# The Ugly Duckling Turns a Profit: Investing in Manufactured Home Communities

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Manufactured home communities, formerly referred to as trailer parks, are often the overlooked "ugly duckling" of the residential real estate market. Sometimes viewed as lowbrow or unappealing, manufactured housing is often ignored by real estate investors. Illustrative of this fact, the *5 Reasons Not to Invest In Mobile Homes* post on The BiggerPockets Blog site lists "You Will Very Likely be Made Fun of at Times" as the first reason not to invest in mobile homes (Fedro, 2013). Despite their negative depiction in popular culture, manufactured homes are an important component of the U.S. housing market and can provide timely opportunities for real estate investors. This article examines the current state of the manufactured housing market, the value proposition of investing in manufactured home communities, and potential challenges presented by this unique investment prospect.

Example of a well-manicured manufactured home community. (Photo courtesy: NewHomeSource.com)

According to the Manufactured Homes Institute, 22 million Americans resided in manufactured homes in 2017 and this product type represented 9% of new housing starts (Manufactured Housing Institute, 2018). The popularity of manufactured homes increased in the 1980s in response to major reductions in affordable housing spending by the Reagan administration. To this day, manufactured homes remain a major source of affordable housing across the country. According to the Manufactured Housing Institute, these residential units cost on average $49 per square foot compared to $107 per square foot for site-built homes. Shipments of new manufactured homes grew by 15% in 2016, showing that this housing option continues to have staying power in the U.S. real estate market.

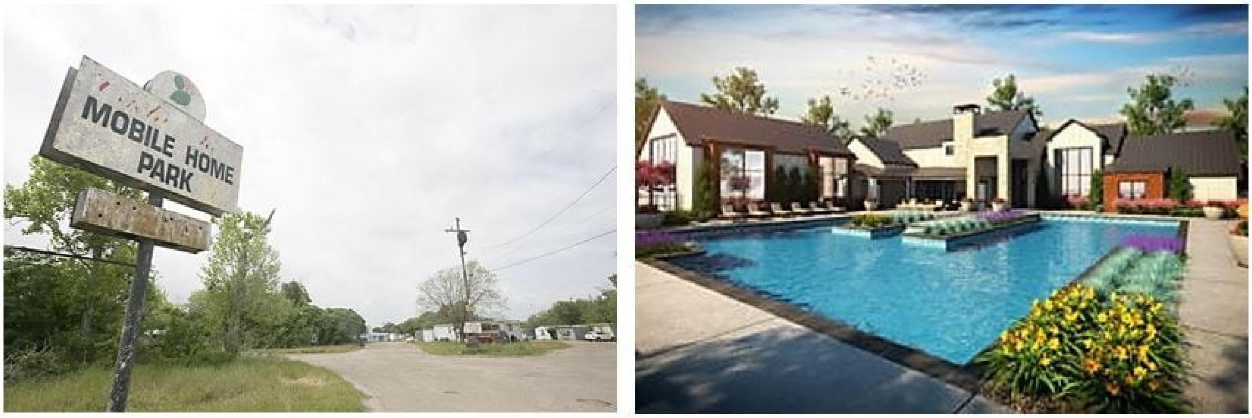
In 2017, 66% of new manufactured homes were placed on privately owned land. The remaining units were situated in manufactured home communities. In this scenario, the homeowner pays a monthly rent for the land on which the home is located. The size and character of these communities can vary drastically. Some only have minimal infrastructure such as utility hookups and modes of ingress and egress for the site. Others feature manufactured homes with additions such as front porches, car ports, decks, shrubbery, paved roads and sidewalks. Some manufactured home communities also feature amenities that are traditionally found in site-built communities, such as parks, community centers and pools. Though manufactured homes can be moved, the inconvenience and cost of such a re-location is often prohibitive. Moreover, many states prohibit moving manufactured homes once they have reached a certain age. As such, these leasehold relationships are often long-term and demand for land is fairly price inelastic.

Manufactured home communities represent a viable option for investors looking for steady cash flows.  The national average for monthly rent for a space within a park is $250.  The Manufactured Home Institute reports that the average national rent increased by 3% in 2017 (Manufactured Housing Institute, 2018).  Since investors do not typically own the individual homes, major recurring expenses are limited to the upkeep of the park. Reonomy reports that “mobile home parks have the highest cap rate of any real estate niche, roughly 7-12%.”  Manufactured home communities can be equally attractive assets for investors looking for high yield returns (Reonomy, 2018).  Instances often arise where the land values around these communities have shifted and the highest and best use of the land has changed.  Such cases provide infill development or redevelopment opportunities that have potential for substantial returns on investment.

There are several key players in the manufactured home industry.  Sun Communities, LLC, the second largest owner of manufactured homes by lots owned, is arguably one of the most successful.  *Forbes* reports that between 2008-2017, Sun Communities experienced a total return on investment of 857.6%, including dividends (Markman, 2018).

The Northville Crossing community by Sun Communities, Inc. located in Northville, MI (Image Courtesy: Sun Communities, Inc.)

Other firms have been successful at transforming manufactured home communities into new developments.  Oden Hughes, a fully integrated development and construction based in Austin, Texas, has found success with this strategy.  The company identified the Cactus Rose Mobile Home Park, located in the up-and-coming East Austin community as a lucrative redevelopment opportunity.  In 2015 the company began working with the mobile park’s existing owner to rezone the site (Caterine, 2016). After 18 months of negotiation with the city and park residents, Oden Hughes began construction on a 342-unit, luxury apartment complex in 2017 (Novak, 2018).




Left: Entrance to the former Cactus Rose Mobile Home Park (Photo courtesy Jana Birchum, The Austin Chronicle). Right: Rendering of the units at the Cactus Rose development underway (Photo Courtesy: Oden Hughes).

Despite all of the opportunities for the upside, trailer parks as an investment do not come without their share of challenges. Given the important role these assets play in housing affordability, many cities have become concerned with the rising rents that new private investors bring to manufactured home communities. In some areas this concern has resulted in modification of zoning ordinances to prevent redevelopment, introduction of laws requiring owners to give residents a 12-month notice of intent to discontinue leasing land, negotiation of relocation packages for residents forced to move, and in some cases, advocacy that current residents have the option to purchase the community and turn it into a cooperative. In addition to the challenges raised by residents and local jurisdictions, these assets are not immune to the cyclic nature of the real estate market. In fact, investment in these manufactured home communities experienced a similar surge in popularity in the early 2000s prior to the subprime lending crisis and subsequent recession. As such, the timing of the investment and the stage of the real estate cycle are equally important considerations when investing in manufactured home communities.

As long as the need for convenient and affordable housing persists, there will be a steady demand for manufactured housing communities. Though perhaps not the most glamorous choice on first sight, this “ugly duckling” can produce effective returns on investments that make it worthy of a second look.

## References

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