

Manufactured Home Communities Outperform During Health Crisis; Momentum Likely to Carry Into Post-Pandemic Era, Attracting Investors

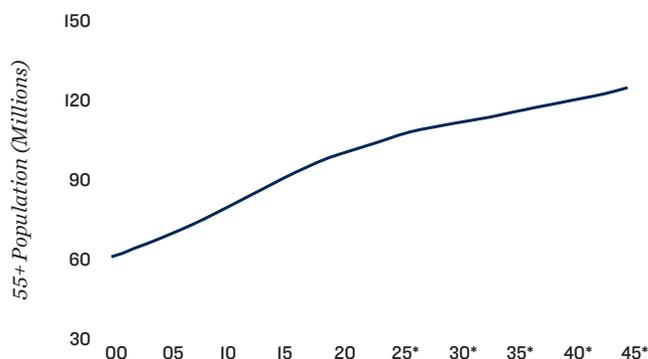
Despite need for economical living options, new inventory is limited. Hardships brought on by the rapid surge of unemployment at the onset of the pandemic highlighted the need for moderately priced housing options. Households seeking larger spaces in less densely populated locations, in addition to more millennials aging into the homebuying phase of life, have bolstered the demand for single-family homes across the nation, which has sent prices soaring. The need for the more economical housing that manufactured home neighborhoods offer has boosted demand for lot rentals, rapidly filling up spaces. A limited number of new communities have been built over the past few decades, however, mainly due to difficulty in obtaining the necessary permits. Increased interest by more local jurisdictions to provide additional lower-cost housing could allow some new communities to be built or existing facilities to be enlarged in the years ahead.

Vacancy continues to tighten across the nation. The lack of new inventory amid an increased need for economical housing options is bolstering demand in manufactured home communities. Last year, nearly all subregions posted a decline in vacancy as the rate contracted in the majority of the markets surveyed. The rate is especially low in many coastal communities, particularly in California, where there is an increased need for workforce housing. Vacancy rates in age-restricted communities are even lower than all-age parks in most subregions as more than 10,000 people turn 65 years old each day. Households retiring to warmer climates or snowbirds seeking a second residence are boosting demand in the Sunbelt. Looking ahead, high home prices and multifamily rents will continue to generate demand for lots in manufactured home communities while new supply remains limited, benefiting existing owners.

Rent growth maintained traction during health crisis. Rent collections in manufactured home communities outpaced most other property types last year. The cost for a homeowner to move their unit to another park is a contributing factor. With more residents staying in place, rents rose in the majority of metros in 2020. Tightening vacancy and upgraded facilities combined to support the increasing rates. Prospects of future rent growth could be curtailed, however, by rent control proposals that are becoming more prevalent. Outside of these efforts, strong demand for lots and the slow pace of additional inventory growth will likely support continued rent gains over the near term.

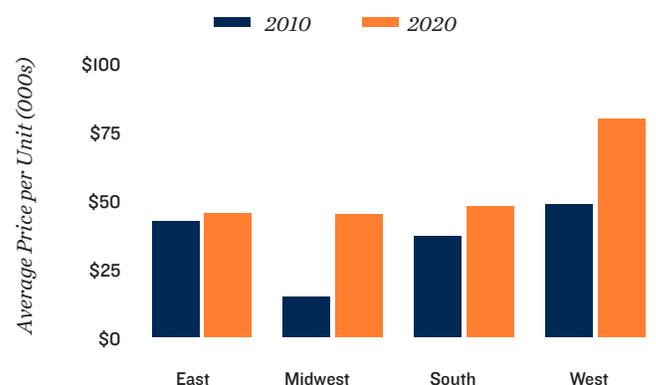
Capital flowing into manufactured home community investments. The solid operational performance during the health crisis has drawn a wider range of investors seeking a safer destination for capital. The influx of investments has begun to compress yields. Institutions and REITs remain active, although a lack of higher-quality parks in the best locations has required these buyers to expand their search criteria to include smaller parks or alternative locations. Private investors are also attempting to add to their portfolios, together with numerous buyers new to this property type, but acquisitions have been inhibited by limited listings. Communities rated with at least two stars that have no substantive operational issues frequently receive multiple offers, creating increased price pressure. Looking ahead, strong prices and risks surrounding potential tax law changes have caused some owners to reconsider their long-term strategy. Peak pricing may offer investors the opportunity to reposition their capital into other property types offering a higher yield.

55+ Population Growth



* Forecast
Sources: CoStar Group, Inc.; Moody's Analytics; U.S. Census

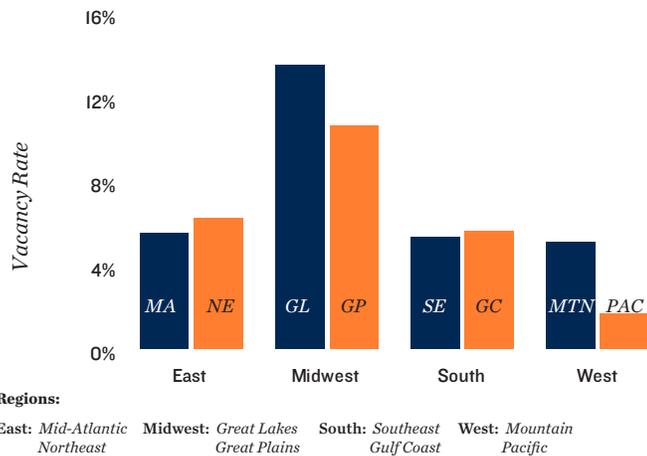
Price Appreciation by Region



Vacancy

Demand for less-costly housing options, lack of new supply tighten vacancy in manufactured home communities across the nation. As the price of stick-built homes and multifamily rent jumps, the need for more economical housing is bolstering the demand in manufactured home parks, diminishing availability. Last year, roughly 75 percent of the metros surveyed posted an annual decline in vacancy. At the same time, some older communities, especially near larger metros, are being redeveloped into higher-density projects, cutting supply. Although some new communities and RV parks have recently been developed or are underway, additional lots typically come from an expansion of an existing park or are located in small metros where land prices are less costly.

2020 Vacancy Rate



Regions:

East: Mid-Atlantic Northeast Midwest: Great Lakes Great Plains South: Southeast Gulf Coast West: Mountain Pacific

Source: Datacomp-JLT Market Report

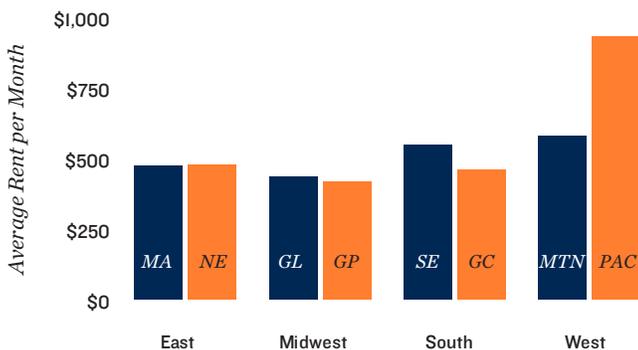
Highlights

- Among subregions, the Pacific maintained the lowest availability rate in 2020 at a tight 1.7 percent, despite vacancy having risen 20 basis points over the year. Higher home prices, especially in coastal communities, generate the need for economical housing options.
- The largest contraction in vacancy during 2020 was registered in the Great Plains. The rate receded 110 basis points to 10.6 percent, the second highest availability among subregions. The Great Lakes maintains the highest vacancy at 13.5 percent, down an annual 60 basis points.
- Coastal and California communities dominate the list of metros with vacancy hovering below 1 percent. Miami, San Jose, and Napa County and Ventura County in California are among the markets with the lowest rates. Denver and Salt Lake City are included in the non-coastal areas with tight vacancy.

Rent

Rents move higher as availability dwindles. The monthly rent payment for a home site in a manufactured housing community held steady or rose in 93 percent of surveyed metros during 2020. The higher rates are bolstered by strong demand, facility improvements and a lack of significant supply growth. The rising rent of sites, however, is drawing the attention of some affordable housing advocates, which is intensifying proposals to place limits on rent gains in some jurisdictions in an effort to preserve economical housing options. If successful, these changes could be challenging for future rent advances. Among subregions, the Northeast led rent growth with a 4.6 percent gain, nudging out the Gulf Coast and Mountain, both registering a 4.5 percent increase.

2020 Average Rent



Regions:

East: Mid-Atlantic Northeast Midwest: Great Lakes Great Plains South: Southeast Gulf Coast West: Mountain Pacific

Source: Datacomp-JLT Market Report

Highlights

- The Pacific posts the most costly lot rent among subregions at \$932 per month due to multiple California metros where the average rent tops \$1,000 per month. San Jose holds the highest average rent in the nation at \$1,491 per month in 2020, followed by Orange County at \$1,396 per month.
- The lowest average lot rent can be found in the Great Plains subregion at \$417 per month. More affordable stick-built housing prices and apartment rent compared with other regions of the country hold down rent gains.
- Metros in the Mid-Atlantic and Southeast subregions dominate the list of markets with the lowest lot rent. Average monthly rates below \$300 can be found in smaller metros including Columbia and Greenville in South Carolina, as well as Lynchburg, Virginia, and Birmingham, Alabama.

Flight to safety boosts demand for manufactured home communities. A surge in investor interest has created a seller's market, pushing prices higher and compressing yields. Cap rates, on average, have contracted 100 to 150 basis points over the past four quarters. First-year returns for prime, institutional-quality, age-restricted assets can dip into the high-3 percent range, while double-digit rates can occasionally be found in smaller outlying markets, particularly in the Midwest. During 2020, trading activity picked up in the majority of subregions with the Southeast, Pacific and Mountain states maintaining their dominance from the prior year. By state, Florida led transaction activity, accounting for 14 percent of the total. Average yields spanned from a high of 8.2 percent in the South down to 6.6 percent in the West in 2020.



Highlights

- Although prices varied widely depending on a number of factors including quality and location, the Pacific maintained the highest average price per unit during 2020 at \$88,100. The subregion also posted the lowest average cap rate at 6.3 percent.
- Light trading volume in the Northeast that was composed of mainly Class C properties with less than 150 units in smaller metros resulted in the lowest average price at \$33,100 per lot. Yields ranged from a low of 5 percent and extended into double digits.
- The potential for lower price points and higher yields drew more buyers to the Midwest, increasing deal flow 16 percent in 2020. The average price, meanwhile, rose 17 percent to \$44,500 per space. Cap rates averaged 7.7 percent but could dip below 5.5 percent and extend above 12 percent.

Source: CoStar Group, Inc.

Metro Performance

Metro Performance

Metro	2021 Vacancy	Y-O-Y Basis Point Change	2021 Average Rent	Y-O-Y Change
Miami	0.3%	20	\$619	1.1%
Salt Lake City	0.7%	-20	\$702	5.7%
New York City	1.1%	-40	\$774	4.6%
Baltimore	1.2%	-20	\$743	4.2%
West Palm Beach	1.9%	-40	\$718	2.9%
Fort Lauderdale	2.2%	0	\$779	4.4%
Tampa-St. Petersburg	3.2%	-130	\$556	3.7%
Phoenix	4.2%	-60	\$613	4.8%
Orlando	4.6%	-60	\$557	3.7%
Raleigh	5.4%	-70	\$467	3.8%
Charlotte	6.7%	-10	\$437	15.0%
Tucson	7.2%	-30	\$457	4.8%
Jacksonville	8.2%	-140	\$510	5.4%
Des Moines	9.1%	350	\$471	8.8%
Rochester	9.6%	10	\$458	3.9%
Atlanta	11.4%	-240	\$527	5.4%
Detroit	11.9%	-200	\$502	7.5%
Omaha	13.5%	510	\$415	4.5%

Region Definitions

East

- **Mid-Atlantic:** Delaware, District of Columbia, Kentucky, Maryland, North Carolina, South Carolina, Virginia, West Virginia
- **Northeast:** Connecticut, Maine, Massachusetts, New Hampshire, New York, New Jersey, Pennsylvania, Rhode Island, Vermont

Midwest

- **Great Lakes:** Illinois, Indiana, Michigan, Ohio, Wisconsin
- **Great Plains:** Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota

South

- **Southeast:** Alabama, Florida, Georgia, Mississippi, Tennessee
- **Gulf Coast:** Arkansas, Louisiana, Texas, Oklahoma

West

- **Mountain:** Arizona, Colorado, Idaho, Montana, Nevada, New Mexico, Utah, Wyoming
- **Pacific:** Alaska, California, Hawaii, Oregon, Washington

Capital Market Operations Largely Resume; Inflation Concerns Becoming More Apparent

Fed positions for temporary higher inflation period. Applying lessons learned from the global financial crisis, Congress and the Federal Reserve acted swiftly to preserve market liquidity and support borrowers amid the pandemic last year. As U.S. infections recede and the economy reopens, attention is shifting to the potential longer-term ramifications of these actions. The rapid increase in money supply from multiple stimulus provisions paired with low interest rates and disrupted supply chains has led to higher inflation, with core CPI climbing 3.8 percent annually in May. While above earlier expectations, the Federal Open Market Committee (FOMC) still considers this a transitory concern and intends to allow inflation to stay above the traditional 2 percent growth target for longer than it has in the past. The Fed also expects to keep the overnight lending rate low for the near future, citing still-high unemployment as one reason to hold off. More committee members are now open to the prospect of raising rates in 2023, however. Current quantitative easing practices will also remain in effect for the time being. The FOMC will wait for more substantial economic progress before tapering asset purchases, although some pandemic period programs have already expired.

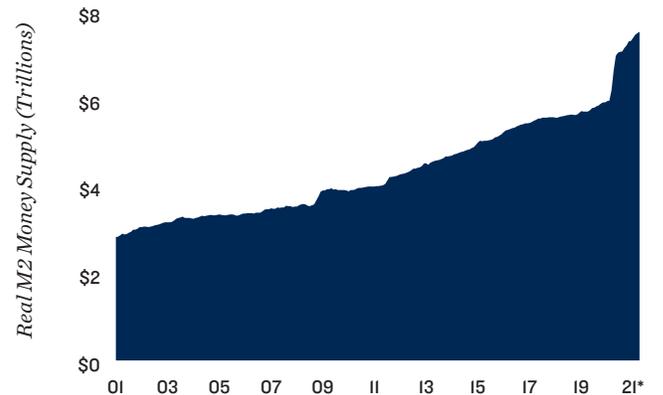
Lenders, like the economy, are opening back up, with financing available for quality properties. Following significant disruptions last year, the majority of lenders are now active and anticipating larger volume after 2020's slowdown. Sentiment is improving, aided by a 10-year Treasury rate in the 1.5 percent range and greater population mobility, which will help properties in commercial and travel hubs that were disproportionately affected by lockdowns. Lenders are nevertheless favoring borrowers with whom they have an established and positive relationship. A borrower's credit worthiness and track record bear considerable weight when accessing capital, as does the recent financial performance of the residential community. Capital for manufactured housing communities remains generally available from local banks as well as government sponsored agencies. High-quality properties may be considered for a CMBS securitization or by a life-insurance company. Overall, while lending volume is not anticipated to recover to 2019 levels, the impact of the health crisis on capital availability is expected to be less severe than that of the global financial crisis. The external nature of the health problem and critical efforts taken by Congress and the Federal Reserve have maintained and are improving liquidity in the market.

Inflation and Interest Rate Trends



* Through April
Sources: BLS; Federal Reserve

Money Supply Jumps Due to Fed Action



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Sources: Marcus & Millichap Research Services; Bureau of Labor Statistics; CoStar Group, Inc.; Datacomp-JLT; Federal Reserve; Institute for Building Technology and Safety; Manufactured Housing Institute; Moody's Analytics; U.S. Census Bureau