

SEPTEMBER 2021

Manufactured Housing Community Fundamentals Remain Steady Mid-Year

According to the Urban Institute, owners and renters of manufactured homes are more likely than residents of other housing types to work in the five industries most vulnerable to job loss during the pandemic, with 35% of owners and 43% of renters working in the food and accommodation, retail, construction, entertainment, and other services sectors. While these sectors have been adding jobs, they are not yet at pre-pandemic levels, and an ongoing threat remains from the resurgence of COVID-19 due to the Delta variant. This may have had a negative impact on manufactured housing communities (MHC) and investor interest in the segment. However, to date, MHC fundamentals remain steady, despite volatility in the job market. We believe this bodes well for continued investor interest in the MHC sector.

## Sales Rise in 2021

During the first half of 2021, sales of MHC totaled \$3.2 billion, which is 75% higher than the sales for the first half of 2020. This total was the strongest start to any year since 2017, as shown in the adjacent chart. The volume was evenly split between single asset sales and portfolio sales, which each totaled about \$1.6 billion in the first half of the year.

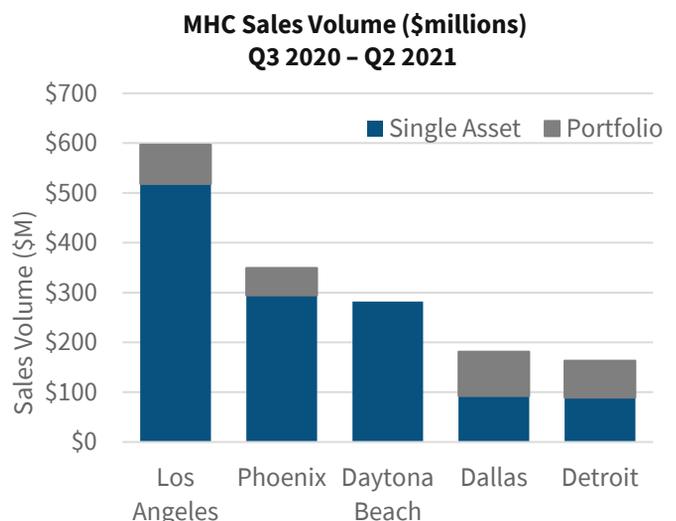
## Investor Interest in Many Metros

Investors have appeared most interested in Los Angeles over the past few quarters, spending about \$600 million to acquire MHC in the large Los Angeles metro area, as shown in the adjacent chart. Investors also remained interested in another traditional stronghold for MHC, snapping up just under \$350 million in properties in the Phoenix metro area.

Investor interest in MHC has also grown beyond the Sun Belt. Investors acquired just under \$165 billion in MHC in Detroit, making it one of the top metros for investment in MHC over the past year.



Source: Real Capital Analytics



Source: Real Capital Analytics

# Multifamily Economic and Market Commentary

## Two Types of MHC

There are two types of MHC: All Ages communities and Age 55+ communities. Age 55+ communities, as the name implies, are targeted to seniors. All Ages communities tend to attract families and those who do not want to live in Age 55+ communities. Fundamentals in both segments of MHC appear to have weathered the pandemic across all regions of the country so far.

### Age 55+ - MHC Occupancy and Rents for Select Regions as of July 1, 2021\*

	Current Occupancy	Previous Occupancy	Change	Q2 2021	Q2 2020	Change
Midwest	93%	91%	+1.2%	\$500	\$481	+4.0%
Northeast	97%	97%	+0.3%	\$515	\$500	+3.0%
Pacific	98%	98%	-0.1%	\$773	\$750	+3.1%
South	96%	96%	+0.3%	\$587	\$563	+4.3%
Southwest	95%	95%	+0.3%	\$568	\$545	+4.2%
West	94%	93%	+0.7%	\$652	\$626	+4.2%
<b>National</b>	<b>96%</b>	<b>96%</b>	<b>+0.2%</b>	<b>\$628</b>	<b>\$605</b>	<b>+3.8%</b>

Source: Datacomp/JLT

Note: Rents exclude utility payments.

\* Based on Trailing 12-month average as of July 1, 2021

## Occupancy Remains Solid in 55+ Communities

Some seniors like to purchase homes in Age 55+ communities for the ease of maintenance and enjoyment of the amenities that are usually offered. This trend has not changed over the past several months, despite the ongoing pandemic. Nationally, the occupancy rate in Age 55+ communities has remained high at 96%, as shown in the table above.

With occupancy rates of 97% or higher, Age 55+ communities in the Northeast and Pacific regions of the country had the highest occupancy rates as of Q2 2021 among the six regions tracked by Datacomp. The other regions saw a slight increase in occupancy. Even the Midwest, which traditionally has had the weakest occupancy, saw occupancy grow over the past year by 1.2% to 93% as of July 1, 2021.

## Healthy Rent Growth in Age 55+ Communities

Despite the pandemic, rents grew 3.8% over the past year for pad sites rented in Age 55+ communities as of Q2 2021. This is not surprising as most retirees living in these type of communities tend to have steady monthly sources of income, like retirement and Social Security payments. In fact, four of the six regions tracked by Datacomp recorded rent increases in excess of 4.0% over the past year, with the South recording the highest increase at 4.3%.



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## All Ages Occupancy Improves as of Q2 2021

Despite the pandemic, the data for All Ages communities shows that occupancies improved over the past year in all six regions tracked by Datacomp. While this may seem counterintuitive, in surveying MHC owners, Datacomp/JLT found the demand for homes grew during 2020 as some renters looked to purchase new homes for additional space and then chose to locate those homes on a pad site rented in an MHC. This trend has continued into 2021 and has been limited only by a delay in the delivery of new homes due to supply chain disruptions during the pandemic, as well as still elevated (but recently falling) lumber prices.

Nationally, the average occupancy rate for All Ages communities increased by 1.1% during the year, ending Q2 2021 at 93%. Occupancies remain at 94% or higher for five of the six regions tracked by Datacomp as of the end of Q2 2021, as shown in the table below. While the Midwest shows the weakest occupancy, it strengthened by 1.8% over the past year to 88% as of the end of Q2 2021.

**All Ages MHC - Occupancy and Rents for Select Regions as of July 1, 2021\***

	<b>Current Occupancy</b>	<b>Previous Occupancy</b>	<b>Change</b>	<b>Q2 2021</b>	<b>Q2 2020</b>	<b>Change</b>
Midwest	88%	86%	+1.8%	\$442	\$428	+3.3%
Northeast	94%	93%	+0.4%	\$519	\$504	+3.0%
Pacific	98%	98%	-0.2%	\$915	\$890	+2.8%
South	94%	93%	+0.9%	\$507	\$486	+4.3%
Southwest	95%	93%	+1.3%	\$478	\$461	+3.7%
West	96%	96%	+0.9%	\$657	\$630	+4.3%
<b>National</b>	<b>93%</b>	<b>91%</b>	<b>+1.1%</b>	<b>\$553</b>	<b>\$535</b>	<b>+3.4%</b>

Source: Datacomp/JLT  
Rents Exclude Utility Payments

\* Based on Trailing 12-month average as of July 1, 2021

## Rent Growth Positive in All Ages Communities

Although not as strong as the rent growth in Age 55+ MHC, on average, pad site rents in All Ages communities increased year over year. Despite the pandemic, rents grew by 3.4% over the past year for pad sites rented in All Ages MHC communities to a nationwide average of \$553 as of Q2 2021, as shown in the table above. In fact, pad site rents increased by at least 3.0% over the past year (ended Q2 2021) in five of the six regions tracked by Datacomp.

Pad site rents are the least affordable in the Pacific region, which includes California, Washington, and Oregon. However, even in this expensive region, rents grew by 2.8% during the year ending Q2 2021 to \$915 on average. Rent growth was strongest in the West and South, growing by 4.3% during the year to \$657 and \$507, respectively, as of the end of Q2 2021.



## MHC Cap Rates for Sales Remain Stable...

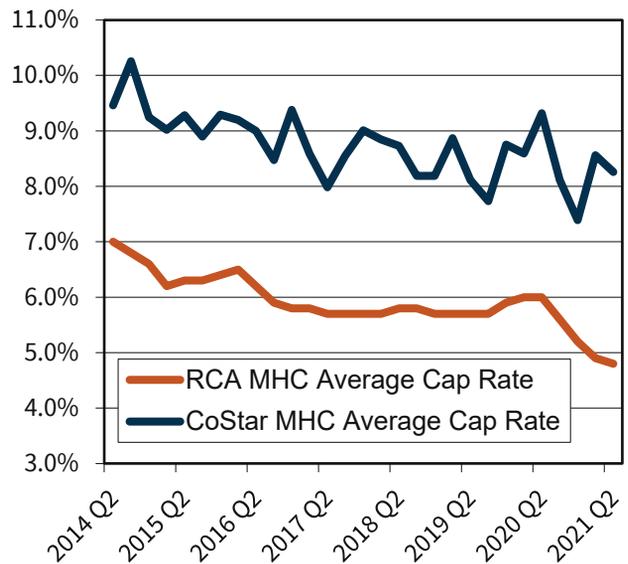
With ongoing interest from a wide variety of investors, and few new communities under construction, capitalization rates for institutional-quality MHC have declined significantly in recent years. According to Real Capital Analytics, which tracks larger transactions, the average cap rate for MHC sales fell from an average of 7.0% in Q2 2014 to just under 5.0% as of Q2 2021, as shown in the adjacent chart. While more volatile, CoStar data also shows similar compression, with the average cap rate for MHC sales falling from 9.5% in Q2 2014 to 8.3% as of Q2 2021.

## ...but There is Wide Dispersion

Both Real Capital Analytics and CoStar show a wide dispersion of cap rates at the time of sale during the first half of 2021. For example, CoStar data shows that about 22% of MHC cap rates at the time of sale for the first half of 2021 were under 6%, as shown in the chart to the right. Another 33% fell into the 6% to 7.9% range, and 19% fell in the 8.0% to 9.9% range.

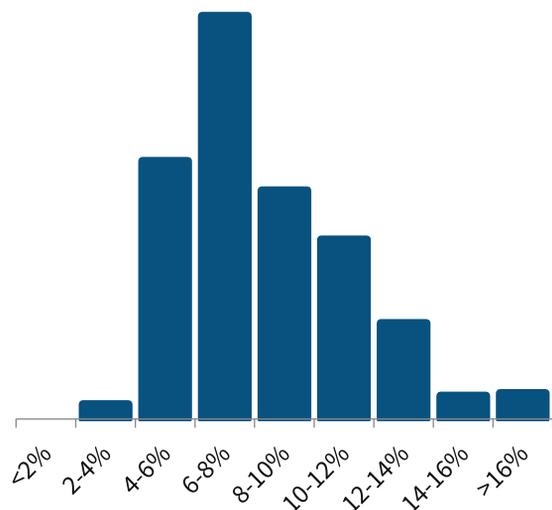
CoStar data reflects the sales of many smaller MHC properties, which tend to have higher cap rates on average due to potential volatility in cash flow. CoStar data reported that the average number of pad sites per MHC sold in the first half of 2021 was just under 100, compared to just under 200 pad sites for sales tracked by Real Capital Analytics during the same time period. This is reflected in CoStar's cap rate dispersion, with about 12% of MHC cap rates at the time of sale greater than 12%.

**Manufactured Housing Community (MHC)  
Average Cap Rate for Sales**



Source: Real Capital Analytics (RCA), CoStar  
 Note: RCA data is the quarterly average excluding refinances.  
 Based on a trailing 12-month average. Includes property or portfolio sales of \$2.5 million or greater.

**Manufactured Housing Distribution of Cap Rates  
during 1H 2021**



Source: CoStar



# Multifamily Economic and Market Commentary

## MHC Price per Site Dips Slightly

According to data from Real Capital Analytics, MHC prices per site declined 5.8% during Q2 2021 to an estimated \$63,000 per site. However, this still represents a 12.5% increase over the average \$56,000 per unit recorded in Q1 2020, which was just at the start of the pandemic-induced recession. This data suggests to us that MHC have held their value relatively well despite the pandemic.

Further, MHC are far less expensive to purchase than other multifamily properties. The average MHC price per site as of Q2 2021 was only a third of a traditional multifamily property price per unit -- another reason this segment remains of interest to investors.

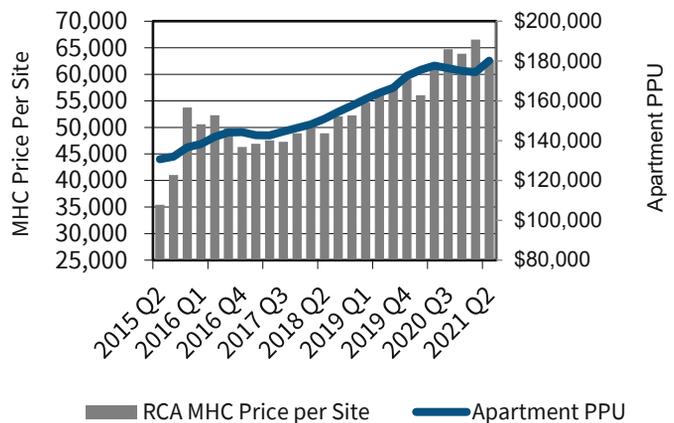
## Refinances Decline Modestly in 2021

The split between lending for property acquisition and refinance of existing properties varies from year to year. As shown in the adjacent chart, over 75% of MHC lending in 2020 was for refinances, due to a combination of factors. Property owners took advantage of low interest rates to refinance in last year, and many owners held off on selling properties during the pandemic. During the first two quarters of 2021, sales are again rising. Accordingly, the financing of acquisitions has risen to about 35% of MHC lending volume in 2021, according to data from Real Capital Analytics.

## CMBS Comes Roaring Back

As shown in the adjacent chart, it appears that the CMBS sector is again financing MHC. CMBS lending volume for MHC grew to \$3.5 billion in the first half of 2021, compared to just \$150 million for all of 2020. This is primarily due to an affiliate of Brookfield Asset Management securing a \$2.2 billion refinancing on its portfolio of 124 U.S. MHC properties extending across 13 states in April 2021.

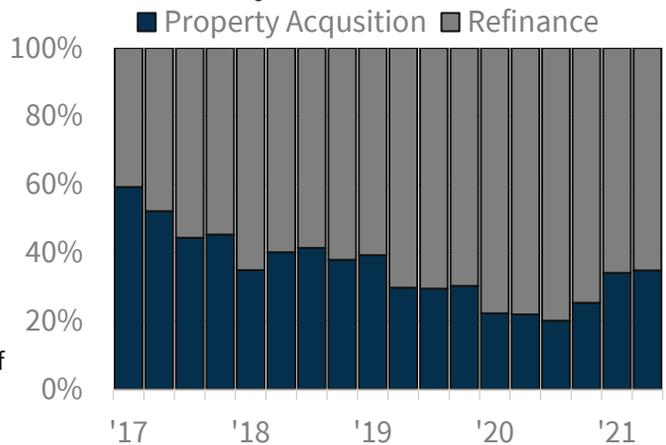
**Manufactured Housing Community Price per Site vs. Multifamily Price per Unit**



**Share MHC Financing For Property Acquisition vs. Refinance Jan. 1, 2017 – June 30, 2021**

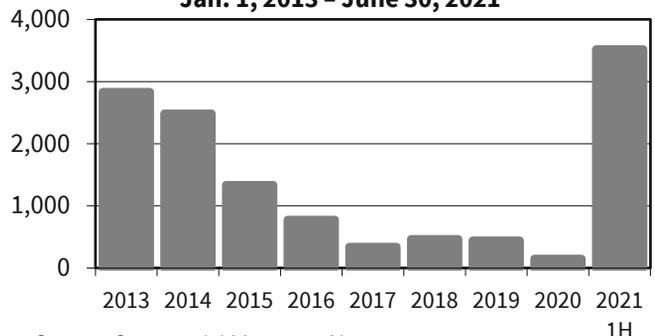
Source: Real Capital Analytics

Quarterly based on trailing 12 month average. Includes property or portfolio sales \$2.5 million or greater



Source: Real Capital Analytics, August 2021

**CMBS MHC Lending Volume (\$millions) Jan. 1, 2013 – June 30, 2021**



Source: Commercial Mortgage Alert

Includes both Conduit financing, which excludes agency lending, and Rule 144A financing, which includes securities registered with the SEC.



# Multifamily Economic and Market Commentary

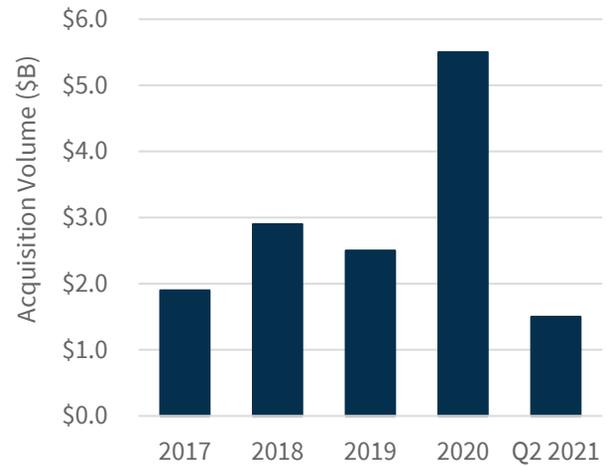
## Fannie Mae Finances MHC...

As shown in the adjacent chart, Fannie Mae financing of MHC has grown. Fannie Mae financed \$5.5 billion of lending on MHC during calendar year 2020, a 120% increase over the \$2.5 billion financed in 2019.

## ...Which Have Performed Well

As of Q2 2021, Fannie Mae had financed almost 1,600 MHC loans with a total unpaid principal balance of just over \$17 billion. This represents 4% of Fannie Mae's multifamily guaranty book of business, on par with the shares represented by Student and Seniors housing. As of Q2 2021, there were no MHC loans in forbearance and the serious delinquency rate was just 0.02%. While the average UPB was about \$10.9 million.

**Fannie Mae MHC Acquisition Volume (\$billions)  
Jan. 1, 2017 – June 30, 2021**



Source: Fannie Mae Multifamily Business Information Presentation as of August 2021

## Select Credit Characteristics of Fannie Mae MHC Book of Business as of June 30, 2021

Total UPB* (\$B)	Loan Count	Average UPB* (\$M)	Average OLTV**	Share Fixed Rate	Share Full Interest-Only	Share Partial Interest - Only <sup>1</sup>	Share Small Balance <sup>2</sup>	Loans in Forbearance (%)	Serious Delinquency Rate <sup>3</sup>
\$17.2	1,573	\$10.9	65%	94%	24%	57%	51%	0%	0.02%

Source: Fannie Mae Q2 2021 10Q Financial Supplement

\* UPB : Unpaid Principal Balance

\*\* Weighted Average Origination Loan to Value Ratio

<sup>1</sup> 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.

<sup>2</sup> 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.

<sup>3</sup> Multifamily loans are classified as seriously delinquent when payment is 60 days or more past due.

## Limited New Construction Supports Investor Interest

The MHC sector does face some headwinds. Unemployment in certain job sectors remains elevated and rental assistance under the Federal Emergency Rental Assistance Program (ERAP) has been distributed at a relatively slow pace. While Age 55+ communities may have more stable sources of income providing a measure of stability during the pandemic, the lasting impact of the COVID-19 pandemic on All Ages communities remains less clear. These communities tend to have both lower-income homeowners and renters, and many residents in these groups have been particularly hard hit by the pandemic. As a result, All Ages communities may yet see some deterioration of fundamentals in the second half of 2021, as extended unemployment benefits expire.

While there is growing recognition that MHC are critical sources of affordable housing, the creation of new communities is still extremely limited. According to Datacomp, only nine new MHC were built in 2020, although that is up from six new communities in 2019. Even so, this is extremely limited. Given the lack of affordable housing in the country and the fact that so few new MHC are likely to be built near term, we expect investor interest in the asset class to remain stable in 2021.



# Multifamily Economic and Market Commentary

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