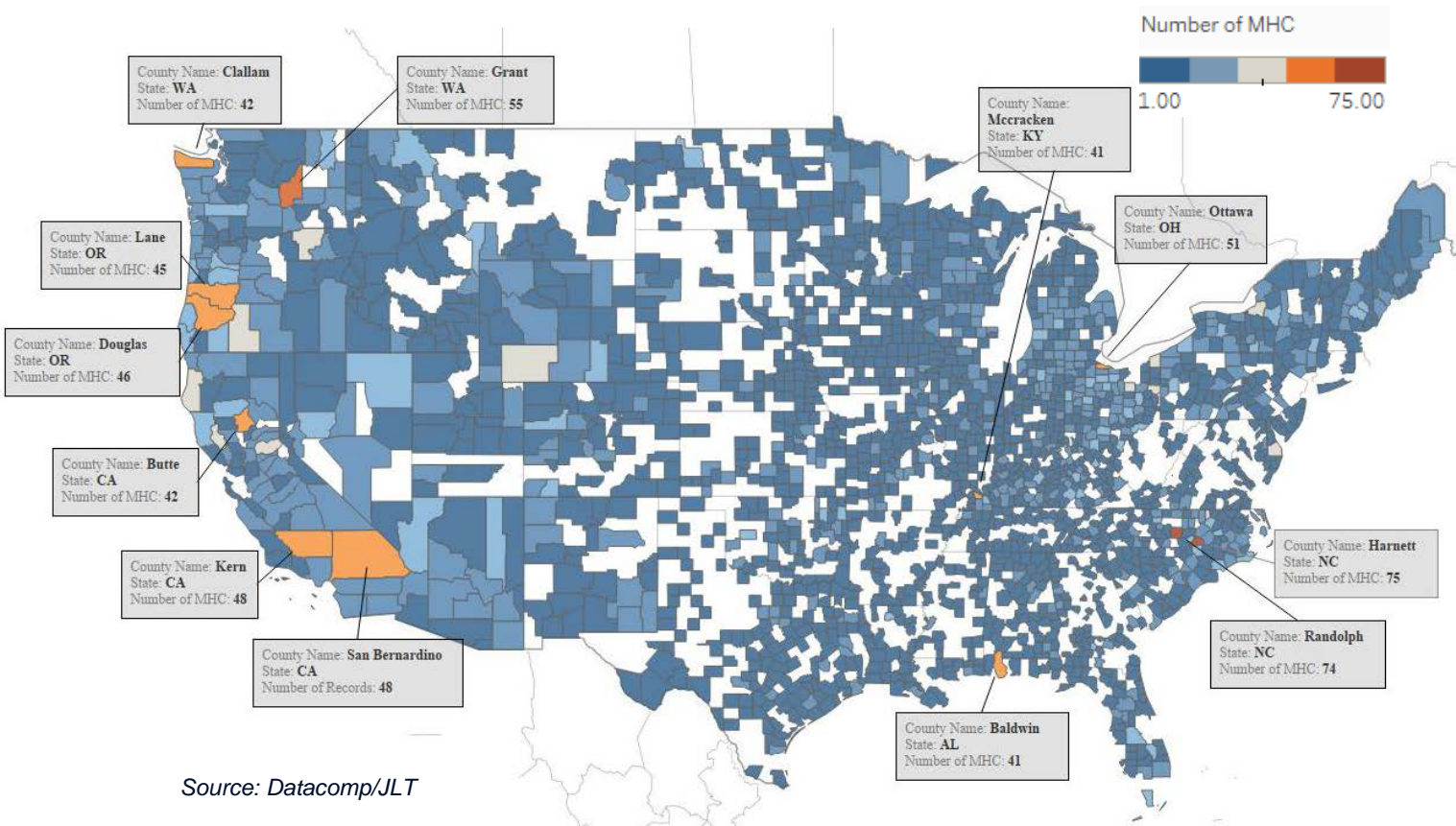
High Concentration Counties May Favor New MHC

Two counties on the west coast with a high concentration of MHCs in rural census tracts are Douglas and Lane counties in Oregon, each with approximately 45 MHCs. Lane County includes Eugene, which is the second-most populous city after Portland and home to the University of Oregon. Interestingly, Eugene is one of the few metros with a new MHC under construction: the aforementioned Emerald Village.

MHCs in the Lower Mississippi Delta

With 41 MHCs, McCracken County in Kentucky has a high concentration of MHCs. Interestingly, McCracken County also has rural census tracts located in the Lower Mississippi Delta, which has been designated a “High needs rural region” under FHFA’s Duty to Serve regulations.

Number of MHCs in Rural Census Tracts by County





Average Rents in MHC vs Apartment Rents, Select Metros

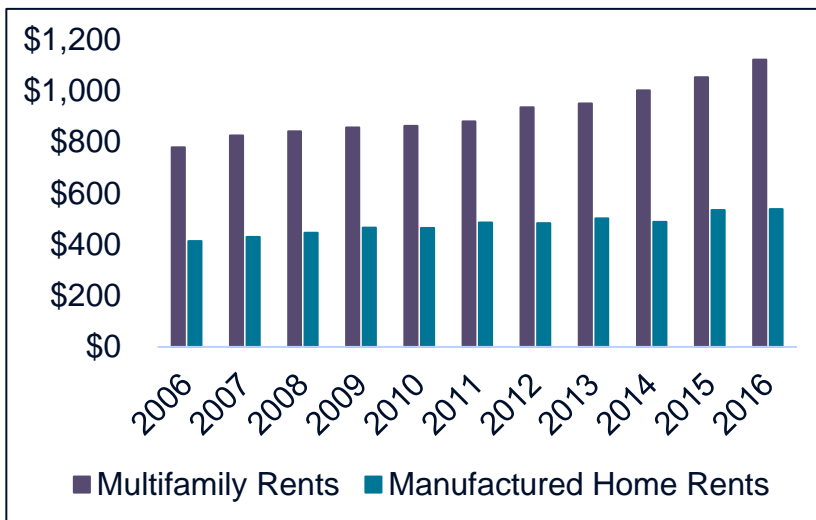
Metro Area	Rental in MHC	Apartment Rents	Ratio of MHC Rent to Apartment Rent
Los Angeles, CA	\$1,380	\$2,194	63%
Chicago, IL	\$950	\$1,452	65%
Seattle, WA	\$1,250	\$1,798	70%
Cleveland, OH	\$649	\$922	70%
St. Louis, MO	\$651	\$890	73%
Fort Wayne, IN	\$534	\$703	76%

Source: Datacomp/JLT for MHC rents based on listings August 21, 2018. Axiometrics for Apartment market rents. Geographic boundaries for metro areas may vary somewhat between Datacomp and Axiometrics.

MHC Rents More Affordable Than Apartment Rents

Despite the lack of new supply, rentals in MHC properties are generally less expensive than the apartments. As shown in the adjacent table, the average MHC rent nationwide has been about half of that of an apartment over the past decade. According to recent data from Datacomp/JLT, the average rent for a pre-owned manufactured home in Fort Wayne, IN was just \$534, approximately three quarters of the average rent for an apartment. However, the savings are even higher for an MHC located in a major metropolitan area. For instance, while the average rent for an MHC unit in the Los Angeles metro is \$1,380, it is just 63 percent of the metro's average estimated rent for an apartment. Nationwide, the asking rents on all manufactured housing rentals, including those on individual plots of land, remain at about half of multifamily rents, making them a more affordable option for many renters.

Mean Manufactured Housing Rents vs Multifamily Rents



Source: Fannie Mae tabulations of American Community Survey Data. Note: Based on gross rents and includes utilities; rents based on all manufactured housing rentals including those outside of manufactured housing communities.

A Stable Future for MHC

According to Datacomp/JLT, there are about 38,000 existing MHC properties, and only a handful of new communities are being built or expanded. With rents for manufactured homes more affordable than those for traditional multifamily units, there is no shortage of demand for a wide variety of renters, whether they are lower income households or retirees living on fixed incomes. The combination of strong rental demand for affordable housing, rising but historically low interest rates, and a dearth of new supply supports continued strong fundamentals in the MHC sector. As a result, investor interest is expected to remain strong in this segment of the multifamily market over the next year.

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