

Growing Investment in Manufactured Housing Community Asset Class

Multifamily Market Commentary – August 2019

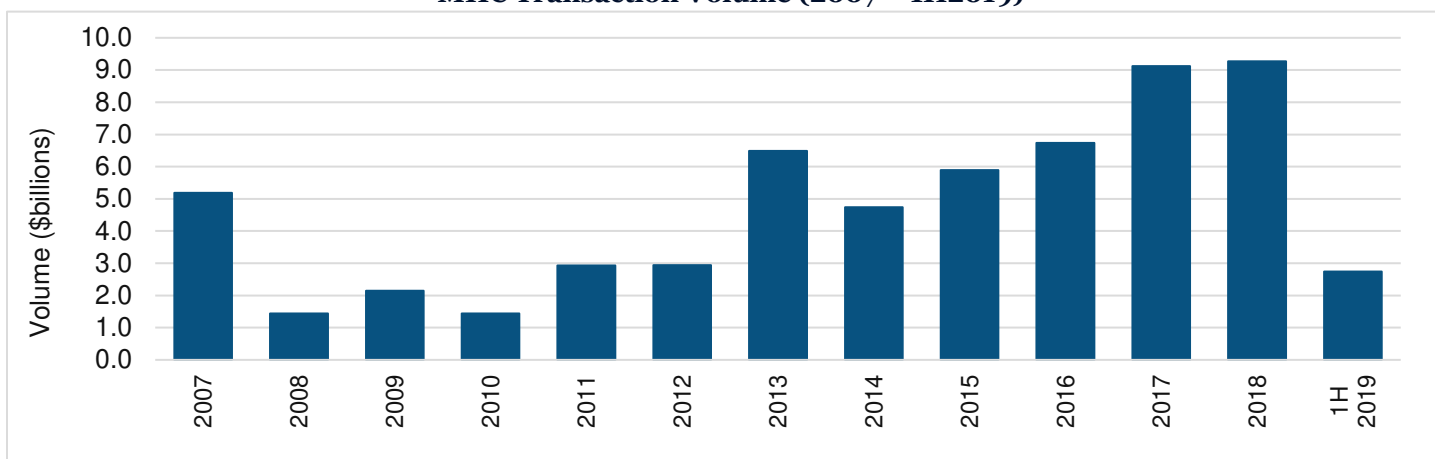
Investor Interest in Manufactured Housing Communities Remains Strong

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 rent sites to owners of manufactured homes so they can access electricity and other utilities, there are a number of these communities that also rent out manufactured housing units themselves. The combination of renewed renter and homeowner interest in MHCs has not been lost on some real estate investors. As a result, 2018 MHC volumes were higher than they’ve been at any point since the end of the Great Recession in June 2009.

Transaction Volume Continues to Rise

Although 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, last year was another strong year for MHC. Transactions involving MHC properties totaled an estimated \$9.3 billion in calendar year 2018, compared to an estimated \$9.1 billion in 2017. RCA recorded just under \$3.0 billion in transactions in the first half of 2019. Transaction volume may rise in the second half of 2019 as there is speculation that some owners of smaller MHCs will take advantage of ongoing investor interest and sell their properties to help fund retirement plans.

MHC Transaction Volume (2007 – 1H2019)



Source: Real Capital Analytics www.rcanalytics.com

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

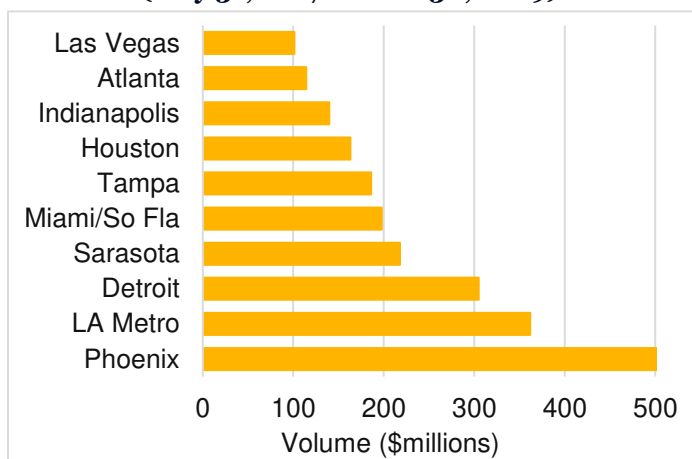
Phoenix Dominates Sales

The Phoenix metro area dominated transactions over the past 24 months with about \$500 million in sales. This is largely due to the one-time sale of the Tricon Capital Group MHC portfolio of 14 properties for an estimated \$172 million in June 2018 to Blackstone Real Estate Income Trust, Inc. (BREIT), an institutional investor.

Sarasota Also Active

Sarasota, which is a much smaller metro than Phoenix, appears to have had a lot of sales over the past two years. However, this is due to just a couple large transactions. In 2018, Cove Communities purchased the 968-unit Camelot Lakes and Camelot East MHC from the Ivy Foundation for \$165 million. In 2017, Northwestern Mutual purchased the 645 Gardens of Parrish from an individual owner, Edward Mihevic, Jr.

MHC Sales Volume -- Select Metros Past 24 Months (July 31, 2017 – June 30, 2019)



Source: Real Capital Analytics www.rcanalytics.com



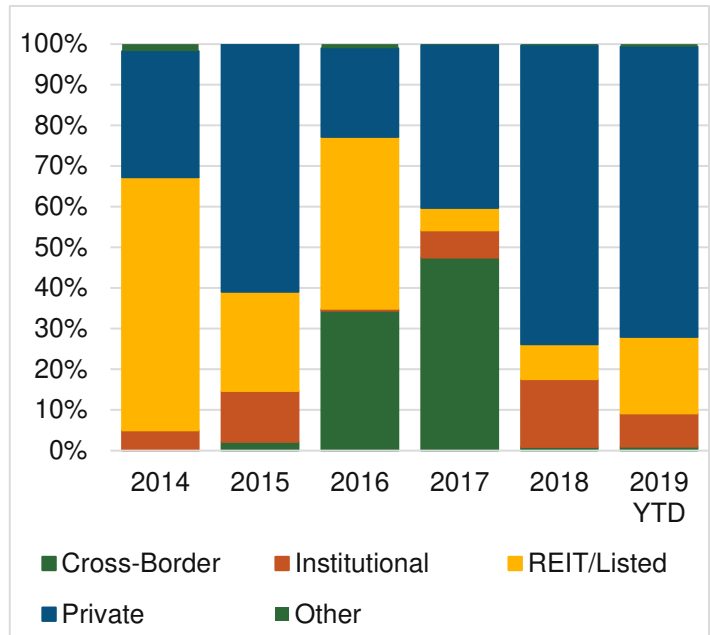
MHC Investing Goes Beyond REITs

While publicly listed REITs have remained active in the MHC sector, private entities had the highest share of investment in MHCs through mid-2019. Private investors, which include privately-owned companies and real estate developers, represented just over 70 percent of MHC purchase volume through the end of June 2019, followed by public REITs with just under 20 percent. Institutional investors – which include insurance companies, equity funds, and sovereign wealth funds – came in third with just under 10 percent of purchase volume.

Drop Off in Global Investors

Global investment in U.S. MHC appears to have decreased in 2018 and going into 2019. However, the decline is likely not as dramatic as it appears. Global investment was particularly strong in 2017 primarily due to a single large portfolio transaction in which the Government of Singapore Investment Corporation (GIC), the sovereign wealth fund of Singapore and its affiliates, invested almost \$1.5 billion to gain a majority interest in 178 MHC properties sold by Yes! Communities. Over the past five years, Canada remained the top global investor in MHC, investing about \$2.2 billion to obtain just over 155 properties.

**MHC Buyer Composition
(2014 – 1H2019)**



Source: Real Capital Analytics www.rcanalytics.com

A Variety of Top MHC Investors

The top buyers have been evenly dispersed recently with regard to acquisition volume. TPG Capital, an institutional equity fund based in Fort Worth, was the top MHC investor over the past 24 months, investing almost \$390 million on about 78 MHC properties. The second most active buyer was Yes! Communities, a non-publicly traded REIT located in Denver, investing just under \$480 million on 30 properties. Rounding out the top three investors was publicly listed REIT Sun Communities Inc., one of the largest owner-operators of MHC properties, which invested almost \$368 million on just 15 properties. Sun Communities bought larger communities in higher cost areas which was reflected in its average price per MHC of \$25 million, compared to TPG Capital's average price of just \$5 million.

One relatively new company that has been very active over the past two years is Meritus Communities. Founded just six years ago, it has acquired over 50 properties and over 20,000 sites. While many are in Michigan, Meritus has been acquiring properties in other states, including Texas, Alabama, Ohio, and Indiana.

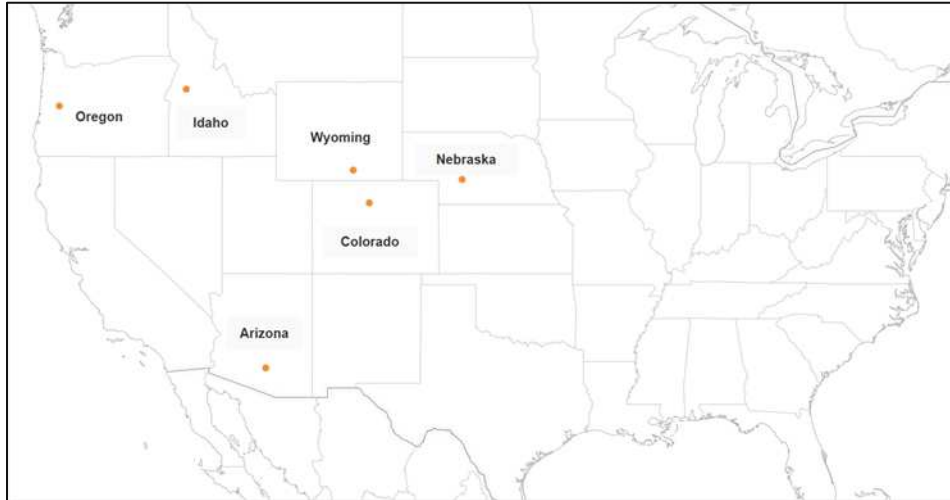
Top 10 MHC Buyers (Past 24 Months)

	Buyer	Investor Type	Investor Location	Acquisition (\$ M)
1	TPG Capital	Institutional Equity Fund	Fort Worth, TX	\$387
2	Yes! Communities (NT REIT)	Private REIT	Denver, CO	376
3	Sun Communities Inc	Publicly Listed REIT	Southfield, MI	368
4	RHP Properties	Private Developer/Owner	Farmington, MI	334
5	Equity Lifestyle Props	Publicly Listed REIT	Chicago, IL	299
6	BREIT	Private REIT	New York, NY	233
7	Cove Communities	Private Developer/Owner	Phoenix, AZ	180
8	Meritus Communities	Private Developer/Owner	Farmington, MI	173
9	Carlyle Group	Institutional Private Equity	Washington, DC	173
10	Northwestern Mutual	Institutional	Milwaukee, WI	144

Source: Real Capital Analytics www.rcanalytics.com



Locations of MHC Under Construction as of August 14, 2019



Source: CoStar Group, Inc., excludes one new MHC in Alaska

Few New MHC Properties Being Built

MHC properties are aging, with 68 percent of the stock having been built prior to 1980, according to MHC data vendor Datacomp/JLT. In fact, currently fewer than 10 new MHC properties appear to be under construction. The vast majority are in rural areas.

MHC Cap Rates Remain Low

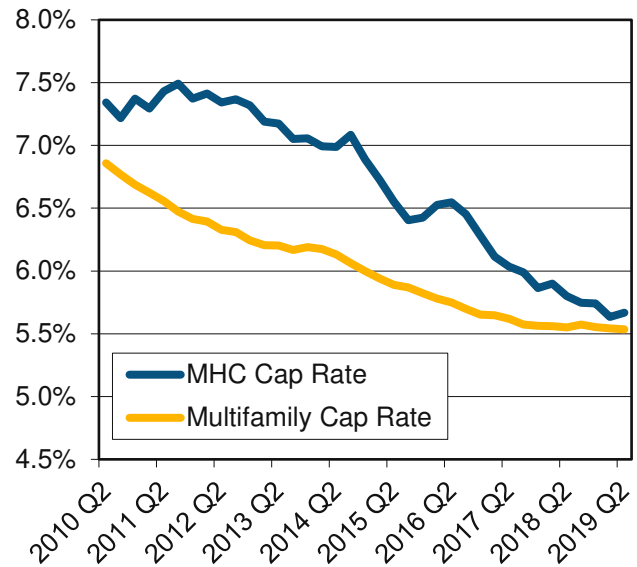
With ongoing interest from a wide variety of investors, and few new communities being built, capitalization rates for institutional-quality MHCs have declined significantly in recent years. As of second quarter 2019, RCA estimates that MHC cap rates are 5.7 percent, slightly lower than the 5.8 percent cap rate a year ago in second quarter 2018.

There is quite a bit of variation in cap rates, however. Smaller MHCs tend to have much higher cap rates. For instance, the 71-unit Shady Oaks Mobile Home Park near Portland, ME, was underwritten with a 6.9 percent cap rate, according to RCA. Nevertheless, on average, cap rates have declined considerably since the recent peak of 7.5 percent for MHCs recorded in third quarter 2011.

Average Sales Price per Unit Continues to Increase

The average price per MHC site was about \$60,000 as of second quarter 2019, according to RCA. While this is about 50 percent higher than the estimated \$40,000 per site recorded as of fourth quarter 2007, it remains a fraction of the \$157,000 average sales price per unit recorded for multifamily properties.

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



Source: Real Capital Analytics www.rcanalytics.com
Quarterly based on trailing 12 month average. Includes property or portfolio sales \$2.5 million or greater



Average Rents for a Rental Home – MHC vs Multifamily Select Metros

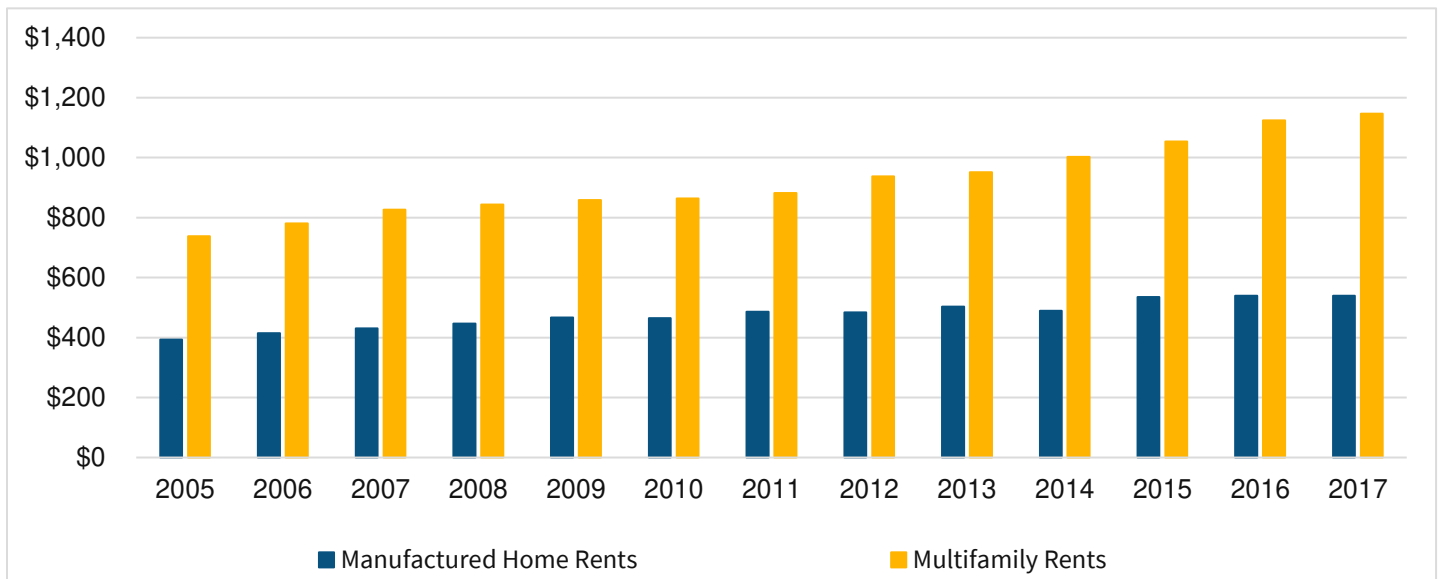
Metro Area	Rental in MHC	Multifamily Rents	Ratio of MHC Rent to Multifamily Rent
Los Angeles, CA	\$1,373	\$2,249	61%
Chicago, IL	\$979	\$1,504	65%
Cleveland, OH	\$704	\$919	77%
Fort Wayne, IN	\$583	\$755	77%
St. Louis, MO	\$729	\$905	81%
Dallas, TX	\$1,018	\$1,104	86%

Source: Datacomp/JLT for MHC rents based on listings July 10, 2019 in MHC. RealPage for multifamily asking market rents. Geographic boundaries for metro areas may vary somewhat between Datacomp and RealPage.

MHC Rents Are Generally More Affordable than Multifamily Rents

Despite the lack of new supply, rentals in MHC properties are generally less expensive than apartments. The average MHC rent nationwide has been about half that of a multifamily unit over the past decade. According to recent data from Datacomp/JLT, the average rent for a pre-owned manufactured home in the Fort Wayne metro area was just \$583, approximately three-quarters of the average rent for a multifamily unit. However, the savings are even higher for an MHC located in a major metropolitan area. For instance, the average rent for an MHC unit in the Los Angeles metro is \$1,373, just 61 percent of the metro’s average estimated rent for an apartment. Nationwide, the asking rents on all manufactured housing rentals, including those on individual plots of land, remain at about half of multifamily rents, making them often a more affordable option for many renters.

Average Multifamily Asking Rents vs. Manufactured Housing Rents



Source: Fannie Mae tabulations of American Community Survey Data.

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

Fannie Mae Finances MHC

Fannie Mae’s Multifamily business provides financing options for MHCs where the borrower owns the MHC property along with the associated common amenities and infrastructure and leases the individual pad sites to the owners of the manufactured homes. Multifamily lends on the income generated from the pad rents. Tenants typically own their manufactured homes. However, up to 25 percent of homes may be rentals provided by the MHC owner. Fannie Mae’s MHC financing activity is excluded from the Federal Housing Finance Agency (FHFA)-imposed multifamily annual maximum cap on lending volume for the GSEs. In 2018, Fannie Mae financed \$2.9 billion in MHCs, which represented an increase of 56 percent from the \$1.9 billion in multifamily MHC loans financed in 2017.



Duty to Serve Encourages Tenant Site Lease Protections

In many states, MHC residents do not have the same tenant protections afforded to tenants living in other multifamily properties. There is no national standard, and in fact no state or local jurisdiction currently requires all of the tenant protections mandated by FHFA under the Duty to Serve (DTS) program for tenants in MHC.

Fannie Mae offers pricing discounts for borrowers who institute these Tenant Site Lease Protections on at least 25 percent of pad sites and higher discounts for protections on at least 50 percent of sites.

In 2019, Fannie Mae financed Harmony Pointe MHC through a \$4.75 million loan closed through Berkadia Commercial Mortgage LLC. Harmony Pointe is an age-restricted MHC in West Carrollton, OH with 124 pads and one apartment. The borrower worked with tenants to convert leases on at least 50 percent of the sites. Residents signed an addendum to their lease that included the DTS requirements for site lease protections. This transaction was notable because Ohio is a state with very few MHC tenant protections.

Duty to Serve Tenant Site Lease Protections

- ❖ One-year renewable term for the pad site lease.
- ❖ 30-day written notice of rent increases.
- ❖ 5-day grace period for late rent payments.
- ❖ Rights of the tenant of a site lease to:
 - Sell their home without having to move it out of the MHC;
 - Sublease the manufactured home or assign the site lease to a buyer, provided the buyer meets the minimum MHC rules and regulations and credit quality for financing;
 - Post “for sale” signs on the manufactured home, provided the signage complies with the MHC rules and regulations;
 - Sell the manufactured home in place within 45 days after eviction; and
 - Receive at least a 60-day notice of any planned sale or closure of the MHC.

Fannie Mae’s MHC Portfolio Continues to Perform Well

As of second quarter 2019, Fannie Mae had just over 1,000 loans on MHCs with a total unpaid principal balance (UPB) of over \$11 billion. The loans were performing well with no serious delinquencies, as of second quarter 2019. While the average UPB was \$10.9 million, approximately half of the loans had an original unpaid balance of \$6 million or less at origination, indicating most transactions involved smaller properties.

Select Credit Characteristics of Fannie Mae MHC Book of Business

Total UPB* (\$B)	Loan Count	Average UPB* (\$M)	Weighted Average OLV**	Share Fixed Rate	Share Full Interest-Only	Share Partial Interest – Only ¹	Share Small Balance ²	Share Lender Recourse ³	Serious Delinquency Rate ⁴
\$11.7	1,076	\$10.9	67%	87%	13%	57%	50%	100%	0.0%

Source: Fannie Mae Q2 2019 10Q Credit Supplement

*UPB : Unpaid Principal Balance

** Weighted Average Origination Loan to Value Ratio

¹ Includes any loan that was underwritten with an interest-only term less than the term of the loan, regardless of whether it is currently in its interest-only period.

² In Q1 2019, the DUS program updated the definition of small multifamily loans to any loan with an original unpaid balance of up to \$6 million nationwide. The updated definition has been applied to all loans in the current multifamily guaranty book of business, including loans that were acquired under the previous small loan definition.

³ Represents the percentage of loans with lender risk-sharing agreements in place, measured by unpaid principal balance.

⁴ Multifamily loans are classified as seriously delinquent when payment is 60 days or more past due.

Continued Investor Interest Expected for MHC

According to third-party MHC data vendor Datacomp/JLT, there are about 38,000 existing MHC properties and only a handful of new communities are being built or expanded. With rents for manufactured homes typically more affordable than those for traditional multifamily units, there is no shortage of demand by a wide variety of renters, whether they are lower income households or retirees living on fixed incomes. An expectation of strong demand for affordable rental housing, continuing low interest rates, and a dearth of new supply supports continued strong fundamentals in the MHC sector. As a result, investor interest is expected to remain strong in this segment of the multifamily market over the next 18 months at least.



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