

SEPTEMBER 2022

## A Slight Increase In the Supply of New Manufactured Housing Communities

Manufactured housing pre-fabricated in factories remains a source of unsubsidized affordable housing, with an estimated 6.8 million units housing those who either own or rent a unit, according to data from the 2019 American Community Survey (ACS). However, not all purchasers of these pre-fabricated homes can afford to purchase the land needed for their new home, and some prefer to avoid the maintenance associated with owning that land. That’s where a Manufactured Housing Community (MHC), also known as a land lease community, comes into play. These communities can also have a limited number of homes available for rent. For those residents who own their home, these communities offer pad sites for rent, which are spaces where owners can place their homes that also provide access to utility hookups. According to information from Datacomp Appraisal Systems, Inc., as of second quarter 2022, there were an estimated 43,300 MHCs providing land for lease or rental of both the pad site and the home. However, relatively few MHCs have been built in recent years. While this trend appears to be reversing, we believe limited supply will likely keep pad site vacancies at existing MHC relatively low.

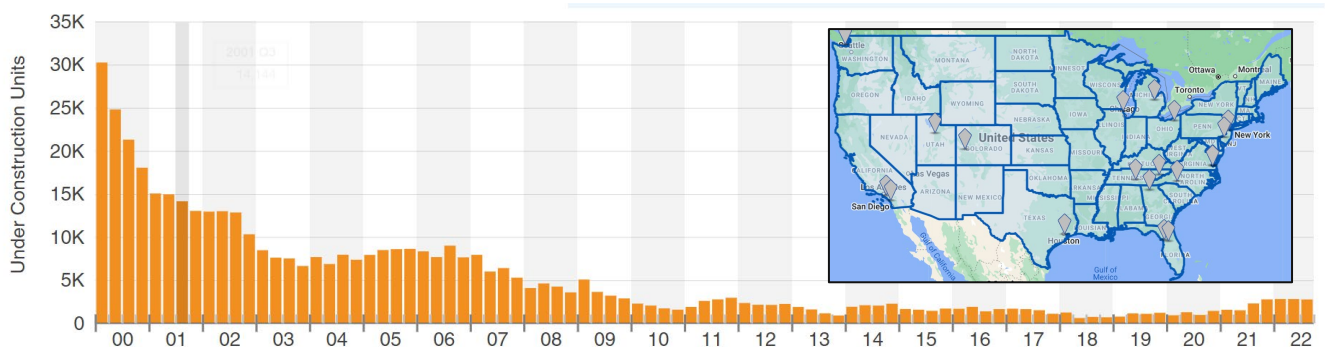
### New MHCs Growing...Slightly

As shown in the map and chart below, there were an estimated 18 new MHCs under construction, representing just over 2,800 pad sites as of mid-August 2022, according to data from CoStar, Inc. While this is double the number that was under construction five years ago, it represents just a fraction of new MHCs that were produced 20 years ago. For a sense of scale, there are just under 800,000 new multifamily rental units under construction that are expected to be delivered over the next two years.

Of the MHCs under construction where the type of community is identified, three of the MHCs are Seniors communities, targeted to those residents aged 55 or older that may prefer to own their home but lease their pad site to leave maintenance and upkeep to a minimum. This includes Lavender Meadows Park near Seattle, which will contain an estimated 217 sites when completed. Another 12 MHCs under construction are considered All Ages communities, meaning that there is no minimum age requirement for residents.

As shown in the map below, the new MHCs are in a handful of states, including California, Florida, Tennessee, Washington, North Carolina, and Virginia. This is consistent with areas of the country that, historically, have been more open to factory-built homes. These states contain counties that can have more than 50 MHCs.

### New Manufactured Housing Communities Under Construction



Source: CoStar, Inc.

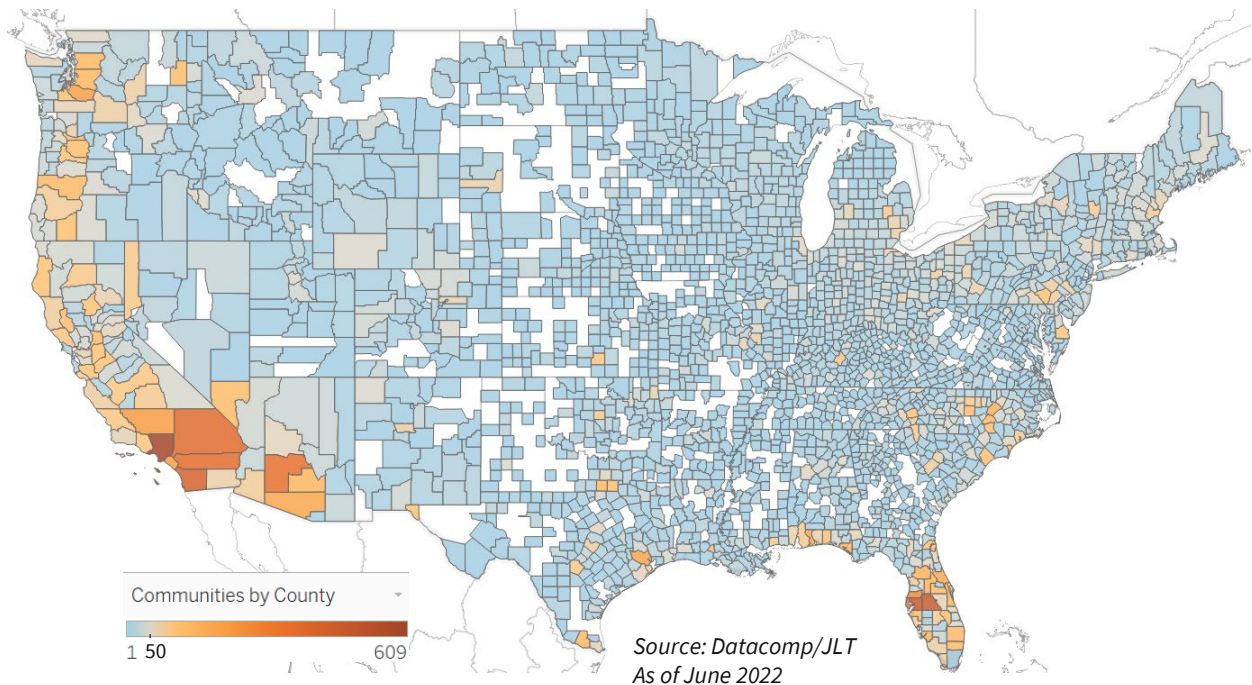
# Multifamily Economic and Market Commentary

## Handful of Counties With a Lot of MHCs

According to Datacomp, most counties have at least one MHC. However, a small subset of counties have 50 or more communities, as shown in the map below. In fact, the top 60 counties for MHCs contain just under a quarter of all communities.

Six of the top 11 counties for MHCs are in California. These include **Los Angeles** with over 600 MHCs, **San Diego** with 425 MHCs, **Riverside and San Bernardino** each with over 350 MHCs, and **Kern and Orange** county each with about 220 MHCs. Another four are in Florida, including **Hillsborough and Polk** counties, each with about 470 MHCs, and **Pinellas and Pasco** counties, each with over 270 MHCs. These four counties include the cities of Tampa, St. Petersburg, and Clearwater. Arizona also has several counties with at least 190 MHCs, including **Maricopa and Pinal counties** in **Phoenix** and **Pima** county, which includes **Tucson**.

## Number of MHCs by County



## Other Metros Also Offer MHCs

While many of the counties with the highest concentrations of MHCs are in California, Florida, and Arizona, all of which are favorably disposed to MHCs, there are some counties outside of these states that also have a sizeable number of MHCs. For instance, **Pierce County**, which includes the city of **Tacoma** in Washington state, **Wake County**, which includes **Raleigh** in North Carolina, **Harris County**, which includes **Houston** in Texas, and **Lane County**, which includes **Eugene** in Oregon, contain over 130 MHCs each. In addition, **Saratoga County** in New York, **Lancaster County** in Pennsylvania, **Sedgewick County**, which includes **Wichita**, in Kansas, and **St. Clair County** in Illinois outside of **St. Louis**, each have 70 or more MHCs. The high concentration of MHCs in these counties indicates that this type of housing is a viable option for many residents. However, the limited number of MHCs nationally means that overall sales volume remains relatively low.

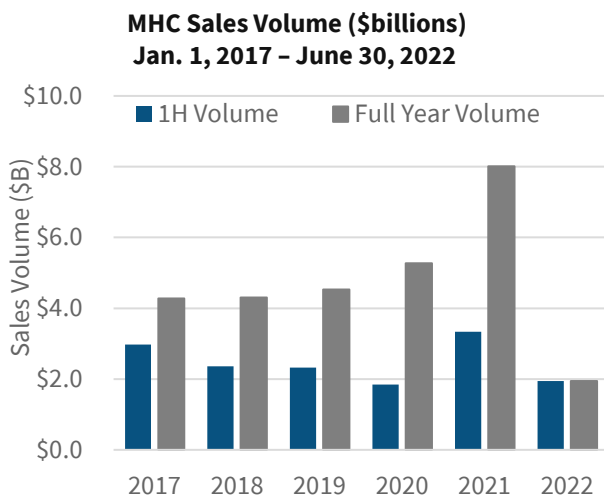
# Multifamily Economic and Market Commentary

## Sales Decline Following a Strong 2021

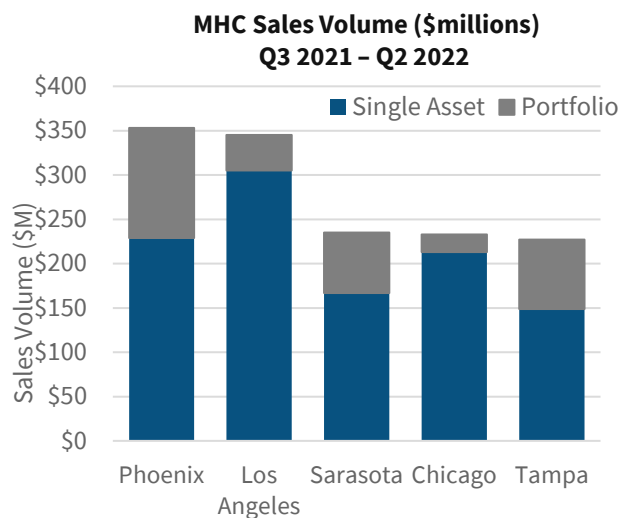
According to MSCI Real Assets (MSCI), sales of MHCs totaled an estimated \$8.0 billion in 2021. As shown in the lower left chart, this is the highest volume recorded in the last five years. CoStar also recorded a similarly high level, with an estimated \$9.4 billion in sales in 2021. This elevated sales volume was likely due to a combination of factors, including MHC property owners who withheld properties from being sold during the height of the pandemic, instead waiting to sell when there was less market volatility. In addition, we believe investors became more interested in MHCs in 2021 after realizing that demand fundamentals for MHCs had remained positive during the pandemic.

Single asset sales represented about two-thirds of MHC sales volume in 2021, with just under 500 properties containing an estimated 78,000 pad sites having been sold. In addition, 55 portfolios containing just under 350 MHC properties with an estimated 47,000 pad sites also exchanged hands during that timeframe.

However, during the first half of 2022, sales of MHCs totaled just \$1.9 billion, which is about 42 percent lower than the sales activity for the first half of 2021. This total was the lowest recorded in the last five years and on par with the first half of 2020, during the height of the pandemic. We believe that some MHC property sales were pulled forward into 2021 as investors anticipated the rapidly rising interest environment looming in 2022.



Source: MSCI Real Assets



Source: MSCI Real Assets

## Sun Belt Metros Record Some of the Highest Sales in 2021

Given the counties with the highest concentration of MHCs, it's no surprise that the metros with the highest total sales volume over the past four quarters were **Phoenix** and **Los Angeles**. As seen in the chart above, investors spent about \$350 million to acquire MHCs in Phoenix and Los Angeles according to MSCI. Investors spent another \$230 million each in **Sarasota** and **Tampa**.

However, investor interest in MHCs has grown beyond the Sun Belt. Investors acquired just over \$230 million in MHCs in **Chicago**, making it one of the top metros for investment in MHCs over the past year.



# Multifamily Economic and Market Commentary

## Two Types of MHCs

As mentioned earlier, there are two types of MHCs: All Ages communities and Age 55+ communities. Age 55+ MHCs, as the name implies, are targeted to older adults. All Ages MHCs 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 and the inflationary economy across all regions of the country so far.

## Occupancy Increases in Age 55+ MHCs

Some older residents prefer purchasing homes in Age 55+ MHCs 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 high inflation rates recorded recently. Nationally, the occupancy rate in Age 55+ MHCs increased by 0.7 percent year-over-year to 97 percent as of second quarter 2022, as shown in the table below. Further, all six regions tracked by Datacomp saw slight increases in occupancy.

With occupancy rates of 98 percent or higher, Age 55+ MHCs in the Northeast and Pacific regions of the country had the highest occupancy rates as of second quarter 2022 among the six regions tracked by Datacomp. The South and Southwest regions had average occupancies of 96 percent, with the West and Midwest regions recording occupancies of 94 percent and 93 percent, respectively, as of the end of second quarter 2022.

## Age 55+ - MHC Occupancy and Rents for Select Regions as of July 1, 2022\*

	Occupancy Q2 2022	Occupancy Q2 2021	Occupancy Change	Site Rent Q2 2022	Site Rent Q2 2021	Site Rent Change
Midwest	93%	92%	1.50%	\$529	\$504	5.0%
Northeast	98%	97%	0.60%	\$536	\$517	3.7%
Pacific	99%	98%	0.30%	\$809	\$784	3.2%
South	96%	96%	0.80%	\$629	\$593	6.1%
Southwest	96%	95%	1.00%	\$603	\$575	4.9%
West	94%	93%	0.50%	\$698	\$659	5.9%
<b>National</b>	<b>97%</b>	<b>96%</b>	<b>0.70%</b>	<b>\$666</b>	<b>\$635</b>	<b>4.9%</b>

Source: Datacomp/JLT

\* Based on Trailing 12-month average as of July 1, 2022.

Note: Rents exclude utility payments.

## Pad Rents Grow by Less than Inflation

As shown 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 the highest monthly pad rent at \$809 per month, as of second quarter 2022 according to Datacomp. As might be expected, the large Midwest region, which is comprised of 12 states including Michigan, Illinois, and Indiana, had the lowest average pad rent at \$529 per month.

Pad site rents in each region grew across all regions by an average of 4.9 percent year over year as of second quarter 2022, far below the 9.1 percent non-seasonally adjusted inflation rate and 11.2 percent average national increase in apartment rents. Pad rents in the Southern region, which consists of 13 states, including Florida, Georgia, and the Carolinas, recorded the highest growth at 6.1 percent year over year, bringing its regional monthly pad rent to \$629. Pad rents in the Northeast region, which is comprised of seven states including Pennsylvania, New York, and New Jersey, recorded a lower growth rate of 3.7 percent year over year, bringing its monthly pad rent to \$536.



# Multifamily Economic and Market Commentary

## All Ages MHC Occupancy Improved

Despite ongoing delays in the delivery of new homes due to stubbornly persistent supply chain disruptions, MHC occupancies remained steady or tightened in All Ages communities in the six regions tracked by Datacomp.

Nationally, the average occupancy rate for All Ages MHCs increased by 0.8 percent during the first half of the year, ending second quarter 2022 at 93 percent. Occupancies remained at 93 percent or higher for five of the six regions tracked by Datacomp as of the end of second quarter 2022, as shown in the table below. Only the Midwest recorded a lower occupancy rate, finishing the quarter with an occupancy rate of 89 percent.

### All Ages MHC - Occupancy and Rents for Select Regions as of July 1, 2022\*

	Occupancy Q2 2022	Occupancy Q2 2021	Occupancy Change	Site Rent Q2 2022	Site Rent Q2 2021	Site Rent Change
Midwest	89%	88%	1.10%	\$465	\$444	4.7%
Northeast	93%	93%	0.40%	\$544	\$521	4.4%
Pacific	99%	98%	0.70%	\$947	\$916	3.4%
South	94%	94%	0.50%	\$546	\$514	6.2%
Southwest	95%	94%	0.60%	\$509	\$482	5.6%
West	97%	96%	0.70%	\$708	\$661	7.1%
<b>National</b>	<b>93%</b>	<b>92%</b>	<b>0.80%</b>	<b>\$583</b>	<b>\$556</b>	<b>4.9%</b>

Source: Datacomp/JLT

\* Based on Trailing 12-month average as of July 1, 2022.

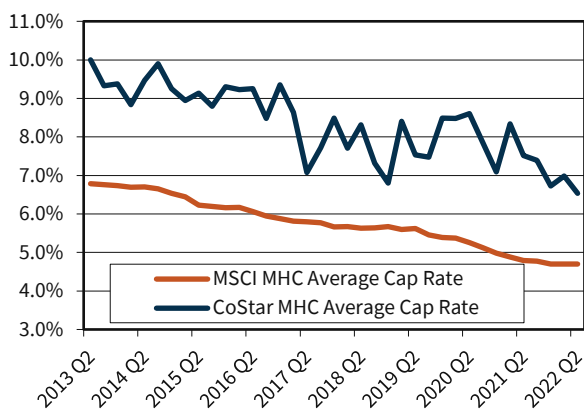
Note: Rents exclude utility payments.

## Pad Site Rent Can be Lower In All Ages MHCs

Like Age 55+ MHCs, pad site rents in All Ages MHCs increased by 4.9 percent year over year to an average of \$583 as of second quarter 2022, as seen above. This is lower than the \$666 recorded at Age 55+ MHCs.

Pad site rents are highest in the Pacific region, growing by 3.4 percent year over year to an average of \$947 as of second quarter 2022. Pad site rents were lowest in the Midwest, growing during the quarter by 4.7 percent to \$465 per month on average. This is also lower than the \$529 per month recorded at Age 55+ MHCs.

## Manufactured Housing Community Average Cap Rate Cap Rates Continue to Compress



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

With fewer than 20 new MHCs under construction, coupled with ongoing interest from investors, capitalization rates for institutional-quality MHCs have declined significantly in recent years. According to MSCI Real Assets (MSCI), the average cap rate for MHC property sales fell from an average of 6.8 percent in second quarter 2013 to an estimated 4.7 percent as of second quarter 2022, as shown in the adjacent chart. While more volatile, CoStar data also shows cap rate compression, with the average cap rate for MHCs falling from 10.0 percent to 6.5 percent over the same time frame.



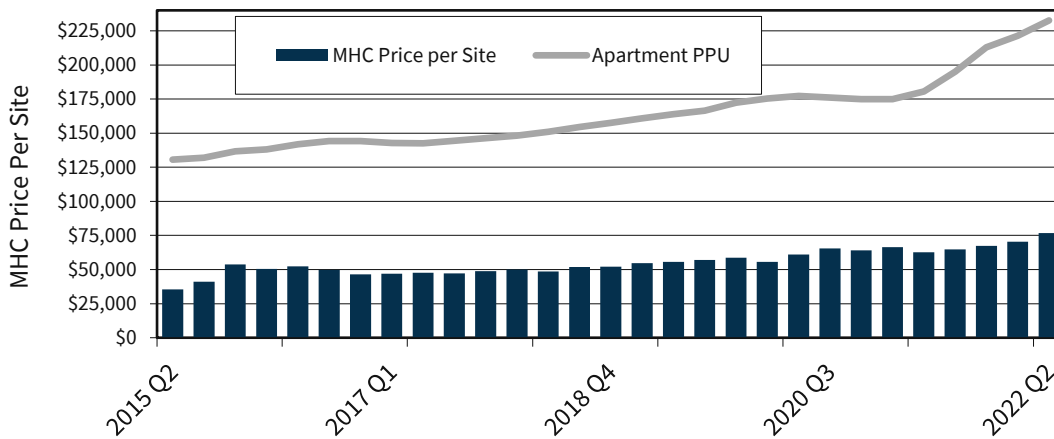
# Multifamily Economic and Market Commentary

## MHC Sales Price-per-Site Increased

According to data from MSCI, MHC sales prices per pad site totaled an estimated \$77,000 per pad, as of second quarter 2022. While pad site prices can be somewhat volatile, there has been an upward trajectory recently. Since first quarter 2020, the price-per-site has increased an estimated 38 percent. This is consistent with the 33 percent increase in price-per-unit of sales of multifamily properties over the same time period.

MHCs are far less expensive to purchase than multifamily properties. The average MHC price-per-site as of second quarter 2022 was only a third of a traditional multifamily property price-per-unit of \$233,000, likely reflecting the fact there is far less maintenance with an MHC than an apartment building.

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

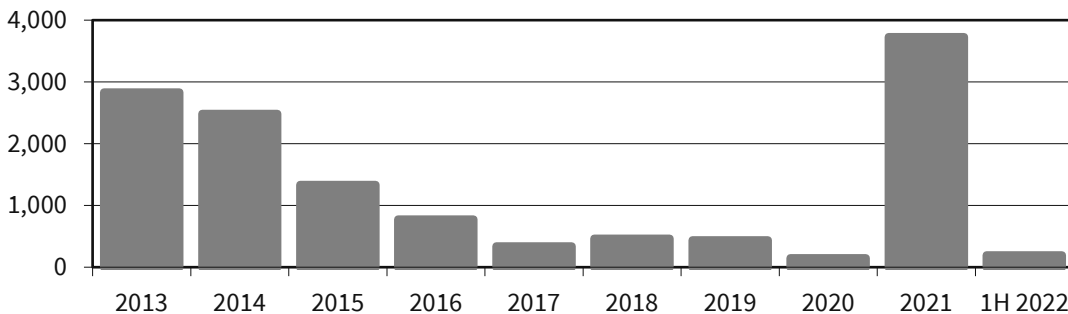


Source: MSCI Real Assets. Quarterly based on trailing 12-month average. Includes property or portfolio sales \$2.5 million or greater.

## 2021 CMBS Volume Unusually High

As shown in the adjacent chart, after a strong 2021 where the Commercial Mortgage-Backed Securities (CMBS) sector financed about \$3.7 billion in MHC loans, it appears that the sector is back to more normalized levels, at least as of the first half of 2022. As an example, in 2021, an affiliate of Brookfield Asset Management secured \$2.2 billion to refinance a portfolio of 124 U.S. MHC properties located across 13 states. However, the CMBS conduits financed just \$200 million in the first half of 2022.

### CMBS MHC Lending Volume (\$millions) Jan. 1, 2015 – June 30, 2022



Source: Commercial Mortgage Alert. Includes 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 MHCs...

As shown in the adjacent chart, Fannie Mae financing of MHCs increased in 2020 but has returned to pre-pandemic levels recently. Fannie Mae financed \$3.3 billion of lending on MHCs in 2021 and has financed \$1.5 billion through second quarter 2022.

## ...That Have Performed Well

As of second quarter 2022, Fannie Mae had financed 1,700 MHC loans with a total unpaid principal balance of just over \$19 billion. This represents an estimated 5 percent of Fannie Mae's multifamily guaranty book of business, on par with the shares of Student and Seniors housing.

There were no multifamily MHC loans in forbearance and a serious delinquency rate of just 0.02 percent for multifamily MHC loans as of second quarter 2022. While the average unpaid principal balance of a multifamily MHC loan was about \$11.3 million, just under half of the loans had an original unpaid principal balance of \$6 million or less at origination, indicating about half of all transactions involved smaller properties.

## Select Credit Characteristics of Fannie Mae MHC Book of Business

Total UPB* (\$B)	Loan Count	Average UPB* (\$M)	Average OLV**	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>
\$19.2	1,700	\$11.3	64%	92%	26%	58%	49%	0.0%	0.02%

Source: Fannie Mae Q2 2022 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.

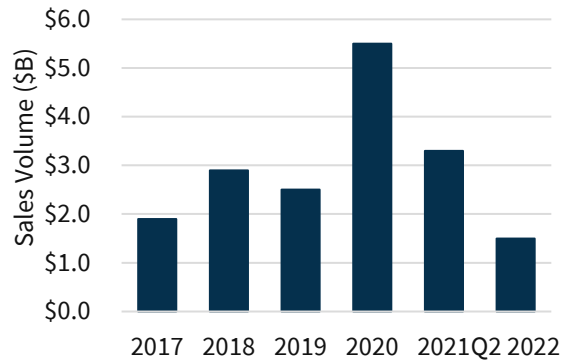
<sup>2</sup> Small balance loans refers to multifamily loans with an original unpaid balance of up to \$6 million nationwide.

<sup>3</sup> Multifamily SDQ 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 SDQ rate for loans in a particular category (such as acquisition year, asset class or targeted affordable segment), refers to SDQ loans in the applicable category, divided by the unpaid principal balance of the loans in the multifamily guaranty book of business in that category.

## Supply of New Communities Not Meeting Demand

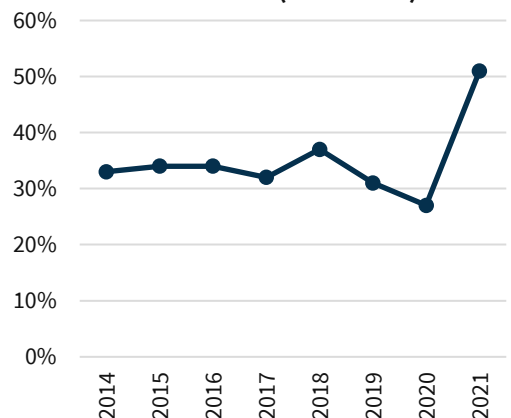
According to the U.S. Census Bureau's Manufactured Housing Survey, an estimated 106,000 new manufactured or pre-fabricated homes shipped from factories in 2021 with an additional 62,000 homes shipped through June 2022. Some of the homes shipped were purchased by residents who rent the pad site in a community where their home is going to be located, and some others shipped to communities that rent out both the home and the pad site. While generally a third of new manufactured homes ship to MHCs each year, this figure jumped to 51 percent in 2021. However, the creation of new communities is still extremely limited, with less than 20 new communities under construction as of second quarter 2022. Right now, the level of construction appears insufficient to keep up with the increasing demand for this type of housing.

Fannie Mae MHC Financing Volume (\$billions)  
Jan. 1, 2017 – June 30, 2022



Source: Fannie Mae Multifamily Business Information Presentation as of August 2022.

Share of New Manufactured Homes Placed in Communities (2014-2021)



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



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