NATIONAL REPORT

Marcus & Millichap

MANUFACTURED HOUSING COMMUNITIES

1H20

Tight Vacancy Provides Cushion in Manufactured Home Parks as Economy Stumbles; Competitive Bidding Boosting Values, Compressing Cap Rates

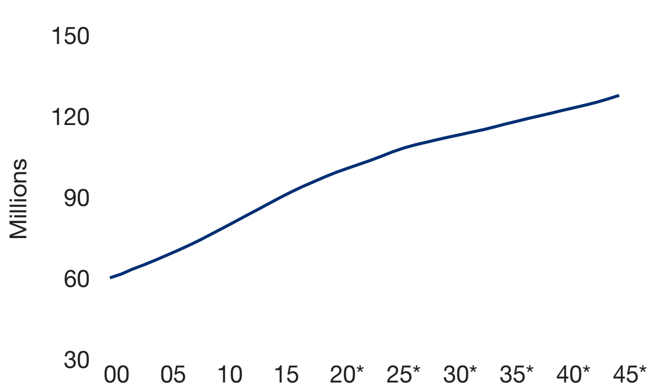
The growing need for lower-cost homes includes manufactured housing options. The reduced entry cost to buy a manufactured home continues to provide a more affordable path to homeownership. The recent decline in interest rates should afford more people to be able to purchase a manufactured home while rates remain low. Additionally, access to loans for new homes is available in local markets across the nation. Although these factors will keep new resident demand strong, long-term job losses due to the new coronavirus (COVID-19), especially in the hourly-wage segments of the employment market, may affect the ability of some current residents to pay lot rent, increasing turnover. Moving forward, if jobs are not reinstated within 2020, vacancy in some parks may increase and rent gains slip as the market adjust, especially in all-age communities.

Parks evolve to meet demand. Although demand for residences in manufactured home communities remains strong, the inventory of parks continues to decline. Some communities are removed as they are purchased and redeveloped for other purposes while new ones are not added as it can be difficult to obtain the necessary approvals required to build new parks. Within the remaining existing stock, to increase NOI, some existing owners are buying homes to fill empty slots and either offering the units for sale or renting them. Others are purchasing the surrounding land to enlarge the park, while a number are bringing in RVs or tiny homes to fill small vacant areas. Looking ahead, the growing need for quick options to provide more workforce housing has resulted in some jurisdictions reviewing zoning codes to ascertain if any revisions are needed to allow for the expansion of manufactured home communities. This may lead to regulation changes that will make it less cumbersome to build new parks or to expand existing sites. In 2020, additional lots are expected to be added in Florida, Michigan, Montana and Texas, while in Memphis, a redeveloped community has been transformed into an all rental community.

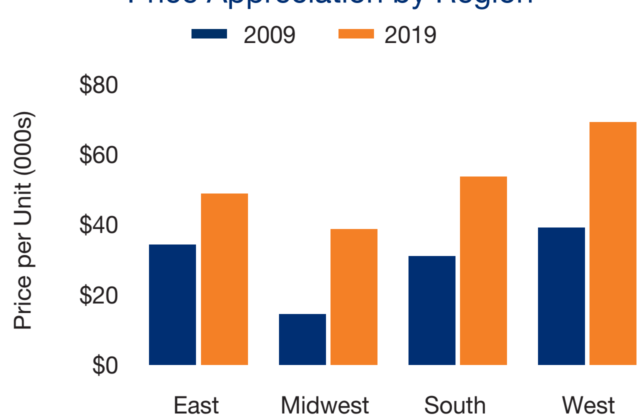
Investment Highlights

- Attractive yields compared with other property types are luring more investors to consider manufactured home communities, making it a highly sought asset class. The increase in competition has raised values and compressed yields about 40 basis points over the past year.
- Stabilized, turn-key assets on city services and within commuting distance to employment nodes are desired by many buyers. Robust competition for these properties, however, requires many investors to expand their geographic and quality expectations to make a successful offer.
- REITs and other major companies are focused at the top end of the market, targeting a limited supply of larger four- and five-star communities, mainly in Sunbelt and coastal metros. Cap rates for well-located assets in primary markets are generally in the 4 to 5 percent range but can dip below that in some locations.
- Many new private investors are active in the under $5 million price tranche. As competition remains robust for a limited supply of listings, more buyers are willing to search in secondary and tertiary locations to gain a foothold in the sector.
- Rent control remains a concern among park owners and investors as the growing need for lower-cost housing options has more jurisdictions considering implementing restrictions on rent growth.

55+ Population Growth



Price Appreciation by Region

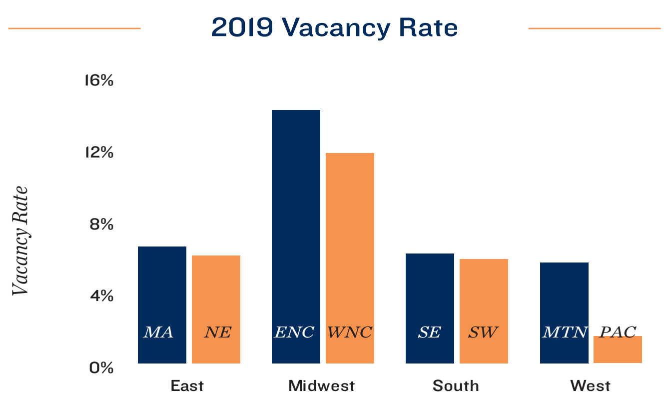


** Forecast*

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; U.S. Census

Vacancy

Need for lower-cost homeownership options drops the vacancy rate. The shortage of affordable homes for many workers is bolstering demand for the lower-cost housing options available in many parks throughout the nation. However, with the number of communities dwindling and the price of single-family homes rising, more people are considering purchasing in a manufactured home community as a way to gain entry into homeownership. The vacancy rate is especially tight in areas of the country where the price of a site-built home is out of the reach of many people. During 2020, if widespread unemployment is sustained for a lengthy period, the vacancy rate in some communities could rise if homeowners cannot afford to pay lot rent and move-outs increase.

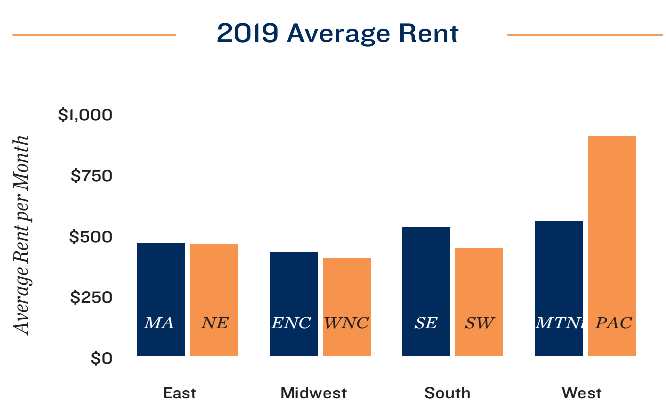


Highlights

- By subregion, the vacancy rate is lowest along the Pacific Coast, mainly due to a sub-1 percent rate in many California markets. Among major California markets, Riverside-San Bernardino registered the highest vacancy at the end of 2019 at a mere 3.7 percent, having fallen 110 basis points during the year.
- The median price of a single-family home in many Midwest metros falls below the national average, providing additional alternatives for lower-cost housing. This factor contributed to the Midwest posting the highest vacancy rate in 2019 at 13.6 percent. Vacancy rates above 20 percent can be found in metros including Flint, Michigan; Kansas City; and Saginaw and Port Huron, Michigan.
- Miami-Dade County recorded the largest annual vacancy improvement, falling 610 basis points to 0.2 percent in 2019, the lowest rate in the South region. Tight vacancy in the metro produced one of the highest annual rent gains in the nation.

Rent

Tight vacancy in many metros promotes rent growth. Manufactured home communities are a large supplier of lower-cost homeownership options. As demand for this type of housing grows amid a contracting supply of spaces, the average lot rent is rising. During 2019, all but a few metros registered annual lot rent increases. By region, average rent is highest in the West at $773 per month, driven up by the elevated rents in many California metros. Meanwhile, more affordable home prices and a higher vacancy rate in the Midwest contributed to the lowest monthly rent among regions at an average of $423 during 2019. Rent growth in 2020 may be hindered by COVID-19's impact on the economy that results in more people not being able to make house and lot payments.



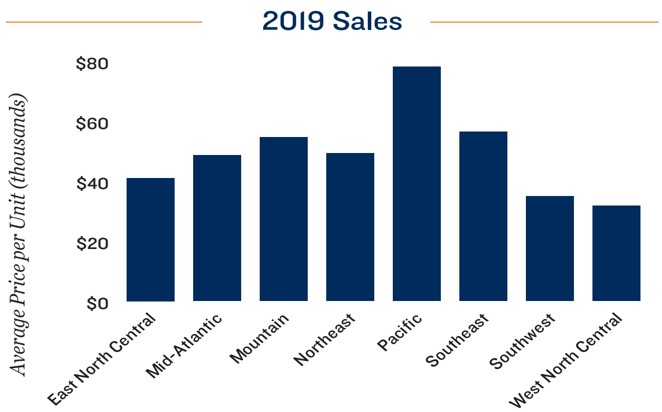
Regions:

East: *Mid-Atlantic*, *Northeast* **Midwest:** *East North Central*, *West North Central* **South:** *Southeast*, *Southwest* **West:** *Mountain*, *Pacific*

Highlights

- The Pacific subregion posts the highest average lot rent at $903 per month. The rate in many coastal California markets is even higher, topping $1,300 per month in 2019 in Orange County, San Jose and Santa Cruz.
- Among subregions, the rate in the West North Central is the lowest at $400 per month. Among Midwest metros, the highest rent was found in Chicago at an average of $662 per month, while the average monthly rent in Fort Wayne, Indiana, and Ames, Iowa, was under $300.
- Smaller, more rural metros where the median price of a single-family home is attainable for more residents offer the most affordable rent. Average rates below $250 per month in 2019 were located in Greenville, South Carolina; Lynchburg, Virginia; and Albany, Georgia.

Higher yield potential captures investor interest. Manufactured home communities are receiving robust interest from a wider range of buyers. Many investors are new to park ownership, some moving out of securities into real estate, while others are coming from other asset classes in search of higher returns. Cap rates have been compressing over the past year and are typically in the 6 to 7 percent range, although some well-located premium communities or parks with a lot of upside potential are trading below 5 percent. Double-digit returns can still be found in all subregions but are harder to come by. The added competition for a limited number of listings pushed the average price nationwide up 13 percent in 2019 to $55,800 per unit. The coronavirus outbreak may slow transactions in the quarters ahead as deals take longer to close.

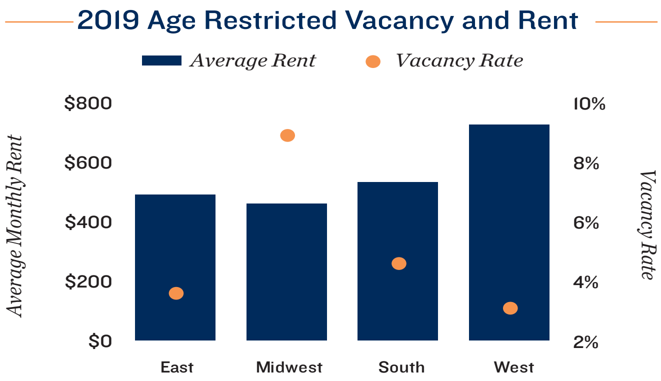


Highlights

- Sales surged in the East region in 2019, led by an increase in North Carolina and Pennsylvania. During this time, the average price jumped 32 percent to $48,900 per unit.
- In the Midwest, a boost in activity in Minnesota was not enough to offset fewer transactions in Michigan, lowering trading velocity in 2019. Over this period, assets transacted at an average of $38,800 per space, up 26 percent year over year.
- Robust trading activity in Florida in 2019 boosted sales velocity in the South. In the same period, the average price posted a 5 percent climb to $53,800 per lot.
- Strong buyer interest in California assets drove up sales volume in the West in 2019. More parks trading in the higher-priced Pacific subregion contributed to the average price jumping 18 percent, maintaining the highest price among regions at $69,300 per unit.

Age-Restricted Communities

Surge in the population aging into retirement underpins demand in age-restricted parks. The age 55-plus cohort in the U.S. will swell by nearly 1.7 million people in 2020, and through 2025, another 7.6 million will reach this milestone. As these residents retire, some will consider purchasing manufactured homes in age-restricted communities, boosting demand, especially in the Sunbelt. Vacancy in 55-plus parks is already lower than all-age properties in all subregions of the nation except the Southwest, where new inventory in Texas nudged the rate higher. Market lot rent in this asset class varies widely, from $200 per month in older parks in smaller towns to more than $2,000 per month in some coastal California cities. These parks should not be as affected by rising unemployment as all-age communities.



Highlights

- Florida leads the nation in age-restricted inventory with more than 151,000 units. The only other states with more than 25,000 homes are also traditional retirement destinations: California and Arizona.
- Among subregions, the highest vacancy rate is in the East North Central at 9.0 percent in 2019. Rates above 30 percent in Monroe, Michigan, and Gary, Indiana, keep the rate elevated. The Elkhart-Goshen and Cincinnati metros had vacancy below 1.6 percent, the lowest rate in the subregion during this period.
- Market rent by subregion varies widely. Monthly rent above $1,000 in many California metros boosts the rate in the Pacific to the highest in the nation at $807 per month. Rent in the West North Central averaged $341 per month in 2019, slightly below the Southwest subregion, which clocked in at $366 per month.

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Datacomp-JLT

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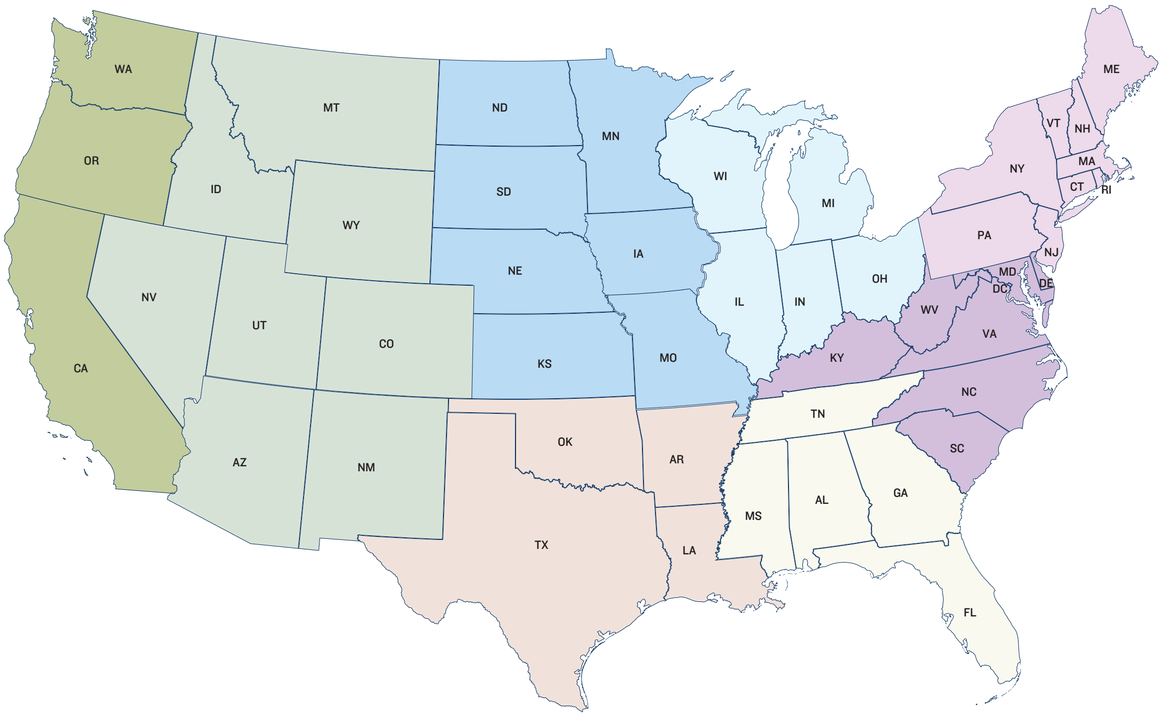
Manufactured Housing Communities Regions and Subregions

East
Mid-Atlantic
Northeast

Midwest
East North Central
West North Central

South
Southeast
Southwest

West
Mountain
Pacific



Metro Performance

Metro	Vacancy	Y-O-Y Basis Point Change	Average Rent	Y-O-Y Change
San Jose	0.4%	-20	$1,481	6.5%
Los Angeles	0.6%	-80	$1,010	2.9%
Orange County	0.6%	-20	$1,338	5.1%
Long Island	0.9%	-80	$711	4.3%
Salt Lake City	1.1%	-50	$618	6.9%
Seattle	1.2%	-50	$708	6.6%
Dallas	2.2%	-100	$464	3.8%
Portland	2.2%	-110	$650	6.2%
Fort Lauderdale	2.9%	-70	$699	4.5%
Philadelphia	3.5%	-30	$530	4.5%
Chicago	4.9%	-10	$662	2.3%
Phoenix	5.5%	-80	$560	4.1%
Virginia Beach	5.9%	90	$425	4.4%
Minneapolis-St. Paul	6.1%	-110	$450	4.4%
Orlando	6.1%	-200	$515	7.3%
Raleigh	6.4%	20	$432	2.6%
San Antonio	6.7%	-320	$446	4.0%
Cleveland	9.3%	120	$384	6.7%
St. Louis	9.4%	10	$368	3.4%
Oklahoma City	9.6%	-190	$348	3.9%
Detroit	13.9%	-130	$467	4.5%

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Sources: Marcus & Millichap Research Services; Datacomp-JLT; CoStar Group, Inc.; Institute for Building Technology and Safety; Manufactured Housing Institute; U.S. Census Bureau.