



Loma Vista, Austin, TX - Roberts Communities



United States | Fall 2021

JLL Research Report

Manufactured Housing Communities

Market Trends and Valuation Index Report

Executive summary

Institutional investment activity in the manufactured housing sector surged over the past 12 months as investors looked to place capital in operationally resilient sectors with favorable return profiles.

In conjunction with unprecedented investment volume in the multi-housing sector, valuations for manufactured housing communities reached an all-time high of \$46,970 per pad in the second quarter of 2021.

As the need for affordable housing options increases, stabilized occupancy rates continue to reach new highs at 95.4%. The rate of rent growth increased throughout the pandemic, to 2.6%, pushing average monthly rents to an all-time high of \$800 with collections averaging a 1% to 4% discount to contract rents.

The prevalence of delinquent loans remains near all-time lows, representing a mere 0.3% of all loans. This is in stark contrast to a delinquency rate in excess of 5.0% in the height of the Global Financial Crisis.

Capitalization rates for the manufactured housing sector continue to compress, declining 121 bps from a year ago, to 4.8% in Q2 2021, displaying increased investor confidence in the performance of the sector going forward.

The JLL Valuation Index reports key pricing metrics. The aggregate market value of this dataset totals approximately \$14.9 billion, or 6.4% of the total estimated market valuation of the institutional manufactured housing sector.

The year-over-year JLL Valuation Indices show three-star properties experienced the largest decline in capitalization rates, dropping 86 bps. Two- and four-star properties experienced a decline of 18 bps and 46 bps, respectively.

The largest price appreciation year-over-year was experienced by three-star properties, increasing \$11,800 (+22%) per pad. Two-star properties closely followed, climbing \$5,690 (+16%) per pad, and four-star properties increased \$5,580 (up 6%) per pad, on trailing four-quarter basis.

Early third-quarter 2021 transaction volume data is indicating the highest trailing four-quarter investment volume on record, at \$4.5 billion. JLL expects similar growth indications for occupancy and rents as the demand for affordable housing increases.

The need for affordable living options within the aging millennial population along with America's aging 55+ population present favorable demand tailwinds that are expected to drive mid- and long-term demand for manufactured housing and promote innovation within the sector.

Beyond the affordability component, advancements in various technologies and the utilization of recycled materials are a few of the ways manufacturers are reducing energy consumption and waste, further attracting investors who are ESG focused.

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Capital markets

Transaction volume

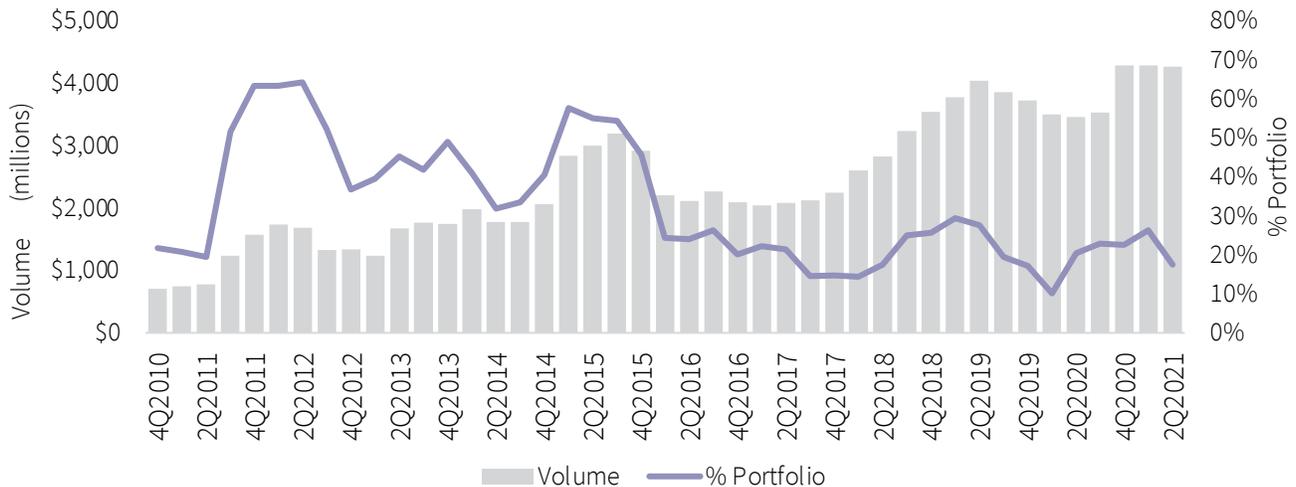
The flight to less volatile commercial real estate sectors lifted investment volume for manufactured housing communities to all-time highs in the third and fourth quarters of 2020, closing at \$1.3 billion and \$1.5 billion, respectively.

Investment activity in Q4 2020 rose 111% year-over-year as investors entered and expanded their position in the sector. After peaking in 2020, quarterly transaction activity stabilized in the first

half of 2021. On a trailing four-quarter basis, volume dipped slightly to \$4.3 billion. Despite appetite from investors, limited investment opportunities weighed on capital deployment, with portfolio activity falling to the lowest level since the onset of the pandemic.

Early indications for the third-quarter 2021 shows the highest level of transaction activity on a trailing four-quarter basis, at \$4.5 billion.

Rolling four-quarter transaction volume



Source: JLL Research, CoStar



Lakeside Crossing, Kyle, TX – Roberts Communities

Valuation trends

Valuations for manufactured housing communities reached an all-time high of \$46,970 per pad in the second quarter of 2021. The strongest price appreciation occurred in Southern and Midwestern markets, with year-over-year increases of 44% (to \$54,460) and 52% (to \$43,820) respectively.

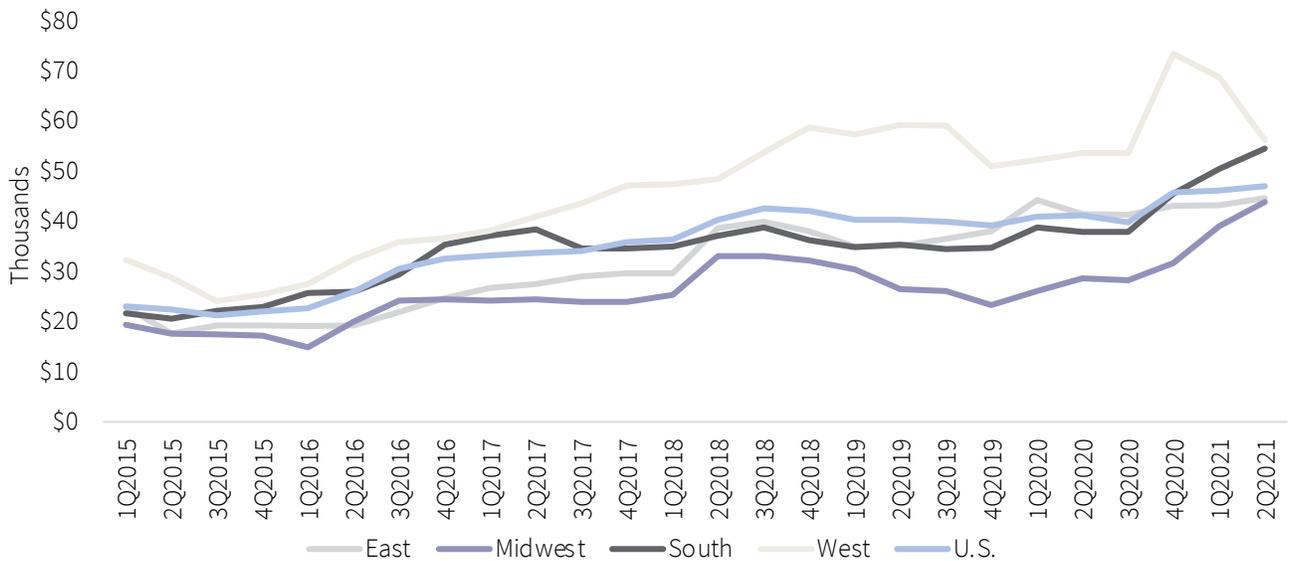
Western markets achieved the highest average valuation at \$56,160 per pad in Q2 2021, after reaching levels upward of \$73,340 per pad in Q4 2020, partially attributed to a sizable five-star portfolio valuation.

Nevertheless, Western markets remain attractive due to the dichotomy in home value trends and need for more affordable options.

With increased investor demand and limited on-market product, the manufactured housing industry has experienced consolidation of single-assets and smaller portfolios, driving valuations upward, with reported valuations in excess of \$300,000 per pad.

As a result, smaller or lower quality assets that may have not previously been a desirable investment for institutional investors, have become increasingly sought-after as investors seek to gain scale.

Average price per pad by region



Capitalization rates

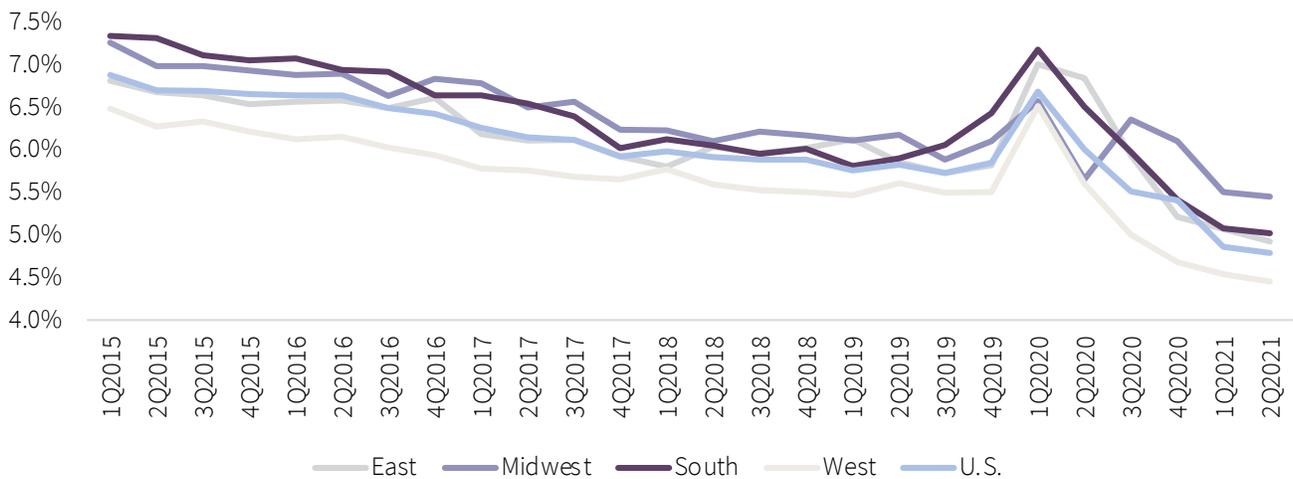
Capitalization rates for the manufactured housing sector are at an all-time low, declining 50 bps year-over-year, to 4.8% in Q2 2021. With a significant range based on location and quality attributes, regional averages ranged from 5.5% in Western markets to 4.5% in Midwest markets.

The spread between the 10-year treasury and capitalization rates has averaged 405 basis points for the manufactured housing sector and 362 basis

points for multi-housing over the past 10 years. The 10-year treasury reached an all-time low of 0.7% in the third quarter of 2020, creating significant opportunity for investors to capture yield.

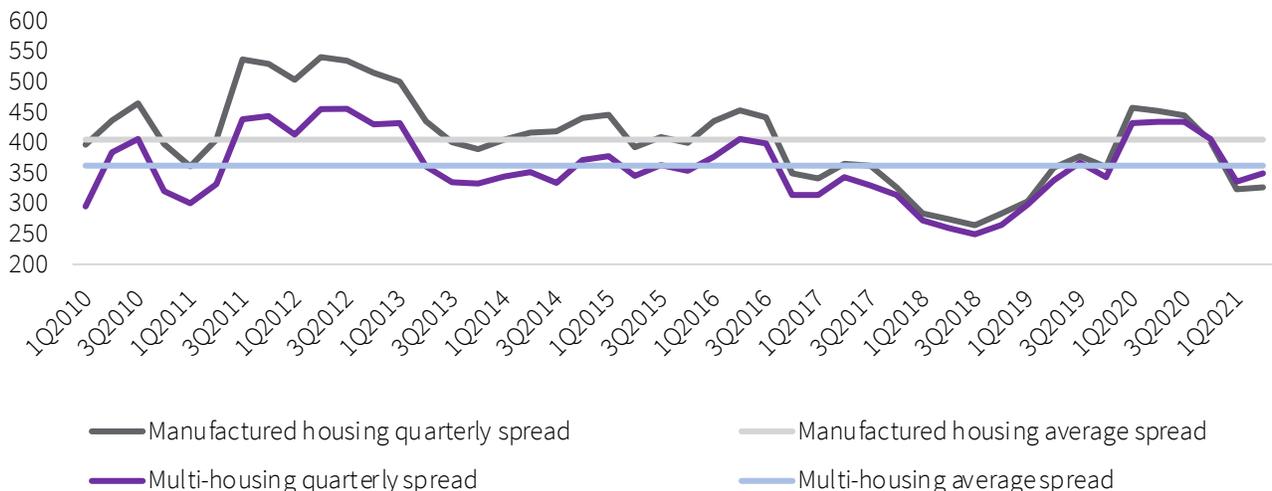
Despite increasing treasury rates in recent quarters, climbing to 1.5%, manufactured housing capitalization rates continued to decline. In Q2 2021, manufactured housing spreads fell below multi-housing spreads, illustrating investor confidence.

Average capitalization rate by region



Source: JLL Research, JLL Property Intelligence Exchange (PIX)

Manufactured housing market pricing vs. Multi-housing pricing



Source: JLL Research, Real Capital Analytics

Capital sources

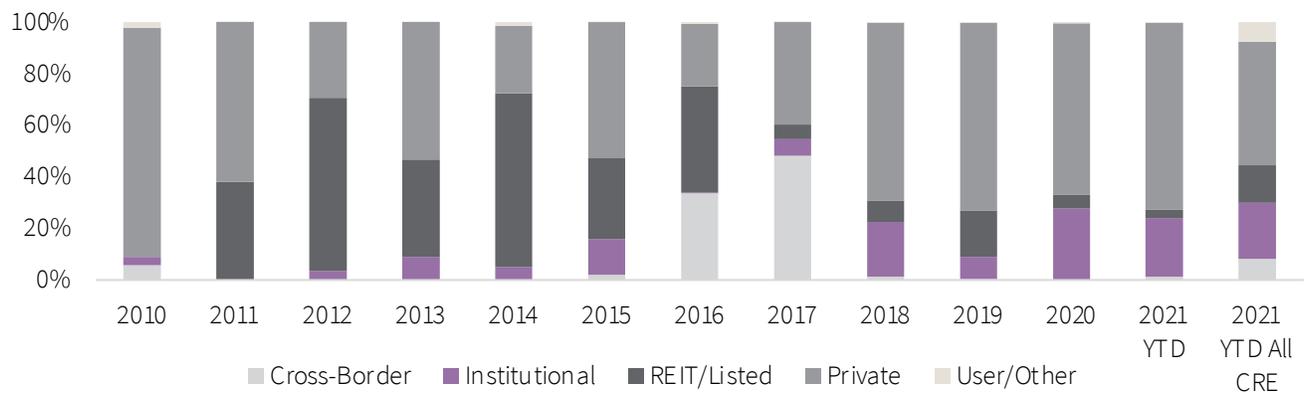
Deployment challenges in several of the major commercial real estate sectors has boosted liquidity and capital inflows in the manufactured housing space. Seasoned groups continue to raise capital, benefitting from an influx of new frustrated investors.

Private capital represented 72% of investment volume year-to-date, followed by institutional capital at 22%. Notably, this marks the highest percentage of institutional capital investment ever recorded on a trailing twelve-month basis.

Debt liquidity was abundant throughout 2020 as lender appetite for manufactured housing mortgages reached all-time highs. Fannie Mae ended 2020 with a record \$5.5 billion of manufactured housing loans, an increase of nearly 120% from \$2.5 billion in 2019, a volume that has appeared to have tapered in 2021.

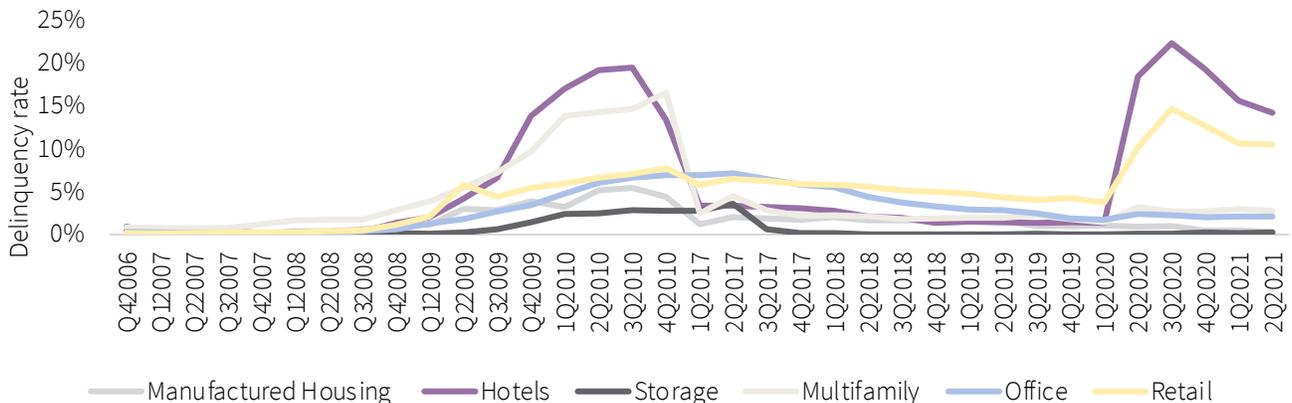
The prevalence of delinquent loans remains low, representing a mere 0.3% of all loans. This is in stark contrast to a delinquency rate in excess of 5.0% in the height of the Global Financial Crisis.

Manufactured housing capital composition by buyer type



Source: JLL Research, Real Capital Analytics

Debt service trends by asset class



Source: JLL Research, Trepp, LLC

Property markets

Performance snapshot

The shortage of affordable housing is a considerable national topic. Vast numbers of renters are struggling to find a place to live within their means, and the problem is getting more acute given the significant rise in housing prices.

Since the growing demand for affordable housing presents an opportunity for unconventional solutions, the manufactured housing industry may be well-positioned to reap the benefits of that pent-up demand.

Occupancy levels reached 95.4% and average monthly rents totaled \$800, according to CoStar. Annualized rent growth increased from a low of 1.2% in Q2 2020 to 2.6% in the Q2 2021.

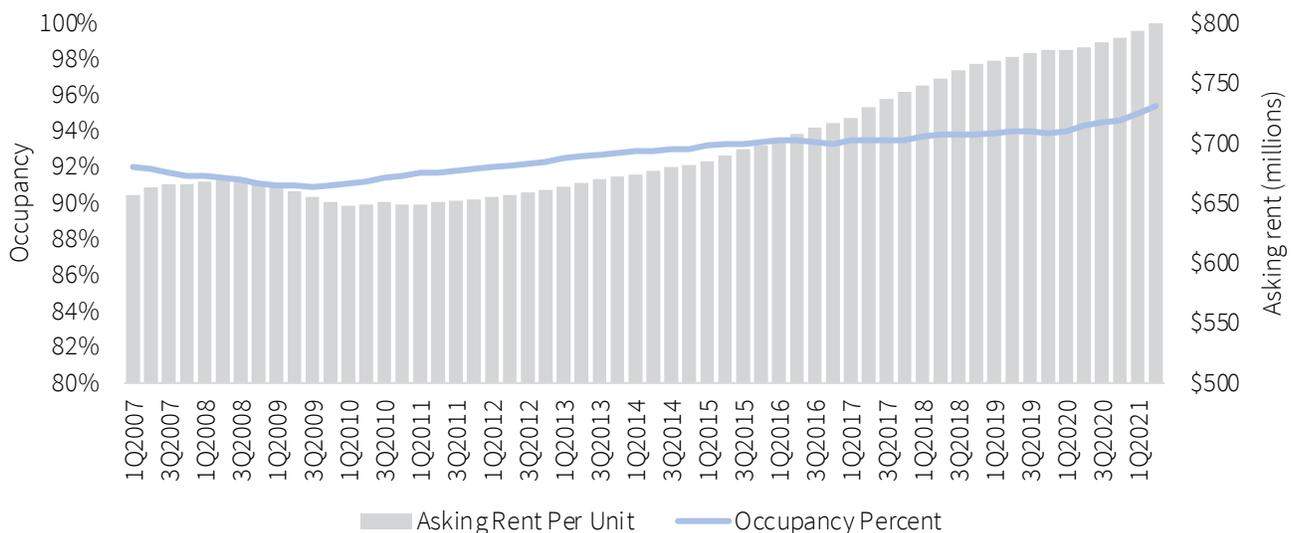
Rent roll performance also remained strong throughout the pandemic with rent collections averaging a 1% to 4% discount to contract rents.

Affordability is top of mind for renters and prospective buyers, a concept that bodes well for sector performance and appetite, not to mention one of many potential solutions for the affordable housing shortage facing America's aging population.

With the number of Americans 65 years of age and older expected to reach 22% of the U.S. population by 2050, age restricted or 55+ mobile home communities continue to gain popularity.

These and other favorable demands tailwinds are expected to drive continued investment and bolster sentiment for manufactured housing in the mid- to long-term.

Manufactured housing occupancy trends vs. rent growth



Source: JLL Research, CoStar

Looking forward

Viewed as a major part of the solution to the nation's shortage of affordable housing, manufactured housing offers a relatively affordable option to residents seeking home ownership. Affordability constraints have continued to mount over the past year as corporate relocations and in-migration have created a surge in demand for housing in historically affordable markets.

Median home values grew by 17.7% over the past year, with Zillow projecting an additional increase of 11.7% over the next twelve months. Moreover, with the rising costs of construction for single-family homes, the significantly lower costs and reduced time required to build a new manufactured home may help efficiently increase the housing stock.

Despite the negative impact that COVID-19 had on employment rates, particularly in the low-wage income segments, occupancy and monthly rents for manufactured housing communities have surged to

all-time highs. Near-term supply-demand imbalances are poised to continue as the sector evolves and adapts to the demands of the growing renter base.

The sector's ability to deliver favorable returns and strong loan performance will continue to attract attention from investors. Deep and diverse pools of debt, low cost of capital, and increasing investor interest should help maintain deal flow.

Investor sentiment remains optimistic in the manufactured housing sector. JLL expects sustained enthusiasm for sector investment into 2022 with a focus on value and risk shaping investor behavior. With asset prices climbing to fresh highs, investors are adjusting their approach to deploying capital in a recessionary environment, with manufactured housing proving to be one of the more reliable performers.



Diamond K Estates, Roseville, CA - Hometown America Communities

JLL Valuation Index

JLL Valuation Advisory closely tracks transaction activity in the marketplace through our Property Intelligence Exchange (PIX) database. The JLL Valuation Index represents an aggregation of market valuations completed by JLL's Valuation Advisory practice on a trailing 12-month basis as of the Q2 2021.

The aggregate market values of this dataset total approximately \$14.9 billion, or 6.4% of the total estimated market capitalization of the \$233.4 billion institutional manufactured housing supply.

Two-star

| Stabilized indications | Lower decile | Lower quartile | Average | Upper quartile | Upper decile |
|------------------------------------|--------------|----------------|---------|----------------|--------------|
| Occupancy (%) | 59 | 77 | 83 | 97 | 100 |
| Effective gross rev. Per unit (\$) | 2,705 | 3,283 | 4,397 | 5,198 | 6,105 |
| Expense ratio (%) | 31 | 37 | 44 | 52 | 59 |
| Cap rate (%) | 5.0 | 5.8 | 6.4 | 7.0 | 8.0 |
| Value per pad (\$) | | 23,433 | 41,598 | 51,898 | 69,238 |

Three-star

| Stabilized indications | Lower decile | Lower quartile | Average | Upper quartile | Upper decile |
|------------------------------------|--------------|----------------|---------|----------------|--------------|
| Occupancy (%) | 70 | 84 | 88 | 98 | 100 |
| Effective gross rev. Per unit (\$) | 3,357 | 4,330 | 5,628 | 6,400 | 7,777 |
| Expense ratio (%) | 31 | 36 | 43 | 50 | 57 |
| Cap rate (%) | 4.3 | 4.8 | 5.1 | 5.5 | 6.0 |
| Value per pad (\$) | 29,051 | 43,400 | 64,698 | 78,161 | 103,943 |

Four-star+

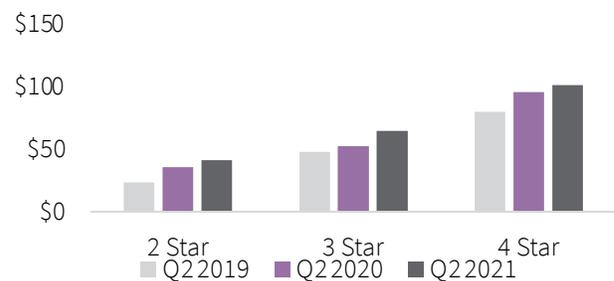
| Stabilized indications | Lower decile | Lower quartile | Average | Upper quartile | Upper decile |
|------------------------------------|--------------|----------------|---------|----------------|--------------|
| Occupancy (%) | 71 | 90 | 90 | 99 | 100 |
| Effective gross rev. Per unit (\$) | 4,599 | 5,930 | 7,511 | 8,408 | 10,838 |
| Expense ratio (%) | 30 | 35 | 41 | 45 | 52 |
| Cap rate (%) | 3.5 | 4.0 | 4.5 | 5.0 | 5.0 |
| Value per pad (\$) | 50,621 | 73,717 | 101,732 | 120,893 | 154,802 |

Source: JLL Research, JLL property intelligence exchange (PIX)
The JLL Valuation Index indications presented represent statistical ranges of independent datapoints

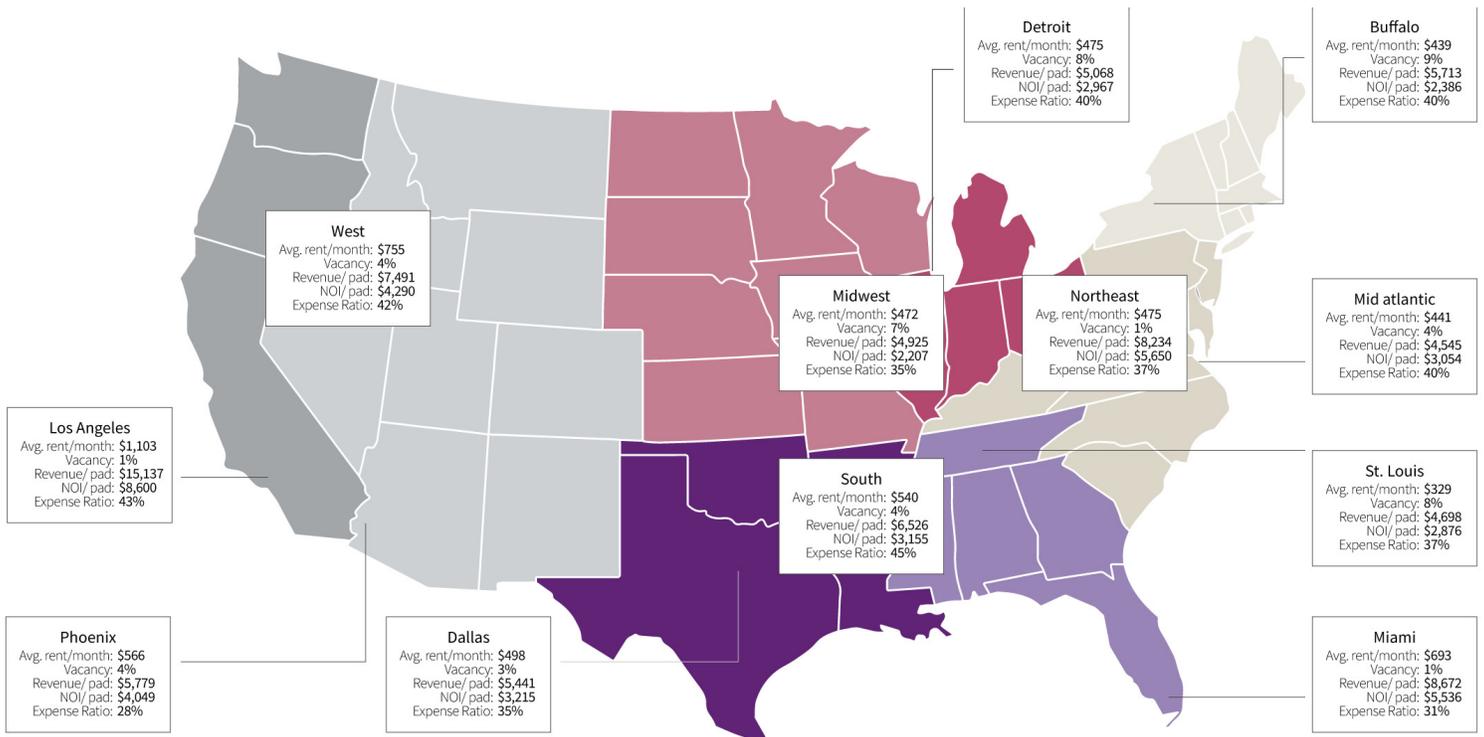
Year-over-year capitalization rate trend



Year-over-year price per pad trend



Source: JLL Research, JLL Property Intelligence Exchange (PIX)



Investment class descriptions

Four-star+ or investment class A: Excellent quality assets situated in desirable market locations, primarily core markets, but can be in non-core and resort markets. These often feature lower density, allowing for larger lots. New vintage homes in excellent condition built primarily after 1980 with a home mix of mostly multi-section. The community is sub-division quality with resort style amenities, or an amenities package considered to be at the high end of the local marketplace. Roads are asphalt or concrete and in good condition. The community operators on public utilities. Typically, there are two off-street parking spaces.

Three-star or investment class B: Good quality assets located in desirable market locations, primarily core markets, but can be in non-core markets. Medium density allowing for average sized lots. A mix of new vintage and older homes in good condition built primarily after 1970 with a home mix

of single and multi-section homes. The community has a typical layout of high-quality grid or curvilinear with a standard amenities package for the local marketplace. Roads are asphalt or concrete. Typically, the community operators on public utilities. Typically, there are one to two off-street parking spaces.

Two-star or investment class C: Average quality assets located in primarily secondary or tertiary market locations. Typically, higher density resulting in smaller sized lots. Housing mix is primarily built prior to 1980, in average condition and a home mix of primarily single section homes. The community is typically in a grid layout. Roads are gravel or dirt in average condition. The community operators on a mix of public and private utilities. Parking is typically on-street parking with no off-street parking available at each lot.

Environmental, Social and Governance

With environmental, social and governance (ESG) pushing to the forefront of investment strategies, the construction of manufactured homes continues to advance with greater flexibility.

Advancements in various technologies and the utilization of recycled materials are a few of the ways manufacturers are reducing energy consumption and waste associated with the production of manufactured homes.

Manufacturers are also focused on implementing more efficient heating and cooling systems with strict insulation requirements. These advancements not only reduce utility costs for the owner but have less of a carbon footprint, only improving the perception of the sector for investors as well as their communities.





Thank You

Please feel free to reach out to any of our team members if you would like to schedule a customized presentation of this report.

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About JLL Research

JLL's research team delivers intelligence, analysis and insight through market-leading reports and services that illuminate today's commercial real estate dynamics and identify tomorrow's challenges and opportunities. Our more than 400 global research professionals track and analyze economic and property trends and forecast future conditions in over 60 countries, producing unrivalled local and global perspectives. Our research and expertise, fueled by real-time information and innovative thinking around the world, creates a competitive advantage for our clients and drives successful strategies and optimal real estate decisions.

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