NATIONAL REPORT

Marcus & Millichap

MANUFACTURED HOME COMMUNITIES

1H22

Post-Pandemic Recovery Fueling Demand by Residents and Investors, As Rising Interest Rates Add New Considerations

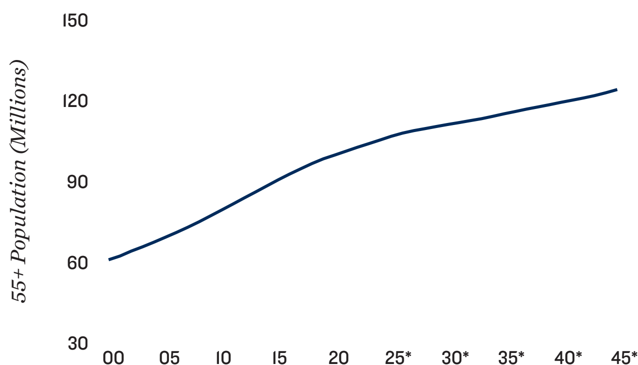
Income stability fosters residential demand. The labor market has made significant strides toward recovery since the spring of 2020, notably brightening the economic outlook in the first half of 2022. The employment base has climbed to within 2 percent of the pre-pandemic high, with the unemployment rate returning to historically low levels; however, the number of job openings is still high, translating into upward pressure on wages, including for hourly positions. Strengthening incomes are bolstering household formations and driving demand for lot rentals in manufactured home communities. Availabilities continue to fall as a limited number of new communities have been developed in recent years. This demand-supply dynamic is fostering ongoing upward movement on rents, although at a less rapid pace than observed in the apartment sector or for prices of stick-built homes.

Inflation warrants living cost considerations. While wages are advancing, expenses for consumers are also rising. Pandemic-induced logistics hurdles linger, driving up the costs of many goods. The war in Ukraine has also disrupted the energy markets, leading to some volatility to what travelers pay at the pump. As more millennials age and look toward the prospect of homeownership, the current inflationary environment underscores the economical advantages of manufactured housing. The same is true for age-restricted locations and members of older generations reliant on fixed incomes. The utility these communities can provide has drawn the attention of some legislators to the topic of rent stabilization. Legislation is under proposal in Colorado to limit annual rent increases to the greater of 3 percent or inflation. Similar policies could be explored elsewhere. Such procedures, however, are unlikely to alleviate the sector's ongoing supply shortage — a major contributor to rent increases.

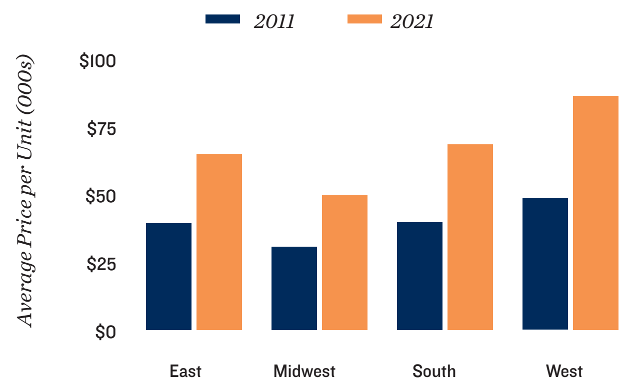
Fed actions add complexity to investment landscape. Persistent inflation prompted the Federal Reserve to raise the Federal Funds rate 25 basis points in March. Six additional rate hikes are planned this year, moving the overnight lending rate to a minimum of 1.75 percent. While this will likely increase borrowing costs for investors, buyer demand for manufactured home communities remains high. The sector has also demonstrated resiliency in past periods of tightening monetary policy. From December 2015 to December 2018, the Fed raised the overnight lending rate 225 basis points over 10 discrete changes. In that time, sales velocity and sales prices for manufactured home communities continued to climb. Most notably, cap rates compressed, even though interest rates were rising, revealing that buyer demand superseded higher costs of capital.

Outlook for second half of 2022 positive. While lending costs are on an upward trajectory, robust operational performance is likely to propel buyer activity over the second half of 2022. Although cap rates are lower now than they were when the Fed last began hiking interest rates in 2015, sufficient margin remains to drive deals forward, especially as listings are limited. The development of brand-new communities continues to lag housing demand, leading to less influx of fresh supply for investors. Instead, many existing properties are looking to expand by acquiring and developing adjacent land. Larger investors with the capital available to source plots from various private landowners are pursuing this strategy. Recent jumps in consumer prices, together with long-term demographic trends, warrant the supply increases and draws capital into the sector. Nevertheless, some long-time investors may be interested in repositioning their portfolios after notable price appreciation, creating opportunities for more recent entrants into the space.

55+ Population Growth



Price Appreciation by Region



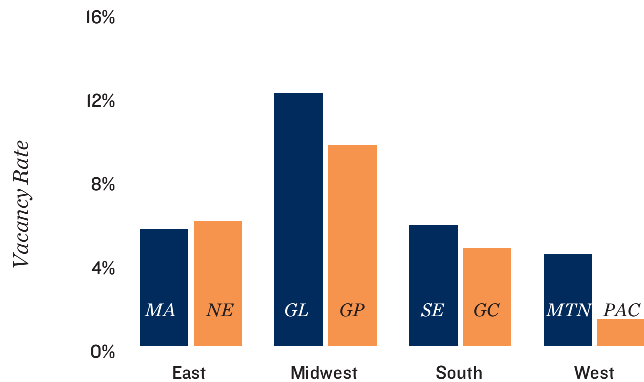
* Forecast

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; U.S. Census Bureau

Vacancy

Shortage of available housing of all kinds extends vacancy declines. Ongoing demographic trends, paired with shifting preferences for more residential space following the pandemic, have only underscored the ongoing shortage of affordable homes across the country. While unemployment has tightened considerably since the spring of 2020, living expenses continue to climb, bolstering demand among many workers for the lower-cost housing options available in many manufactured home communities. Given the substantial appreciation in single-family home prices over the past two years, more people are considering purchasing into these settings as a more economical ownership option. Supply is failing to keep pace with these rising needs, limiting availability, especially in areas where the price of a site-built home well exceeds the local median income.

2021 Vacancy Rate



Regions:

East: *Mid-Atlantic, Northeast* **Midwest:** *Grate Lakes, Great Plains* **South:** *Southeast, Southwest* **West:** *Mountain, Pacific*

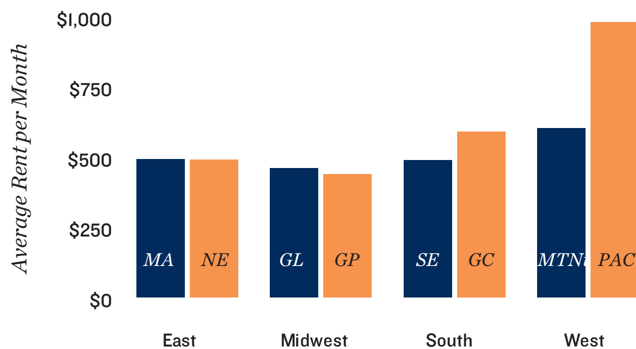
Highlights

- In 2021, vacancy contractions were steepest in metros of the Great Lakes subregion. Multiple markets reported 200-basis-point-plus availability drops, including Grand Rapids and Jackson, Michigan. Some Great Plains metros, such as Kansas City, also posted rapid decreases. Even in the Midwest, where in-place homes tend to be more affordable, rising ownership costs are tightening vacancy.
- By subregion, vacancy is still lowest along the Pacific Coast at 1.3 percent. Sub-1 percent rates in many California markets, including Orange and San Diego counties, as well as in Seattle and Bend further north, contribute to the low availability.
- The least vacant, non-West Coast market last year was Miami-Dade, as the metro's tropical climate and favorable tax structure continues to draw new residents to the area. Denver and Salt Lake City, two other favored relocation destinations, had the lowest vacancy rates of any inland metros last year.

Rent

Relative affordability maintained, even as rents continue to climb. Greater housing needs are fostering upward price and rent momentum for all types of dwellings, including manufactured home communities. About 95 percent of surveyed markets reported higher monthly rates in 2021. Most markets reported rent growth below 10 percent, maintaining the sector's affordable relationship with other forms of housing. The average multifamily rent rose 15.5 percent last year, while the median single-family home price climbed by 15.2 percent. Across regions last year, rents at manufactured home communities ranged from an average of $457 in the Midwest to a mean of $840 in the West, well below the average monthly payment for an apartment or mortgage. As inflation continues to push expenses higher, more households may consider manufactured homes.

2021 Average Rent



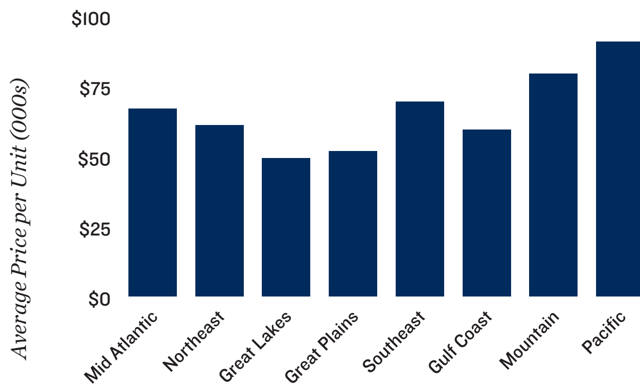
Regions:

East: *Mid-Atlantic, Northeast* **Midwest:** *Grate Lakes, Great Plains* **South:** *Southeast, Southwest* **West:** *Mountain, Pacific*

Highlights

- The Great Plains subregion continues to offer the most affordable rates in the country, at an average rent of $439 per month last year. The Great Lakes and Gulf Coast areas are close, with mean monthly rates of $460 and $488, respectively. Communities on the scenic Pacific Coast continue to have the highest rent premium, with an average rate of $981 per month in 2021.
- Manufactured home communities in several tertiary metros reported double-digit rent growth last year, likely capitalizing on regionally low rates and ongoing relocation trends. Rents advanced 14 percent year-over-year in Tulsa, Greenville and Port Huron, followed by Salem at 12 percent. Charlotte led the nation at 15 percent growth.
- Deviating from the national trend, rents mildly retreated in Santa Cruz last year, after jumping 7 percent in 2020. Nearing $2,000 per month, some renters may be looking to lower-cost parts of the state.

Robust property fundamentals elevate investor interest. Interest in manufactured home communities continues to grow among investors, as transaction velocity climbed throughout last year. Greater buyer demand has translated into rising sale prices and falling cap rates. Closing out last year, properties were changing hands with an average cap rate in the mid-5 percent to mid-6 percent zone. Higher quality communities in popular locations can trade for initial yields in the mid-3 percent band or lower. Such transactions are generally the target of institutions who have additional resources to accept the lower upfront return, especially if future rent growth projections are favorable. Sellers are often looking to prospective buyers with experience in the sector, or new capital that has partnered with established operators.

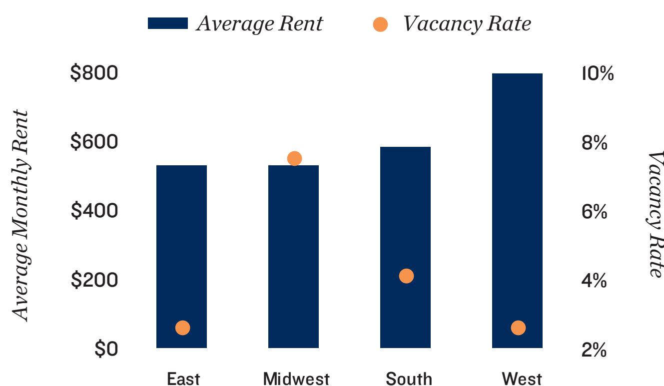


Highlights

- Sales surged in the Southeast subregion last year, with approximately 70 percent more trades reported in 2021 than in 2020. The activity has translated into a notable uptick in sale prices, with an average of $69,500 per unit for trades finalized last year.
- Transaction velocity also improved by over 50 percent year-over-year in 2021 across the Great Lakes, Gulf Coast and Mid-Atlantic subregions. Improving community fundamentals are likely drawing investors to these often lower-entry cost areas.
- Reflecting ongoing migration trends, sales activity slowed in the Northeast last year relative to 2020, although the number of trades still exceeded the 2019 count.
- Trading activity continued to improve on the Pacific Coast, as nationally low availability justified the highest regional entry costs. Buyers were also taking note of adjacent Mountain metros.

Age-Restricted Communities

Well-established retirement demographics manifesting in tighter vacancy, higher rents. Since the onset of the pandemic, the number of people in the United States over the age of 55 has increased by nearly 3 million — a 3 percent expansion to the cohort. More people will continue to reach this milestone in the years ahead, and as the costs for goods, services and housing continues to rise, more of these individuals will consider manufactured homes in age-restricted communities. Demand is already high for this segment of the sector. Vacancy in communities with an age 55 minimum was 3.5 percent nationally in 2021, less than half the measure for non-restricted communities. Rents are similarly higher, at an average of $658 per month relative to $586 per month. In recognition of the demographic factors at play, development interest is highest in the age-restricted segment.

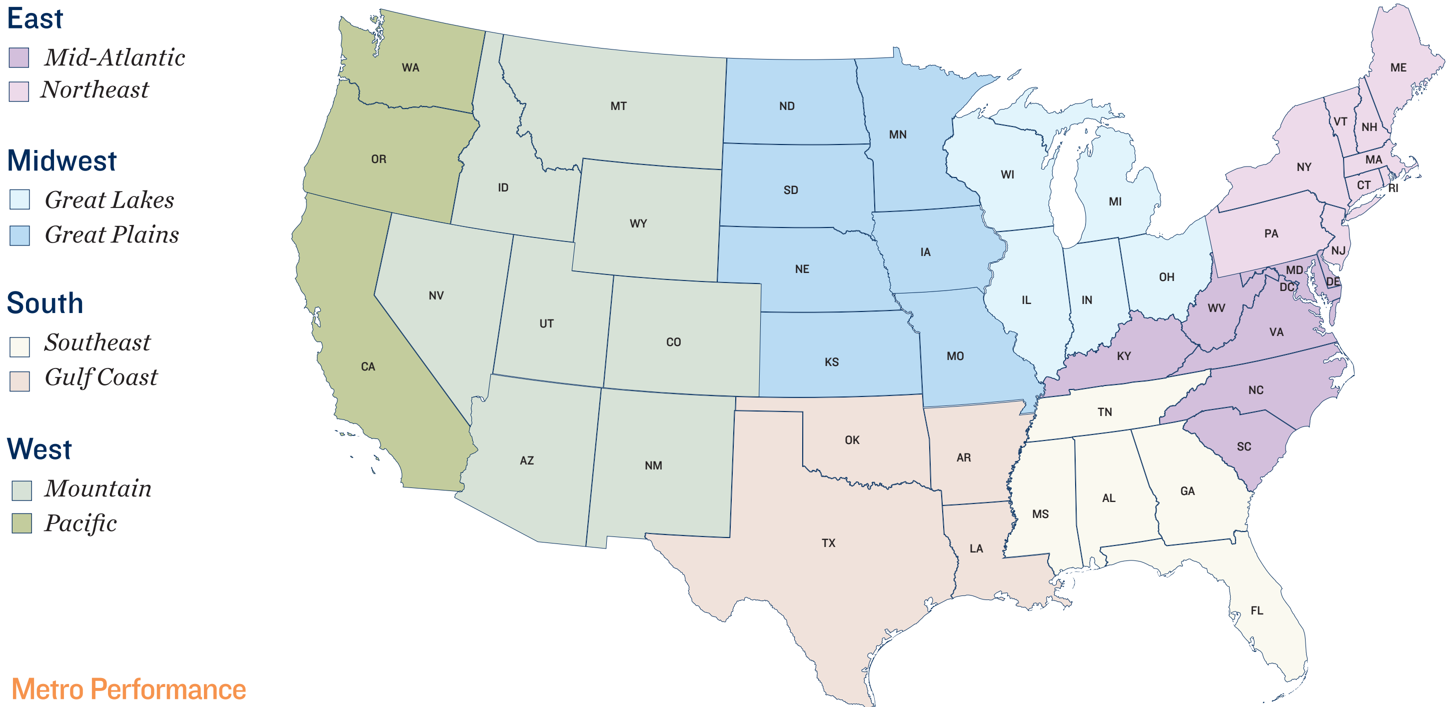


Highlights

- Relative to non-restricted communities, vacancy is notably tighter among the 55-plus segment in the Northeast and Great Lakes subregions. In both areas, availability was about 500 basis points lower in these communities than the non-restricted segment.
- As with the sector overall, vacancy at age-restricted communities is lowest among regions in the Pacific area, with a rate of 1.4 percent last year. Rents are correspondingly higher, with an average of $883 per month. The measure is nevertheless below the subregion's mean for non-restricted communities, which surpasses $1,000 per month.
- Older renters prioritizing costs look to the Gulf Coast, with an average monthly payment of $387. A relatively higher vacancy rate of 7.6 percent contributes to the more modest rent growth, although the warm climate is appealing to those looking to relocate.

Sources: Marcus & Millichap Research Services; CoStar Group, Inc.; Datacomp-JLT

Manufactured Housing Communities: Regions and Subregions



Metro Performance

Metro	2021 Vacancy	Y-O-Y Basis Point Change	2021 Average Rent	Y-O-Y Change
San Jose	0.2%	-10	$1,510	4.2%
Denver	0.6%	-30	$810	4.8%
Seattle	0.8%	-20	$790	5.6%
Baltimore	1.2%	-20	$743	2.0%
Los Angeles	1.2%	-10	$1,132	5.3%
Fort Lauderdale	2.2%	0	$779	8.8%
Boise	2.7%	-40	$484	4.5%
Charleston	2.9%	80	$396	3.7%
Nashville	2.9%	110	$467	13.6%
Austin	3.3%	-120	$626	4.0%
Minneapolis/St. Paul	3.7%	-120	$486	4.4%
Chicago	4.2%	-10	$704	3.7%
Virginia Beach	4.4%	-70	$455	5.4%
Orlando	4.6%	-60	$557	3.5%
St. Louis	7.7%	-100	$390	4.2%
Des Moines	9.1%	350	$471	9.3%
Columbus	9.3%	-140	$378	2.4%
Las Vegas	11.0%	-130	$638	8.0%
Atlanta	11.4%	-240	$527	1.3%
Tulsa	19.1%	-70	$393	9.4%

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Sources: Marcus & Millichap Research Services; Datacomp-JLT; CoStar Group, Inc.; Institute for Building Technology and Safety; Manufactured Housing Institute; U.S. Census Bureau.

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