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Investors turn to manufactured housing REITs for stability

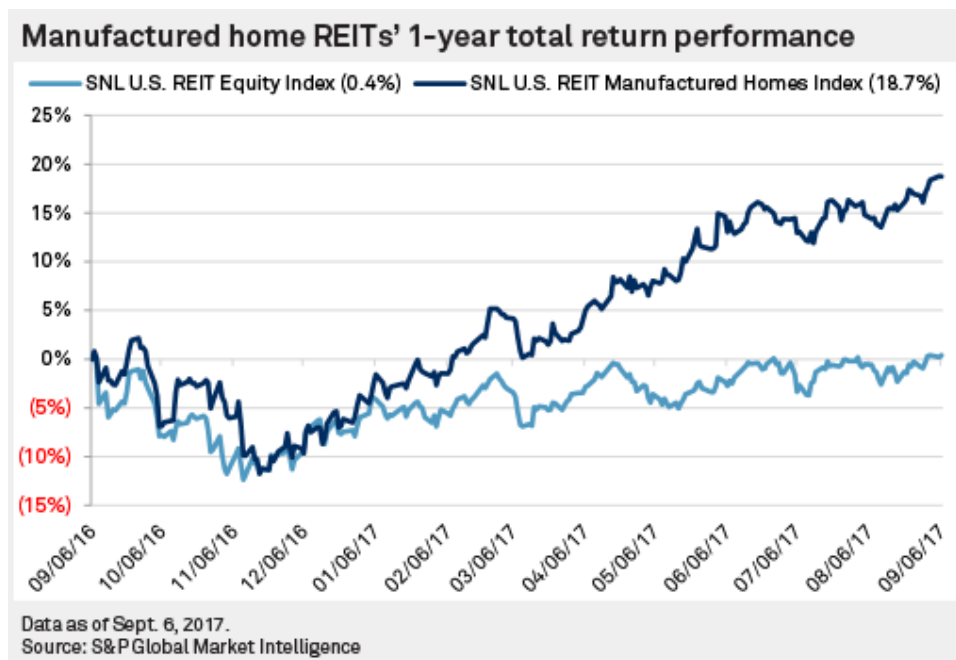
By [Karn Dhingra](#) and [Muslim Hasan Naqvi](#)

An affordable housing crunch, limited supply growth and recovery in the job market for low-income Americans have driven returns for investors in an often-overlooked corner of the U.S. real estate market: manufactured-home real estate investment trusts.

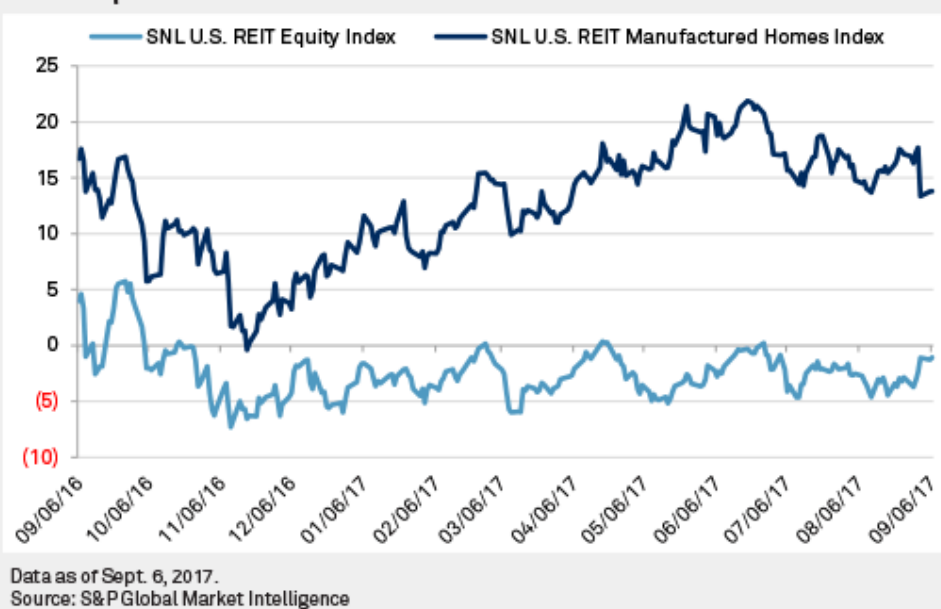
In the year ended Sept. 6, the SNL U.S. Manufactured Homes index had delivered a total return of 18.7%, compared to the SNL U.S. REIT Equity index's 0.4% total return.

Manufactured housing's business lines include recreational-vehicle, vacation and retirement communities.

Consumer demand shifting from brick-and-mortar to online retailers, soft business travel affecting hotel occupancy and an increased supply of multifamily and self-storage product, have led many REIT investors to leave the more traditional sector and find safe haven in manufactured homes, RBC Capital Markets analyst Neil Malkin told S&P Global Market Intelligence.



Manufactured home REITs' 1-year premium (discount) to NAV performance



The typically low-income tenants of manufactured-home parks have few other housing options, Malkin said. The U.S. median home sale price was \$317,200 in the second-quarter, according to U.S. Census Bureau data, out of reach of manufactured-home tenants with incomes between \$25,000 to \$45,000, he said.

"You know there's not a risk of them buying a home because they'll probably never be able to qualify," Malkin said. "They're just not going anywhere."

With aggregate-level data from the U.S. Bureau of Labor Statistics and Federal Reserve showing that employment and consumer confidence numbers for low-income, non-college educated Americans starting to move in tandem with college-educated, higher-income earners, Malkin said he was confident that tenants who owned their own manufactured homes could weather annual rent increases of 3% on an average lot rent of \$500-per-month.

A wave of retiring baby boomers who are looking to travel or move to warmer climates have strengthened the bottom lines of manufactured-home REITs that own vacation and recreational-vehicle parks, Malkin added.

"It's very weird that you have an investment like this that is highly profitable but yet gets no new supply because of the stigma associated with trailer parks," said Brad Johnson, a partner at Park Street Partners, a firm that invests in mobile home parks.

The asset class caught Johnson's attention when he worked for Wells Fargo's real estate investment bank, Eastdil Secured.

Eastdil's commercial mortgage-backed securities division added mobile home parks to their portfolios of skyscrapers and hotels because they lowered the overall default rate of the securities, thanks to their consistent rental income, Johnson told S&P Global Market Intelligence.

Park Street invests in mobile home parks that cater to families looking for affordable housing, Johnson said, adding that the parks are an attractive investment because of the minimal capital needed to maintain them compared to the ongoing CapEx requirements of an office building or apartment complex, he added.

Johnson expects manufactured-home parks will continue to see more interest from Wall Street and further consolidation.

The sector is fragmented, with most parks operating as family-owned businesses, Johnson said, estimating that the three publicly traded manufactured-housing REITs — Sun Communities Inc., UMH Properties Inc. and Equity LifeStyle Properties Inc. — currently own less than 4% of the 50,000 mobile parks in the U.S.

Manufactured housing REITs performance

Company name	YOY FFO Growth (%)			
	Q2'17	Q1'17	Q4'16	Q3'16
Equity LifeStyle Properties Inc. (ELS)	8.0	8.7	6.8	7.8
Sun Communities Inc. (SUI)	70.4	24.4	4.2	11.6
UMH Properties Inc. (UMH)	11.1	0.0	72.7	26.7

Data as of Sept. 6, 2017.
Source: S&P Global Market Intelligence

"It reminds me of the public storage industry 30 years ago, before Public Storage started eating up everybody," Johnson said. "It's kind of a similar play; Public Storage started buying up all these mom and pops across the country and took this kind of weird ancillary asset class, created some scale and made it legitimate in the view of investors."

To be competitive in a local rental market, Johnson purchases parks near communities where the median price of a home is well over a \$100,000 and median household income wages are between \$45,000 and \$50,000.

"There's going to be almost insatiable demand for our product because we have

an affordable housing crisis," Johnson said. "It's just awful."

An executive with one of the three publicly traded manufactured housing REITs is optimistic about his company's future.

The executive predicted an occupancy rate of 97% for the company in the coming years because manufactured homes are fast becoming a viable source of affordable housing in the U.S.

The sector has experienced flat levels of growth in the past but has not experienced heavy losses, unlike multifamily housing, he said.

"We're not recession-proof — no one really is — but we're recession-resistant," he said.

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