Multifamily Affordable Housing Market Commentary

Fannie Mae®

SEPTEMBER 2023

Lack of Communities Leaves Fundamentals at MHCs Tight

Manufactured housing units that are pre-fabricated in factories remain an important source of unsubsidized affordable housing for an estimated 17 million residents, according to data from the 2021 American Community Survey (ACS). However, not all purchasers of manufactured homes can afford to purchase the land needed to situate their new home, and some prefer to avoid the maintenance associated with owning that land. Manufactured Housing Communities (MHCs), also known as land-lease communities, address this need. For those residents who own their manufactured home, these communities offer pad sites for rent, which are spaces where owners can place their homes that also provide access to utility hookups. MHCs can also have a limited number homes for rent. According to information from Datacomp Appraisal Systems, Inc., which verifies the existence and location of MHCs, as of second quarter 2023, there were just under 44,000 MHCs providing land for lease to owners, as well as rental of both the pad site and the manufactured home itself. While the manufactured housing sector has remained steady over the past couple of years, rising interest rates have begun to impact production of manufactured homes. However, demand for MHC pad sites remained high in the first half of 2023.

Number of Factories Building Manufactured Housing Grew

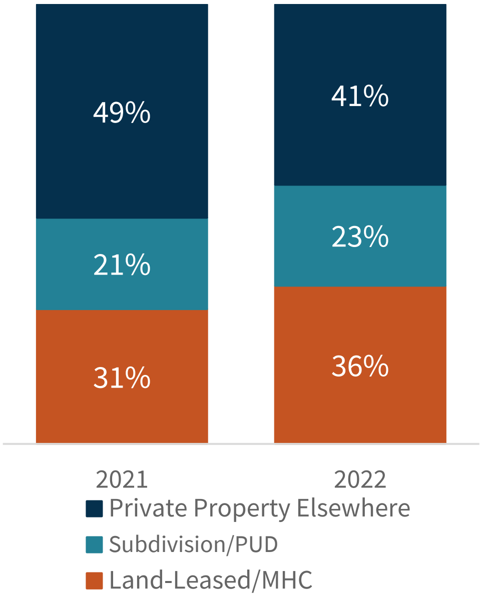
Manufactured housing refers to housing built in a factory after June 15, 1976 and constructed in accordance with the U.S. Department of Housing and Urban Development's (HUD) Manufactured Home Construction and Safety Standards code (HUD Code), which sets minimum standards for size and quality of construction.

The number of facilities producing these factory-built homes conforming to HUD standards has grown in recent years. In 2022, there were 35 companies producing factory-built homes with a combined 146 production facilities, up from 133 production facilities in 2019.

A Third of Manufactured Homes are Shipped to MHCs

Manufactured homes can be placed in a variety of locations. Developers of Planned Unit Developments (PUD) or Subdivisions may include manufactured housing built to HUD standards for purchase. Other buyers of manufactured homes may have them placed on private land outside of a community for homeownership or as a rental. However, annually, as shown in the chart to the right, roughly a third of manufactured homes are shipped to MHCs, where they have been purchased by the MHC owners to either sell to a prospective homeowner or to offer as a rental unit.

Location of New Manufactured Homes Shipped (for Residential Use Only)



Source: U.S. Census Bureau and U.S. Department of Housing and Urban Development, Manufactured Housing Survey

Note that data was provided for only about half of the units shipped which may overstate the share of homes placed in subdivisions/PUD

Sharp Increase in the Sales Price of Manufactured Homes

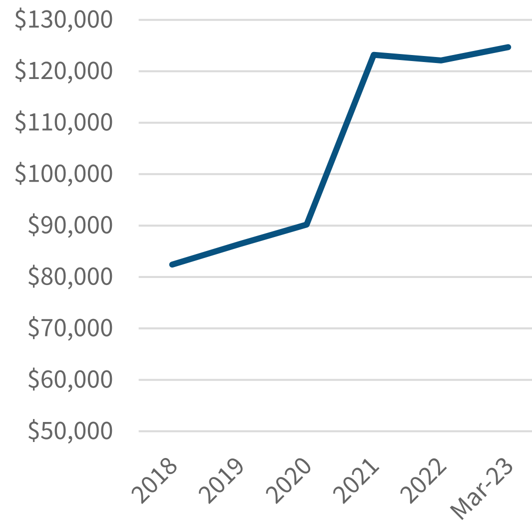
Since the end of 2020, there has been a sharp increase in the sales price of manufactured homes, as shown in the adjacent chart. The pandemic caused supply chain delays and rapid increases in the cost of supplies, particularly wood for framing and construction. This combined with the pent-up demand for housing caused the average price of a new manufactured home to increase to an estimated $123,200 as of December 2021. This is almost 50 percent higher than the $82,400 recorded in 2018, just three years earlier. The average sales price has remained elevated, totaling $124,700 as of March 2023, which appears to have affected shipments of new manufactured homes.

Construction of Manufactured Homes Slowing

According to the U.S. Census Bureau's Manufactured Housing Survey, from 2018 to 2020, the total number of manufactured homes completed averaged about 95,200. Pent-up demand, along with rising housing prices and low interest rates, increased interest in manufactured homes as a more affordable source of housing. A recent study, from the Harvard Joint Center for Housing Studies, *Comparison of the Costs of Manufactured and Site-Built Housing*, calculated the nationwide cost to build a 1,568 square-foot home to be just over $200,000. As a result, the number of factory-built homes sold recently broke through the 100,000 threshold for the first time since 2006. The number of homes sold in 2021 rose by 12.1% to 105,800 and rose by another 6.7% in 2022 to 112,900.

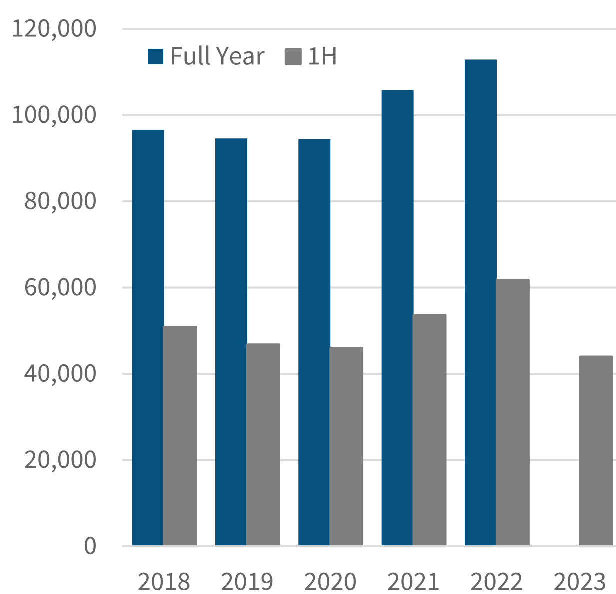
However, given rising interest rates starting in March 2022 and continuing into 2023, the number of new manufactured homes completed appears to be declining. As shown in the adjacent chart, the number of homes completed in the first half of 2023 totaled just 44,000. This is the lowest number of units completed for any half-year over the past six years and is below the 46,000 units completed in the first half of 2020, at the start of the pandemic. Should this pace of construction continue, the number of homes shipped will again likely fall below 100,000 units.

Average Sales Price of New Manufactured Homes*
(Dec. 2018 – March 2023)



** Sales price as of December of each year.*
Source: U.S. Census Bureau and U.S. Department of Housing and Urban Development, Manufactured Housing Survey

Shipments of New Manufactured Homes (NSA)
January 1, 2018 – June 30, 2023



Source: U.S. Census Bureau and U.S. Department of Housing and Urban Development, Manufactured Housing Survey

Only Three MHCs in the Process of Construction.

There were only three MHCs under construction as of mid-August 2023, representing under 450 pad sites, according to data from CoStar, Inc. This represents a fraction of new MHCs that were produced 20 years ago. In comparison, Dodge Data & Analytics estimates that there were 730,000 new multifamily rental units under construction as of the end of July that are scheduled to be delivered by year-end 2023.

While two of these MHC construction projects were for new developments, one is an expansion. Sun Communities is building Phase II of Sunset Ridge, located outside of Austin, by adding 177 pad sites to its existing MHC. By contrast, Cameron Homes, located in Bozeman, MT, is a new development and will contain 200 pad sites for new manufactured homes when complete. Most residents will have an opportunity to work with the developer to design and purchase their manufactured homes.

Not All MHCs are Permanent Housing

While most MHCs under construction are meant to offer long-term housing, occasionally communities under construction may include vacation homes or even spaces for recreational vehicles. These types of MHCs are sometimes easier to construct due to lower barriers to entry in many local areas. One such example is The Beachclub at Whalehead MHC with 66 pad sites in Corolla, NC, one of the three new MHCs currently under construction.

MHCs Completed and Expanded in a Variety of States

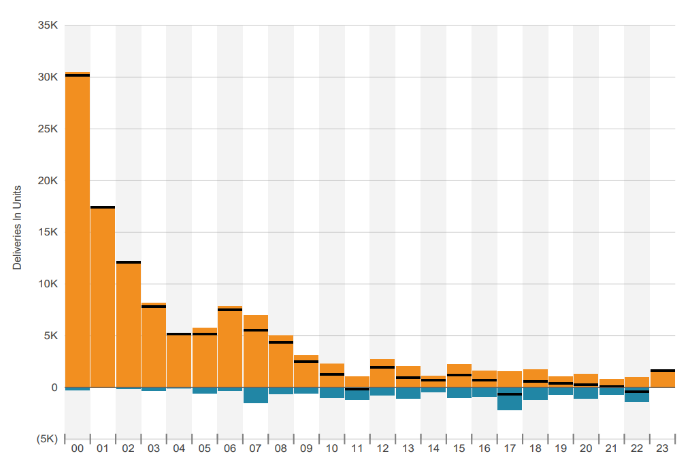
According to CoStar, in addition to the three MHCs under construction, about 21 MHCs have been built or expanded since the start of 2022. As shown in the left map below, while they are in a variety of states, most are in the South and West, which have traditionally seen greater investment in MHCs.

Demolition Occurs

However, as shown in the chart below on the right, fewer new pad sites have been built than demolished in some years, making growth in the number of pad sites and communities extremely slow. For instance, in 2017, 1,525 new MHC pad sites were built, while 2,175 pad sites were demolished, for a net loss of 650 pad sites. As a result, vacancies remain low at MHC on average across all regions, due to an ongoing supply shortage of pad sites.

New Manufactured Housing Communities Recently Completed and Under Construction (2022 and Beyond)

Completions and Demolitions (2000 – Q2 2022)



Source: CoStar Group Inc.

Two Types of MHCs

Roughly one-third of MHC are Age 55+ MHCs, targeted to older adults. Two-thirds are All Ages MHCs, which tend to attract families and residents of all ages, including those older adults that do not want to live in an Age 55+ community. Fundamentals in both segments of MHC appear to have weathered the pandemic, recent inflationary trends, and now elevated interest rates – at least so far.

Occupancy Remains High in Age 55+ MHCs

Some older residents prefer purchasing homes in Age 55+ MHCs due to the ease of maintenance and enjoyment of the amenities that are usually offered. This trend has not changed over the past several months, despite recent inflation levels. Nationally, the occupancy rate in Age 55+ MHCs remained high with just a 0.4% uptick in occupancy year over year to 97% as of second quarter 2023, as shown in the table below. Occupancy in five of the six regions tracked remained stable, with the Southwest region recording just a 0.6% increase.

With occupancy rates of 98% or higher, Age 55+ MHCs in the Northeast and Pacific regions of the country had the highest occupancy rates as of second quarter 2023 among the six regions tracked by Datacomp. The South and Southwest regions had average occupancies of 96%, with the West and Midwest regions recording occupancies of 94% and 93%, respectively, as of the end of second quarter 2023.

Age 55+ - MHC Occupancy and Pad Site Rents for Select Regions*

	Occupancy Q2 2023	Occupancy Q2 2022	Change	Rent Q2 2023	Rent Q2 2022	Change
Midwest	93%	93%	0.1%	$523	$496	5.4%
Northeast	98%	97%	0.1%	$570	$546	4.4%
Pacific	99%	98%	0.3%	$854	$811	5.3%
South	96%	95%	0.4%	$694	$634	9.5%
Southwest	96%	95%	0.6%	$648	$606	6.9%
West	94%	94%	0.1%	$756	$695	8.8%
National	**97%**	**96%**	**0.4%**	**$717**	**$667**	**7.5%**

Source: Datacomp/JLT ** As of July 5, 2023, Based on Trailing 12-month average.* *Note: Pad Site rents exclude utility payments*
Southeast: 13 states including Florida, Georgia, and the Carolinas. Northeast: seven states including Pennsylvania, New York, and New Jersey,

Pad Site Rents Record Strong Growth in Most Regions

As shown in the table above, pad site rents vary widely among regions. The Pacific region, which is comprised of the high-cost coastal states of California, Oregon, and Washington and has a 99% occupancy rate, had the highest monthly rent at $854 per month, as of second quarter 2023, according to Datacomp. By contrast, the large Midwest region, which is comprised of 12 states including Michigan, Illinois, and Indiana, had an average pad site rent that was more than $330 lower at $523 per month.

Low vacancies and ongoing job and wage growth led to pad site rents across all regions growing by 7.5% year over year on average as of second quarter 2023, more than double the 3.0% non-seasonally adjusted inflation rate and the estimated 1.3% average national increase in apartment rents. Pad site rents in the Southern region, which continues to see significant population growth in many states, recorded the highest growth rate at 9.5% year over year, bringing the average monthly rent to $694. Pad site rents in the Northeast region, which has the fewest MHCs, recorded a lower growth rate of 4.4% year over year, bringing the average monthly rent to $570.

All Ages MHC Occupancy Remains Steady

MHC occupancies remained mostly steady in All Ages communities in the six regions tracked by Datacomp, with the national average occupancy rate increasing by just 0.4 percentage points during the year but remaining at 93% as of second quarter 2023. Occupancies remained at 93% or higher for five of the six regions tracked by Datacomp as of the end of second quarter 2023, as shown in the table below. The average occupancy rate was highest in the Pacific region at 99%, followed by the West region at 97%. The Midwest recorded the lowest occupancy rate, finishing the quarter with an occupancy rate of 89%.

All Ages MHC - Occupancy and Rents for Select Regions*

	Occupancy Q2 2023	Occupancy Q2 2022	Change	Rent Q2 2023	Rent Q2 2022	Change
Midwest	89%	89%	0.5%	$490	$461	6.3%
Northeast	94%	93%	0.2%	$577	$543	6.3%
Pacific	99%	99%	0.1%	$1,008	$951	6.0%
South	95%	95%	0.4%	$575	$536	7.3%
Southwest	94%	94%	0.6%	$550	$507	8.5%
West	97%	96%	0.1%	$762	$703	8.4%
National	**93%**	**93%**	**0.4%**	**$624**	**$584**	**6.8%**

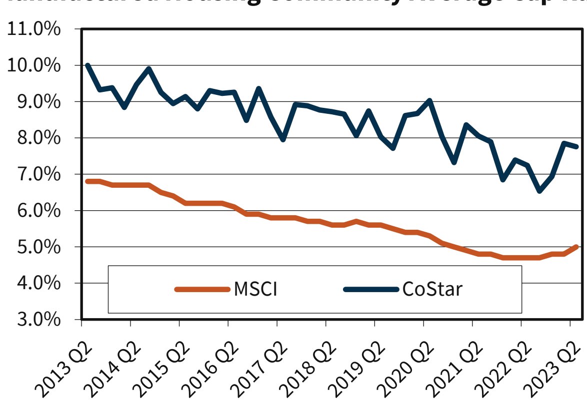
Source: Datacomp/JLT ** As of July 5, 2023, Based on Trailing 12-month average.* *Note: Pad Site Rents exclude utility payments.*

Pad Site Rent Reaches Over $1,000

Pad site rents in All Ages MHCs grew strongly, increasing by 6.8% year over year to an average of $624 as of second quarter 2023, as seen in the table above. However, this remains below the 7.5% increase to $717 per month recorded at Age 55+ MHCs over the same period.

Pad site rents are highest in the Pacific region, growing by 6.0% year over year to over $1,000 for the first time as of second quarter 2023. Nevertheless, pad site rents saw the fastest growth in the Southwest and West regions, where they grew approximately 8.5% to $550 and $762, respectively. Even in the traditionally affordable Midwest region, rents rose by 6.3% to $490 as of second quarter 2023, decreasing affordability.

Manufactured Housing Community Average Cap Rate



Source: CoStar, MSCI Real Assets Note: MSCI data is quarterly based on a trailing 12- month average. Includes property or portfolio sales of $2.5 million or greater.

MHC Cap Rates Tick Up

After declining significantly in recent years, capitalization rates for institutional-quality MHCs have started to increase, as shown in the adjacent chart. According to MSCI Real Assets, the average cap rate for MHC property sales fell from an average of 6.8% in second quarter 2013 to an estimated 4.7% as of second quarter 2022. Since then, however, the average MHC cap rate has increased slightly to 5.0% as of second quarter 2023. CoStar data, which includes smaller transactions for which cap rates can vary more, shows a similar trend: Cap rates rose to 7.8% as of second quarter 2023 from 7.2% a year earlier.

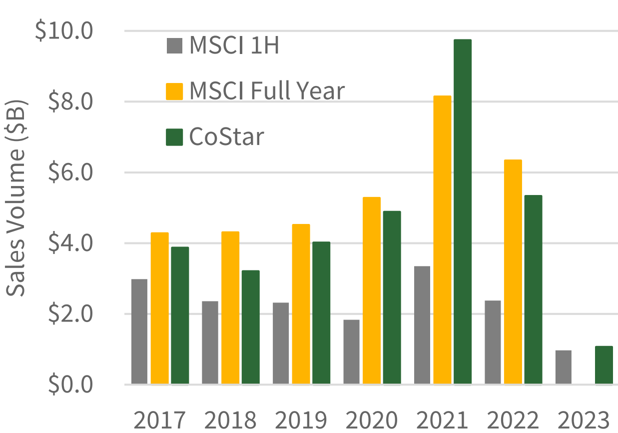
Sales Decline Following a Strong 2021

According to MSCI Real Assets, sales of MHCs totaled an estimated $6.3 billion in 2022. As shown in the lower left chart, this is the second-highest volume recorded in the last six years. CoStar data is similar but with an estimated $5.3 billion in sales in 2022. We believe that sales remained elevated due to a several factors. For one, investors realized that demand fundamentals for MHCs would likely remain positive due to a lack of affordable housing across the country. In addition, interest rates appeared poised to rise further in 2022, enticing investors attempting to avoid higher interest rates in the near future.

Single asset sales represented just under 70% of MHC sales volume in 2022, with just under 400 properties containing an estimated 54,000 pad sites having been sold. In addition, 27 portfolios containing just under 200 MHCs with an estimated 17,000 pad sites also exchanged hands during that timeframe. There was also one entity sold for about $1 billion which owned five properties concentrated in Florida with just under 3,900 units.

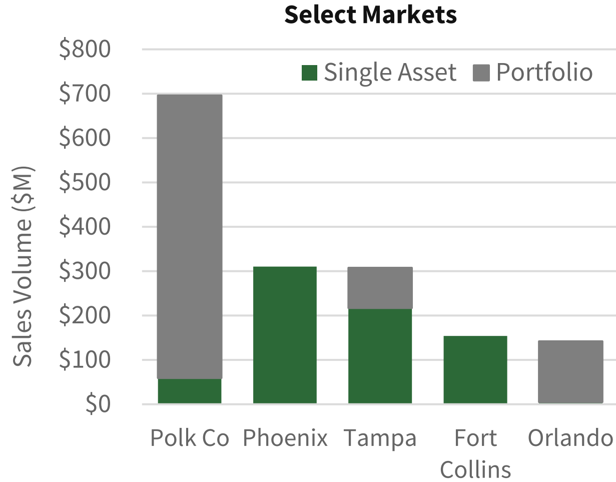
However, during the first half of 2023, sales of MHCs totaled just $1.0 billion, which is about 58% lower than the sales activity for the first half of 2022, according to MSCI Real Assets. This is also lower than the $1.8b in sales recorded for the first half of 2020, during the height of the pandemic. We believe that the rapidly rising interest environment, which started in March 2022 and continued into 2023, increased borrowing costs, pricing some would-be buyers out of the market.

MHC Sales Volume ($billions)
Jan. 1, 2017 – June 30,2023



Source: MSCI Real Assets, CoStar

MHC Sales Volume ($millions)
Select Markets



Source: MSCI Real Assets

Sun Belt Metros Recorded Some of the Highest Sales in 2022

Three of the five top areas with the highest total sales volume over the past four quarters were in Florida. As shown in the chart above right, these included Polk County, with an estimated $700 million in MHC exchanging hands; Tampa with sales of $300 million; and Orlando with just under $140 million in MHC sales. Investors also spent over $310 million to acquire MHCs in Phoenix. However, investor interest in MHCs has grown beyond the Sun Belt. Investors acquired over $150 million in MHCs in Fort Collins, CO, making it one of the top metros for MHC investment over the past year.

MHC Sale Prices-Per-Site Increased

According to data from MSCI Real Assets, MHC sale prices-per-site totaled an estimated $77,000, as of second quarter 2023. In comparison, as of first quarter 2017, the average price-per-site was $47,000, indicating that the MHC price-per-site has risen 63% over the past six years. This is higher than the 55% increase in price-per-unit of sales of multifamily properties over the same timeframe.

MHCs are far less expensive to purchase than multifamily properties. The average MHC price-per-site as of second quarter 2023 was only a third of a traditional multifamily property price-per-unit of $221,000.

2023 CMBS Volume Drops

As shown in the adjacent chart, in 2021 the CMBS sector financed about $3.7 billion in MHC loans, partly due to an affiliate of Brookfield Asset Management securing $2.2 billion to refinance a portfolio of 124 U.S. MHCs located across 13 states. However, the market shift has been dramatic: CMBS conduits only financed $248 million in MHC loans in all of 2022. In addition, they financed $34 million in the first half of 2023, which could lead to annual volume of just $68 million.

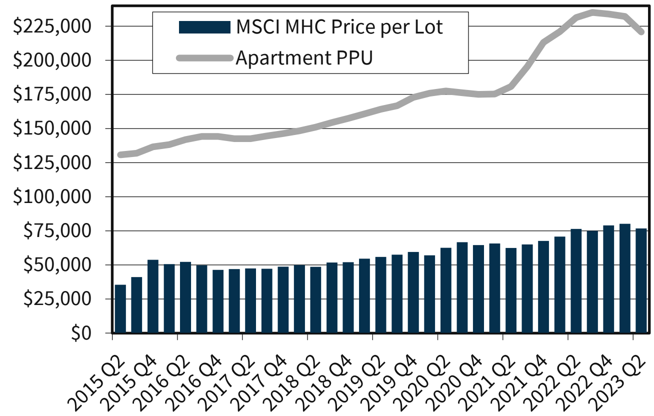
2023 Overall Lending Volume Declining

Although not a complete market view, publicly available data combined with third-party vendor data provides insight into financing trends. As shown in the chart to the right, total lending volume declined to an estimated $5.6 billion in 2022, from a record $11.0 billion in 2021. The total lending volume for the first half of 2023 totaled $2.4 billion, which means that lending volume could fall even further to $4.8 billion for all of 2023. However, we believe these estimates for 2023 are likely on the low end.

Refinances More Prevalent than Sales

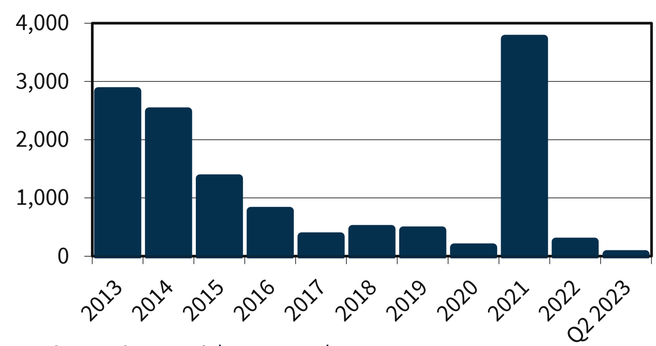
Refinances of MHCs remain more prevalent than financing for acquisitions, accounting for about 75% of financing volume since the start of second quarter 2022, according to data from MSCI Real Assets.

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



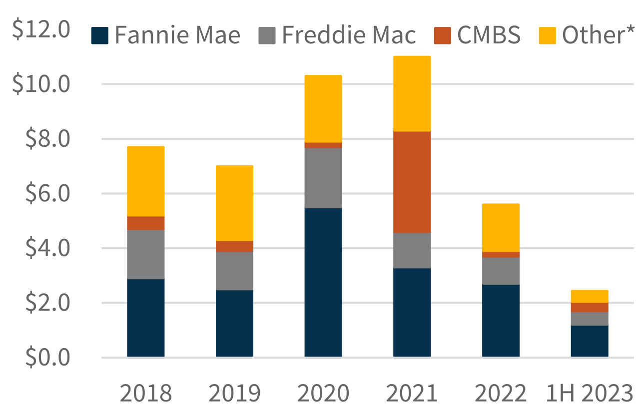
Source: MSCI Real Assets
Quarterly based on trailing 12-month average. Includes property or portfolio sales $2.5 million or greater.

CMBS MHC Lending Volume ($millions)
Jan. 1, 2013 – June 30, 2023



Source: Commercial Mortgage Alert

MHC Loan Volume by Type of Lender
Jan. 1, 2018 – June 30, 2023

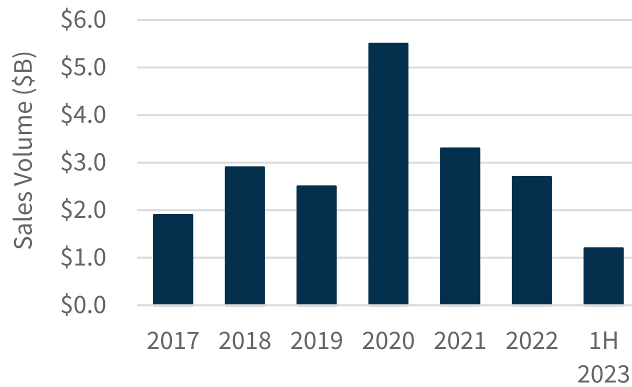


Source: Fannie Mae, Freddie Mac, Commercial Mortgage Alert, CoStar
** Note that Other includes Banks, Credit Unions, Insurers and Seller financing among other things.*

Fannie Mae Finances MHCs...

As shown in the adjacent chart, Fannie Mae financing of MHCs increased in 2020 but has returned to more historically normal levels in recent years. Fannie Mae financed $2.7 billion of lending on MHCs during all of 2022 and has financed $1.2 billion through the first half of 2023.

Fannie Mae MHC Financing Volume ($billions)
Jan. 1, 2017 – June 30, 2023



Source: Fannie Mae Multifamily Business Information Presentation as of August 2023.

...which Have Performed Well

As of June 30, 2023, Fannie Mae's book of business includes 1,832 MHC loans with a total unpaid principal balance of just under $21 billion as shown in the table below. This represents an estimated 4% of Fannie Mae's book of business.

Fannie Mae's MHC book of business had a serious delinquency rate of just 0.02 percent as of June 2023. While the average unpaid principal balance was $11.2 million, about half of all loans involved smaller properties, indicating these loans had an original unpaid principal balance of $6 million or less at origination.

Select Credit Characteristics of Fannie Mae MHC Book of Business as of June 30, 2023

Total UPB* ($B)	Loan Count	Average UPB* ($M)	Average OLTV**	Share Fixed Rate	Share Full Interest- Only	Share Partial Interest – Only[1]	Share Small Balance[2]	Serious Delinquency Rate[3]
$20.6	1,832	$11.2	63%	93%	30%	56%	50%	0.02%

*Source: Fannie Mae Q2 2023 10Q Financial 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] Small balance loans refers to multifamily loans with an original unpaid balance of up to $6 million nationwide.

[3] Multifamily serious delinquency rate refers to multifamily loans that are 60 days or more past due, expressed as a percentage of the company's multifamily guaranty book of business, based on unpaid principal balance. Multifamily serious delinquency rate for loans in a particular category (such as acquisition year, asset class or targeted affordable segment) refers to seriously delinquent loans in the applicable category, divided by the unpaid principal balance of the loans in the multifamily guaranty book of business in that category.

More MHC Needed

Despite the rising prices of new manufactured homes, vacancies remain low at many MHCs, indicating that demand is outstripping supply. However, development of MHCs has not kept up with demand. Many local jurisdictions have zoning restrictions against MHCs, creating barriers to the development of new MHCs. As a result, building new communities takes a long time, when they can be built at all. The current Administration recently sought to ease regulatory barriers and zoning laws through new incentives. However, we expect the development of new MHCs will remain limited over the next few years, as it will take some time for local jurisdictions to change zoning laws, even with the new incentives.

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September 2023

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