Marcus & Millichap

National Report

# Manufactured Housing Research

First Half 2017

## Investors Moving Inland From Coasts Amid Occupancy Gains in the Midwest

**Growing demand for manufactured housing is lifting occupancies and rents for a 10th consecutive year.** The run-up in pricing of homes, condos and apartment rents is generating renter interest in relatively affordable options in manufactured housing communities. In particular, aging baby boomers seek communities located in warm climates with amenities and recreational options. While newer, highly amenitized age-restricted communities in the Sunbelt remain a top choice for older renters, many of these spaces are occupied to capacity. Full occupancy at the newest properties pushes demand to smaller, older parks where lower rents attract tenants. Some of these parks are now also starting to fill vacant spaces, some of which include lot and new home rentals. A 15 percent increase in manufactured house shipments last year shows the demand generated by all age groups. The majority of new homes are delivered to the Southern region in markets from Texas to Florida. A recent rise in renter demand in the Midwest region elevated shipments by more than 20 percent last year. Vacancies in the Midwest have tumbled more than 300 basis points since peaking in 2012, while rents have grown nearly 10 percent during the same time period. The need for spaces in this region continues to grow at a fast pace. As home prices and apartment rents escalate, another year of vacancy improvement in manufactured home communities will boost rents in 2017 while maintaining lower rates than other housing options.

**Opportunities abound for buyers willing to look at smaller markets and older parks.** Past years' acquisitions by institutional players and REITs have limited the number of active listings for five-star, age-restricted Manufactured Housing Communities, boosting interest in other sites. Fierce competition for communities with 100 spaces or more heats up due to limited supply on the market. Meanwhile, a number of investors are developing solutions to continue purchasing properties with fewer than 100 spaces. Upgrading existing park infrastructure in older properties and adding popular amenities can produce dramatic upside. Additional measures, such as more efficient property management, allow cap rates for traded communities to compress further, particularly in key coastal markets. Yet, a new trend is emerging in inland markets, where dramatic improvement in vacancies and rents provide a stronger potential for NOI growth. Investors seeking higher initial yields increasingly target the Midwest, where returns are generally 100 to 500 basis points above coastal communities depending on quality and location. After years of overlooking these markets, some investors target the larger pool of listings in this part of the country amid improving fundamentals. Overall, yields will remain tight with value-add locations in a variety of markets showing potential for cap rate compression nationwide but at a more moderate pace than in prior years.

## 2017 Manufactured Housing Outlook by Region

### East:

*Tight supply and rising demand in the market will tighten vacancy in many areas.*

Growing demand and a 150-basis-point drop in vacancy last year foreshadows further improvement this year. Strengthening will be led by sub-8 percent vacancy in the Mid-Atlantic subregion, where rents will be maintained or grow slowly due to small, older properties being filled.

### Midwest:

*Higher initial returns and a greater number of listings draw buyers from other regions.*

A market need for quality communities supported a large compression in vacancy, while rents increased at a fast pace. Initial yields are also above coastal metros, providing opportunities for investors seeking higher returns and value-add options, further elevating buyers' interest.

### South:

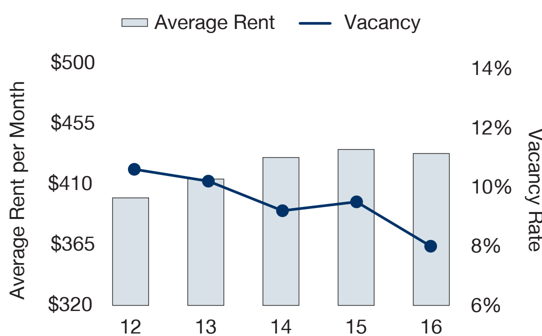
*Buyers will bid aggressively for quality properties, while value-add options will be sought.*

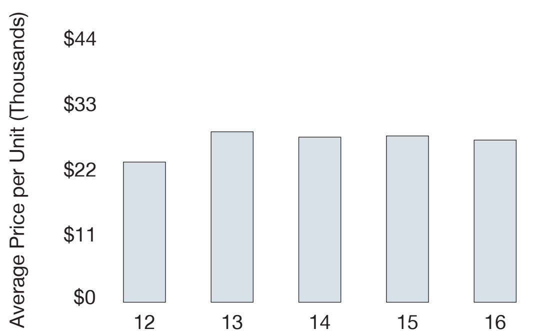
Tied with the East for the second-lowest vacancy rate among regions, Southern markets also had the strongest rent growth. Average rents are above $550 per month in coastal Florida markets, while some Texas markets such as Austin inch closer to the $500 per month mark.

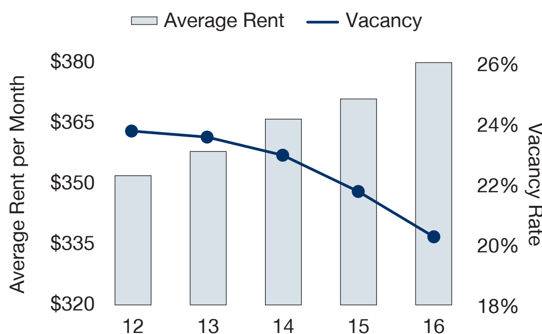
### West:

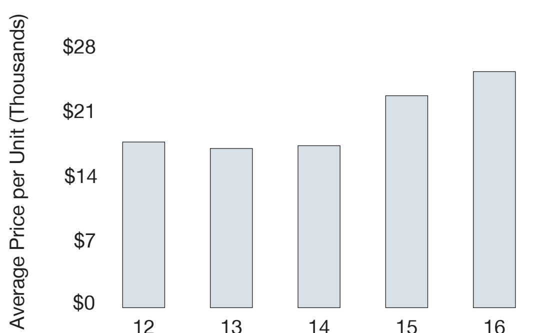
*Tight cap rates will make some buyers shift to smaller assets where amenities can be added.*

Rising demand for manufactured housing communities pushed vacancy to the lowest rate among the four regions at 6.5 percent. Strong fundamentals attract investors. Cap rates will remain tight along the coast, which already offers some of the lowest initial yields nationwide.




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

# East Region

## Mid-Atlantic Trends

Vacancy: Home price growth is maintained as employers expanded staffing levels in this subregion of the East Coast. This dynamic supported a 270-basis-point drop in vacancy in 2016 to an average of 7.3 percent. This is the third-lowest rate among subregions.

Rents: Tenant demand boosted rent in Baltimore to $607 per month, elevating the Mid-Atlantic average to $367 per month. Raleigh rents averaged $393.

## Northeast Trends

Vacancy: A 100-basis-point compression left vacancy at 8.3 percent in 2016. This is 250 basis points below the 2010 level. The rate is particularly low in Long Island at 2.6 percent. New Hampshire posted the second-lowest vacancy for the Northeast subregion at 4.4 percent.

Rents: The average monthly rent remains at $457 per month. Long Island posted monthly rents above $500 on average.

## East Sales Trends

Cap Rates: Demand for assets in the Mid-Atlantic rose rapidly and cap rates compressed in step. Urban assets trade in the 5 to 6 percent range, while rural properties exchange in the 10 to 15 percent area. Northeast cap rate spreads compressed as more smaller properties changed hands.

Prices: Sales shifted from the Northeast to the Mid-Atlantic in 2016 to parks with fewer lots. As some of these smaller properties sold, the average price per unit ticked slightly lower in the short-term to $27,300.

# Midwest Region

## East North Central Trends

Vacancy: The need for manufactured housing communities spaces expanded in 2016, pushing vacancy 150 basis points lower to 21 percent, below the five-year trend.

Rents: Rent advanced 2.2 percent, the largest increase in the past seven years, to an average of $378 per month. Monthly rents rest above $400 in the Michigan markets of Ann Arbor, Detroit and Grand Rapids.

## West North Central Trends

Vacancy: The subregion's vacancy rate plummeted 200 basis points to 14.6 percent, the lowest rate since 2009 for the area. Vacancy was tightest in Minneapolis at 8.8 percent.

Rents: Average rent grew 2.6 percent annually to $395 per month. This follows a 2.9 percent gain in the prior year.

## Midwest Sales Trends

Cap Rates: Cap rates rose, ranging from 6 to 15 percent, as investors targeted a wider array of properties, boosting transactions 50 percent.

Prices: Strong yields drew buyers into a variety of locations across the quality spectrum, pushing pricing up 11.4 percent annually to $25,500 per unit.

# South Region

## Southeast Trends

Vacancy: A need for rental space in manufactured home communities placed vacancy 50 basis points lower to 8.3 percent. Florida markets along the Southeastern coast maintain tight rates in the 4 to 6 percent range.

Rents: Annual rent gains of 3.7 percent pushed average rent to $479 per month, the largest increase since 2009. Rents in Sarasota's Manatee County rose 9 percent.

## Southwest Trends

Vacancy: Robust job increases in the Southwest subregion supported a 220-basis-point fall in vacancy. Vacancy rested at 6.2 percent at the end of 2016, the second-lowest level among all subregions. Shifts in the energy sector have positively impacted this rate.

Rents: Average rent added 5.1 percent, the biggest improvement among subregions, to $413 per month. Denton, Texas, grew the most at 6.6 percent.

## South Sales Trends

Cap Rates: Accounting for a large share of trades, investors in the Southern region sought smaller assets with a strong opportunity to renovate. Cap rates for all-age parks range from 8 to 10 percent, with smaller senior communities garnering 7 percent. Prime coastal properties in Florida can exchange at initial yields near 5 percent. Assets in Texas can range up to 15 percent yields.

Prices: The number of trades grew by 38 percent and accounted for a large portion of deals nationwide. Investor demand for a variety of properties pushed the price per unit up 5.1 percent to $28,700 last year.

# West Region

## Mountain Trends

Vacancy: The Mountain subregion's vacancy rate fell 240 basis points to 7.5 percent last year. The Denver market posted a dramatic 370-basis-point decline to end vacancy at 4.0 percent last year.

Rents: Monthly rent grew 2.8 percent to $509, marking a ninth consecutive year of gains. The largest subregion gain was in Salt Lake City at 9.5 percent.

## Pacific Trends^

Vacancy: The lowest vacancy among subregions was recorded in the Pacific, where the rate tightened 60 basis points to 2.9 percent. Vacancy was particularly tight in markets in Oregon and Washington, near 2 percent.

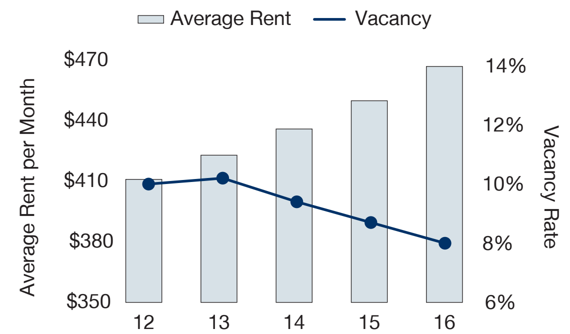
Rents: Rent advanced 3.3 percent to $527 per month, with gains above 10 percent in Salem and in the Seattle market, which had the highest rent of $619.

## West Sales Trends

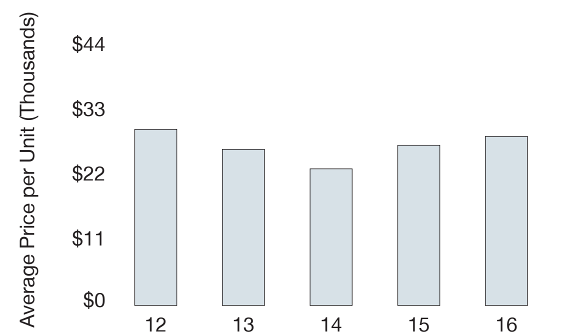
Cap Rates: Most trades occurred in the West. Properties in key areas can trade at 4 percent cap rates, while smaller assets can yield between 7 and 15 percent, including park-owned homes/notes as part of returns.

Prices: Pricing inched 2.9 percent lower to $42,500 per unit as buyers moved down the quality spectrum, trending higher in coastal markets.

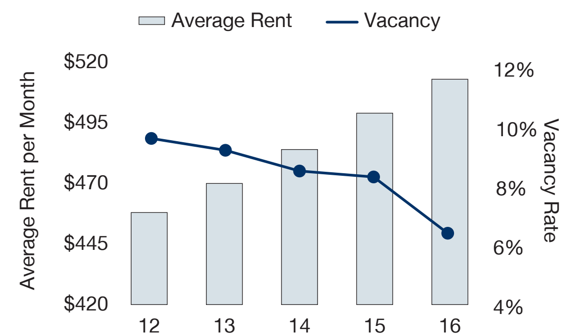
### Vacancy and Rent - South



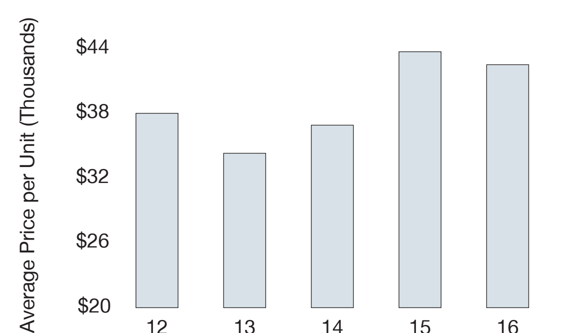

### Southern Sales Trends




### Vacancy and Rent - West***

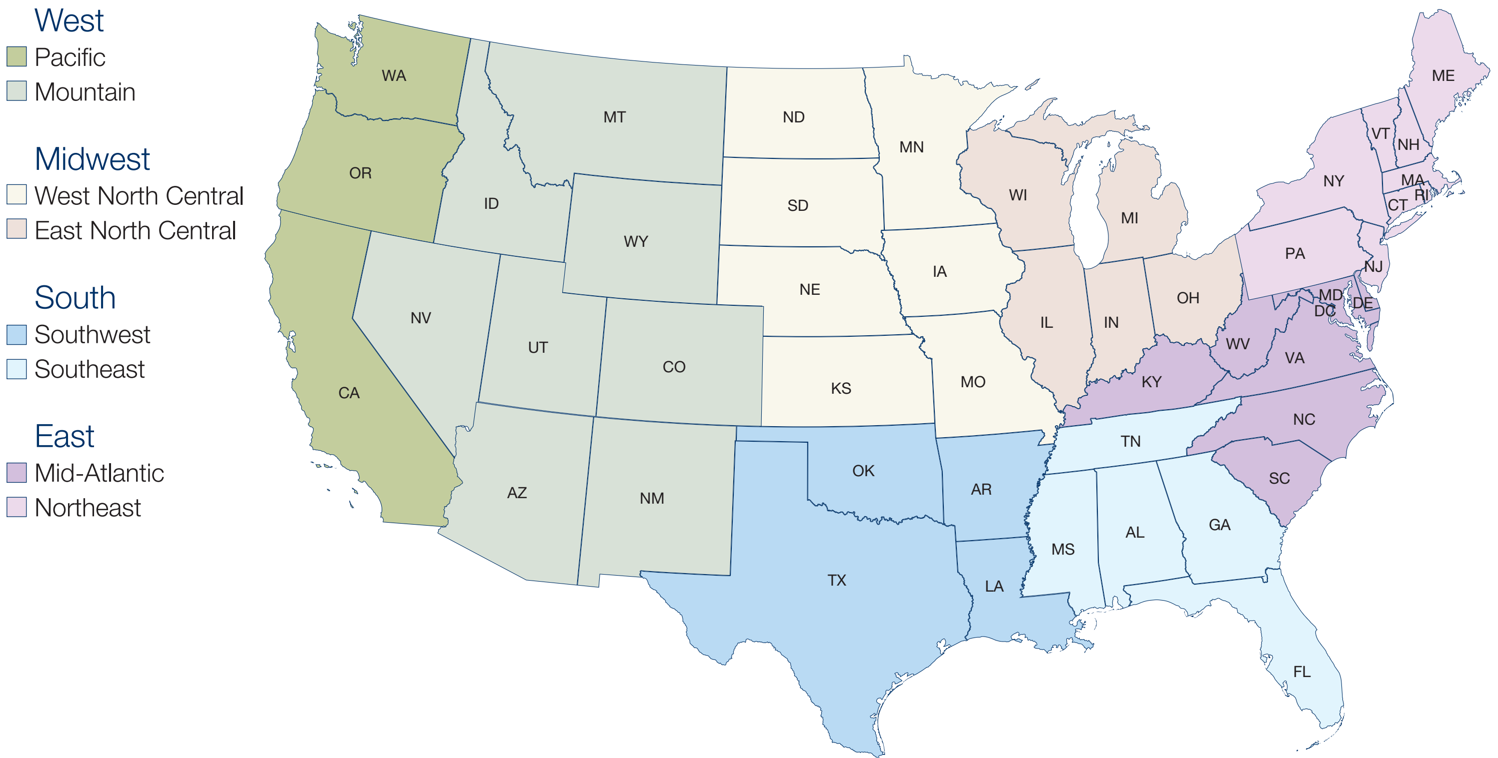



### Western Sales Trends




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

# Manufactured Housing Regions and Subregions




# Metro Performance

| Metro | Vacancy | Y-O-Y Basis Point Change | Average Rents | Y-O-Y % Change |
|---|---|---|---|---|
| Seattle | 2.0% | -100 | $619 | 3.1% |
| Long Island | 2.6% | 0 | $652 | 3.5% |
| Salt Lake City | 2.8% | -200 | $520 | 4.2% |
| Denver | 4.0% | -400 | $626 | -1.1% |
| Sarasota | 3.8% | -100 | $529 | 6.2% |
| Miami | 4.5% | -100 | $566 | 0.1% |
| Houston | 4.9% | -100 | $348 | 4.8% |
| Albuquerque | 6.2% | -100 | $425 | 1.4% |
| Phoenix | 7.0% | -200 | $502 | 3.1% |
| Raleigh | 7.1% | -100 | $393 | -2.0% |
| Tampa-St. Petersburg | 7.2% | 0 | $452 | 3.2% |
| Fort Worth | 8.1% | -300 | $423 | 6.0% |
| Orlando | 8.6% | 0 | $456 | 1.8% |
| Minneapolis-St. Paul | 8.8% | -100 | $407 | 2.8% |
| Ann Arbor | 9.4% | -300 | $454 | 1.3% |
| San Antonio | 9.9% | -400 | $380 | 3.7% |
| Cleveland | 10.3% | -100 | $339 | 2.1% |
| Las Vegas | 15.1% | -300 | $559 | 2.2% |
| Cincinnati | 17.7% | -200 | $336 | 0.9% |
| Atlanta | 20.3% | 0 | $434 | 0.0% |
| Toledo | 20.3% | 100 | $365 | 2.8% |

## Manufactured Home Communities Group

**Michael L. Glass**
First Vice President | National Director
Tel: (216) 264-2000 | michael.glass@marcusmillichap.com

*Prepared and edited by*
**Mridul Nanda**
Research Analyst | Research Services

*For information on national manufactured housing trends, contact:*
**John Chang**
First Vice President | Research Services
Tel: (602) 687-6700 | john.chang@marcusmillichap.com

Price: $250

© Marcus & Millichap 2017 | www.MarcusMillichap.com

The information contained in this report was obtained from sources deemed to be reliable. Every effort was made to obtain accurate and complete information; however, no representation, warranty or guarantee, express or implied, may be made as to the accuracy or reliability of the information contained herein. Sources: Marcus & Millichap Research Services; Datacomp-JLT; CoStar Group, Inc.; Institute for Building Technology and Safety; U.S. Census Bureau.