ManufacturedHousing

RESEARCH REPORT

Marcus & Millichap

Second Half 2013

Enticing Yields Draw Investors to Manufactured Housing

Demand for affordable housing options and financing for owners to purchase manufactured units are filling park vacancies and boosting operations throughout the country. As financing remains difficult to obtain for many potential homeowners, more manufacturers and local banks are providing lending for park owners to purchase multiple manufactured homes. These homes are then offered as lease-to-own to prospective residents. In addition to first-time home buyers, demand is also up as the baby boomer generation ages into retirement, an age when many seek a second home. The need for manufactured housing is especially high in metros that lack affordable housing or where sizeable job growth can overwhelm the existing housing supply. Areas near shale deposits, such as eastern Ohio, south Texas and western North Dakota are examples. Manufactured home parks in most areas of the Midwest will remain hindered by competition from affordable housing prices. However, demand, occupancy rates and cash flows in most areas of the nation are improving. As a result of the increased demand, shipments of manufactured homes are up compared with this time last year, a trend that is likely to continue as housing prices throughout the nation escalate.

Improving operations, steady cash flow potential, and generally higher yields than offered by other investment property types are attracting investors to manufactured housing assets. Sales activity has escalated throughout most areas of the nation as more first-time and exchange buyers seek a foothold in the market. Larger investors have increased holdings in many major coastal markets leaving fewer quality assets available. This will suppress transaction activity in states such as Florida and California, moving buyers inland. Sales volume has already strengthened in many Midwestern markets where cap rates for quality assets are typically 150 to 300 basis points higher. The Midwest was the only region to post a gain in the median price during the past 12 months, however the median price remains the lowest in the nation. Strengthening operations nationwide will likely heighten investor interest in the quarters ahead. Although financing by local banks has expanded for Class A and B assets, lending is still difficult for Class C properties, and many assets are sold with owner financing or cash. The recent rise in interest rates has generated a slight increase in loan assumption possibilities in park sales, as it has mitigated the significance of defeasance costs in other transactions, a trend that is likely to continue as rates inch upward.

2013 Manufactured Housing Outlook by Region

Rising home prices generate an increase in demand

East: Escalating home prices and a surge of baby boomers retiring will increase demand for manufactured housing. Age-restricted parks near popular retirement areas such as Charlotte, North Carolina will receive significant homeowner and buyer interest. In Pennsylvania, mineral rights underneath parks will attract investors.

Affordable home prices increase competition

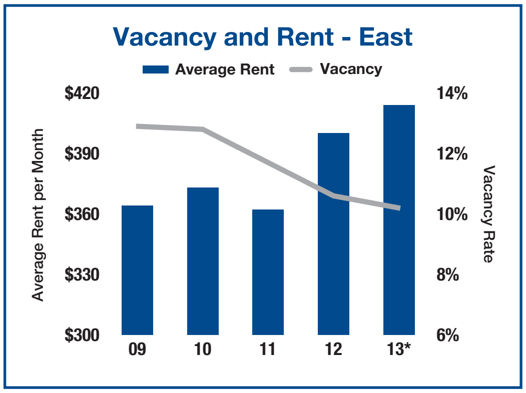
Midwest: Affordable home prices and the rising rate of homeownership in many areas of the Midwest will create stiff competition for manufactured housing. Improving operations and higher cap rates, however, will attract buyers seeking higher returns. Aggressive purchasing by REITs is generating competition for listings and pricing out many local and regional buyers.

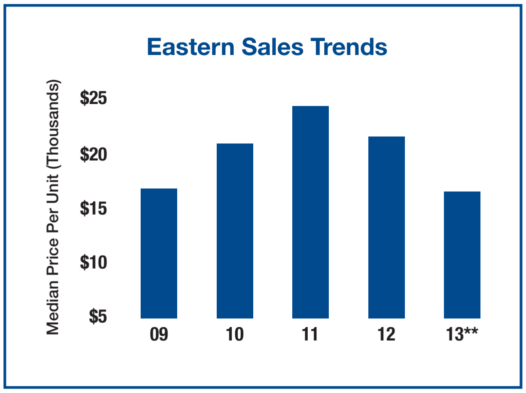
Population growth in the Sunbelt will increase demand

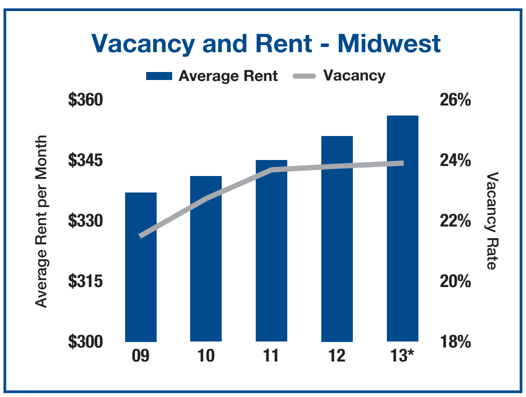
South: Robust job growth and demand for housing near oil and gas exploration will continue to drive demand for manufactured housing in Texas. In Florida, a growing retirement population will generate strong demand, especially in age-restricted communities, although a lack of listings may hinder investment opportunities.

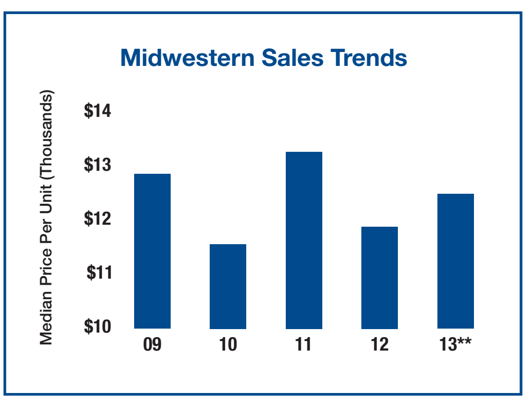
Employment growth creates a rise in demand

West: Rising home prices amid significant employment gains will hold vacancy levels in the West at the lowest in the nation. Strong cash flows will keep investors interested in these assets, but buyers looking for higher yields will need to move down the quality scale and into outer-lying areas.









*Forecast
**Trailing 12-month period
Sources: Marcus & Millichap Research Services, CoStar Group, Inc., JLT & Associates

East

Mid-Atlantic Trends

- **Vacancy:** Year over year, vacancy in the Mid-Atlantic rose 30 basis points to 13.7 percent. The Charlotte metro has the highest vacancy at 17.8 percent having ticked up 70 basis points over the past 12 months as operators raised rents 4.5 percent.

- **Rents:** Over the past four quarters, operators throughout the subregion implemented a 4.2 percent hike in rental rates to an average of $347 per month. Raleigh has the highest rents at $381 per month.

Northeast Trends

- **Vacancy:** During the last 12 months, vacancy dropped 60 basis points to 9.0 percent. Long Island posted a sizeable vacancy decline of 90 basis points to 2.5 percent, despite having the highest average rents in the nation at $608 per month.

- **Rents:** Improved occupancy enabled operators throughout the subregion to raise rents an average of 3.4 percent to $437 per month over the past annual period. Rochester has the most affordable average rent at $360 per month.

East Sales Trends

- **Cap Rates:** Initial yields for premium senior communities in the the Northeast trade in the mid-5 to high-6 percent area and are 50 to 100 basis points higher for all-age communities. Cap rates in the Mid-Atlantic metros, meanwhile, start in the 8 percent area.

- **Prices:** The median price of properties sold in the past 12 months declined 39 percent to $16,700 per unit as fewer properties in the higher-priced northeast traded. It was the only subregion nationwide to record an annual decrease in transactions.

Midwest

East North Central Trends

- **Vacancy:** Overall vacancy remained unchanged at 24.7 percent over the past 12 months as demand from job growth offset competition from affordable housing prices. Gary has the lowest vacancy at 15.3 percent in this subregion.

- **Rents:** Stable vacancy allowed operators to boost rental rates 1.4 percent year over year to an average of $356 per month. Rents average from a high of $428 per month in Ann Arbor to a low of $241 per month in Fort Wayne.

West North Central Trends

- **Vacancy:** Vacancy in the West North Central subregion rose 80 basis points to 18.4 percent in the past four quarters as affordable housing prices create competition for manufactured homes.

- **Rents:** Owners in the subregion increased rental rates 1.5 percent in the last 12 months to an average of $351 per month. Kansas City recorded sizeable rent gains of 3.6 percent during this time.

Midwest Sales Trends

- **Cap Rates:** Yields, which are higher than the coastal markets, are attracting buyers to assets in the Midwest. Cap rates are typically in the mid-7 to 8 percent range, although institutional-grade assets may dip below 7 percent.

- **Prices:** The median price of properties sold year over year in July rose 5 percent to $12,500 per unit, as transaction velocity jumped 33 percent. Prices were higher in the West North Central region at a median of $13,900 per unit.

South

Southeast Trends

- **Vacancy:** Increased demand for manufactured housing in the Southeast subregion pushed vacancy down 30 basis points in the past 12 months to 9.3 percent. Fort Lauderdale posted the biggest improvement, receding 210 basis points.

- **Rents:** Owners capitalized on rising demand, lifting rental rates an average of 2.4 percent during the last four quarters to $433 per month. The largest gain of 5.2 percent was posted in Ocala, Florida.

Southwest Trends

- **Vacancy:** Year over year, vacancy declined 50 basis points to an average of 15.8 percent, as job growth generated demand for manufactured housing. The largest annual drop of 180 basis points was posted in Fort Worth.

- **Rents:** The Southwest subregion recorded the second largest rent growth nationwide over the last 12 months at 4.1 percent, bringing the average rate to $364 per month. The most affordable rents were in Houston at $297 per month.

South Sales Trends

- **Cap Rates:** In Florida, cap rates for institutional-grade assets trade in the 6 percent range, while lesser-quality properties sell with initial yields in the 7 to 8 percent area. In the Southwest, cap rates have risen 50 basis points in the past six months beginning in the high-8 percent range for top-quality properties.

- **Prices:** Investors were bargain hunting in the South region as transaction velocity jumped 55 percent in the last 12 months, while the median price fell 23 percent to $15,100 per unit.

West

Mountain Trends

- **Vacancy:** Led by a 250-basis points drop in Denver, vacancy shrank 50 basis points to an average of 10.5 percent in the Mountain subregion over the last 12 months. Salt Lake City has the lowest vacancy at 4.2 percent.

- **Rents:** The drop in vacancy allowed operators in the subregion to advance asking rents an average of 2.6 percent to $465 per month during the past four quarters. Salt Lake City has the highest boost in rents of 4.6 percent to $455 per month.

Pacific Trends

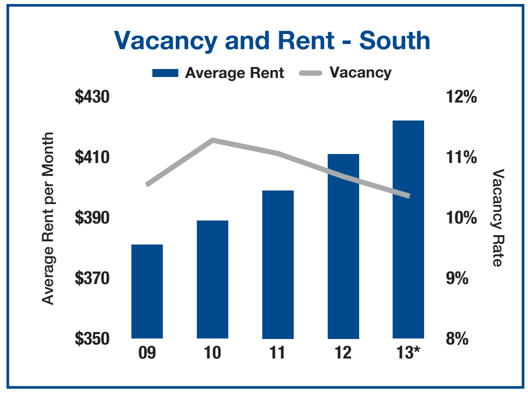
- **Vacancy:** During the past four quarters, vacancy in the Pacific declined 60 basis points to 5.2 percent, the lowest rate among all subregions. Rising home prices and significant job growth produced the tightest vacancy in Seattle at 2.5 percent.

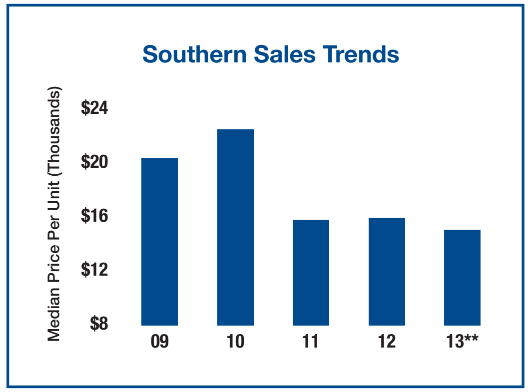
- **Rents:** Strong demand underpinned a 2.4 percent climb in rental rates in the past annual period to $491 per month. Rents in Seattle reached $547 per month after a 2.1 percent jump year over year.

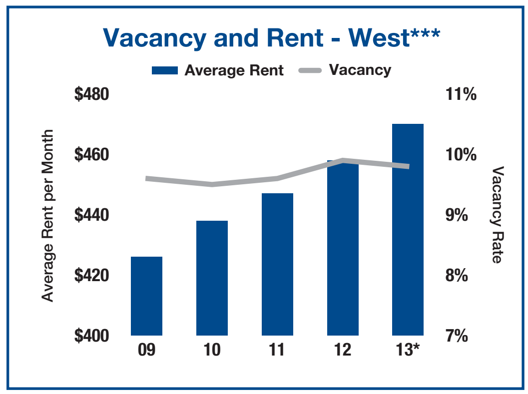
West Sales Trends

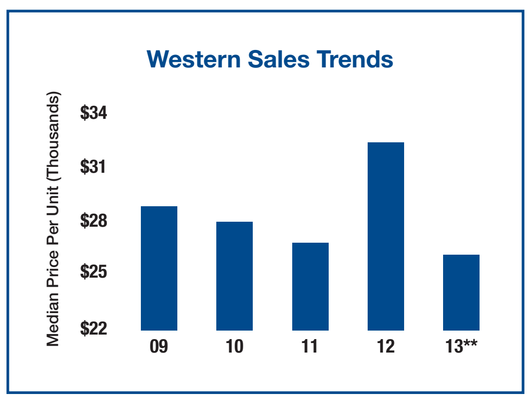
- **Cap Rates:** Average cap rates tightened into the mid-5 to 6-percent range for coastal properties in California, while Class B/C assets in the Mountain states fetch returns between 6 and 9 percent, depending on quality and location.

- **Prices:** In the past 12-month period, sales activity surged 21 percent as the median price dropped 16 percent to $26,200 per unit. Prices in the Pacific subregion led the nation at a median of $35,000 per unit.









*Forecast
**Trailing 12-month period
***Excludes California
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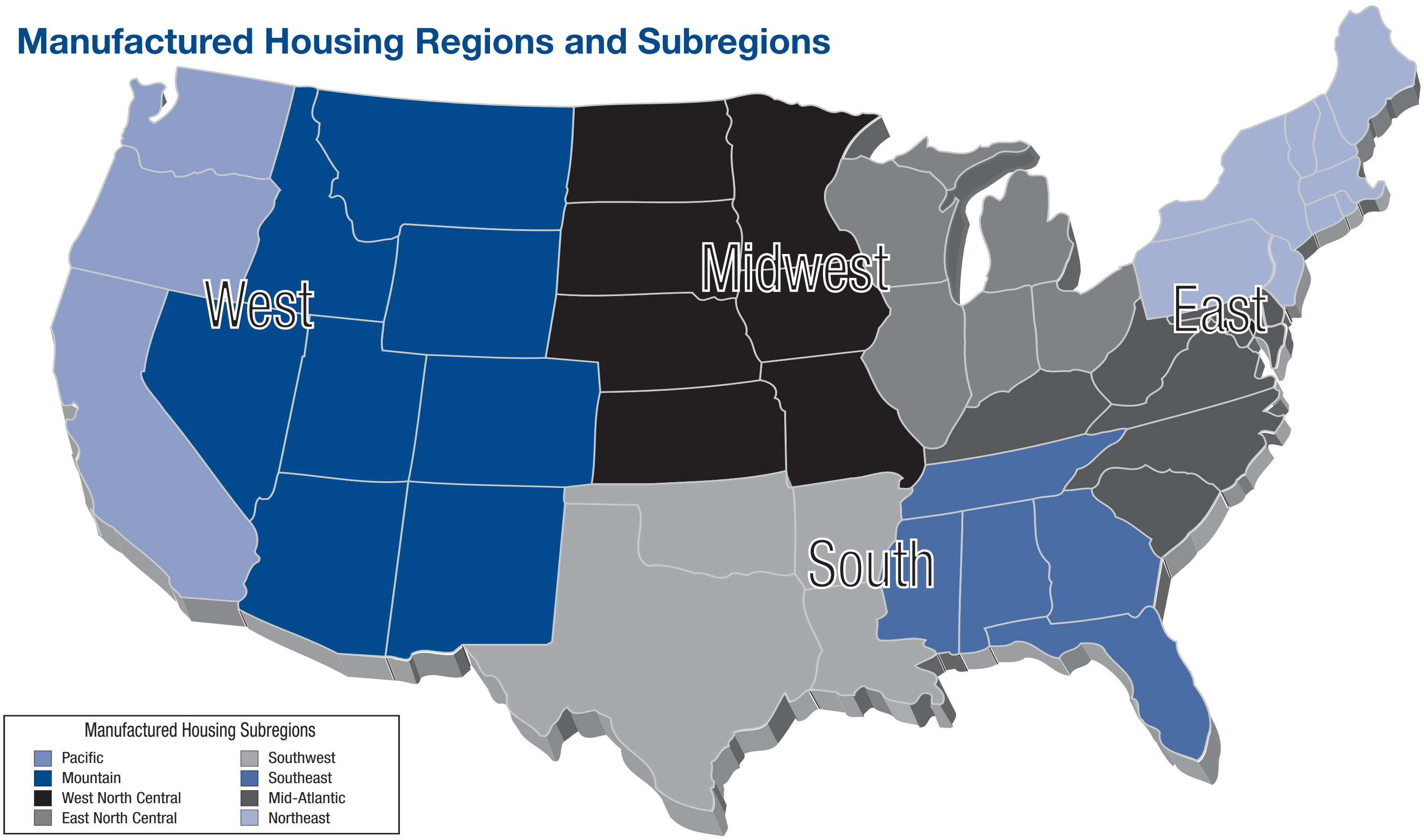
Manufactured Housing Regions and Subregions



Metro Vacancy Performance

Metro	Vacancy	Y-O-Y Basis Point Change	Average Rents	Y-O-Y % Change
Seattle	2.5%	10	$547	2.1%
Long Island	2.5%	-90	$608	3.2%
Salt Lake City	4.2%	-20	$455	4.6%
Sarasota	5.1%	-40	$476	2.8%
Fort Myers	6.3%	-10	$497	0.4%
Fort Lauderdale	6.6%	-210	$571	2.1%
Miami	6.8%	-40	$503	3.5%
Portland	7.0%	100	$512	3.0%
Tampa-St. Petersburg	7.7%	-20	$407	2.7%
Denver	9.2%	-250	$556	3.5%
Albuquerque	9.5%	-40	$399	2.8%
Tucson	9.7%	60	$364	1.7%
Phoenix	9.9%	-70	$457	2.7%
Raleigh	10.7%	30	$381	2.7%
Buffalo-Niagara Falls	10.9%	-40	$390	3.2%
Orlando	11.6%	40	$410	3.0%
Dallas	12.3%	-100	$382	6.4%
Houston	12.6%	-100	$297	2.8%
Minneapolis/St. Paul	13.6%	50	$355	0.6%
Ann Arbor	18.7%	50	$428	1.4%
Cleveland	19.0%	240	$314	0.3%
Atlanta	22.0%	-100	$395	1.3%
Indianapolis	25.0%	110	$319	1.9%

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