NATIONAL REPORT

MANUFACTURED HOUSING COMMUNITIES

IPA INSTITUTIONAL PROPERTY ADVISORS

1H/19

Demand for Manufactured Housing Communities Remains Robust; Additional Buyers Generate Competition and Push Prices Higher

The rising cost of housing across the nation has bolstered the demand for lower-cost options. Last year this demand contributed to the vacancy rate in manufactured housing communities either holding steady or dropping in all regions. Vacancy in the Midwest posted the largest drop, though the vacancy level remains in the double digits. Within the region, the rate varies widely by metro, with Flint, Michigan, having the highest vacancy nationally at 37.3 percent. Vacancy in the West region, at 5.5 percent, is especially tight. This is particularly so in Denver, Seattle and Medford, Oregon, where rising single-family prices generate demand for less expensive housing and the manufactured housing community's vacancy rate rests below 2.0 percent.

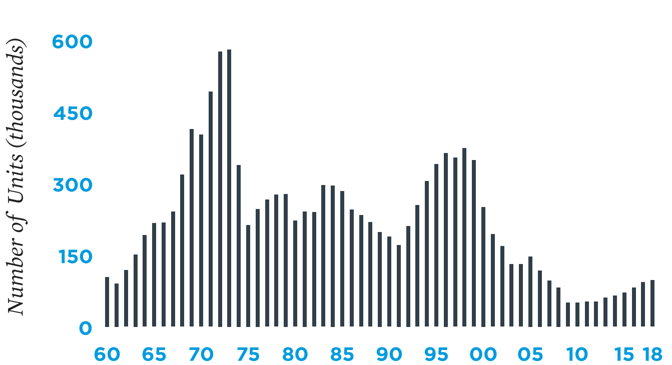
The lack of availability in most areas of the U.S. is driving rent growth. Nearly all metros posted higher rents during 2018 with the most significant regional gain of 4.1 percent in the West, led by Salt Lake City's 6.8 percent surge to $578 per month. Nationwide, excluding California, Fort Myers, Florida, recorded the largest jump at 8.5 percent to $628 per month, while the highest average rent is found in Denver at $699 per month.

The shipment of manufactured homes has risen steadily since 2009, reaching 96,600 units in 2018. This number remains well below the most recent peak in 2005 when 146,800 homes were delivered. The availability of financing, more owners filling empty park lots and a greater need for more affordable housing options contribute to the recent increase. During 2018, Texas received the largest portion at 18,600 homes, which was more than twice as many as second-place Florida.

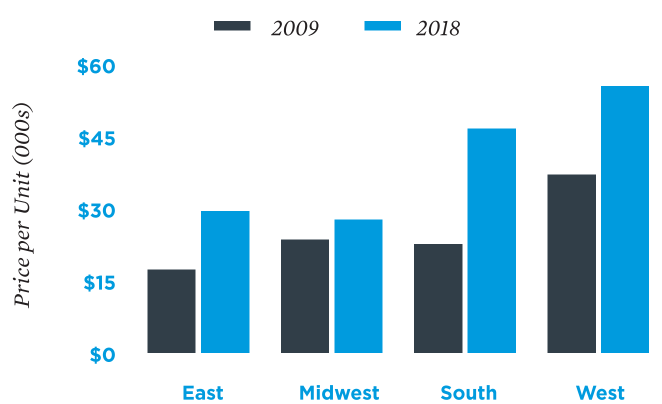
Investment Highlights

- Investor demand remains well above available listings in most areas of the nation as more buyers are entering the market from other property types in search of higher returns. As a result, many communities are receiving multiple offers, requiring investors to make aggressive bids to be successful.
- There is a heavy push from institutional buyers for investment opportunities. Quality communities near major metros are typically preferred and can trade at cap rates below 4 percent for best-of-class assets in coastal markets. First-year returns generally move 100 basis points higher in the Midwest. Fewer large prime assets are available, however, pushing prices for those listed even higher.
- With fewer sizable assets marketed for sale, more investors are willing to expand their search criteria for smaller communities with city services within commuting distance to major employment hubs.
- More opportunistic buyers are open to consider parks with significant upside potential. Communities where cosmetic upgrades or management changes could achieve lower vacancies and help push up rents to market rate are especially desired.

Shipments of New Manufactured Homes

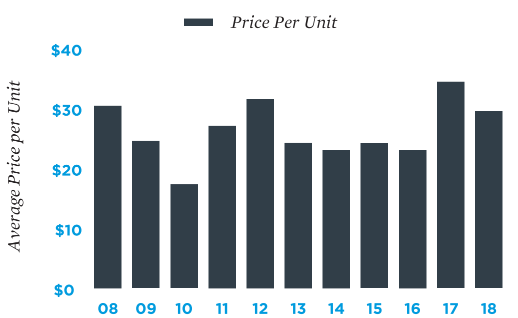


Price Appreciation by Region

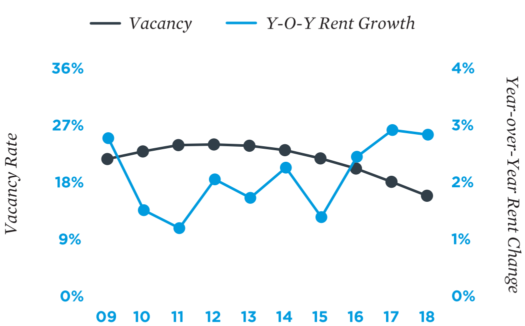


East Rent and Vacancy Trends

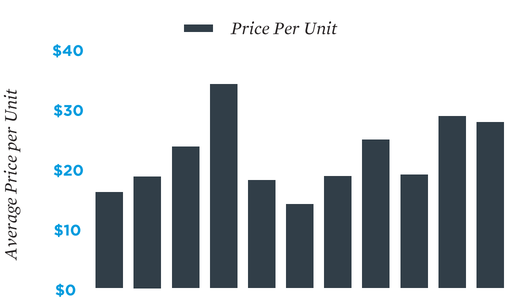
East Sales Trends



Midwest Rent and Vacancy Trends



Midwest Sales Trends



East Region

Mid-Atlantic Trends

Vacancy: Strong demand for affordable housing contributed to a 60-basis-point reduction in vacancy to an average of 6.0 percent during 2018. The rate in Baltimore tightened to a region low of 2.1 percent.

Rents: The average rent rose 3.7 percent in 2018 to $395 per month. Rents have climbed 14 percent over the last five years.

Northeast Trends

Vacancy: The vacancy rate remained flat at 7.0 percent in 2018, maintaining the lowest level of the cycle and 380 basis points below the 2010 peak.

Rents: The average monthly rent increased 3.9 percent to $483 per month in 2018. Rents in Long Island grew 3.2 percent, bringing the average rent to $682 per month, which is among the highest in major U.S. metros.

East Sales Trends

Cap Rates: During 2018, the trading of older properties helped push first-year returns between 9 and 10 percent on average, although quality urban or coastal assets can dip below 6 percent.

Prices: After reaching a five-year peak in 2017, prices retreated nearly 15 percent in 2018 to an average of $29,500 per unit as fewer quality communities exchanged hands.

Midwest Region

East North Central Trends

Vacancy: Among subregions, the East North Central posted the sharpest vacancy decline of 250 basis points last year. Despite the decrease, the rate remains the highest among subregions at 16.1 percent.

Rents: Rent growth of 3.1 percent pushed rates to a monthly average of $400, one of the lowest monthly rents among subregions. Rents in Fort Wayne are well below the average at $276 per month.

West North Central Trends

Vacancy: The subregion's vacancy rate compressed 80 basis points to 12.6 percent, down 500 basis points from the cyclical high in 2012. Although dropping, vacancy in Kansas City remains high, approaching 25 percent.

Rents: While vacancy rates contracted, rents advanced 2.4 percent, posting a new high with an average rental price of $420 per month. Over the past five years, rents have increased by more than 12 percent.

Midwest Sales Trends

Cap Rates: First-year returns vary widely across the Midwest but are generally in the 6 to 9 percent span in urban areas. Class C communities in small cities can trade at double-digit cap rates.

Prices: The average price fell 3.6 percent year over year to $27,669 per unit in 2018 as more Class C assets traded.

South Region

Southeast Trends

Vacancy: Vacancy declined 60 basis points to 6.5 percent during 2018, as demand for rental space in manufactured home communities continued to grow. Vacancy in Sarasota County fell to 1.8 percent, down 30 basis points year over year.

Rents: Rent posted another year of positive gains, increasing 3.4 percent to an average of $517 per month in 2018, and the rate is up 18.3 percent over the last five years. Several Florida metros have average per month rental rates topping $600.

Southwest Trends

Vacancy: Southwest vacancy rates are the second lowest among all subregions. The rate dropped 40 basis points in 2018 tightening vacancy to 4.3 percent.

Rents: Low vacancy contributed to the average rent jumping 5.5 percent to $459 per month in 2018, the biggest annual improvement among all subregions. Rents have soared 25 percent since 2013.

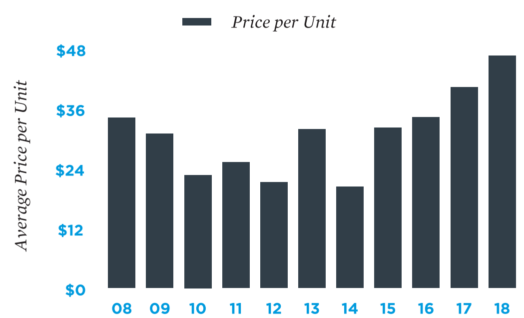
South Sales Trends

Cap Rates: First-year returns for Class B and seniors communities are down in 2018. Cap rates for Class C properties are ranging between high-7 to high-8 percent, roughly 100 basis points higher than other classes.

Prices: Trading activity increased from 2017, though it was still down significantly from prior years in the Southwest. Competitive bidding for a limited supply pushed the price per unit up almost 16 percent in 2018.

South Rent and Vacancy Trends

South Sales Trends



West Region

Mountain Trends

Vacancy: The vacancy rate remained at 6.4 percent during 2018 with a wide variation among metros. Denver posted vacancy under 1 percent, while the rate was above 15 percent in Las Vegas.

Rents: The average monthly rent shifted 4.1 percent higher to $559. Since 2013, average monthly rents have increased by approximately 18 percent.

Pacific Trends^

Vacancy: Rising home prices and a growing need for affordable housing created a tight market for manufactured housing in the Pacific, resulting in the lowest vacancy among subregions at 2.7 percent in 2018.

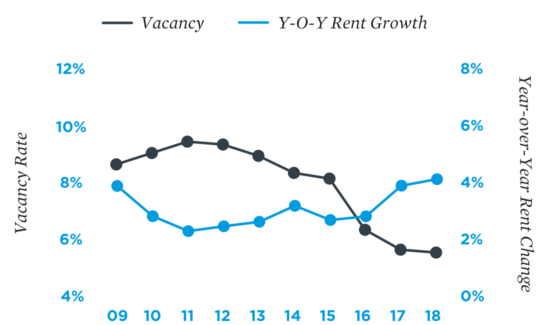
Rents: Monthly rents expanded 4.4 percent, raising the average to $573 in 2018. The Pacific subregion has the highest average rent per month.

West Sales Trends

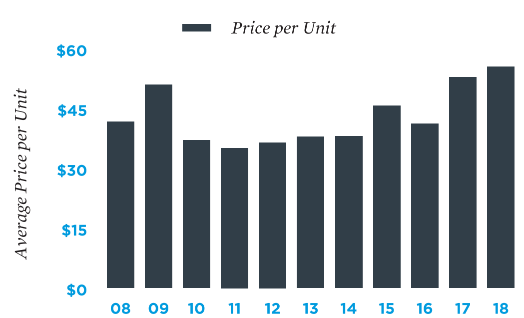
Cap Rates: Buyer demand for communities remains intense, though a lack of marketed properties reduced trading activity last year. Cap rates for quality assets typically begin in the 4 percent range.

Prices: The average price climbed 5 percent to $55,500 per unit in the West. Assets in the most desirable coastal communities in California can reach $200,000 per unit.

West Rent and Vacancy Trends^



West Sales Trends



^ Excludes California

Sources: Marcus & Millichap MNET; CoStar Group, Inc.; CreditNtell; company sources

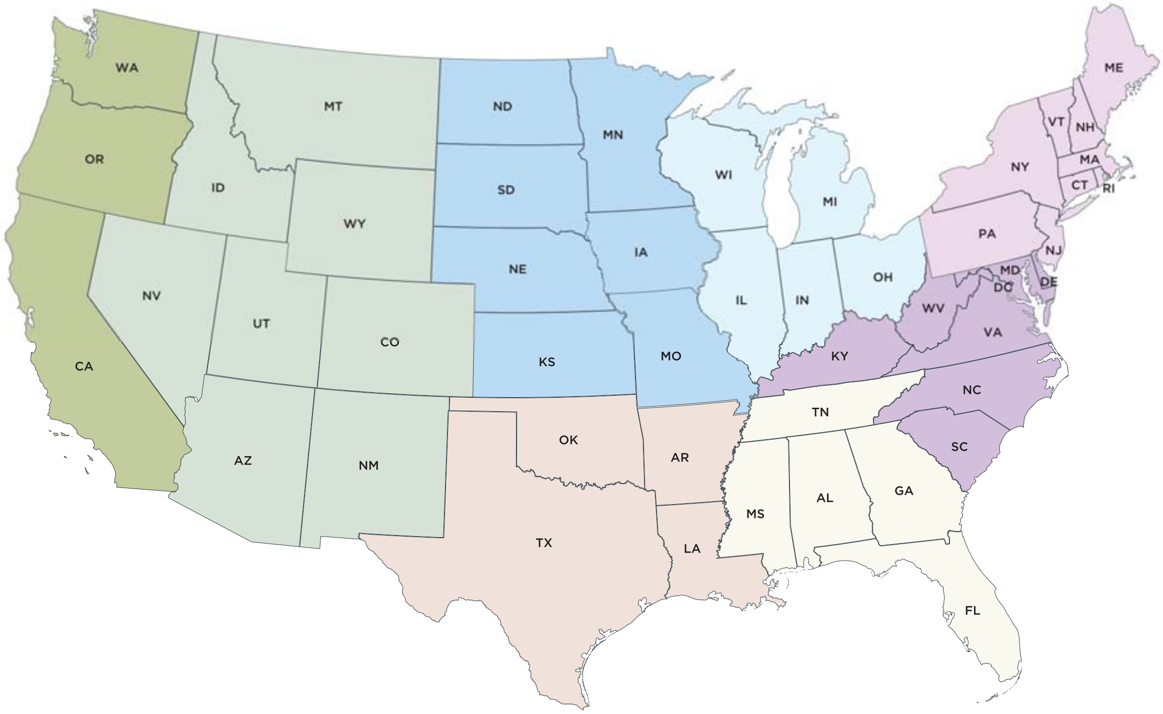
Manufactured Housing Communities Regions and Subregions

East
- Mid-Atlantic
- Northeast

Midwest
- East North Central
- West North Central

South
- Southeast
- Southwest

West
- Mountain
- Pacific



Metro Performance

Metro	Vacancy	Y-O-Y Basis Point Change	Average Rent	Y-O-Y Change
Denver	0.8%	-40	$699	5.9%
Salt Lake City	1.6%	-20	$578	6.8%
Long Island	1.7%	20	$682	3.2%
Seattle	1.7%	-30	$664	4.2%
Dallas	3.2%	-150	$447	4.7%
Portland	3.3%	-30	$612	6.1%
Lakeland-Winter Haven	5.1%	-50	$467	3.5%
Tampa-St. Petersburg	5.1%	-120	$488	4.1%
Albuquerque	5.4%	50	$443	1.1%
Raleigh	6.2%	-10	$421	3.7%
Phoenix	6.3%	0	$538	3.5%
Minneapolis-St. Paul	7.2%	-120	$431	2.4%
Orlando	8.1%	-60	$480	1.9%
Cleveland	8.1%	-110	$360	3.7%
Buffalo-Niagara Falls	8.3%	20	$453	4.1%
San Antonio	9.9%	230	$429	7.5%
Cincinnati	13.3%	-190	$364	5.2%
Detroit	15.2%	-340	$447	3.0%
Las Vegas	15.4%	-10	$586	2.4%
Atlanta	16.5%	-180	$463	3.1%
Indianapolis	16.7%	-160	$358	3.5%

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Price: $250

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