Manufactured Housing Community Report

National MHC Insights | 1st Quarter 2015

Accelerating success.

COLLIERS INTERNATIONAL VALUATION & ADVISORY SERVICES

Manufactured Housing Community Report

MANUFACTURED HOUSING VALUATION GROUP

Each year Colliers International Valuation & Advisory Services (CIVAS) appraises over 500 manufactured home communities (MHC). This includes age restricted (55+) communities, all age family communities, and resident owned communities (ROC). We also have experience with unique communities such as AANR and MHC/Recreational Vehicle combo developments. Assignments range from single assets to large multi-state portfolios.

In the last ten years, we have appraised several communities totaling over 1,000,000 home sites in 49 states. Our team's breadth of experience spans internationally, with MHC valuation and consultation in Canada, Australia, and the United Kingdom. Additionally, this group has performed extensive work for pure RV developments, from unrated facilities to 5W/5W destination resorts.

NATIONAL PRACTICE GROUP LEADER

Bruce Nell MAI, MRICS, MICP
Columbus, OH

Bruce Nell, MAI, MRICS, MICP is nationally recognized as a leading expert in the valuation of manufactured home communities. He has valued thousands of MHCs during his career. He has served as a guest speaker on MHC valuation for the Manufactured Housing Institute, as well as several state associations.

Bruce is also a full Urban Land Institute (ULI) member and served on their Manufactured Housing Community Council. His expertise ranges from preparation of comprehensive valuation reports to property and portfolio evaluation, litigation support and market studies.

He also serves as the National Practice Leader of the company's Manufactured Housing Community (MHC) Valuation Group. The Manufactured Housing Community Specialty Practice Group consists of specialists located all over the country. At least 75% of all appraisal work conducted by our MHC specialists is MHC related and in some cases 100% of their workload consists exclusively of MHC. All MHC appraisals done by Colliers International are completed by appraisers that have extensive knowledge and experience with this property type. This is in contrast to other appraisal firms who assign their appraisals based on a need basis or proximity to the subject, instead of market knowledge or experience.

APPRAISER SPOTLIGHT

Nancy Caniff
Jacksonville, FL

Nancy Caniff joined Colliers International Valuation & Advisory services in 2012 and has over 10 years of appraisal experience. She currently provides valuation and advisory services throughout the Southeastern United States.

Since the beginning of her career, she has focused on various housing developments including specialty properties such as beachfront condominiums as well as subdivisions. Later in her career, special focus was given to Manufactured Housing Community (MHC) assets and she is currently a member of the company's MHC Valuation Group working directly with Bruce Nell, MAI, MRICS, Executive Managing Director in Columbus, Ohio and National Practice Group Leader MHC. Her experience in this asset type includes the valuation of MHCs, RV Parks, and Park Owned Homes.

She has ongoing appraisal experience with a current license in Florida, Georgia and South Carolina and has performed appraisals in North Carolina, Tennessee, Mississippi and New Jersey.

Mrs. Caniff is a General Candidate for Designation pursuing MAI designated membership in the Appraisal Institute. She and her husband welcomed their first daughter, Emmelain Louise last year.

WHERE ARE MHC CAP RATES HEADED?

Rob Detling, MAI
San Diego, CA

As property owners, asset managers, mortgage brokers, and bankers navigate the recovering economy and capital markets, appraisers are often asked “What are current cap rates for MHC?” Appraisers should respond by saying, “Before I answer, there are about 20 questions that I need to ask you.” These questions might include: “Where is your property located? What is your occupancy (physical and economic)? How large is your community? How many “Park-Owned” Homes? What is market occupancy? How old is your property? What can you tell me about your utilities infrastructure? Will all your sites really hold a modern double-section home? Tell me about any rent control in your market? Is there excess/surplus land available for expansion?” I could go on and on and on. These are all questions with answers that influence the cap rate for a property. The following paragraphs will discuss what a cap rate is, current cap rates in the MHC industry, and discuss future cap rate direction.

WHAT IS A CAP RATE?

A cap rate relates a single year’s net income to value. It is indicative of the overall or non-financed/unlevered return on a real estate investment. The cap rate is the result of investors’ actions in the marketplace. When investors think values are going up, they are willing to pay higher prices for a single year’s net income (lower cap rate) and, conversely, cap rates increase when investors believe values are declining. All the investors’ motivations, appetite for yield, perception of risk or income upside, assumptions about growth in revenue, expenses, etc., are built into the cap rate. It includes expectations of both a return on and a return of the investment. The most commonly used method of deriving the cap rate is from the analysis of recent comparable sales. The rate is determined by dividing the subject’s net income by its sale price. See the table above for an example.

DERIVING A CAP RATE

NOI		SALES PRICE		CAP RATE
$500,00	/	$5,000,000	=	10.0%

CURRENT CAP RATE INDICATIONS

Appraisers and valuation professionals look to several methods to extract cap rates from the market.

Recent Sales/Listings - In analyzing existing sales over the last couple of years, adjustments must be made to comparables to reflect changes in market conditions. At times this adjustment for market conditions can outweigh other important qualitative adjustments such as quality, condition, and age. ***As appraisers, it is common to select more recent sales or current listings outside the market than dated sales within the market area. Reasonably priced listings can also provide cap rate guidance and are reflective of broker’s opinions.*** Recent MHC transactions across the country provide insight regarding cap rates:

Oak Creek MHC, Coarsegold, CA (5.5% cap rate) sold in December 2014 for $15,800,000. Oak Creek is a 198-site 55+ (age restricted) manufactured home community located south of Yosemite National Park and north of Fresno. The community was developed by the seller in 1998 and all sites will accommodate multi-section homes. Sun Communities assumed existing debt of $9,928,115 from Fannie Mae at 4.33%. The seller indicated that the property was in contract for a few months due to a 1031 exchange. The seller indicated that the property most likely went in to contract at about a 5.2% capitalization rate and closed at approximately a 5.5% capitalization rate due to rent increases while the property was under contract.

Paradise Valley Ranch, Phoenix, AZ (6.81% cap rate) sold in December 2014 for $7,000,000. It is a 164-site (128 MH sites + 36 RV sites) 55+ (age restricted) community built in 1958. The MH sites were 95% occupied, but the RV sites were only 20%+/- occupied at the time of sale. GE Capital provided financing of $5,350,000. Nearly all the MH sites are single-section.

Country Manor, Mooresville, IN (8.26% cap rate) sold in October 2014 for $12,800,000, with the buyer also projecting an additional $490,000 to cure deferred maintenance, and $1,500,000 for all the “Park Owned” homes at the community. Occupancy at the time of sale was about 78%. It is a 500-site community built circa 1970. Nearly all sites are single-section.

Mill Pond Village, Lansing, MI (7.51% cap rate) sold in October 2014 for $8,200,000. The 356-site all-age community was built in 1970. The site mix consists of about 60% single- and 40% double-section. Occupancy at the time of sale was 70%+/-

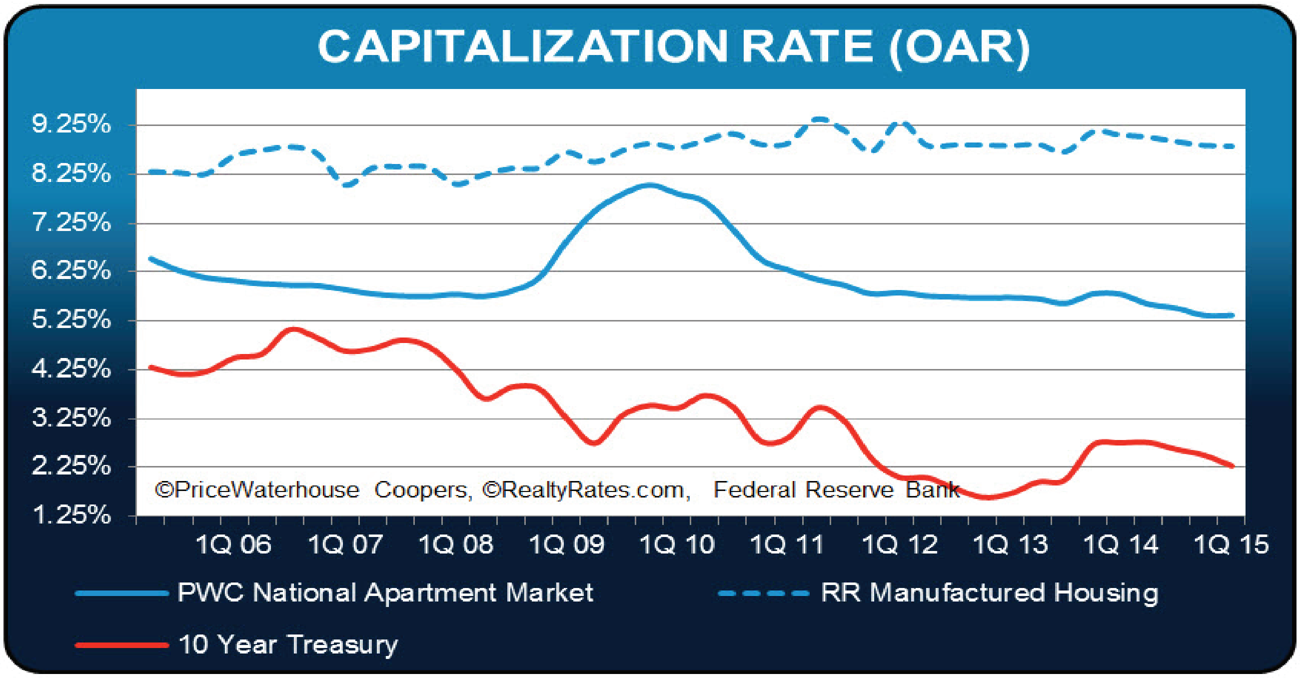
Emerald Hills Village, Inner Grove Heights, MN (6.01% cap rate) sold in September 2014 for $26,535,000. The 402-site community was built in 1969 has a 50/50 mix of single- and double-section sites. Occupancy was 91.5% at time of sale.

Alpine Vista Village MHP, Loveland, CO (6.25% cap rate) sold in August 2014 for $8,000,000. Bank of America provided $5,800,000 financing for the 127-site community, which was built in 1988. The site mix is approximately 50/50 single- and double-section. Occupancy at the time of sale was 95%.

Frontier Valley MHC, Austin, TX (8.24% cap rate) was fully occupied at the time of sale. The 154-site community was built in 1973 and is 100% single-section. It sold in August 2014 for $7,500,000.

Sky Harbor, Cheektowaga, NY (7.75% cap rate) is an upstate NY community with 522 sites built in 1985. Occupancy at sale was 91%. The sale price was $22,700,000 in August 2014. The site mix is approximately 75/25 single- and double-section.

National Surveys - Capitalization rates have been declining over the last few years. There was a peak in capitalization rates in the years of 2009 and 2010. PwC Apartment rate data tends to be about 50 to 100 basis points lower than capitalization rates for manufactured housing communities. The Realty Rates surveys all market participants and not just manufactured housing specialists. Additionally, realty rates does not include reserves in their estimates. As such, the capitalization rate data tends be higher than what manufactured housing community owners would be willing to pay. As such capitalization rates for manufactured housing would typically be expected to fall between the PwC Apartment data and the Realty Rates MHC data.



It's important not to place too much reliance on national surveys as there may be wide fluctuations in regional and local markets. However, a national survey can provide a framework for macro trends.

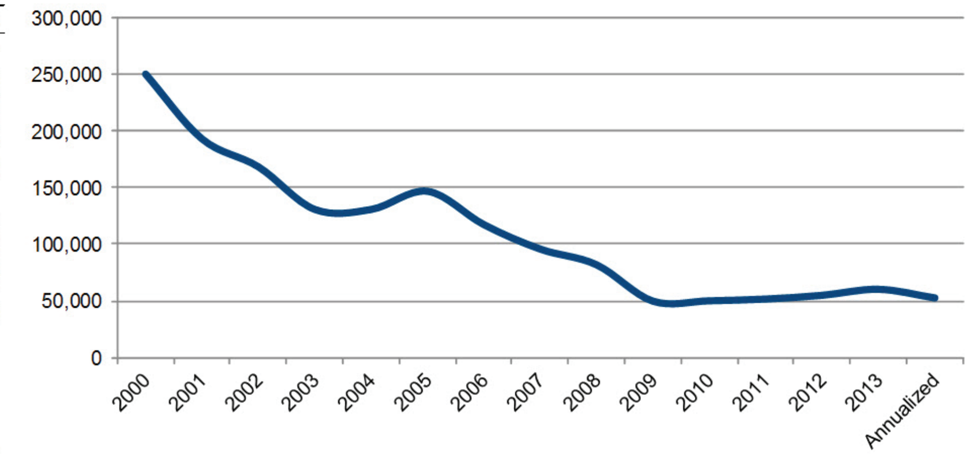
COLLIERS CAP RATE OUTLOOK

During and following the recession, there were fewer community sales from 2008-2011 than in previous years. The reduced number of community sales was partly due to investor uncertainty and to the lack of credit available. In 2008-2012, MH shipments fell sharply from prior years (2000-2007), causing many MHC investors to wonder how fast community occupancies, which had fallen during the Housing Bubble, could recover. The following chart provides MH shipment data since 2000.

Southern, CA

MANUFACTURED HOME SHIPMENTS

YEAR	HOME SHIPMENTS # HOMES	HOME SHIPMENTS % Δ
2000	250,419	-
2001	193,120	(23%)
2002	168,489	(13%)
2003	130,815	(22%)
2004	130,748	(0%)
2005	146,881	12%
2006	117,373	(20%)
2007	95,752	(18%)
2008	81,907	(14%)
2009	49,717	(39%)
2010	50,046	1%
2011	51,618	3%
2012	54,881	6%
2013	60,228	10%
Annualized	52,596	(4%)



Source: U.S. Commerce Department's Census Bureau via Institute for Building Technology & Safety

Despite lower MH shipments, MHC rent growth has provided a tailwind for MHC owners, as indicated in the chart that follows. The stable income growth, and the expectation that it will continue, is a significant factor influencing MHC cap rates.

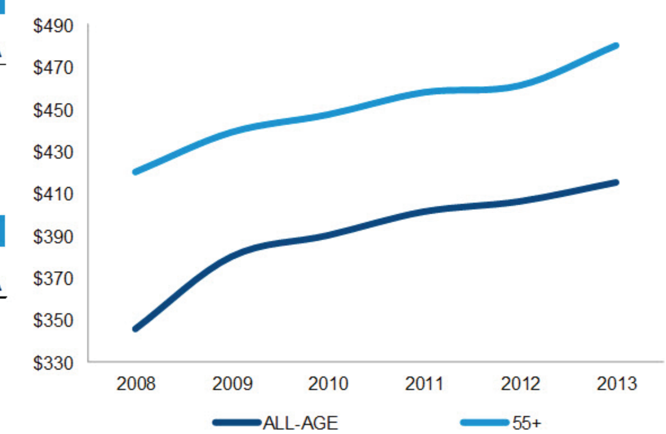
NATIONAL RENT TRENDS

ALL-AGE

YEAR	UNITED STATES RENT	UNITED STATES % Δ	NORTHEAST RENT	NORTHEAST % Δ	MIDWEST RENT	MIDWEST % Δ	SOUTH RENT	SOUTH % Δ	WEST RENT	WEST % Δ
2008	$345	-	$356	-	$329	-	$338	-	$404	-
2009	$380	9.9%	$411	15.4%	$362	10.3%	$372	10.0%	$437	8.1%
2010	$390	2.6%	$421	2.4%	$367	1.3%	$390	4.9%	$448	2.6%
2011	$401	2.9%	$429	1.9%	$366	(0.2%)	$422	8.3%	$457	2.1%
2012	$406	1.2%	$442	3.0%	$377	2.9%	$414	(2.0%)	$467	2.2%
2013	$415	2.2%	$543	22.9%	$384	1.9%	$425	2.7%	$480	2.8%

55+

YEAR	UNITED STATES RENT	UNITED STATES % Δ	NORTHEAST RENT	NORTHEAST % Δ	MIDWEST RENT	MIDWEST % Δ	SOUTH RENT	SOUTH % Δ	WEST RENT	WEST % Δ
2008	$420	-	$488	-	$375	-	$411	-	$447	-
2009	$439	4.5%	$509	4.3%	$384	2.5%	$431	4.9%	$463	3.8%
2010	$447	1.9%	$522	2.6%	$388	1.1%	$438	1.6%	$476	2.6%
2011	$458	2.4%	$522	0.0%	$396	2.1%	$449	2.5%	$486	2.2%
2012	$461	0.7%	$546	4.6%	$400	1.0%	$449	0.0%	$497	2.2%
2013	$480	4.1%	$571	4.6%	$406	1.5%	$472	5.1%	$507	2.0%



Source: JLT & Associates

In addition to rent growth, the low interest rates of 2012/2013 spurred more investment and debt capital availability also improved, fueling investment demand and pushing cap rates down. Mid-year 2013 through early-2014 saw rate increases, but rates dropped again in late 2014. When perceptions of future property values are stable or increasing, falling equity yield requirements and/or increasing availability of debt capital (observable in the form of lower mortgage rates and higher Loan-to-Value mortgages in the marketplace) cause cap rates to fall as they have in recent years.

Over the longer horizon, many market participants expect interest rates to rise, especially as economic recovery strengthens. Rising interest rates would imply a rising risk-free rate, the basis for equity yield before adding risk premia, so equity yields should also rise. However, in a scenario where economic recovery drives interest rates upward, risk premia might compress somewhat.

It is also important to note that expectations of future income growth and increases in property values, both of which are typically spurred by economic recovery, can more than offset the effects of interest rate increases on cap rates.

In addition, the extent and timing for "tapering" by our central bank remains uncertain. While the U.S. may be ready to be weaned from cheap central bank money, recent struggles in the Asian and European economies indicate that many other nations are not. Our crystal ball says that unless economic recovery becomes robust and sustainable, future cap rate increases for MHC are not likely in the near-term. Over the long-term, higher cap rates are likely, but income growth will more than offset the impact of higher-cap rates on MHC valuations.

RESTRICTED APPRAISAL REPORTS FOR PROPERTY OWNERS

Robert Steed
Sacramento, CA

In the appraisal industry, there are two basic report formats, Narrative Appraisal Reports and Restricted Appraisal Reports. The most common users/clients for appraisal reports in the MHC industry are real estate lenders who require detailed Narrative Reports which may be relatively costly. These reports may not be feasible for individual owners who want to gauge an estimate of the market value of their MHC property. This is a prime scenario for a Restricted Appraisal Report.

A Restricted Appraisal Report is a condensed version of a Narrative Appraisal Report which presents only pertinent details to the analysis within the reporting. The majority of the data collected for these reports is retained within a work file produced by the appraiser. The principal advantage of this report type is the cost of the appraisal, due to the fact that only minimal details are presented in the report, it takes less time for an appraiser to construct the report and thus costs are less than a full Narrative Appraisal Report.

The Restricted Appraisal Report option meets USPAP appraisal standards, but typically does not meet the requirements of real estate lenders due to the minimal details presented within the analysis. This report type is primarily intended for a user needing to make internal business decisions regarding the asset, is familiar with the property and does not require the details regarding the subject or the overall valuation methodology.

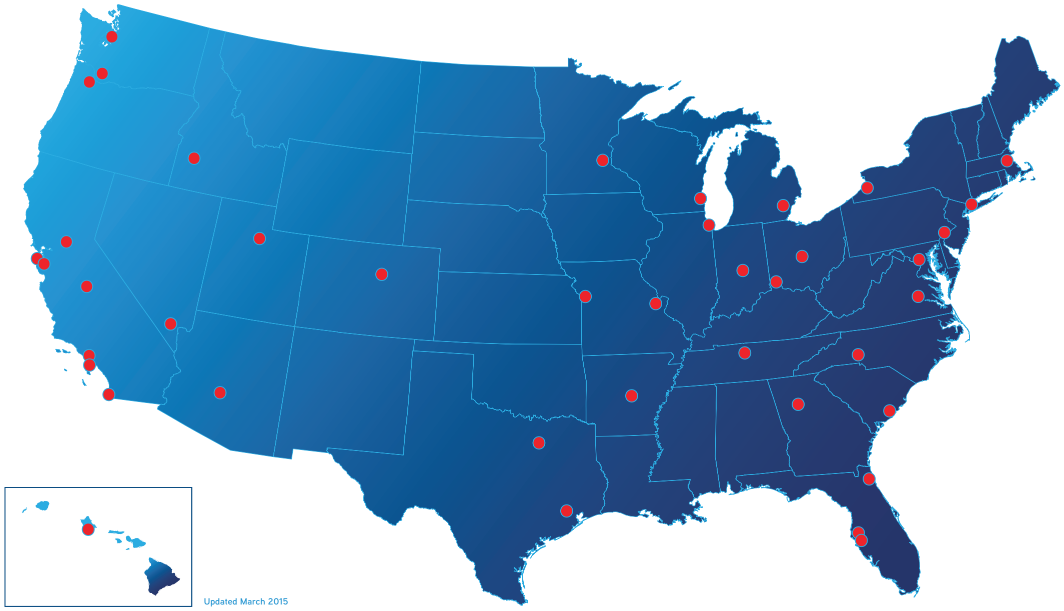
COLLIERS RATING SYSTEM

A star rating system is a common system with an origin in the Woodall Rating Guide. The guide ceased to be published in the early 1970s and most of the highest rated communities in existence today were constructed since 1980, at least a decade after the guide ceased publication. There is no standard rating system. Many have their own rating criteria that they reference.

In this appraisal we utilize an alphabetic classification system. The highest classified buildings are Class A. Quality but slightly inferior assets are Class B. Class C buildings are the oldest buildings, lowest quality, and often have no amenities. These are still functional assets in fair to average condition. Assets that are not functional and in poor condition are not classified. This system reflects industry standards and can be translated to both industry vernacular and standards used in other related real estate industries, most notably apartment complexes. The following chart shows our classification overview.

MANUFACTURED HOUSING COMMUNITIES RATING GUIDE				
CATEGORY	CLASS A	CLASS B	CLASS C	UNRATABLE
Density	Low (4-7 Sites/acre)	Medium (10 sites/acre or less)	High (15 sites/acre or less)	High (15+ sites per acre)
Age	Built Since 1980	Built Since 1970	Built Prior to 1980	Built Prior to 1980
Amenities	Resort Styles	Standard to None (if high enough quality)	Few to none	None
Quality/Layout	Subdivision Quality	High Quality grid or curvilinear layout	Medium to Low Quality/ Typical Grid Layout	Grid Layout
Roads	Asphalt or Concrete	Asphalt or Concrete	Mostly Asphalt or Concrete (Som Gravel & Dirt)	All Gravel & Dirt
Utilities	Public Utilities	Usually Public Utilities	Mix of Public and Private	Mix of Public and Private
Parking	2 Off-Street per Site	1 to 2 Off Street pre Site	Mix of Off Street and On Road	On Road Parking Only
Homes (Quality)	Excellent	Good to Excellent	Average to Good	
Homes (Age)	Built After 1980	Majority Built after 1980	Built after 1976	Built before 1978
Homes (Mix)	Mostly Multi-Section	Single and Multisection	Primarily Single Sectional	Primarily Single Sectional
COMPARISON TO STAR RATING				
Star Rating (Non-Woodall)	Five Star	Three to Four Star	Two to Three Star	One Star or Unratable
Star Rating (Woodall)	N/A	N/A	N/A	N/A

VALUATION OFFICE LOCATIONS



**CIVAS has 39 Valuation Offices Nationwide*

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