



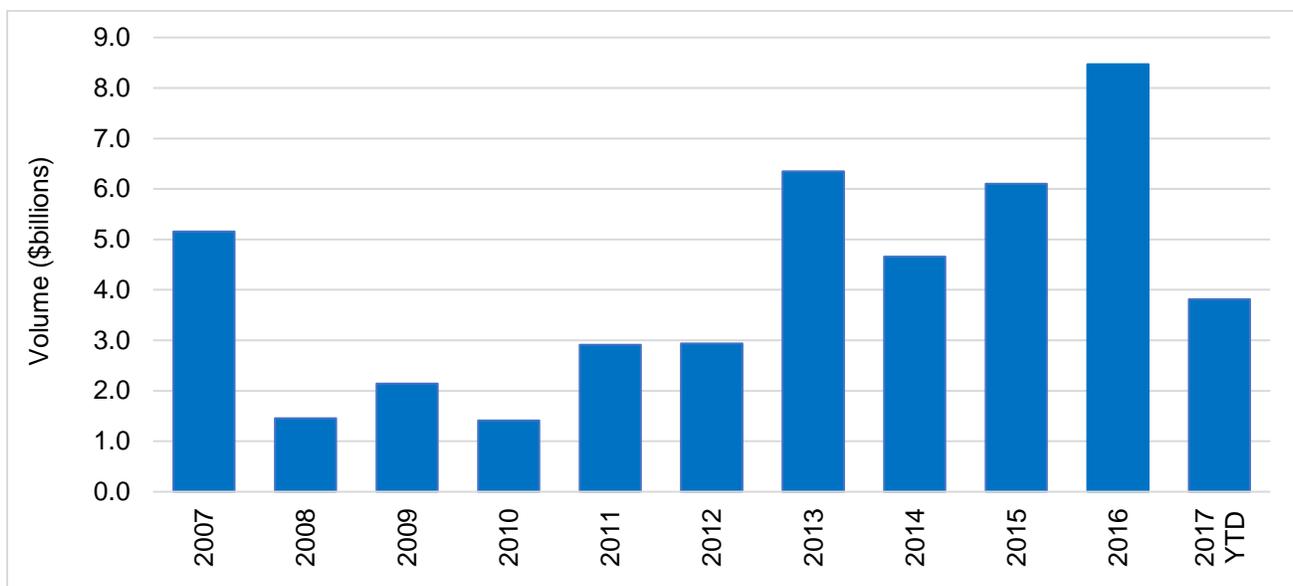
Multifamily Market Commentary – September 2017

Manufactured Housing Community Property Sales Slowed in First Half 2017

The ongoing increase in multifamily asking rents over the past several years has prompted many renters to seek lower cost housing alternatives, including renting factory-built homes located in a Manufactured Housing Community (MHC). Although most MHCs consist of owned manufactured homes, there are a number of these communities that also rent out existing units. The combination of renewed renter and homeowner interest in living in MHCs has caused vacancies to fall and revenues to rise. This fact has not been lost on some real estate investors who showed continued interest in MHCs in the first half of 2017, despite an overall slowdown in MHC property sales activity.

While not a comprehensive source of data for MHC property sales, Real Capital Analytics (RCA) provides a window into the MHC sector. As shown in the chart below, transactions involving MHC properties totaled an estimated \$3.8 billion from January through mid-August 2017, compared to \$8.5 billion in all of 2016.

**Reported MHC Transaction Volume
2007 – August 2017**



Source: Real Capital Analytics

Note: Transaction volume includes both sales of existing and the appraised value of refinanced MHC properties.

Large Transactions on Both Coasts

The largest sale of an MHC property recorded by RCA through mid-August 2017 was the 645-unit Gardens of Parrish MHC, located in Sarasota, FL. It was purchased by Northwestern Mutual Life Insurance Company for \$80 million.

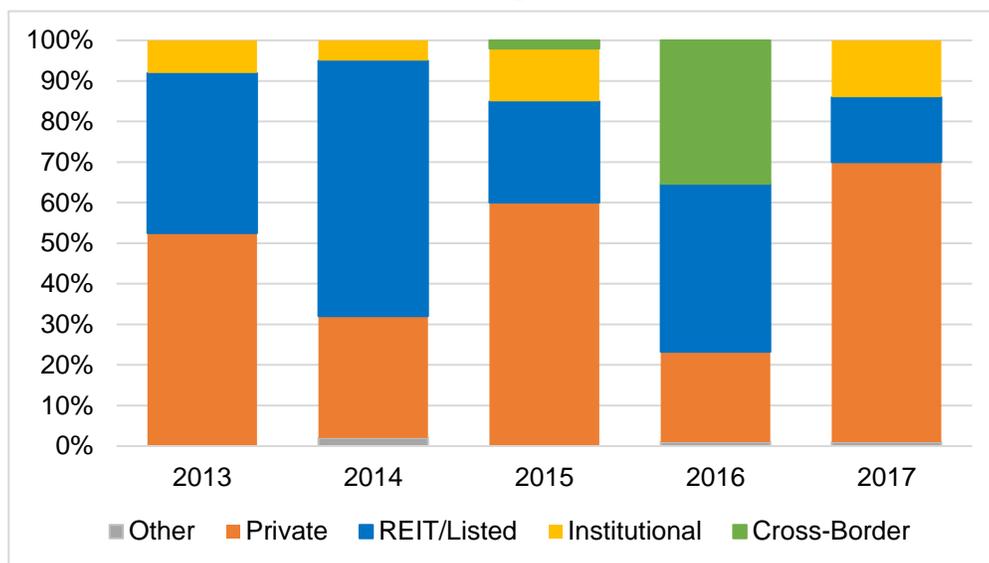
The second-largest sale was the 421-unit Brookside Mobile Country Club, located in East Los Angeles County. It was purchased by the Shopoff Properties Trust for \$53 million and was financed by Ladder Capital Commercial Mortgage at an estimated \$38 million. The property, which was built in 1966, had an estimated occupancy of 64 percent at the time of purchase and was identified as an acquisition and rehabilitation transaction. While these two properties were the most expensive MHC sales reported by RCA so far in 2017, almost 80 percent of MHC properties sold for \$7.5 million or less during the first half of 2017.



MHC Investing Goes Beyond REITs

While publicly-listed Real Estate Investment Trusts (REITs) remained active in the MHC sector during 2017, private entities had the highest share of investment in MHCs through mid-August 2017, as seen in the adjacent chart. Private investors, which include privately-owned companies and real estate developers, represented 69 percent of MHC purchase volume through mid-August 2017, followed by public REITs at 16 percent. Institutional investors, which can include insurance companies, equity funds, and sovereign wealth funds, came in third with estimated 14 percent of purchase volume.

Buyer Composition 2013 – August 2017



Source: Real Capital Analytics

Global Investors Also Interested

While Sun Communities remained the top investor over the past 24 months, investing almost \$1.8 billion in 117 MHC properties, non-U.S. buyers also remained interested in the sector. For example, the Government of Singapore Investment Corporation (GIC), which is the sovereign wealth fund of Singapore, invested almost \$1.5 billion to gain a majority interest on 178 MHC properties. The opportunity was created when Yes! Communities, one of the largest owners and operators of MHC properties, sold a nearly 71 percent equity interest in its combined businesses to institutional investors, including affiliates of GIC.

Top 10 MHC Buyers (Past 24 Months)

Buyer	Investor Group	Type of Investor	Location	Acquisition (\$ M)
1 Sun Communities Inc.	Listed/REIT	Public REIT	Southfield, MI	\$1,800
2 Government of Singapore Investment Fund (GIC)	Institutional	Sovereign Wealth Fund	Singapore, SGP	1,500
3 Carlyle Group	Institutional	Equity Fund	Washington, DC	240
4 RHP Properties	Private	Developer/Owner	Oakland, MI	190
5 Equity Lifestyle Props	Listed/REIT	Public REIT	Chicago, IL	150
6 Meritus Communities	Private	Developer/Owner	Oakland, MI	140
7 Investment Property Group	Private	Developer/Owner	Irvine, CA	120
8 Hometown AM	Private	Developer/Owner	Chicago, IL	100
9 Tricon Capital Group	Institutional	Equity Fund	Toronto, ON	90
10 Cobblestone Real Estate	Private	Developer/Owner	Oak Brook, IL	90

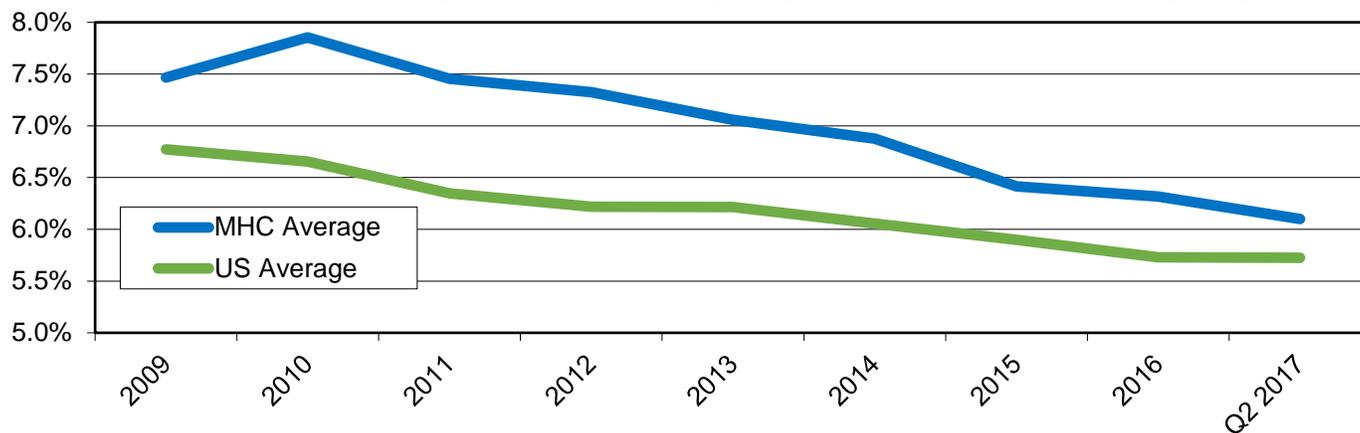
Source: Real Capital Analytics



MHC Cap Rates Compress

With ongoing interest from a wide variety of investors, capitalization rates for institutional quality MHCs have declined significantly from the 7.5 percent national average cap rate recorded in 2009. As shown in the chart below, as of second quarter 2017, cap rates appear to have compressed further to a national average of 6.2 percent, compared to 6.3 percent as of the end of 2016. Nevertheless, the average MHC cap rate remains well above the national multifamily average cap rate of 5.7 percent as of mid-2017.

Manufactured Housing Community Average Cap Rate vs. Multifamily Average Cap Rate



Source: Real Capital Analytics

Increasing Occupancies

It is easy to see why investors remain interested in MHCs, as property performance across the country continues to do well thanks to rising occupancy levels, for both owned and rented units.

As shown in the table below, occupancy for most U.S. regions for non-age restricted communities rose year-over-year as of mid-2017. The Southwest region had the largest increase at 2.2 percent, bringing its occupancy rate to 92 percent. The Pacific region, which includes California, had the tightest occupancy rate at 98 percent.

Even the Midwest region, which at 83 percent had the lowest occupancy rate of all the regions, showed improvement with a 1.9 percent increase as of June 2017. According to information from JLT Market Reports by Datacomp, occupancy in the Midwest region remains subdued because of a variety of factors, including the proximity of many of the region's MHC properties to former manufacturing towns with still-recovering economies, as well as the lack of chattel financing availability in some areas.

Statistics for Select All-Ages MHC – Trailing 12-Month Period

Report	Number Of Communities	Number Of Sites	Current *Occupancy		Previous *Occupancy		Percent Increase	Average Rent		**Adjusted Rent		Percent Increase
			#	%	#	%		Current	Previous	Current	Previous	
All Ages												
Midwest Region	869	233,001	191,976	83%	188,478	81%	1.9%	\$415	\$405	\$387	\$377	2.7%
Northeast Region	420	83,411	77,521	93%	77,566	93%	-0.1%	\$506	\$495	\$449	\$439	2.3%
Pacific Region	284	54,848	53,316	98%	53,051	97%	0.5%	\$788	\$769	\$764	\$746	2.5%
South Region	366	86,362	78,151	91%	76,753	89%	1.8%	\$479	\$463	\$454	\$439	3.4%
Southwest Region	267	64,050	60,157	93%	58,885	92%	2.2%	\$421	\$407	\$412	\$397	3.7%
West Region	155	40,553	38,442	95%	37,780	93%	1.8%	\$577	\$553	\$557	\$534	4.3%
Total All Ages	2,361	562,225	499,563	89%	492,513	88%	1.4%	\$487	\$474	\$458	\$445	2.9%

Source: Datacomp/JLT, as of June 30, 2017; rents are for sites

* Based on rent-paying resident occupied home sites.

** Adjusted for services in rent



Low Vacancies for Age-Restricted MHC Properties

Some MHCs are designated specifically for residents aged 55 and older. Occupancy for amenity-rich institutional investment type MHCs is even higher for 55+ communities than it is for non-age-restricted communities. As shown in the table below, occupancy in the Midwest region for age-restricted communities is 89 percent as of mid-year 2017, which is 6 percent higher than in the region's non-age-restricted communities. Occupancies in the South, Northeast, and Pacific regions all increased year-over-year as of mid-2017, with all three regions having a minimum occupancy rate of 95 percent or higher.

Statistics for Select Age 55+ MHC – Trailing 12-Month Period

Report	Number Of Communities	Number Of Sites	Current *Occupancy #	Current *Occupancy %	Previous *Occupancy #	Previous *Occupancy %	Percent Increase	Average Rent Current	Average Rent Previous	**Adjusted Rent Current	**Adjusted Rent Previous	Percent Increase
55+												
Midwest Region	61	13,337	11,813	89%	11,744	88%	0.6%	\$455	\$444	\$423	\$412	2.7%
Northeast Region	88	16,787	16,131	96%	15,945	95%	1.2%	\$515	\$505	\$468	\$458	2.2%
Pacific Region	219	43,680	42,718	98%	42,449	97%	0.6%	\$681	\$665	\$656	\$640	2.6%
South Region	534	153,338	144,882	95%	143,246	93%	1.1%	\$534	\$516	\$496	\$479	3.5%
Southwest Region	119	33,329	31,559	94%	31,236	94%	1.0%	\$513	\$498	\$495	\$480	3.1%
West Region	40	9,996	9,036	90%	8,895	89%	1.6%	\$591	\$578	\$563	\$552	2.0%
Total 55+	1,061	270,467	256,139	95%	253,515	93%	1.0%	\$552	\$536	\$519	\$503	3.1%

Source: Datacomp/JLT, as of June 30, 2017; rents are for sites

* Based on rent-paying resident occupied home sites.
** Adjusted for services in rent

Few New MHC Properties Being Built

MHC properties are aging, with 68 percent of the stock having been built prior to 1980. In fact, currently only eight new MHC properties are estimated to be under construction or expansion, as illustrated in the map and table below.

One new interesting MHC development under construction is Emerald Village, located in Eugene, Oregon. This MHC is slated to consist of 22 units ranging in size from 150-250 square feet, according to data from real estate research firm CoStar Group, Inc., and is meant to serve as transitional housing for homeless individuals.

MHC Under Construction—June 30, 2017



MHC Name	Details
11350 State Road 121 Inglis, FL 34449	81 Unit Class B MHC Delivering 8/2017
901 5 th Street Upton, WY 82730	Units Unknown, Class B MHC Delivering 11/2017
2530 132nd J Ave NW Arnegard, ND 58835	48 Unit Class C MHC Delivering 8/2017
235 Eld Ln Donnelly, ID 83615	Units Unknown, Class C MHC Delivering 4/2018
925 E Garnet Ave Granby CO 80446	Units Unknown, Class B MHC Delivering 2018
Emerald Village 25 N Polk St Eugene, OR 97402	22 Unit Class B MHC Delivering 4/2018 Note: 22 of the homes will be affordable and range in size from about 150-250 square feet.
Countryside Village of Atlanta Phase II 10 Sweetwater Way Lawrenceville, GA 30044	92 Unit Class C MHC Delivering 9/2017
315 Atigun Dr Valdez, AK 99686	Units Unknown Class C MHC Delivering 8/2017

Source: CoStar Group, Inc.

Map excludes one MHC under construction in Valdez Alaska



Lowest Asking Rent Markets:

Market	Existing Unit Average Rent
Fort Wayne IN	\$292
Toledo OH	\$400
Bakersfield CA	\$495
Saginaw-Bay City-Midland MI	\$591
Springfield IL	\$597
Denver-Boulder-Greeley CO	\$601

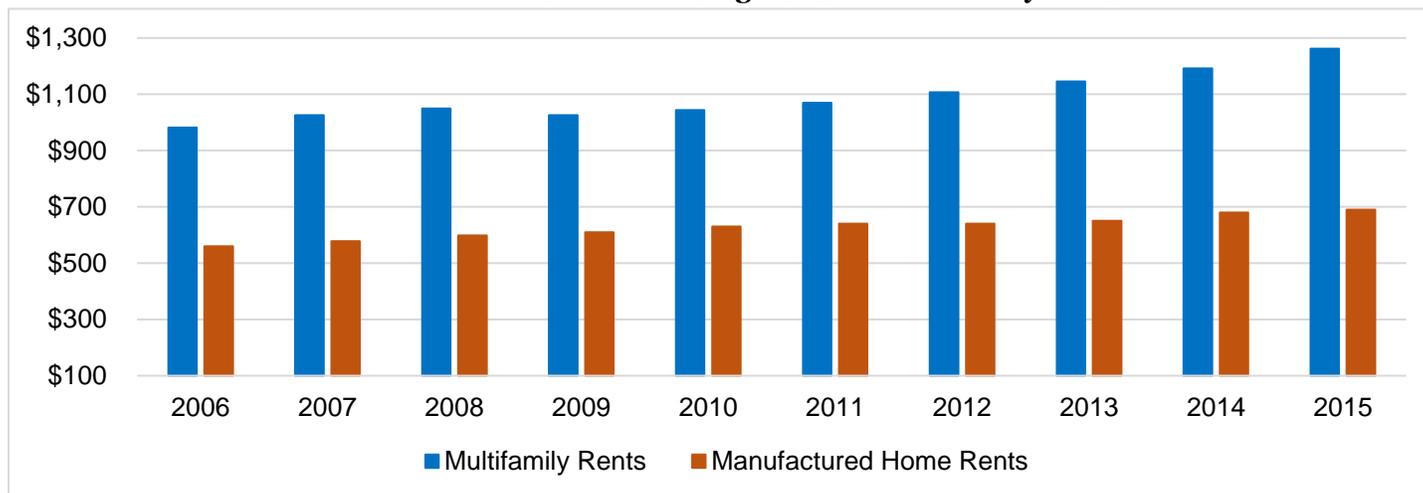
Market	New Unit Average Rent
Cleveland-Akron OH	\$571
Youngstown-Warren OH	\$619
Fort Wayne IN	\$656
Pittsburgh PA	\$700
Elmira NY	\$708
St. Louis MO	\$726

Source: Datacomp/JLT based on rentals listed for select metros with at least 5 listings as of March 31, 2017.

MHC Rents Tend to Be Affordable

Despite the lack of new supply, rentals in MHC properties tend to be quite affordable, as shown in the two tables above. According to recent data from Datacomp, Fort Wayne, IN showed the lowest listed average rent for a pre-owned manufactured home, at just \$292 per month. Rent for a new factory-built manufactured home in the metro was higher at \$656 per month but still below CoStar's estimated metro average multifamily asking rent of \$696. Nationwide, MHC rents remain at about half of multifamily rents, making them a more affordable option for a number of renters.

Median Manufactured Housing Rents vs Multifamily Rents



Source: Reis, Inc. for asking rents. Fannie Mae tabulations of the 2015 American Community Survey Data for MHC rents.

Note: Based on gross rents and includes utilities; rents based on all manufactured housing rentals including those outside of manufactured housing communities.

The Future for MHCs Appears Stable

While sales transactions involving MHC properties slowed during the first half of 2017, they are expected to rebound. According to Datacomp/JLT, there are only about 38,000 existing MHC properties, of which only a few communities are expanding, and nearly no new communities are being built. In addition, almost 70 percent of MHCs were built prior to almost 40 years ago. Meanwhile, there is no shortage of demand for affordable rental units from a wide variety of renters, whether they are retirees living on fixed incomes or other lower income households. As a result, the combination of rental demand, low interest rates, and dearth of new supply, MHC properties are expected to continue drawing interest from real estate investors over the next few years.



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