

Need for Workforce Housing Keeps Vacancy Tight and Rent Rising; Investors Eyeing Communities for Yield and Cash-Flow Potential

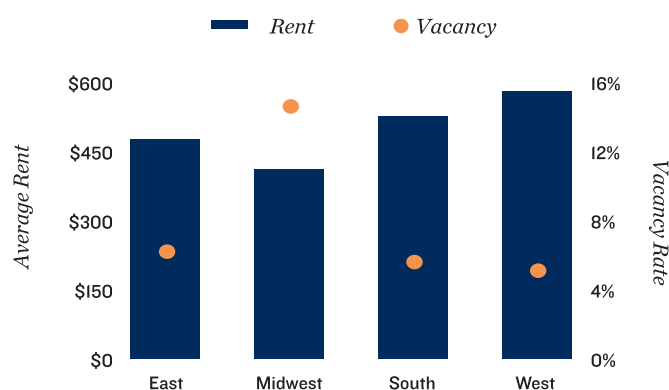
The lower cost of renting in a manufactured home community compared with the median cost of an apartment is boosting rental demand in many parks throughout the country. As the need for workforce housing proliferates across the U.S., this trend should continue in the quarters ahead. Over the past 12 months, vacancy in all regions declined with the largest drop registered in the Midwest. This region has the highest vacancy rate in the nation at 14.6 percent after a 110-basis-point reduction year over year in July. The elevated rate is mainly due to availability resting above 20 percent in a few select metros in Michigan and Kansas. At the opposite end of the spectrum, the West maintains the lowest vacancy at 5.1 percent, down an annual 50 basis points. Among metros, Denver, Miami, Long Island and several California markets have vacancy resting below 1 percent.

Tightening vacancy is promoting rent growth across all regions. As fewer lots are available to place homes, the average monthly rent is climbing. Year over year in July, the greatest increase was posted in the South at 3.9 percent to \$527 per month, slightly edging by the East at 3.7 percent. Among regions, the West maintains the highest average rent at \$580 per month. Rent varies widely across the country. There are eight smaller metros where the average rent is less than \$300 per month, rising to more than \$1,000 per month in some coastal California communities. Over the past 12 months, the Miami metro was one of the few areas to register double-digit rent growth to \$647 per month as vacancy slid below 1 percent. Other rent surges of more than 8 percent during this time occurred in the Fort Meyers and Naples metros.

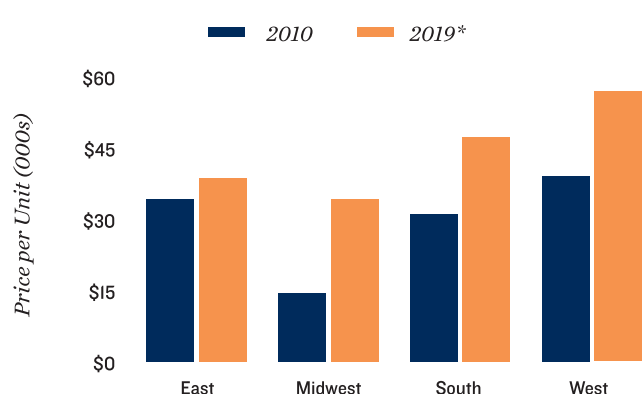
Investment Highlights

- Assets listed for sale remain sparse throughout most areas of the U.S., although competition for these properties is intensifying as buyers are plentiful. The potential for higher returns, steady cash flows and the less-management-intensive nature of manufactured home communities compared with other property types are luring new investors into the sector.
- Robust competition is having an impact on portfolio parameters as investors must be willing to consider smaller assets or look outside their preferred geographical boundaries into secondary and tertiary areas to place capital. More investors are also willing to consider assets with some issues that were overlooked just a few years ago. These include properties with deferred maintenance, a lack of city services or contain a number of park-owned homes.
- Large top-tier communities that do come available will receive multiple offers by a wide range of buyers, which is pushing prices even higher. Cap rates for these assets are generally in the 4 to 5 percent span but can dip into the 3 percent range.
- Rent control is a mounting concern among manufactured home community owners and investors in many parts of the country. A lack of lower-cost housing options has resulted in more states considering changes to existing laws that would allow local jurisdictions to set rent growth restrictions. Oregon recently passed a statewide rent control measure.

Average Rent and Vacancy by Region



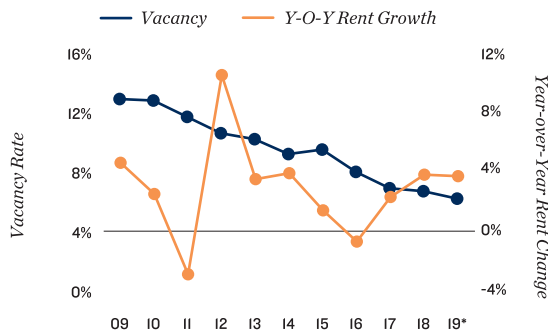
Price Appreciation by Region



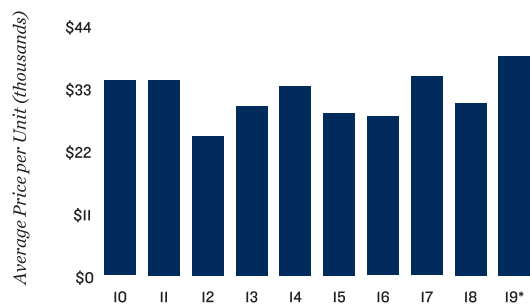
* Year over year through July

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

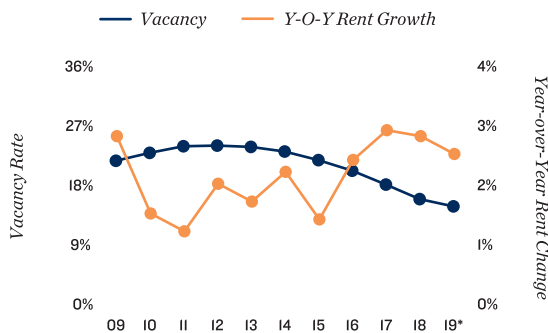
East Rent and Vacancy Trends



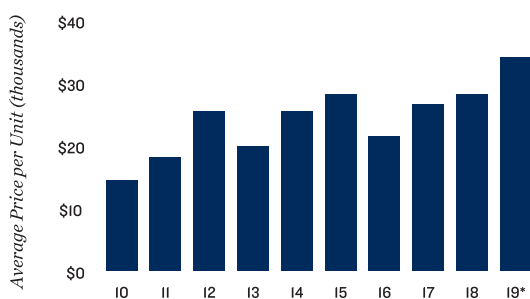
East Sales Trends



Midwest Rent and Vacancy Trends



Midwest Sales Trends



* Year over year through July
 Sources: Marcus & Millichap Research Services; Datacomp-JLT; CoStar Group, Inc.

East Region

Mid-Atlantic Trends

Vacancy: The vacancy rate dipped 10 basis points to 5.9 percent year over year in July. Raleigh posted the highest rate at 6.4 percent, up an annual 20 basis points.

Rent: The Mid-Atlantic has the most affordable rent among subregions at an average of \$404 per month, up 2.3 percent from this time last year. Rent has climbed 37 percent over the last 10 years.

Northeast Trends

Vacancy: During the past 12 months ending in July, vacancy declined 70 basis points to 6.3 percent. The rate is down 240 basis points over the past five years, maintaining the lowest level of the cycle.

Rent: The average rent vaulted 4.3 percent from one year ago to \$504 per month and has soared 30 percent over the past 10 years. Rochester recorded the largest annual jump of 7.1 percent, bringing the average rent to \$422 per month.

East Sales Trends

Cap Rates: Year over year in July, the average cap rate remained in the mid-9 percent range; however, well-located Class B properties can dip below 6 percent.

Prices: Transaction volume held relatively steady from August of last year. Competition for listed assets helped drive the average price up 21 percent to an average of \$38,600 per unit during the same period.

Midwest Region

East North Central Trends

Vacancy: The East North Central registered the largest vacancy drop among subregions, falling 120 basis points since July of last year to 14.9 percent. The rate is still the highest among subregions.

Rent: After posting a 2.8 percent hike year over year to an average of \$411 per month, rent is the second lowest among subregions. The average monthly rent has jumped 13 percent over the past five years.

West North Central Trends

Vacancy: The vacancy rate rests at 12.6 percent in July of 2019, with the lowest rate in Minneapolis-St. Paul at 7.2 percent.

Rent: Among subregions, West North Central has the third-lowest rent at \$420 per month in July. Over the past 10 years rent has climbed 26 percent.

Midwest Sales Trends

Cap Rates: Cap rates have compressed more than 100 basis points year over year in July to average in the 7 percent range. Properties with a lot of upside potential remaining can trade below 6 percent.

Prices: Communities in the Midwest traded at an average of \$34,200 per unit since the beginning of August 2018, up 29 percent during the period. Transaction volume decreased 24 percent in the East North Central and 17 percent in the West North Central.

South Region

Southeast Trends

Vacancy: Population growth generating an increased demand for housing contributed to a 60-basis-point decline in vacancy to 5.9 percent as of July 2019, matching the prior year's decline. The lowest rate was registered in Miami at less than 1 percent.

Rent: Among subregions, the Southeast recorded the largest annual rent gain, jumping 4.8 percent to an average of \$542 per month in July. Fort Lauderdale has the highest average rent at \$699 per month.

Southwest Trends

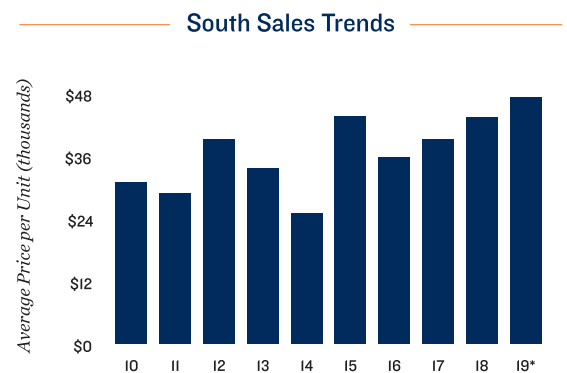
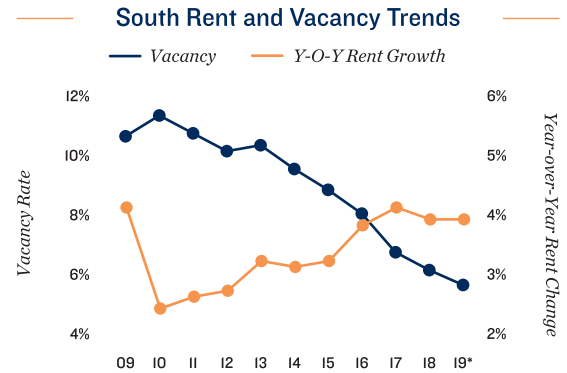
Vacancy: At 4.3 percent in July, the Southwest posted the second lowest rate among all subregions. Vacancy is down from a cyclical high of 23.5 percent in 2007.

Rent: The average monthly rent rested at \$459 per month in July of 2019, up 44 percent over the past 10 years. Rent is more affordable in the Houston metro at \$393 per month.

South Sales Trends

Cap Rates: Cap rates for assets in the south varied widely over the past 12 months. Large properties in coastal communities in Florida with significant upside potential traded at first year returns below 6 percent, while yields for locally owned Class C properties with less than 50 units were in double digits.

Prices: Trading activity jumped 31 percent year over year, driven by a surge in sales in the Southeast. The average price per unit rose 9 percent to \$47,200.



West Region

Mountain Trends

Vacancy: The vacancy rate was reduced by 50 basis points to 5.9 percent over the past 12-month period ending in July. The rate in Salt Lake City and Denver hovered near 1 percent, while Las Vegas had the highest vacancy at 14.9 percent.

Rent: The average monthly rent increased 4.1 percent to \$582 since August of last year, matching the prior period's gain. Since 2014, rents have jumped 19 percent.

Pacific Trends[^]

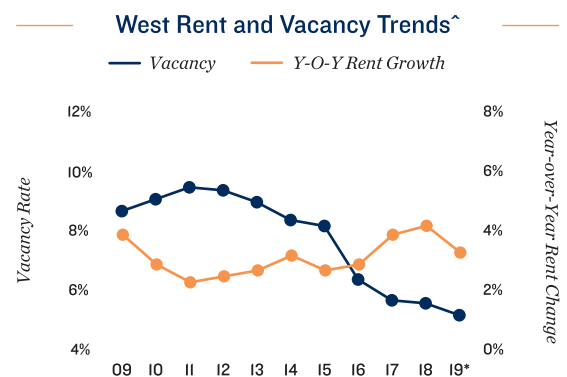
Vacancy: The acute need for lower-cost housing in many metros across the Pacific provides the tightest rate among subregions at 2.7 percent in July of 2019. The rate is below 2 percent in Medford and Seattle.

Rent: Monthly rent sat at an average of \$573 in July, up 14 percent over the past five years. Average rent in Portland and Seattle topped \$600 per month.

West Sales Trends

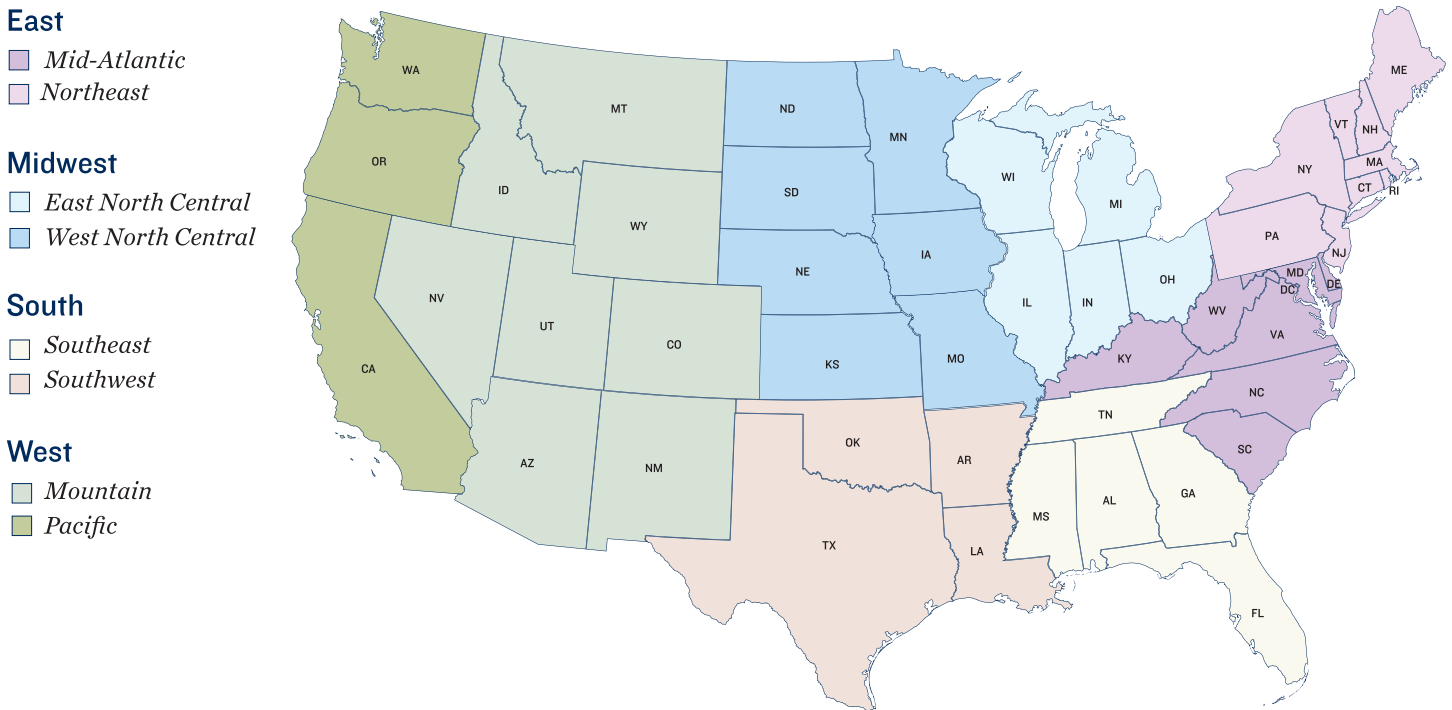
Cap Rates: First-year yields declined 40 basis points since August of last year to an average in the high-6 percent range. Investors had to move inland from the coast to find returns above the average.

Prices: Transaction activity dipped 10 percent year over year, while the average price rose 15 percent to \$56,800 per unit. A number of assets in San Diego County exchanged hands above \$150,000 per unit.



[^] Year over year through July ^{*} Excludes California
Sources: Marcus & Millichap Research Services; Datacomp-JLT; CoStar Group, Inc.

Manufactured Housing Communities Regions and Subregions



Metro Performance

Metro	Vacancy	Y-O-Y Basis Point Change	Average Rent	Y-O-Y Change
Denver	0.8%	0	\$736	5.3%
Long Island	0.9%	-80	\$711	4.3%
Salt Lake City	1.1%	-50	\$618	6.9%
Sarasota	2.5%	0	\$595	4.6%
Fort Lauderdale	2.9%	-70	\$699	4.5%
Fort Myers	3.9%	-20	\$664	5.7%
Daytona Beach	4.3%	30	\$524	3.6%
Albuquerque	4.5%	-90	\$465	5.0%
Tampa-St. Petersburg	4.7%	-40	\$510	4.5%
Ann Arbor	5.0%	-280	\$504	3.7%
Charlotte	5.1%	-70	\$366	3.1%
Phoenix	5.5%	-80	\$560	4.1%
Orlando	6.1%	-200	\$515	7.3%
Raleigh	6.4%	20	\$432	2.6%
Lakeland-Winter Haven	6.9%	180	\$483	3.4%
Buffalo-Niagara Falls	7.6%	-70	\$465	2.6%
Rochester	8.2%	-60	\$422	7.1%
Detroit	13.9%	-130	\$467	4.5%
Atlanta	14.8%	-170	\$480	3.7%
Las Vegas	14.9%	-50	\$602	2.7%
Flint	34.7%	-260	\$379	4.4%

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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.