Manufactured Housing

REPORTING BY LEVERAGE.COM

Summary of Manufactured Housing

WHAT IS MANUFACTURED HOUSING?

Manufactured housing describes prefabricated homes that are built in a factory and assembled on site. Modern manufactured homes come complete with all the amenities, including a choice of floor plans, full kitchens, full bathrooms with recessed bathtubs, spacious bedrooms with walk-in closets and sizable living rooms.

Manufactured housing communities can be purchased, and each home can be rented. Alternatively, property owners can lease land to tenants who choose to purchase and assemble a manufactured home on the property.

Because home values, rents and costs of labor and materials have increased in recent years, manufactured housing is an appealing and affordable option. Today, the growing demand for an alternative to the costly site-built homes and the necessity of shelter is triggering the growth of the manufactured housing market.

WHAT'S THE DIFFERENCE BETWEEN MANUFACTURED HOUSING, MOBILE HOMES AND MODULAR HOUSING?

Technically, a prefabricated residence built after June 15, 1976 is a manufactured home. A prefabricated home built before that date is a mobile home.

In 1974, Congress adopted HUD Code standards for manufactured homes, making them safer and more livable. The regulations affect the design, construction, frame size, thermal protection, fire safety, energy efficiency, plumbing and electrical. The standards went into effect in 1976, inadvertently rebranding the asset class from mobile homes, or trailers, to manufactured residences, often complete with foundations. Today, mobile homes tend to be mobile, while manufactured homes are generally designed to be moved once — to their final location.

Modular homes are similar to manufactured homes, with one main difference. Modular homes are built to all state and local building codes, much like traditional single-family homes. Modular homes have foundations and often full basements, whereas manufactured homes are built on steel chassis. It can be more challenging to find financing for a manufactured home than a modular home.

HOW DOES INCOME WORK?

There are two ways to make rental income from manufactured housing.

1. You can buy a manufactured housing community and rent the homes.
2. You can buy and lease land to tenants who buy and place a manufactured home on your land in what's called a land-lease community.

Buying and renting a pre-existing manufactured housing community is not unlike buying and renting an apartment complex. Each home is rented to a single tenant who pays monthly rent, with leases typically lasting a minimum of one year. While all leases can be negotiated, tenants are usually responsible for their rent and utilities. They may be asked to keep their yard mowed and clean, but common area maintenance is typically the responsibility of the landlord.

The State of Manufactured Housing in 2022

Historically, manufactured housing has been a stable and reliable investment. In fact, the manufactured housing market has not declined in aggregate net operating income since 2000.

ACQUISITION HIGHLIGHTS

So, why invest in manufactured housing in 2022? Manufactured housing parks provide affordable housing for millions of low-income residents — including seniors on fixed incomes — to own homes while renting the land underneath.

The average cost of a manufactured home in 2019 was about $82,000, according to a report by Manufactured Housing Institute, a trade organization representing the industry. That's a stark difference from the average cost of a new home in 2019, which was $258,000.

Considering the exploding housing market, land is increasingly in demand for other projects. Park owners are proposing major rent hikes or changes in leases. Residents have few protections under a patchwork of state laws.

Congress might be expected to step in because some manufactured housing communities are bought by private equity firms that use federally subsidized loans that carry low-interest rates.

Unfortunately, there is no federal data for residents of manufactured housing communities, making it difficult to understand the scope of people living in these parks. But it is estimated that there are 2.7 million mobile homes across 45,600 mobile home parks in 49 states.

SUPPLY GROWTH

The South was the top region for shipments in 2021. Approximately 41,000 units were shipped to the South region, up 7% from 2020. Fueled by activity in Texas, shipments to the Southwest region totaled approximately 25,000 units in 2021, up 12% from the preceding year. Shipments to Texas accounted for nearly 75% of the regional total.

In fact, Texas leads the nation in manufactured housing factories, with 24 spanning the state, followed by Alabama with 16, Pennsylvania with 11, Tennessee with 10, and Georgia and Florida with 9 each, demonstrating the dominance of manufactured housing in the South.

RENTS

Rents in the West region posted the strongest gains in 2021, rising 5.6% to $674 per month. Rents in the South region increased 4.7% in 2021, reaching $562 per month. The strongest gains were in Georgia, where rents spiked 8.6%. In Florida, rents advanced 4.4%.

Across the board, rents rose 4.4% in 2021, ending the year just under $600. Occupancy rates rose in 2021, and demand is elevated as shipments of new units accelerate.

The investment market gained momentum with more properties trading and prices pushing higher. Investors stepped up acquisition activity for manufactured housing communities throughout 2021. The median price rose nearly 15%, and cap rates dropped more than 100 basis points. The median price topped $55,000 per space, and cap rates compressed to only 5.1%.

SALES

The median sales price for the year was approximately $45,700 per space, up nearly 15% from the median price in 2020. The median price reached $55,750 per space, and in the second half of the year, the median price was $54,200 per space, up approximately 50% from the median price from the first half of the year.

What Kind of Financing Can You Get?

To buy a manufactured housing community or land on which to build one, you need a commercial mortgage or another form of financing. You may need to get creative, but there is a financing option for every investor.

COMMERCIAL MORTGAGE

Manufactured housing investors can obtain a commercial mortgage for a manufactured housing community through a bank, credit union or private lender. Some banks offer commercial loans specifically for this asset class, called manufactured home park loans.

Property investors may obtain a commercial mortgage to purchase an existing mobile or manufactured home park, refinance an existing loan, get a cash-out refinance, or acquire land to develop a manufactured home community.

Because manufactured housing is such a stable and well-performing asset, banks and credit unions are often eager to lend.

AGENCY LENDING

Government-sponsored agency Freddie Mac offers long-term financing up to 30 years for manufactured housing communities. Freddie Mac is eager to lend Manufactured Housing Community Loans because manufactured housing is such a reliable and affordable housing solution.

Manufactured Housing Community Loans are non-recourse loans that offer 5, 7 and 10-year loan terms, with LTV allowances up to 80%.

SELLER FINANCING

Non-recourse selling financing is arguably more common in manufactured housing community deals than other asset classes. It can be attractive for new investors who may not be able to get financing from a bank or lender. Often, interest rates are below market value, too.

However, this route requires extra due diligence. There may be a reason the seller is willing to offer seller financing, such as low occupancy rates. If it seems too good to be true, it probably is.

MASTER LEASE WITH OPTION

A master lease with option is a type of lease in which the borrower agrees to rent the entire park on a monthly basis, including taking on all revenue and expenses, with the option to buy the park at any time during the lease. The option price is set at the beginning of the lease.

A master lease with option is great for skilled investors who know how to improve a business. It gives them a chance to see if they can make a poorly managed manufactured housing community profitable. However, sometimes low occupancy rates are due to forces outside of an investor's control, such as a park that is too rural or in a flood plain.

COMMERCIAL MORTGAGE-BACKED SECURITIES (CMBS) LOAN

CMBS loans are secured by commercial mortgages and in the form of bonds. CMBS loans allow banks to issue more loans overall and allow investors to have easy access to commercial real estate.

Use CMBS loans to buy a new manufactured housing community without much collateral, expand an existing community, make renovati or refinance a current loan. Expect 5 to 10-year fixed-rate terms with amortizations up to 30 years, up to 80% LTV, and a minimum $2 million loan size. CMBS loans can be used on parks that are average or above average in quality and location and have at least 50 sites.

Active Manufactured Housing Lenders

Lev

LEV

Lev is a commercial real estate brokerage that uses cutting-edge financing technology to get borrowers commercial loans fast. With their vast network of lenders at your fingertips, Lev quickly connects you to a lender that fits your manufactured housing community project. Lev has helped finance 92 manufactured housing communities to date.

- Proceeds: $3,500,000
- Interest Rate: 500 - 700 bps
- Loan-to-Value: 65-70%
- Lending Terms: 2 year IO
- Recourse: Yes

POST ROAD GROUP

POST ROAD GROUP

Post Road Group is a private equity investment manager that provides alternative funding for a variety of sectors, including manufactured housing construction and entitled land. Based

out of Stamford, Connecticut, Post Road Grou[
serves borrowers across the United States.

- Loan Amounts: $20-100 million
- Loan-to-Value: Up to 85%
- Lending Terms: 1 to 3 years
- Interate Rate: Floating, starting at 750 bps over LIBOR

TREMONT REALTY CAPITAL

Tremont Realty Capital is a direct lender, originating loans secured by mid-market and transitional commercial real estate across the United States on behalf of its capital source, S Hills Realty Trust (Nasdaq: SEVN). Tremont off non-recourse senior financing for acquisitions, recapitalizations and value-add projects.

- Loan Amounts: $15-75 million
- Loan-to-Value: Up to 75%
- Lending Terms: 3 to 5 years
- Interest Rate: Competitive spreads over SOFR

READY CAPITAL

Ready Capital is a real estate and small business lender that has provided over $3B in loans nationwide. With a focus on multifamily and commercial real estate, Ready Capital offers value-add bridge loans and fixed-rate financing on stable or near stable assets.

- Loan Amounts: $2-50 million, higher on a case-by-case basis
- Loan-to-Value: Up to 80%
- Lending Terms: 2-10 year terms, up to 15 on a case-by-case basis
- Interest Rate: From 4%

BLOOMFIELD CAPITAL

Bloomfield Capital is a private equity firm offering debt and equity investment strategies for commercial real estate deals. They specialize in small to medium bridge loans from $2-20 million across the United States.

- Loan Amounts: $2-20 million
- Loan-to-Value: Up to 80%
- Lending Terms: Up to three years
- Interest Rate: 8% to 11%

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