Multifamily Economic and Market Commentary

September 2020

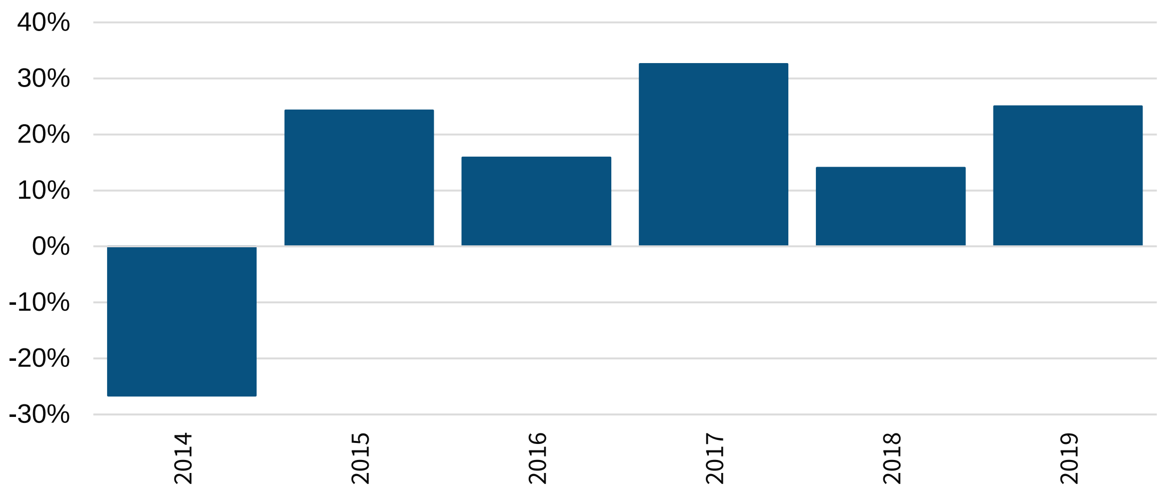
Manufactured Housing Communities Remain Steady in Q2 2020

The Manufactured Housing Communities (MHC) sector has been a popular asset class for investors recently. However, in Q2 2020, the economy lost a disproportionate share of jobs in the retail, hospitality, and leisure sectors, which tend to offer lower-paying positions. This could have had a negative impact on MHC and investor interest. However, to date, that doesn't appear to be the case. In fact, thus far, the COVID-19 pandemic-induced recession does not appear to have disrupted MHC fundamentals. We believe this bodes well for continued investor interest in the MHC sector.

Transaction Volume Continues to Rise

Although not a comprehensive source of data for MHC property sales, Real Capital Analytics (RCA) provides a window into the MHC sector. As shown in the chart below, last year was another busy year for MHC. Year over year, transactions involving MHC properties grew by 25% to an estimated $13.0 billion in 2019. In addition, despite the COVID-19 pandemic, transactions appeared to have remained brisk in the first half of 2020. RCA recorded just under $6.9 billion in transactions in the first half of this year, which far outpaced the $2.7 billion of transaction volume recorded by RCA for the first half of 2019.

Change in MHC Transaction Volume (2014 – 2019)



Source: Real Capital Analytics www.rcanalytics.com
Note: Transaction volume includes both sales of existing and the appraised value of refinanced MHC properties.

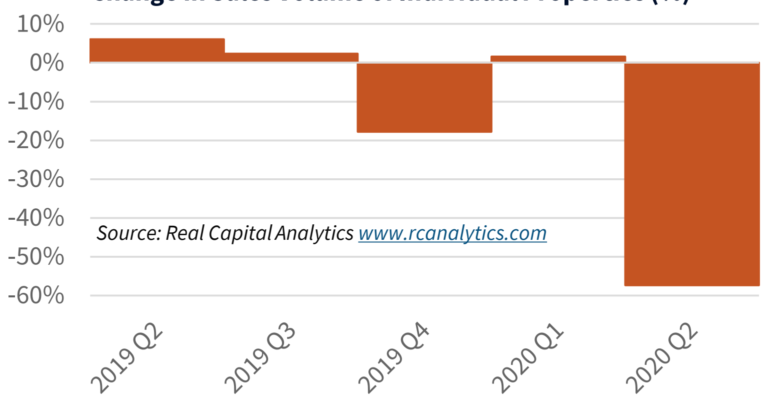
Refinances Drove Transactions in First Half 2020

Elevated MHC property transaction volume in the first half of 2020 was primarily due to refinances of MHC properties. For example, in February, Equity Lifestyle refinanced a portfolio of 12 properties with 4,500 sites, resulting in a loan of just over $500 million. In March, Sun Communities refinanced a portfolio of 10 properties containing about 3,700 sites with a loan of $360 million. In June, Yes! Communities refinanced a portfolio of 22 properties containing more than 5,400 sites with a loan of over $280 million. All three portfolios were financed by Fannie Mae.

Portfolio Sales Boost MHC Market in Q2 2020…

Not only did portfolios provide a boost to the refi segment of the MHC market, but they also helped sustain MHC sales. For instance, in June, the Carlyle Group purchased a portfolio of four MHC in Arizona from Edward Wenner, Inc. for $230 million and Yes! Communities purchased a portfolio of 13 properties containing over 5,000 sites for homes from Michigan-based Meritus Communities. BREIT closed another portfolio sale in April, paying $200 million for a portfolio of seven MHC properties in Florida, Arizona, Washington, and Ohio. The MHC properties were purchased from a joint venture of Legacy Housing Corporation and PGIM Real Estate.

Change in Sales Volume of Individual Properties (%)



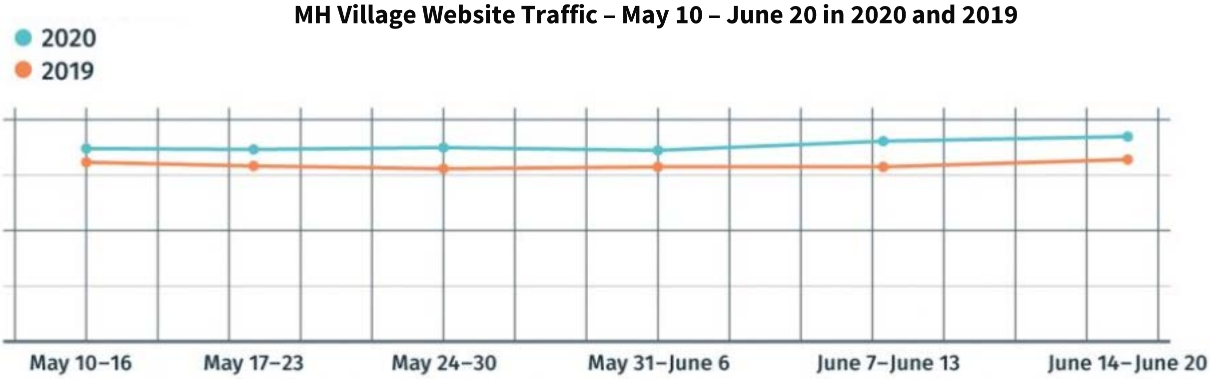
…Individual Sales, Not so Much

By contrast, individual MHC asset sales plummeted. As shown in the adjacent chart, individual sales declined almost 60% during Q2 2020. Most likely, MHC owners withheld properties from the market to avoid pandemic pricing offers, which could be low.

Increased Interest in Manufactured Housing

MHVillage is a website that provides information on MHC, listing individual manufactured homes for sale as well as rental homes. As shown below, the website has shown increased traffic during the pandemic shutdown. In fact, traffic was higher than over the same time period in 2019. In addition, the website reports a 26% increase in new users during the current time period. MHVillage attributed the increase to a couple of factors. Manufactured housing remains an affordable housing choice for both home buyers and renters, and, with more people staying home due to the pandemic, there is additional demand for more space at home. In addition, according to the National Association of Realtors (NAR), there is also a low supply of inventory of single-family homes for sale. In fact, in July 2020, NAR reported 3.1 months of inventory of homes for sale, which was down 1.1 months from the inventory for sale in July 2019. All these factors have likely had a positive effect on MHC fundamentals over the past few months.

MH Village Website Traffic – May 10 – June 20 in 2020 and 2019



Source: MHVillage

Two Types of MHC

There are two types of MHC: All Ages communities and Age 55+ communities. Age 55+ communities, as the name suggests, are targeted to seniors. All Ages communities tend to attract families and those who do not want to live in seniors communities. Fundamentals in both segments of MHC appear to be stable in the face of the pandemic -- for now.

Occupancy Remained Steady in Q2 2020

Third-party data vendor Datacomp/JLT, which focuses exclusively on collecting data for MHC, collected occupancy and rent data for metros in several states in Q2 2020 after most states had issued stay-at-home orders due to the pandemic. The aggregated data at the state level is shown below. The data for All Ages communities shows that, year over year, occupancies held steady during the quarter and even increased slightly statewide in some cases. While this may seem counterintuitive, in surveying MHC owners, Datacomp/JLT found the demand for homes actually grew during Q2 2020 as renters looked to purchase new homes for additional space and then chose to live on a site rented in an MHC. For instance, the average occupancy rate for All Ages MHC in Florida increased to 94% during Q2 2020 from 93% in Q2 2019. Occupancies also appeared to hold steady in Midwestern states based on data collected for MHC in Iowa and Nebraska. On average, occupancies rose by 1% year over year to 94% as of Q2 2020 in Iowa, and to 92% as of Q2 2020 in Nebraska.

All Ages Communities - Occupancy and Average Rents for Select States in 2020 and 2019*

	Q2 2020	Q2 2019	Q2 2020	Q2 2019	Change
Florida	94%	93%	$557	$533	4.5%
South Carolina	98%	96%	$333	$322	3.4%
Iowa	94%	93%	$395	$380	3.9%
Nebraska	92%	91%	$397	$370	7.3%
Virginia	96%	95%	$433	$423	2.4%
New Jersey	95%	95%	$520	$506	2.8%
Colorado	98%	97%	$660	$629	4.9%
Delaware	91%	91%	$571	$559	2.1%

Source: Datacomp/JLT, rent excludes utilities

** Note that metros in Colorado are updated in July.*

Rent Growth Positive in All Ages Communities

On average, pad site rents in All Ages communities, excluding utilities, increased year over year. In fact, Florida and Colorado appear to have had some of the highest pad site rent growth, as seen in the table above. MHC pad site rents increased by 4.5% year over year in Florida, to an average of $557 per site during Q2 2020 excluding utilities. Similarly, pad site rents in Colorado increased 4.9% year over year on average to $660 per month in Q2 2020. However, pad site rent growth was not equally strong across all states. For instance, in New Jersey, rents grew by 2.8% year over year in Q2 2020 to an average of $520 per pad site, while rents in Delaware only grew by 2.1% year over year to $571 per pad site excluding utilities.

Age 55+ - Occupancy and Average Rents for Select States in 2020 and 2019*

	Q2 2020	Q2 2019	Q2 2020	Q2 2019	Change
Florida	96%	95%	$566	$541	4.6%
South Carolina	94%	90%	$416	$401	3.7%
Iowa	89%	89%	$379	$367	3.3%
Virginia**	95%	95%	$168	$168	0.0%
New Jersey	97%	96%	$504	$494	2.0%
Colorado	98%	98%	$647	$622	4.0%
Delaware	97%	97%	$499	$483	3.3%

Source: Datacomp/JLT, rent excludes utilities

** Note that metros in Colorado are updated in July*
*** Includes only one MHC.*

Occupancy Also Remained Steady in Age 55+ Communities in Q2 2020

Some seniors like to locate their homes in Age 55+ MHC for the ease of maintenance and enjoyment of community amenities that are usually offered. As a result, Age 55+ MHC tend to have higher occupancy rates than All Ages communities. This trend has not changed over the past several months, despite the outbreak of COVID-19.

Colorado, New Jersey, and Delaware had the highest occupancy rates on average, based on metros surveyed by Datacomp/JLT in Q2 2020. On average, Age 55+ communities in Colorado boasted a 98% occupancy rate and there was a 97% occupancy rate in both New Jersey and Delaware.

Rent Growth Remained Positive in Age 55+ Communities

Rents, excluding payments for utilities, continued to grow for pad sites rented in Age 55+ communities in Q2 2020. This is not surprising as most retirees living in MHC have steady monthly sources of income, like retirement and Social Security payments. Florida and Colorado had the strongest pad site rent growth. Florida showed a year-over-year rent increase of 4.6% in Q2 2020 to $566 on average for pad sites. Colorado posted rent growth of 4.0% year over year, to $647 as of Q2 2020.

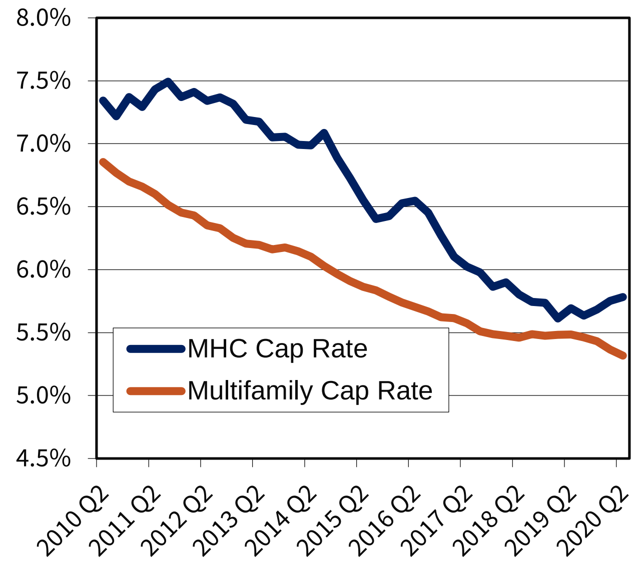
In fact, the state average pad site rent increase across the metros surveyed by Datacomp/JLT in Q2 2020 for most states was in excess of 3.0% year over year, as shown in the table above. However, New Jersey posted lower rent growth of only 2.0% year over year in Q2 2020 to an average of $504 per pad site.

MHC Cap Rates Remain Fairly 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, falling from an average of 7.3% in Q2 2010 to just 5.7% as of Q4 2019, as shown in the adjacent chart. In fact, cap rates for investment-grade MHC assets have been within one-half percent of multifamily cap rates since Q1 2017. As of Q2 2020, the average cap rate for MHC was 5.8% compared to 5.3% for multifamily.

Thus far, the COVID-19 outbreak has not resulted in increasing capitalization rates for MHC. Instead, it appears that sellers have decided to remain firm on pricing, or simply pull properties rather than list them at all, keeping cap rates steady. In fact, the average cap rate of 5.8% in Q2 2020 was only 0.1% higher than the average as of Q4 2019.

MHC Average Cap Rate vs. Multifamily Average Cap Rate



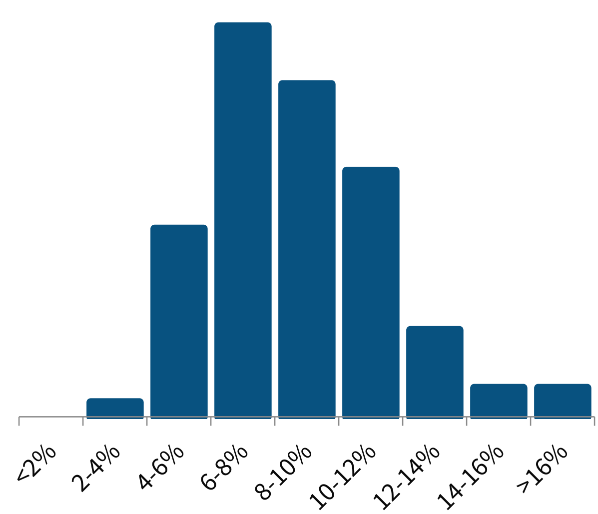
Source: Real Capital Analytics www.rcanalytics.com
Quarterly based on trailing 12 month average. Includes property or portfolio sales $2.5 million or greater

…but There Is Wide Dispersion

There is generally quite a bit of variation in MHC cap rates, however. For instance, the 104-unit Hannah Mobile Home Park near Charleston, S.C., was underwritten with an 8.8% cap rate in January, according to Real Capital Analytics.

CoStar, which also tracks MHC sales transactions, also shows a wide dispersion of cap rates at time of sale during the first half of 2020. CoStar shows that about 15% of MHC cap rates at time of sale for the first half of 2020 were under 6%. Another 30% fell in the 6% to 7.9% range, and 25% fell in the 8.0% to 9.9% range. Just over 4% of MHC cap rates at time of sale were over 14%. However, CoStar tends to track smaller properties that tend to have higher cap rates on average. CoStar data reported the average number of pad sites per MHC sold in the first half of 2020 was just under 100, compared to just under 200 pad sites for sales tracked by Real Capital Analytics, during the same time period.

Manufactured Housing Distribution of Cap Rates during 1H 2020



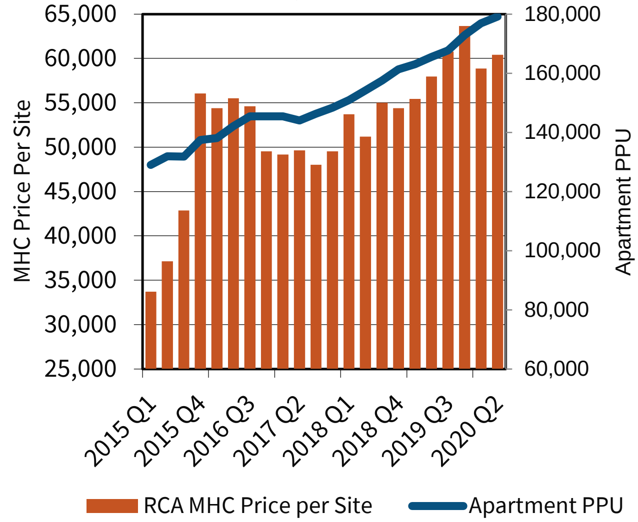
Source: CoStar

MHC Price per Site Rebounds in Q2

MHC are more thinly traded than traditional multifamily properties. Nevertheless, just as multifamily properties measure the price per unit (PPU) when a property is sold, MHC record a price per site where a home would be located when a community is sold. According to data from Real Capital Analytics, MHC price per site grew 2.6% quarter over quarter to an estimated $60,000 per site, as of Q2 2020, showing that MHC have held their value relatively well despite the COVID-19 outbreak.

Further, MHC are far less expensive to purchase. The average MHC price per site as of Q2 2020 was only a third of a traditional multifamily property apartment price per unit -- another reason this segment remains popular with investors.

MHC Price per Site vs. Multifamily Price per Unit



Source: Real Capital Analytics www.rcanalytics.com
Quarterly based on trailing 12-month average. Includes property or portfolio sales $2.5 million or greater

Average Asking Rents for a Rental Home -- MHC vs Apartments Select Metros as of Q2 2020

Metro Area	Rental in MHC	Multifamily Rents	Ratio of MHC Rent to Multifamily Rent
West Palm Beach, FL	$1,098	$1,695	66%
Chicago, IL	$959	$1,540	62%
Cleveland, OH	$695	$974	71%
Philadelphia, PA	$953	$1,397	68%
Minneapolis, MN	$1,075	$1,368	79%
Houston, TX	$969	$1,112	87%

Source: MHVillage for MHC rents based on listings August 14, 2020 in MHC. RealPage for multifamily effective market rents. Geographic boundaries for metro areas may vary somewhat between MHVillage and RealPage.

MHC Rents Typically More Affordable than Multifamily Rents

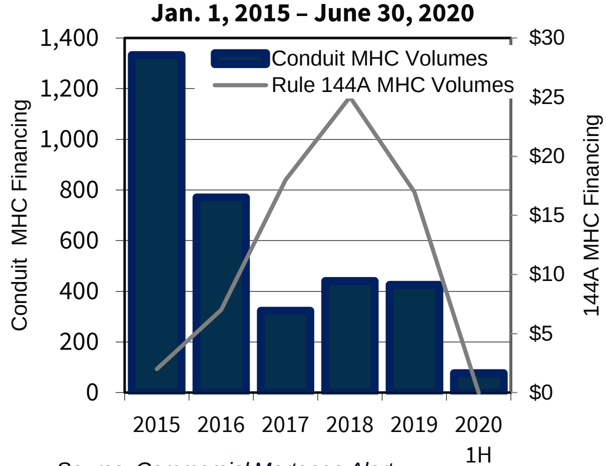
In addition to renting sites to homeowners on which to locate their homes, many owners of MHC also have a supply of rental homes available. Part of the reason investors remain interested in MHC is that they have often been an affordable source of rental housing at a time when the rents for apartments have been soaring. As a result, there is generally no shortage of demand for these rentals. Even with the decline in asking rents for apartments in many markets in Q2 2020, rentals in MHC appear to remain less expensive than apartments on average in a given metro area, as shown in the table above.

According to recent manufactured home rental listings from MHVillage, the average asking rent for a pre-owned manufactured home in the Cleveland metro area was just $695, less than 75% of the average asking rent for an apartment in Q2 2020. However, the savings are even higher in major metropolitan areas. For instance, the average asking rent for a rental home in a MHC in the Chicago metro is $959 in Q2 2020, just 62% of the metro's average estimated asking rent for an apartment. Nationwide, including rentals on individual plots of land, the average asking rent on all manufactured home rentals remains at about half of multifamily asking rent, making them a more affordable option for many renters.

CMBS Pulls Back

As shown in the adjacent chart, the Commercial Mortgage-Backed Security (CMBS) market appears to have pulled back on financing MHC. Conduit financing, which reflects CMBS registered with the SEC, totaled only $77 million through the first half of 2020 compared with $425 million for calendar year 2019. MHC financing volumes under Rule 144A can be quite volatile but still show a similar trend. Rule 144A MHC financing, which excludes all agency financing, declined to zero for the first half of 2020 from $17 million in calendar year 2019.

CMBS MHC Lending Volume ($millions)
Jan. 1, 2015 – June 30, 2020



Source: Commercial Mortgage Alert

Fannie Mae Finances MHC

To help maintain their affordability, Fannie Mae finances MHC. As of Q2 2020, Fannie Mae had financed nearly 1,300 loans on MHCs with a total unpaid principal balance (UPB) of just over $14 billion. The serious delinquency rate on these MHC loans as of Q2 2020 was 0%. While the average UPB was about $11 million, just over 50% of the loans had an original UPB of $6 million or less at origination, indicating that about half of all transactions involved smaller properties.

Select Credit Characteristics of Fannie Mae MHC Book of Business (as of June 30, 2020)

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]	Loans in Forbearance by UPB (%)	Serious Delinquency Rate[3]
$14.1	1,282	$11.0	66%	90%	20%	59%	51%	0.0%	0.0%

Source: Fannie Mae Q2 2020 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] 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.
[3] Multifamily loans are classified as seriously delinquent when payment is 60 days or more past due.

MHC Face Some Uncertainty in the Near Term

Even in the midst of the COVID-19 outbreak, fundamentals in the MHC market have not yet deteriorated. Age 55+ MHC are expected to weather the outbreak relatively well, due to both the ability of residents to be part of a community but remain socially distant and the fact that residents generally have steady sources of income.

However, the MHC market does face some headwinds. Unemployment remains elevated, and the federal expansion of unemployment benefits and eviction moratoriums has expired – at least for now. As a result, the lasting impact of the COVID-19 outbreak 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 hit hard by the current recession. As a result, we believe All Ages communities may yet see some deterioration of fundamentals in the second half of 2020.

However, one thing is unlikely to change: Given the lack of affordable housing in the country as a whole and the fact that few new MHC are likely to be built in the near term, we expect investor interest in the asset class to remain stable in 2020.

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