Marcus & Millichap

National Report

Manufactured Housing Research

First Half 2018

Potential for Higher Returns Lures New Buyers, Generating Competition; Supply of For-Sale Listings Remains Tight, Boosting Prices

Affordable housing need bolsters operations. Manufactured home communities are benefiting from rising single-family home prices and escalating apartment rents that are creating a shortage of affordable housing alternatives. This is especially prevalent in urban areas with strong employment gains, such as Salt Lake City or Denver. In these two metros, vacancy in manufactured home parks posted triple-digit drops to average below 2 percent. The lack of new communities and the redevelopment of older parks also contribute to a tightening vacancy rate as displaced tenants seek alternative placements for their homes.

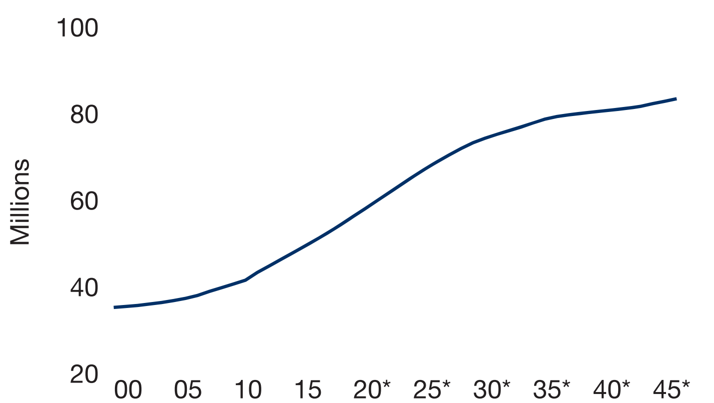
An aging population benefits manufactured home parks. During the next 10 years nearly 18 million additional people will reach age 65. Many of these seniors will move to resort or retirement manufactured home communities, many of which are in the Sunbelt. The number of people age 65 and older will continue to swell through 2045 as the baby boomer generation ages. This bodes well for age-restricted communities.

Operations tighten across the nation. During 2017, vacancy in all subregions reached a 10-year low, boosting rent growth and raising NOI. These factors combined with higher cap rates than many other real estate product types are intensifying competition for manufactured home communities and pushing prices up.

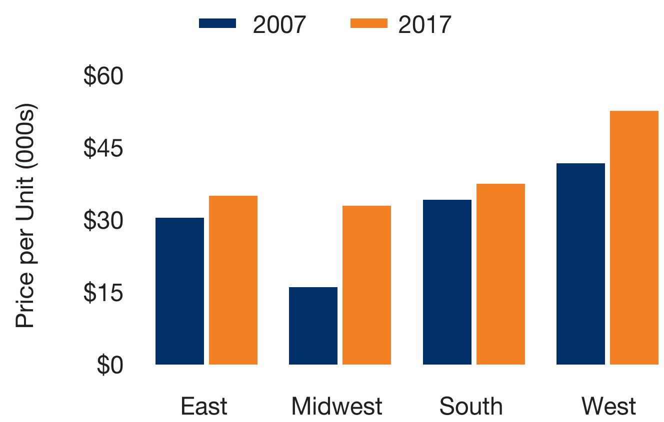
Investment Highlights

- Buyers are flush with capital amid a scarce supply of available listings throughout most areas of the nation, which has resulted in more off-market transactions. Heightened demand is producing aggressive pricing that keeps cap rates steady despite the rise in interest rates.
- In some areas of the country, for-sale listings are further reduced by resident groups in manufactured home communities exercising their right of first refusal and making offers to purchase the park.
- Exchange buyers remain active. Many of these investors are trading out of other commercial real estate product types, such as apartments, and are unfamiliar with owning a manufactured home community. In many instances the potential for higher returns is luring them to consider park ownership and they are willing to pay a premium to own, helping to drive prices higher.
- Communities on well and septic are still slower to trade. Some buyers are searching for a value-add opportunity in parks that have the potential to be hooked up to these city services.

65+ Population Growth

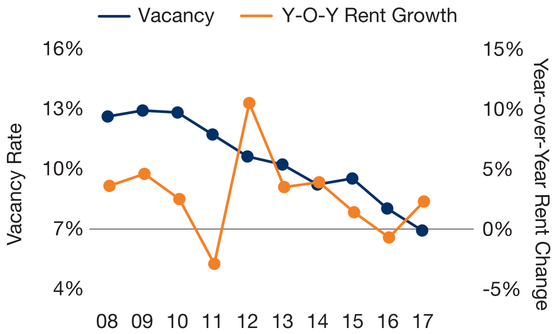


Price Appreciation by Region



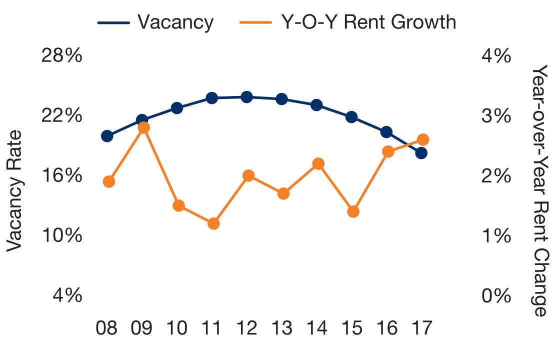
* Forecast
Sources: CoStar Group, Inc.; U.S. Census Bureau

East Rent and Vacancy Trends

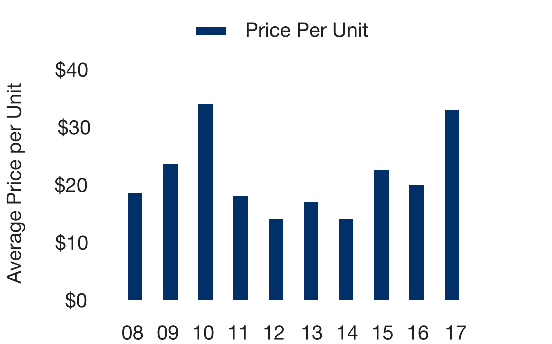


East Sales Trends

Midwest Rent and Vacancy Trends



Midwest Sales Trends



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

East Region

Mid-Atlantic Trends

Vacancy: Strong demand for affordable housing produced a 70-basis-point reduction in vacancy to an average of 6.6 percent during 2017. Vacancy was especially tight in Baltimore at 2.5 percent.

Rents: The average rent rose 3.8 percent in 2017 to $381 per month, bolstered by a 5.1 percent surge in Baltimore. Rents have climbed 14 percent over the last five years.

Northeast Trends

Vacancy: The vacancy rate decreased 130 basis points to 7.0 percent in 2017, the lowest level of this cycle and 380 basis points below the 2010 peak.

Rents: Falling vacancy contributed to the average monthly rent rising 1.8 percent to $465 per month in 2017. Rents in Long Island are among the highest in major U.S. metros at $661 per month on average.

East Sales Trends

Cap Rates: Initial yields have remained compressed despite the rising cost of borrowing, with cap rates typically in the 5 to 8 percent range. Urban or coastal assets are at the lower end of the range.

Prices: A lack of available properties had investors searching in both the Northeast and Mid-Atlantic subregions during 2017. The average price per unit rose 11 percent to $35,000.

Midwest Region

East North Central Trends

Vacancy: Among subregions, the East North Central posted the sharpest vacancy decline of 210 basis points last year. The rate, however, remains the highest among subregions at 18.9 percent.

Rents: Rent growth of 2.4 percent pushed rates to a monthly average of $387, the lowest rent by subregion. Rents in Detroit are above the average at $434 per month.

West North Central Trends

Vacancy: The subregion's vacancy rate receded 120 basis points to 13.4 percent, down 420 basis points from the cyclical high in 2012. Although dropping, vacancy in Kansas City remains above 20 percent.

Rents: As vacancy tightened, rents set a new high, advancing 3.8 percent to an average of $410 per month. Rents have jumped approximately 16 percent over the last five years.

Midwest Sales Trends

Cap Rates: First-year returns vary widely across the Midwest but are generally in the 6 to 9 percent span in urban areas. Class C communities in small cities can trade at double-digit cap rates.

Prices: The average price jumped 65 percent year over year to $32,900 per unit in 2017 as strong demand for available assets drove up prices.

South Region

Southeast Trends

Vacancy: Demand for rental space in manufactured home communities resulted in vacancy declining 120 basis points to 7.1 percent. Vacancy in Atlanta remained above 18 percent, down 200 basis points year over year.

Rents: Rent posted the largest annual gain since 2009 of 4 percent to an average of $498 per month. Rents in Broward County Florida averaged $651 per month.

Southwest Trends

Vacancy: The second-largest vacancy drop among subregions of 150 basis points tightened vacancy to 4.7 percent at the end of 2017, maintaining the second-lowest level by subregion.

Rents: Average rent vaulted 5.3 percent to $435 per month in 2017, the biggest annual improvement among all subregions. Rents have soared 24 percent in the past five years.

South Sales Trends

Cap Rates: First-year returns for Class B and senior communities are generally in the 6 to 7 percent range, while cap rates for Class C properties average 100 to 200 basis points higher depending on location and quality of the asset.

Prices: Trading activity waned during 2017 as listings were reduced, especially in the Southeast. The available supply and demand imbalance helped push the price up 31 percent year over year to an average of $37,500 per unit.

West Region

Mountain Trends

Vacancy: The vacancy rate contracted 110 basis points to 6.4 percent during 2017. The rate has fallen 490 basis points from the cyclical peak in 2011. The Denver market recorded the tightest vacancy among U.S. metros at 1.2 percent.

Rents: The average monthly rent posted a 3.7 percent rise to $528, up 17 percent during the last five years. Denver holds the highest average rent in the subregion at $660 per month, after a 5.4 percent gain in 2017.

Pacific Trends^

Vacancy: Rising home prices and strong job growth created a tight housing market in the Pacific, resulting in the lowest vacancy among subregions at 3.2 percent in 2017.

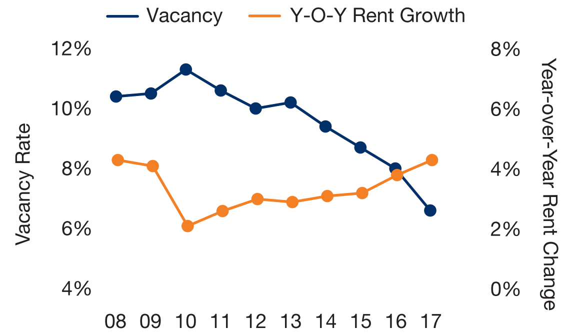
Rents: Monthly rent surged 4.2 percent to an average of $549 in 2017, the highest rent by subregion. Rent in coastal California properties can be double the average.

West Sales Trends

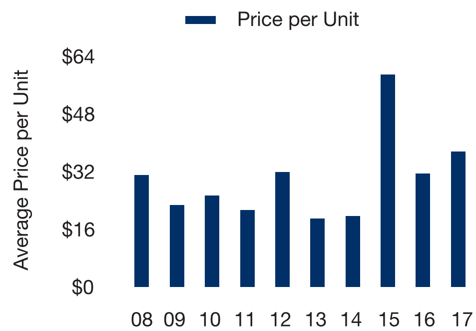
Cap Rates: Buyer demand for communities remains intense, though a lack of marketed properties reduced trading activity last year. Cap rates for quality assets typically begin in the 4 percent range.

Prices: The average price jumped 30 percent to $52,600 per unit in the West. Assets in the desired coastal communities can top $100,000 per unit.

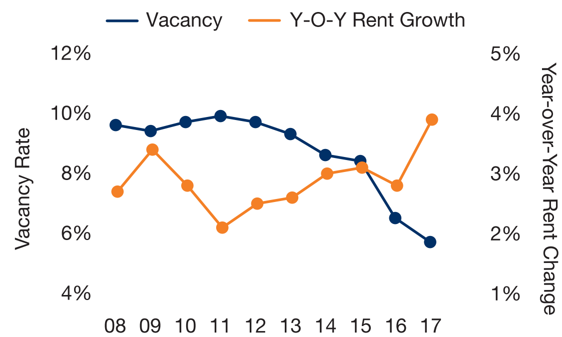
South Rent and Vacancy Trends



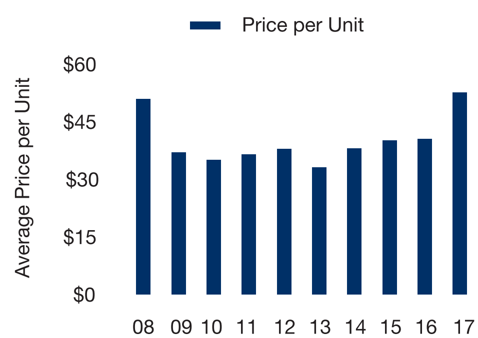
South Sales Trends



West Rent and Vacancy Trends^



West Sales Trends



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

Marcus & Millichap

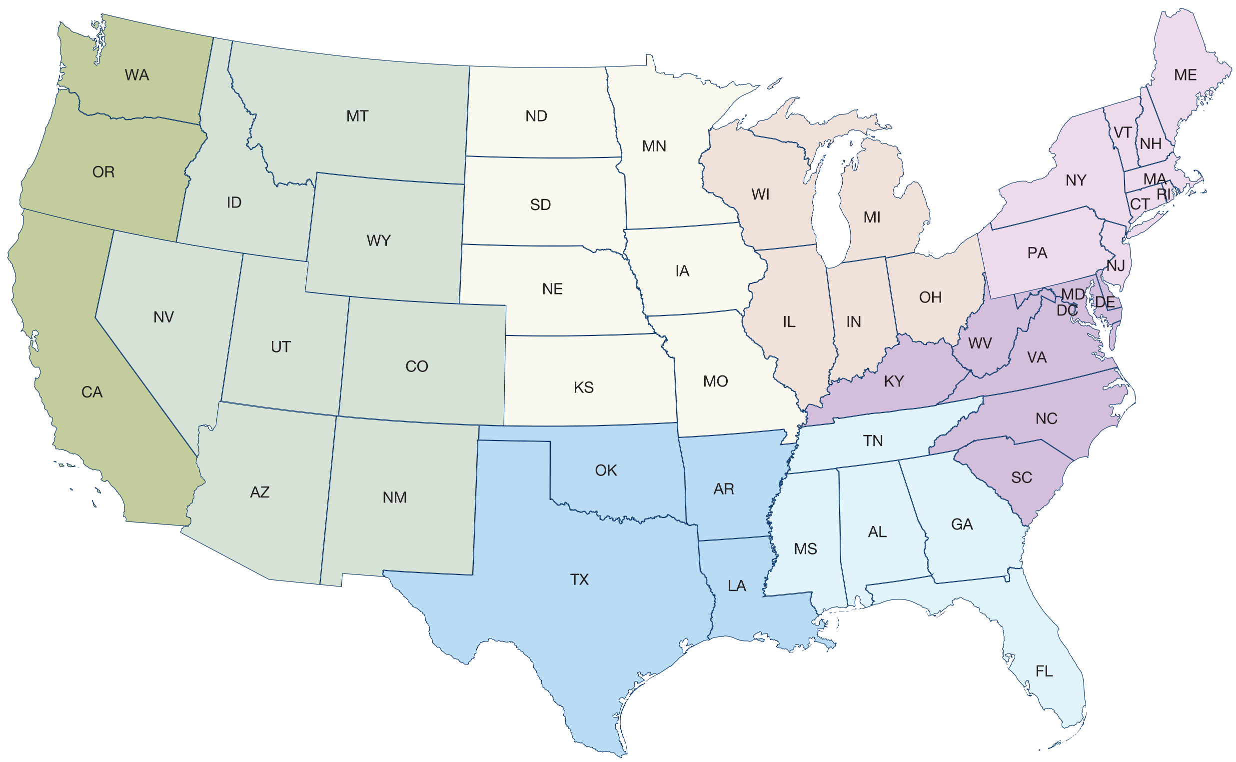
Manufactured Housing Regions and Subregions

West
- Pacific
- Mountain

Midwest
- West North Central
- East North Central

South
- Southwest
- Southeast

East
- Mid-Atlantic
- Northeast



Metro Performance

Metro	Vacancy	Y-O-Y Basis Point Change	Average Rents	Y-O-Y % Change
Denver	1.2%	-280	$660	5.4%
Long Island	1.5%	-110	$661	1.4%
Salt Lake City	1.8%	-100	$541	4.0%
Seattle	2.0%	0	$637	2.9%
Baltimore	2.5%	-20	$638	5.1%
Houston	3.2%	-170	$370	6.3%
Fort Lauderdale	3.4%	-110	$651	3.7%
Portland	3.6%	80	$577	4.3%
Austin	4.1%	-50	$514	5.5%
Dallas	4.7%	-160	$427	4.4%
Albuquerque	4.9%	-130	$438	3.1%
Phoenix	6.3%	-70	$520	3.6%
Tampa-St. Petersburg	6.3%	-90	$469	3.8%
Charlotte	7.1%	-40	$344	4.9%
San Antonio	7.6%	-230	$399	5.0%
Minneapolis/St. Paul	8.4%	-40	$421	3.4%
Orlando	8.7%	-110	$471	4.2%
Cleveland	9.2%	-110	$347	2.4%
Las Vegas	15.5%	40	$572	2.3%
Atlanta	18.3%	-200	$449	3.5%
Indianapolis	18.3%	-190	$346	3.9%

Manufactured Home Communities Group

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Price: $250