



## Multifamily Market Commentary – June 2016

### Manufactured Housing Communities – A Closer Look

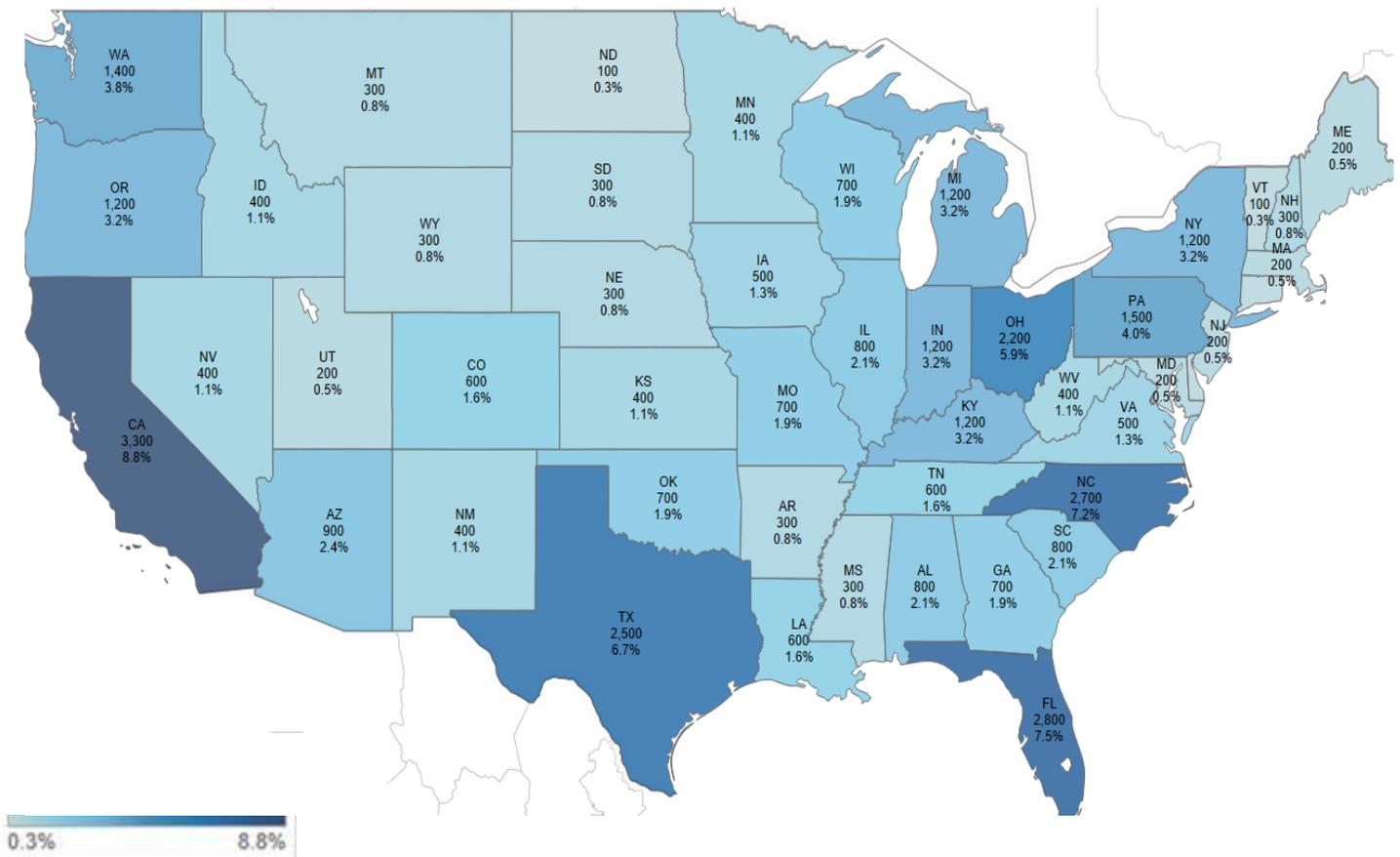
What is a Manufactured Housing Community (MHC)? MHCs are sometimes referred to as mobile home parks or land-lease communities. MHCs rent land, known as pads, to owners of manufactured homes for a monthly fee. In addition, the park owner typically provides sewer, water, and electrical hookups for the homes and maintains the roads and other common areas, including landscaping. Park owners can also own a stock of existing manufactured homes that are available for rent.

#### MHCs Are Located in Every State in the U.S.

While there may be as many as 50,000 MHCs in the United States, third-party MHC data vendor Datacomp/JLT has identified an estimated 37,300 as of the end of April 2016. MHCs can be found in every state, but slightly more than half of them are concentrated in just 10.

As seen in the map below, California has the highest number of MHCs – with 3,300 – an 8.8 percent share of the nation’s total. Florida has the second-highest concentration with 2,800, a 7.5 percent share, followed by North Carolina with 2,700, a 7.2 percent share, and Texas with 2,500, a 6.7 percent share. Ohio rounds out the top five with 2,200, a 5.9 percent share. The vast majority of states have far fewer communities. Just under half of all states have fewer than 500 communities and another 13 states have more than 500 but less than 1,000.

**Manufactured Housing Communities in Continental U.S.  
Number of Communities by State (estimated)**



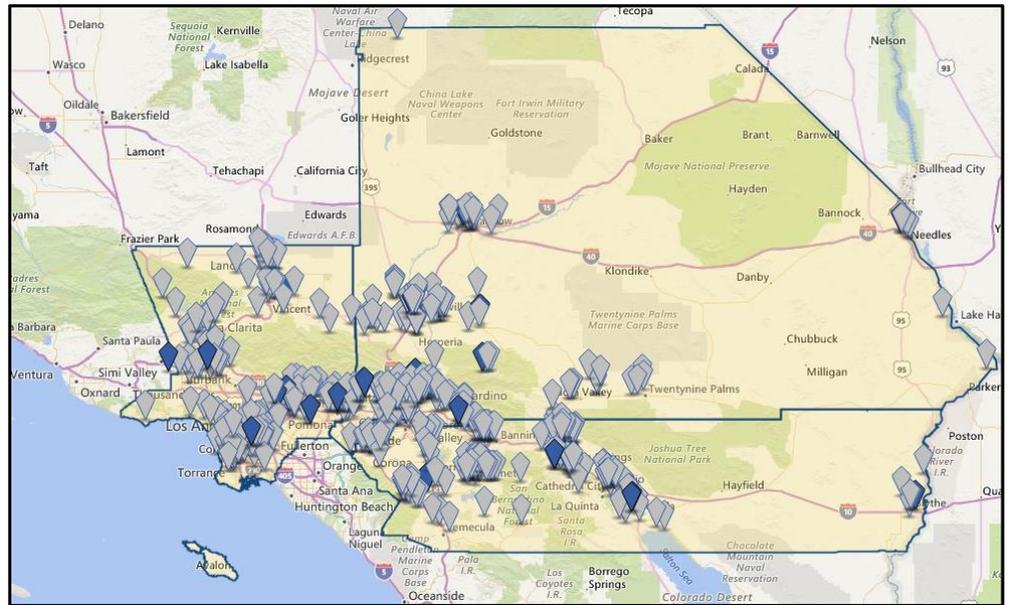
Source: Datacomp/JLT  
Note: Excludes Alaska with 67 MHC.



## MHCs in the Inland Empire and Los Angeles County

### Counties with Concentrations of MHCs

A few states have counties with particularly high concentrations of MHCs. For instance, in Arizona, just three counties – Maricopa, Pima, and Pinal – have more than 700 MHC properties, according to third-party multifamily data vendor CoStar Group, Inc. In California, Los Angeles, Riverside, and San Bernardino counties together have an estimated 800 MHC properties. Encompassing both Riverside and San Bernardino, the Inland Empire has relatively less expensive land, which makes it a more viable location for MHCs.

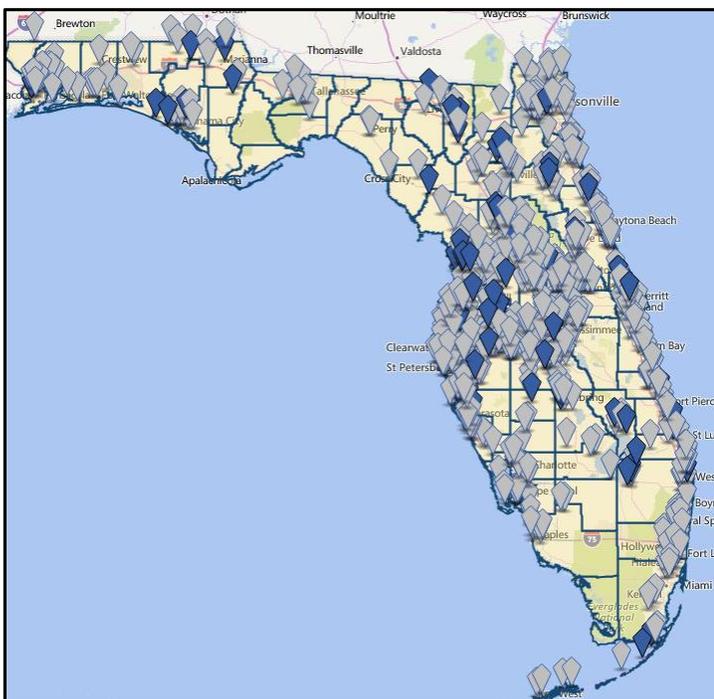


Source: CoStar Group, Inc.

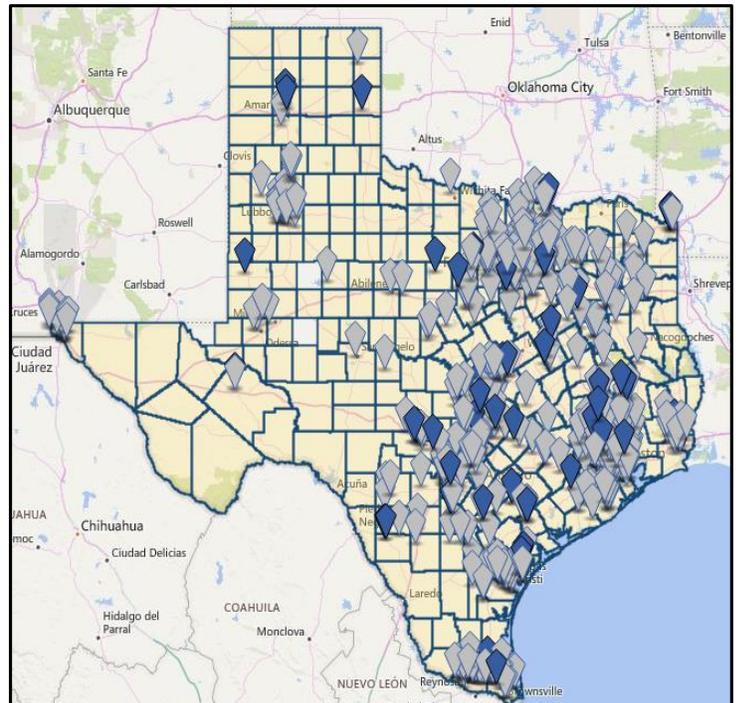
### States with Even Distributions of MHCs

In contrast to California and Arizona, which have a few counties with heavy concentrations of MHCs, the MHC distribution is far more even in some other states. For instance, as shown in the maps below, there are MHCs in nearly every county in Florida. Many Texas counties have MHCs, but there is a greater concentration in East Texas.

#### Florida MHCs



#### Texas MHCs



Source: CoStar Group, Inc.



## Two Primary Types of Manufactured Housing Communities

MHCs can be for all ages or age-restricted. Age-restricted communities serve retirees who are generally over the age of 55. Based on the communities Datacomp/JLT has been able to categorize, four states have a significant number of MHCs geared toward retirees: Florida with just over 900, California with just under 800, Arizona with just over 300, and Washington with just under 300.

### Smaller MHCs More Prevalent

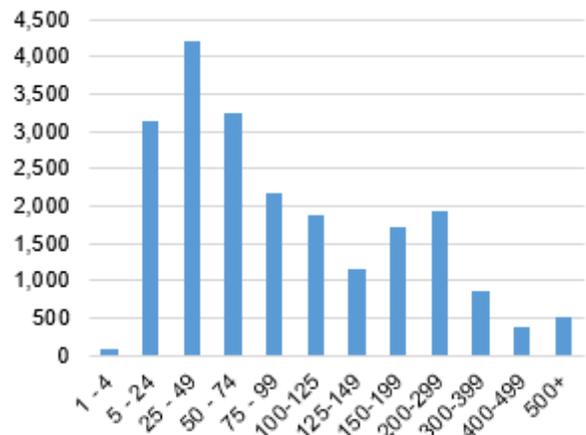
Most MHCs where Datacomp/JLT has identified the pad count have between five and 299 pads. As shown in the adjacent chart, just over 4,000 MHCs have between 25 and 49 pads. Close to 8,500 MHCs have between 50 and 149 pads. Fewer communities – slightly more than 1,700 – have more than 300 pads.

Interestingly, there are communities with fewer than five pads. Datacomp/JLT has identified about 100 MHCs that have only one to four pads. Further, slightly more than 3,000 MHCs have only five to 24 pads. Some of these smaller communities may be on a private owner's property and may not have access to municipal utilities or water and sewer systems.

### Few New MHCs

As shown in the chart below, few new MHCs are under construction. According to CoStar, virtually no MHCs have been constructed over the past five years. That trend appears to be continuing into 2016. At the end of the year's first quarter, there were just three MHCs – with an estimated 895 pads – under construction. That is far below the estimated historical annual average of 3,500 pads. Of the three MHCs currently under construction, one is located in Amegard, ND, with an estimated 48 pads priced at \$25,000 per pad. The second project is in Missoula, MT, with 766 pads, and the third is in Gainesville, FL, with 81 pads.

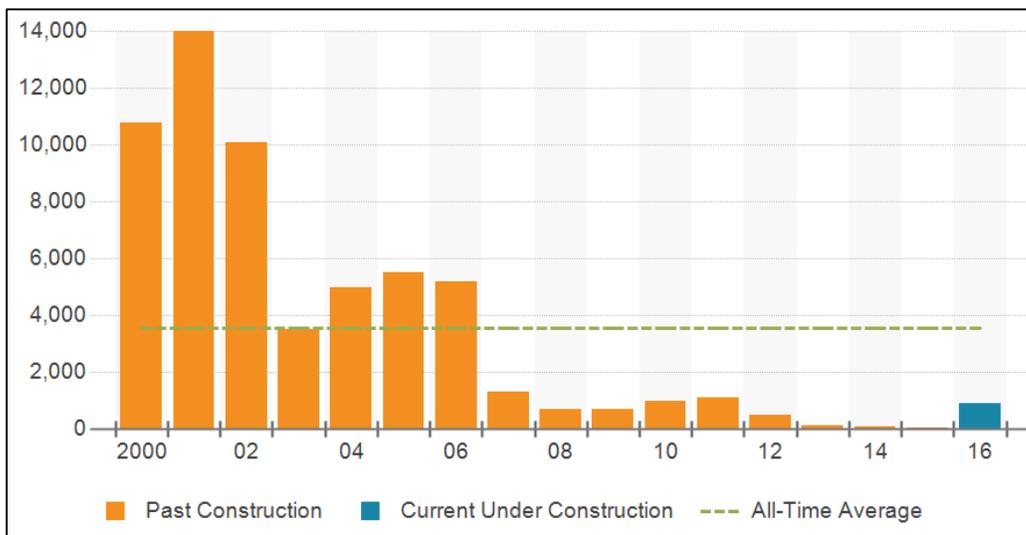
**Distribution of MHCs by Number of Pads**



Source: Datacomp/JLT

Note: excludes just under 16,000 MHC with an unknown number of pads

**Construction in Manufactured Housing Communities by Number of Pads**



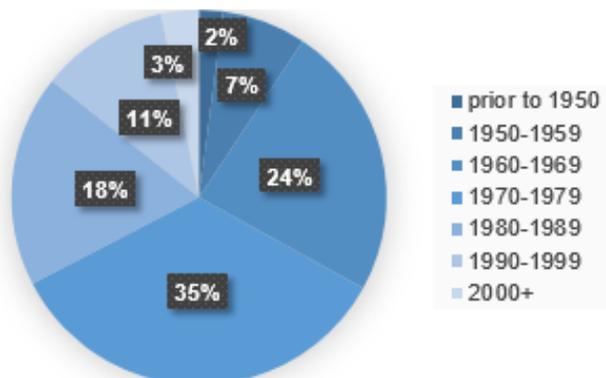
Source: CoStar Group, Inc.



### MHC Stock Getting Older

With little new inventory coming online over the past 15 years, the MHC stock is aging. As shown in the chart to the right, most MHCs – 68 percent – were built prior to 1980. The highest proportion of MHCs – an estimated 35 percent – were constructed even earlier, between 1960 and 1969. Another 24 percent were constructed even earlier, between 1960 and 1969. Only 14 percent of MHCs have been built since 1990, likely due in part to rising land costs.

### Distribution of MHCs by Year Built



Source: Datacomp/JLT, based on approximately 16,100 MHC.

### MHC Sales Transactions Increasing

While MHC sales data is limited, Datacomp/JLT reported an estimated 1,100 sales transactions resulting in a change in ownership in 2015.

Third-party data vendor Real Capital Analytics also provides additional insights into MHC transactions, but only for those valued at \$2.5 million or higher. The annual volume of MHC transactions appears to be picking up. After averaging \$2.7 billion on 269 properties annually from 2005 to 2012, the volume of transactions averaged \$5.5 billion on 307 properties annually from 2013 to 2015. As shown in the table below, in 2015 alone, MHC sales totaled an estimated \$5.6 billion on 533 properties, representing 114,086 pads.

Despite the increase in sales transaction volume, the price per pad has been remarkably consistent since 2008, ranging from an estimated \$45,000 to \$50,000 per pad. Slightly fewer than 120,000 pads have been transacted on average annually since 2013.

### MHC Lending Volume Also Increasing

Lending on MHCs has grown since 2008, as shown in the table below. MHC lending increased to \$3.9 billion in 2013 from just \$0.9 billion in 2008, followed by \$2.5 billion in 2014, and \$3.5 billion in 2015.

Two of the largest MHC loans in 2015 were in California: “Huntington by the Sea” with 306 pads had a loan of \$75 million, and “Surf City Beach Cottages” with 256 pads had a loan for \$52 million.

### MHC Sales (Jan. 1, 2005 – April 30, 2016)

Year	Properties	Pads	Sales Volume (\$ Billions)	Loan Volume (\$ Billions)
2005	308	71,644	\$3.0	\$2.1
2006	418	98,326	3.3	2.2
2007	462	106,084	4.2	2.5
2008	141	32,102	1.4	0.9
2009	159	41,033	2.1	1.2
2010	135	29,272	1.4	0.7
2011	253	62,346	2.9	1.7
2012	272	65,527	2.9	1.9
2013	592	145,408	6.2	3.9
2014	368	98,701	4.6	2.5
2015	533	114,086	5.6	3.5
2016	56	11,724	0.5	0.2

Source: Real Capital Analytics: <https://www.rcanalytics.com>

Note: Based on transactions valued at \$2.5 million or higher. Includes both sales and refinances of existing properties.

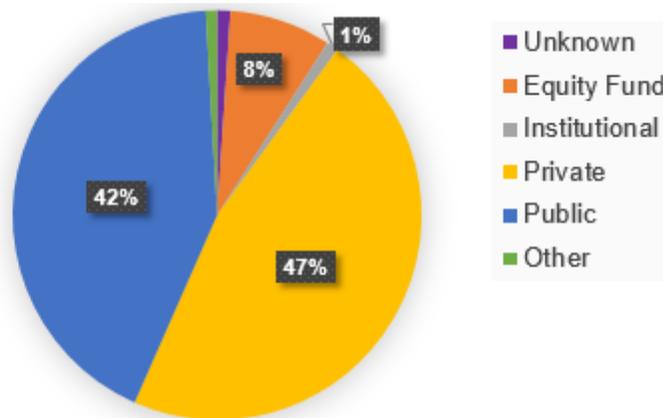


## Private Investors are a Significant Factor in MHCs

According to Data from Real Capital Analytics, private investors have the largest share of the MHC market with 47 percent. Since the beginning of 2015, privately owned companies and real estate developers accounted for the vast majority of private investment, with \$1.9 billion invested. Non-publicly traded REITs accounted for just \$120 million and high-net-worth individuals just \$18 million.

Nevertheless, public investors also play a significant role. As shown in the chart below, since 2015, 42 percent of MHC investments were made by publicly-traded companies. These included real estate investment trusts (REITs), publicly traded owners and operators of MHCs, and publicly traded development and property management companies. Equity funds and institutional investors have also played a smaller role in the MHC sector.

**Investor Category for MHC Transactions (Jan. 1, 2015 – April 30, 2016)**



Source: Real Capital Analytics: <https://www.rcanalytics.com>

As shown in the table below, since Jan. 1, 2015, the publicly traded company with the highest investment in MHC – at \$1.4 billion – was Sun Communities, Inc., a REIT that owns more than 200 MHCs in 29 states. In second place – with a \$214 million investment – was NorthStar Realty Finance, which holds an estimated 136 MHCs with 33,000 pads in 14 states. Foreign investors also appear to have a strong interest in MHC. Rounding out the top three was Ingenia – the largest Australian REIT, which specializes in retirement MHCs – with \$103 million.

The top three privately held companies investing in MHCs since the beginning of 2015 are RHP Properties with an investment of \$460 million, AMC REIT with \$117 million, and Hometown America with \$80 million. Carlyle Group has led the equity investors, with \$174 million invested since the start of 2015.

With \$19 million invested, Northwestern Mutual, an insurance company, has been the institutional investor making the largest investment since the start of 2015.

**Investors by Category for MHC Transactions (Jan. 1, 2015 – April 30, 2016)**

Public Entity	Private Entity	Equity Fund
Sun Communities, Inc. \$1.4 B	RHP Properties: \$460 M	Carlyle Group: \$174 M
NorthStar: \$214 M	AMC REIT: \$117 M	Tricon Capital Group: \$69 M
Ingenia: \$103 M	Hometown AM: \$80 M	Westwind Investors: \$63 M
UMH: \$102 M	Horizon Land Co: \$76 M	Lone Star: \$29 M
Equity Lifestyle Properties: \$61 M	Meritus Communities: \$74 M	Green Courte Partners: \$15 M

Source: Real Capital Analytics: <https://www.rcanalytics.com>



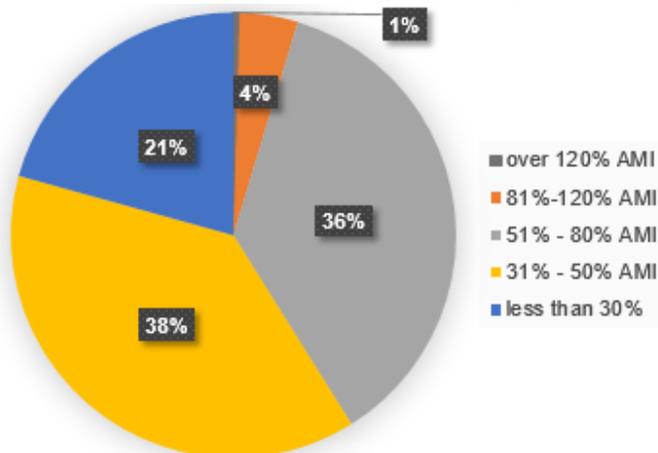
## Manufactured Housing Rentals Remain Highly Affordable

MHC rentals tend to be quite affordable. As shown on the left chart below, based on the most recently available data from the 2014 American Community Survey, 21 percent of all manufactured housing rental units are affordable to households earning less than 30 percent of the local area median income (AMI), another 38 percent are affordable to those earning 31 percent to 50 percent of their AMI, and 36 percent are affordable to those earning 51 percent to 80 percent.

As shown on the right table below, lowest asking rent recorded for a rental unit at an MHC averaged just \$292 as of the end of May in Fort Wayne, Indiana, which was just 46% of the average asking rent for an apartment in the same metro area.

What is perhaps surprising is that 5 percent of units are only affordable to those earning more than 80 percent of their local AMI. Most likely, these are units in age-restricted MHCs catering to retirees with higher incomes. In fact, among the highest asking rents recorded for a rental unit at an MHC was average asking rent of \$1,234 as of the end of May in the Sarasota metro area. This is an estimated 10% higher than the average asking rent for an apartment in the same area.

## Manufactured Housing Units Segmented by Affordability



### Bottom-Five Rents by Metro Area:

Fort Wayne, IN: \$292  
 Springfield, IL: \$393  
 Toledo, OH: \$541  
 Philadelphia-Wilmington-Atlantic City, PA-DE-NJ: \$624  
 Jackson, MI: \$676

### Top-Five Asking Rents by Metro Area:

Sarasota-Bradenton, FL: \$1,234  
 Austin-San Marcos, TX: \$1,183  
 Orlando, FL: \$1,147  
 Daytona Beach, FL: \$1,071  
 Los Angeles- Riverside-Orange County, CA: \$1,027

Source: Fannie Mae tabulations of 2014 American Community Survey data for all occupied manufactured housing rentals, including those outside MHCs. Includes data on recreational vehicles and boats.

Source: Datacomp/JLT based on rentals listed for select metros with at least 10 listings as of May 30, 2016.

## An Important Source of Affordable Rental Housing

MHCs are a critical source of affordable rental housing in many parts of the country. They may be the only source of affordability, especially in rural areas. With rental demand increasing and fewer MHCs being developed, an anticipated supply/demand imbalance is likely brewing. Increasing the development of new MHCs, as well as preserving existing properties where possible, would go a long way toward maintaining this critical source of affordable housing.

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