

SEPTEMBER 2024

Fundamentals at MHCs Remain Tight but Lending Volume Declined

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 2022 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 offer manufactured homes for rent. According to information from Datacomp Appraisal Systems, Inc., which verifies the existence and location of MHCs, as of second quarter 2024, there were just over 44,000 MHCs providing land for lease to owners, as well as rental of both the pad site and the manufactured home itself. While demand for manufactured housing has remained steady, rising interest rates have had a negative impact on production of manufactured homes and loan origination. As a result, current community occupancy remains high and pad site rents continue to increase.

More Factories Building Manufactured Housing

Manufactured housing refers to a housing unit 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.

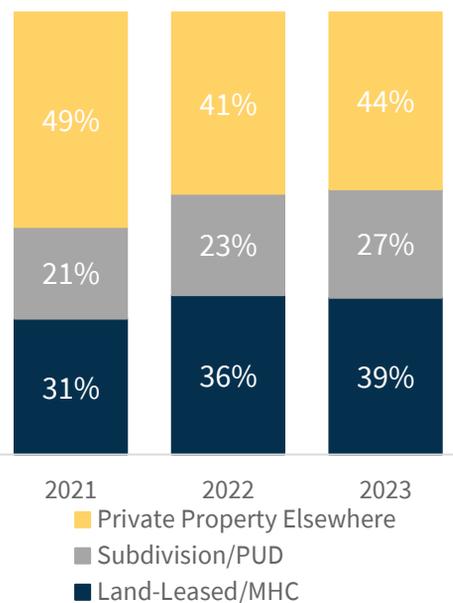
The number of facilities producing these factory-built homes conforming to HUD standards has grown in recent years. According to [MHInsider](#), in 2023, there were 36 companies producing factory-built homes with a combined 148 production facilities, compared with 35 companies with 146 production facilities in 2022. This represents an 11% increase from the 133 production facilities recorded in 2019.

A Third of Manufactured Homes are Shipped to MHCs

Manufactured homes can be placed in a variety of locations. As shown in the chart to the right, there has been a slight increase in the shipment of manufactured homes to MHCs, with the share growing to 39% in 2023 from 36% in 2022. These homes have been purchased by the MHC owners to either sell to a prospective homeowner or to offer as a rental unit.

Also, developers of Planned Unit Developments (PUD) or Subdivisions may include manufactured housing built to HUD standards as available for purchase by potential homeowners.

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

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Lastly, buyers of manufactured homes may have them placed on private land outside of a community for homeownership or as a rental.

Many Manufactured Housing Communities Are Located in Rural Areas

Manufactured housing remains an important form of housing in most rural areas. While some owners choose to place a home on an individual plot of land, MHC remain a popular option in rural areas as well. Indeed, more than 16,400 communities – about one-third of the communities tracked by Datacomp – have been identified as being located in rural census tracts. In fact, virtually every state in the U.S. has at least one rural census tract with an MHC.

However, as shown in the table on the right, the number of MHCs located in rural areas can vary greatly from state to state.

For example, **California** has the largest number in rural areas, at more than 1,600 MHCs. **Ohio**, **Florida**, and **North Carolina** have about 1,000 rural area MHCs each. **Texas** rounds out the top five states with over 800 rural area MHCs.

Few States Have More Than 500 MHCs

While virtually all states have MHC in rural areas, few states have an abundance of MHC in rural areas. As shown in the table to the right, just 11 states have 500 or more MHCs located in rural census tracts, and these are mostly in the states in the West and Midwest regions of the country. These include **Washington**, **Oregon**, **Kentucky**, **Indiana**, **Michigan**, and **New York**.

Rural Area Manufactured Housing Communities – Selected States

State	Properties	Pad Sites
CA	1,630	58,861
OH	1,096	57,658
FL	1,026	35,642
NC	951	18,919
TX	830	49,110
KY	761	17,313
IN	688	35,189
OR	679	22,598
NY	640	32,719
WA	570	16,727
MI	536	51,654
WI	458	24,165
IL	386	17,090
PA	344	20,311
AL	341	11,491
MO	327	13,208
IA	297	14,581
OK	293	8,016
CO	283	12,825
NE	277	5,384
KS	273	8,571
AZ	265	26,388
GA	254	7,473
MN	253	15,831
TN	251	8,973
WY	209	9,650
SC	200	4,567

Source: Datacomp/JLT. Based on 2023 FHFA definitions of Rural Census Tracts.



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Sale Prices of Manufactured Homes On the Decline

From 2020 to 2021, there was a sharp increase in the average sales price of manufactured homes, as shown in the chart to the right. The pandemic caused supply chain delays and rapid increases in the cost of supplies, particularly wood for framing and construction.

This situation, 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 – almost 50% higher than the \$82,400 recorded in 2018, just three years earlier.

Since that time, however, the average sales price has fallen slightly, totaling \$118,800 as of March 2024. However, shipments of new manufactured homes have not yet reflected the lower sales price.

New Manufactured Home Production Slowing

According to the U.S. Census Bureau’s Manufactured Housing Survey, from 2018 to 2020, an average of 95,200 manufactured homes were completed annually. Pent-up demand, along with rising housing prices and low interest rates, increased interest in manufactured homes as a more affordable source of housing.

For example, 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 constructed home to be just over \$200,000 – more expensive than a manufactured home. As a result, in 2021, the number of manufactured homes sold climbed above 100,000 units 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 completion of new manufactured homes declined. As shown in the adjacent chart, in 2023 just 89,200 manufactured homes completed. This is the lowest number of units completed over the past six years and is below the 94,400 units shipped in 2020, during the height of the pandemic.

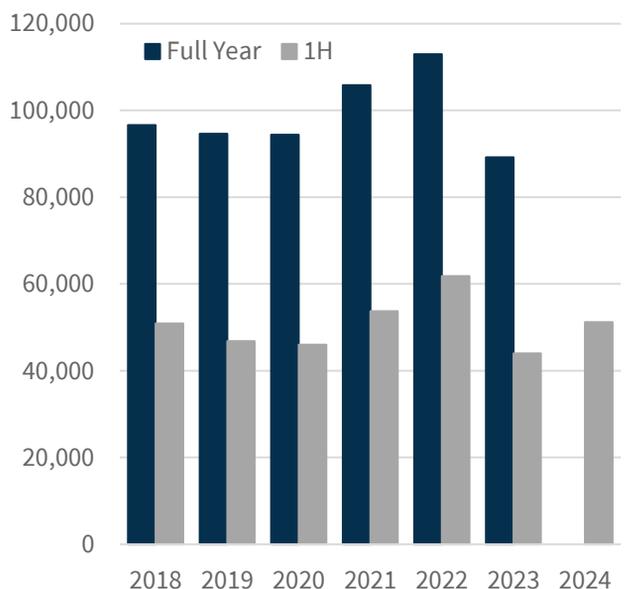
Average Sales Price of New Manufactured Homes* (Dec. 2018 – March 2024)



* 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



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However, 51,200 units were completed in the first half of 2024, indicating that manufacturing is picking up. Should this pace continue, the number of homes shipped could possibly rise above 100,000 units for the full year.

MHCs Completed in Only a Handful of States

According to CoStar, only five MHCs have been built or expanded since the start of 2023. Three are in Texas: the 437-pad site [Fannin Meadows in Tyler, owned by Four Leaf Properties](#); the 420-pad site [The Landing at Pearland](#) in the Houston metro area, developed and owned by Jacob White Construction; and the 200-pad site [Creeks Crossing](#) located just outside of Austin, and owned by Sun Communities. In addition, the Kofa Cabana Courtyard was developed outside of Yuma, Arizona and has 24 manufactured housing rentals, and the 54-pad site [Blue Haven Mobile Estates](#) owned by BoaVida Communities was developed in Paradise, California.

Not All MHCs Offer Long-Term Housing

While most MHCs under construction are meant to offer long-term housing, it's important to note that some communities may consist of temporary vacation homes or even just provide spaces for recreational vehicles. These types of MHCs are often easier to build due to lower barriers of entry in many local areas. One such example is the [Village Camp Flagstaff](#) in Flagstaff, Arizona that was completed earlier this year. The camp consists of pad sites for recreational vehicles, short-term rentals, and cabins for sale marketed as vacation homes.

MHC Under Construction or Proposed

There was only one MHC under construction as of mid-August 2024, the [Twin Lakes at Avon Park](#) that will consist of 325 manufactured housing rentals in Avon Park, Florida, according to data from CoStar. This represents a fraction of the amount of new MHCs that were produced 20 years ago, as shown in the chart below.

In addition, there are eight proposed new MHCs or expansions of existing MHCs, as shown in the map below. Should construction be completed on all these projects, more than 1,700 new pad sites and/or homes would be created. However, It is a long road from proposal to completion, and these projects could break ground soon, or not at all.

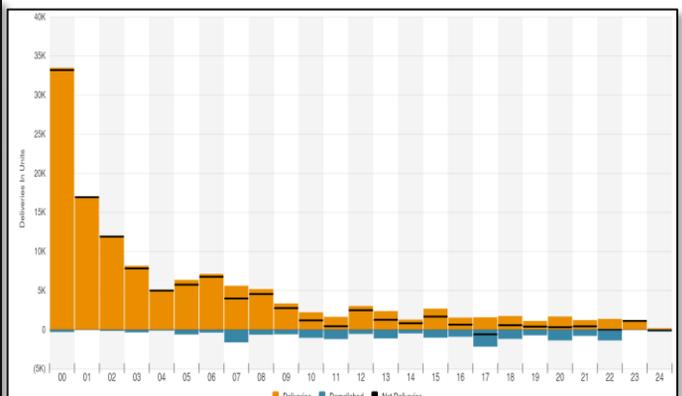
Additions Barely Outpacing Demolitions

As shown in the chart below, 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 2020, although 1,687 new MHC pad sites were built, 1,368 pad sites were demolished, for a net increase of just 319 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 Proposed Manufactured Housing Communities



Completions and Demolitions (2000 - Q2 2024)



Source: CoStar, Inc.



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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 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 last year, despite the increase in pad rents. Nationally, the occupancy rate in Age-55+ MHCs remained high at 97% as of second quarter 2024, as shown in the table below. Occupancy in five of the six regions tracked remained stable or improved, with the Midwest region’s average occupancy rate improving by 2 percentage points and occupancy in the Southern region increasing by 1 percentage point. With occupancy rates of 98% or higher, Age 55+ MHCs in the Northeast and Pacific regions had the highest occupancy rates as of second quarter 2024. The South and Southwest regions had average occupancies of 96%, with the West and Midwest regions at 95% as of the end of second quarter 2024.

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

	Occupancy Q2 2024	Occupancy Q2 2023	Change	Rent Q2 2024	Rent Q2 2023	Change
Midwest	95%	93%	2%	\$581	\$545	6.6%
Northeast	98%	98%	0%	\$604	\$576	4.9%
Pacific	99%	99%	0%	\$911	\$862	5.7%
South	96%	96%	0%	\$752	\$700	7.4%
Southwest	96%	96%	0%	\$704	\$656	7.3%
West	95%	94%	1%	\$808	\$757	6.7%
National	97%	96%	1%	\$774	\$726	6.6%

Source: Datacomp/JLT * As of July 1, 2024, 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**, has a 99% occupancy rate and the highest monthly rent at \$911 per month, as of second quarter 2024, 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 \$330 lower at \$581 per month – the lowest rent among the six regions.

Low vacancies and ongoing job and wage growth led to another year of strong rent growth, with pad site rents across all regions growing by 6.6% on average year over year as of second quarter 2024, following a 7.5% increase as of second quarter 2023. The 6.6% increase is more than double the 3.0% non-seasonally adjusted inflation rate and the estimated 1.1% average national increase in multifamily rents over the same timeframe. Pad site rents in the South and Southwest regions saw the highest increases, growing by 7.4% and 7.3%, respectively to \$700 and \$656, respectively.



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All Ages MHC Occupancy Remains High

MHC occupancies remained steady or tightened in All Ages communities in the six regions tracked by Datacomp, with the national average occupancy rate increasing by 1 percentage point year over year to 94% as of second quarter 2024. The average occupancy rate has remained at 94% or higher for five of the six regions tracked by Datacomp as of the end of second quarter 2024, as shown in the table below. The two regions where the average occupancy rate tightened were the Southwest, where occupancy increased by 2 percentage points to 96%, and the Midwest.

All Ages MHC - Occupancy and Rents for Select Regions*

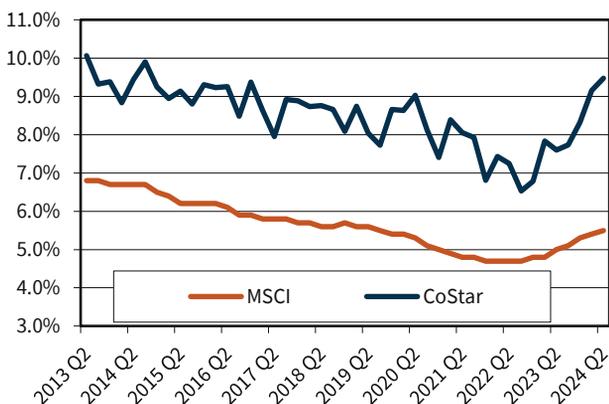
	Occupancy Q2 2024	Occupancy Q2 2023	Change	Rent Q2 2024	Rent Q2 2023	Change
Midwest	90%	89%	1%	\$523	\$490	6.7%
Northeast	94%	94%	0%	\$614	\$577	6.4%
Pacific	99%	99%	0%	\$1,061	\$1,007	5.4%
South	95%	95%	0%	\$622	\$576	8.0%
Southwest	96%	94%	2%	\$597	\$554	7.8%
West	96%	96%	0%	\$826	\$765	8.0%
National	94%	93%	1%	\$665	\$624	6.6%

Source: Datacomp/JLT * As of July 1, 2024, Based on Trailing 12-month average. Note: Pad Site Rents exclude utility payments.

Strong Rent Growth

Pad site rents in All Ages MHCs recorded another year of strong growth, increasing by 6.6% year over year to an average of \$665 as of second quarter 2024, as seen in the table above. This follows a year-over-year increase of 6.8% as of second quarter 2023. Pad site rents are highest in the Pacific region, growing by 5.4% year over year to over \$1,061 as of second quarter 2024. Pad site rents saw the fastest growth in the South, Southwest, and West regions, where they grew approximately 8% to \$622, \$597, and \$826, respectively. Even in the traditionally more affordable Midwest region, the average rent rose by 6.7% to \$523. As a comparison, the year-over-year inflation rate was 3.0% at that time.

MHC Average Capitalization Rate



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

MHC Capitalization 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 to 5.5% as of second quarter 2024. CoStar data, which includes smaller transactions for which cap rates can vary more widely, shows an even larger jump, on a relative basis: It estimates that cap rates rose to 9.5% as of second quarter 2024 from 7.2% as of second quarter 2022.



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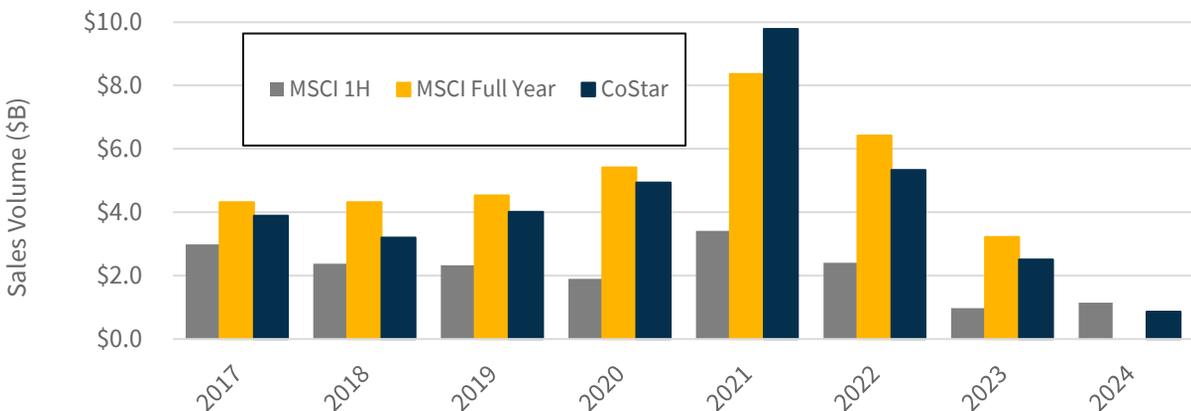
Sales Declined Again in 2023

Similar to the decline in multifamily property sales, MHC sales transactions declined again in 2023, to an estimated \$3.2 billion, as seen in the chart below. This is the lowest volume recorded since 2017's estimated \$4.3 billion.

CoStar data shows a similar trend but with an estimated \$2.5 billion in sales in 2023. Single asset sales represented just under 89% of MHC sales volume in 2023, with an estimated 103 properties containing an estimated 10,750 pad sites having been sold. In addition, six portfolios consisting of an estimated 21 MHCs with an estimated 1,440 pad sites also transacted during that timeframe. No entity-owning MHCs appears to have been sold in 2023.

During the first half of 2024, sales of MHCs totaled just \$1.1 billion, which is on par with sales for the first half of 2023 but about 52% lower than the sales activity for the first half of 2022, according to MSCI Real Assets. This is also lower than the \$1.9 billion in sales recorded for the first half of 2020, during the height of the pandemic. We believe that the ongoing elevated interest environment kept sales depressed in the first half of 2024.

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

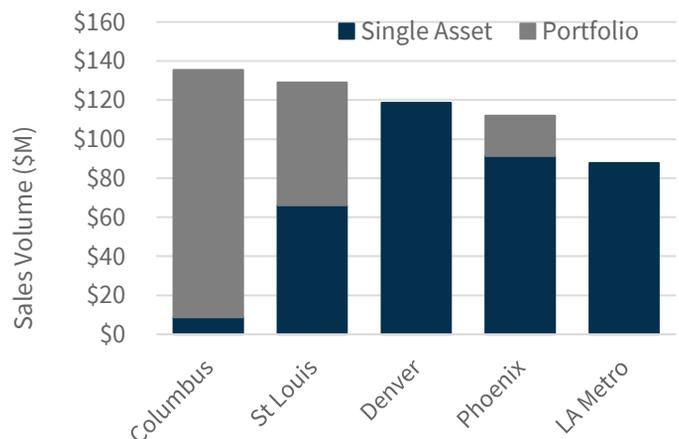


Source: CoStar, MSCI Real Assets Note: MSCI Real Asset data includes property or portfolio sales of \$2.5 million or greater.

Midwest Metros Gained in Importance

Interestingly, two of the five top areas with the highest total sales volume over the past four quarters were in Midwest metros, as opposed to Sunbelt metros, which are traditionally more strongly associated with MHC. As shown in the chart to the right, these two were **Columbus**, with an estimated \$135 million in MHC sales and **St. Louis**, at \$129 million. Other metros included **Denver** with just under \$119 million in MHC sales, as well as some Sunbelt metros, such as **Phoenix** with \$112 million in sales, and just under \$90 million in the **Los Angeles** metro area.

MHC Sales Volume - Select Markets (Q3 2023 – Q2 2024)



Source: CoStar, MSCI Real Assets Note: MSCI Real Asset data includes property or portfolio sales of \$2.5 million or greater.



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MHC Sale Price-Per-Site Declined

According to data from MSCI Real Assets, MHC sale prices-per-site totaled an estimated \$69,000, as of second quarter 2024. This is down 12% from the \$78,700 price-per-site in Q1 2023, just five quarters prior. However, the average MHC price-per-site has still risen 86% over the past decade, which is slightly higher than the 83% increase in price-per-unit sales of traditional multifamily properties over the same time. Indeed, MHCs are far less expensive to purchase than multifamily properties. The average MHC price-per-site as of second quarter 2024 was only about a third of the multifamily property price-per-unit of \$203,000.

2024 CMBS Volume Up Slightly

CMBS conduits only financed \$83 million in MHC loans in all of 2023, down from \$248 million in 2022. However, they financed \$147 million in the first half of 2024, which could lead to annual volume of about \$295 million. Except for 2021, it appears that CMBS financing of MHC is down substantially from pre-pandemic levels.

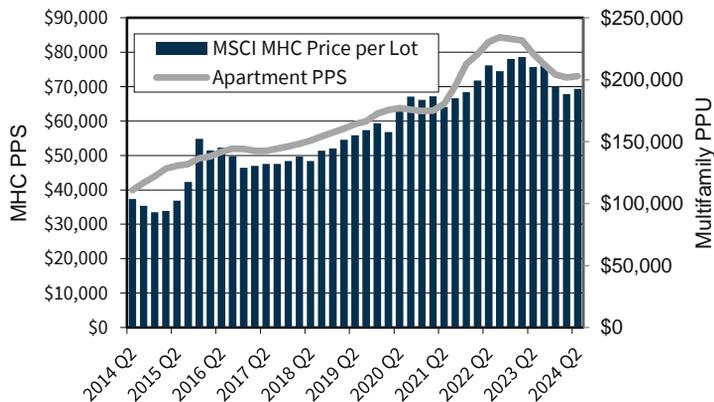
Lending Volume Declining

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, lending volume totaled an estimated \$7.3 billion in 2023. This is on par with the \$7.3 billion in lending volume in 2022 but down from a record \$12.8 billion in 2021. The total lending volume for the first half of 2024 totaled just \$2.2 billion, which means that lending volume could fall even further, to perhaps just \$4.4 billion for all of 2024. However, with the Federal Reserve poised to cut interest rates, borrowing costs will likely decline, which we think will lead to increased financing of MHC in 2025.

Refinances More Prevalent than Sales

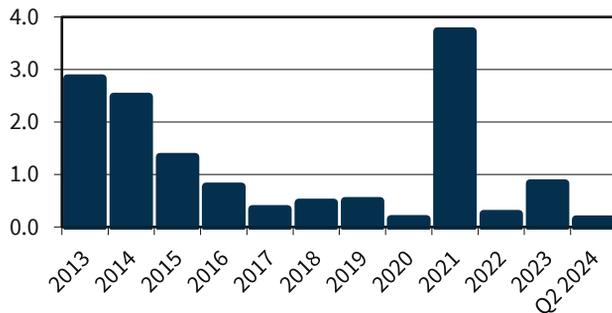
Refinances of MHCs remain more prevalent than financing for acquisitions, accounting for about 80% of financing volume since the start of second quarter 2023, according to data from MSCI Real Assets.

Manufactured Housing Community Sales Price per Site vs. Multifamily Sales Price per Unit (PPU)



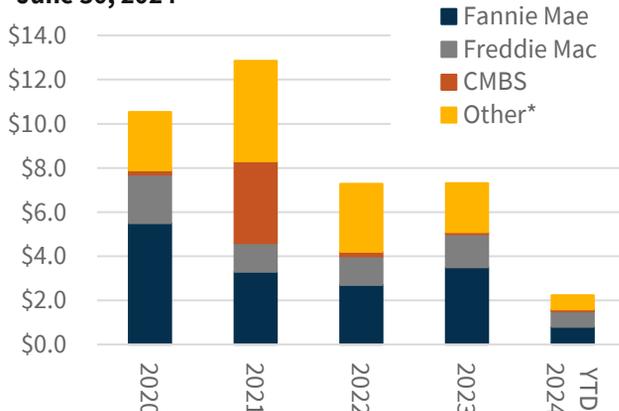
Source: MSCI Real Assets
Quarterly based on trailing 12-month average. Includes property or portfolio sales \$2.5 million or greater.

CMBS MHC Lending Volume (\$B) - Jan. 1, 2013 - June 30, 2024



Source: Green Street
Note: In 2021 the CMBS sector financed \$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.

MHC Loan Volume by Type of Lender - Jan. 1, 2020 - June 30, 2024



Source: Fannie Mae, Freddie Mac, Green Street, MSCI Real Assets includes property or portfolios valued at \$2.5 million or greater.
* Note that Other includes loans made by banks, credit unions, insurers, and other financial institutions



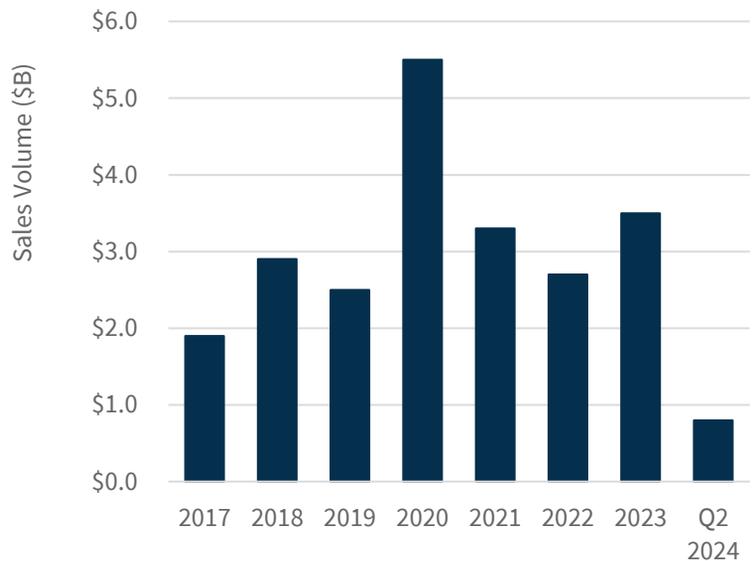
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Fannie Mae Finances MHCs

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 \$3.5 billion of MHCs during all of 2023 and has financed \$0.8 billion through the second quarter of 2024.

As of June 30, 2024, Fannie Mae's book of business includes 1,948 MHC loans with a total unpaid principal balance of just under \$22 billion as shown in the table below. This represents an estimated 5% of Fannie Mae's Multifamily book of business.

Fannie Mae MHC Financing Volume - Jan. 1, 2017 – June 30, 2024



Source: Fannie Mae Multifamily Business Information Presentation as of September 2024.

Fannie Mae's MHC book of business had a serious delinquency rate of 0.12% as of June 2024. While the average unpaid principal balance was \$11.2 million, 66% of all loans involved smaller properties, indicating these loans had an unpaid principal balance of \$9 million or less at origination.

Select Credit Characteristics of Fannie Mae MHC Book of Business as of June 30, 2024

Total UPB* (\$B)	Loan Count	Average UPB* (\$M)	Average OLTV**	Weighted Average DSCR ¹	Share Fixed Rate	Share Full Interest- Only	Share Partial Interest - Only ²	Share Small Balance ³	Serious Delinquency Rate ⁴
\$21.9	1,948	\$11.2	61%	2.2	94%	40%	47%	66%	0.12%

Source: Fannie Mae Q2 2024 10Q Financial Supplement * UPB : Unpaid Principal Balance ** Weighted Average Origination Loan to Value Ratio

¹ Estimates of current Debt Service Coverage Ratios (DSCRs) are based on the latest available income information covering a 12-month period, from quarterly and annual statements for these properties including the related debt service. When an annual statement is the latest statement available, it is used. When operating statement information is not available, the underwritten DSCR is used. Co-op loans are excluded from this metric.

² 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.

³ Small balance loans refers to multifamily loans with an original unpaid principal balance of up to \$9 million nationwide. Fannie Mae changed its definition of small multifamily loans in Q3 2023 to increase the loan amounts from up to \$6 million nationwide to up to \$9 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 previous small loan definitions. This metric is presented based on loan count rather than unpaid principal balance.

⁴ 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.



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Mixed Outlook for MHCs Over the Short Term

MHCs are seeing mixed trends. One positive trend is that the number of production facilities has increased by 11% since 2019. The cost of framing lumber - a major component in the creation of manufactured housing - has declined from pandemic highs, allowing the price of manufacturing new homes to fall somewhat since 2022. However, manufactured home prices remain more than 30% higher than at the start of the pandemic, making it challenging for some potential homeowners to purchase this type of housing. As a result, the number of manufactured homes shipped in 2023 totaled just 89,000 units.

Yet despite the slowdown in sales of manufactured homes, pad site vacancies remain low at many MHCs, indicating that demand is outstripping supply for both homeowners seeking to rent pad sites and renters who rent both the housing unit and the pad site. In fact, pad site rent has outpaced both multifamily rents and inflation for the second year in a row. As a result, while sales and lending volumes were down in 2023 and during the first half of 2024, we believe that investors will refocus on the sector over the next 12 to 18 months based on the Federal Reserve's indication of its willingness to cut interest rates over that timeframe, in turn making borrowing less expensive.

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