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Carlyle Group buys sprawling Sunnyvale mobile-home park

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A month after buying its first Bay Area mobile-home park, the **Carlyle Group** is coming back for seconds in a big way.

The Washington, D.C.-based private equity juggernaut just snapped up Sunnyvale's approximately 85-acre Plaza Del Rey in a deal that highlights growing institutional appetite for the once-sleepy, largely mom-and-pop dominated asset class.

Carlyle paid in the neighborhood of \$180 million for the sprawling project, located south of Tasman Drive and west of Lawrence Expressway, according to a source with knowledge of the deal. The transaction closed last week.

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It's the second Bay Area mobile-home park pickup for Carlyle, which is making a play for these types of rental communities in key markets nationwide. In September, Carlyle [bought a majority interest in Pacifica's Pacific Skies Estates, a 93-lot community on the edge of the Pacific Ocean.](#)

But Plaza Del Rey dwarfs that project. The Sunnyvale community — more accurately described as a “manufactured home community” — counts 722 units, according to data from Real Capital Analytics. At an estimated \$180 million, the deal works out to roughly \$250,000 per lot.

Not a conversion play

[While some homebuilders are targeting mobile-home parks to convert to traditional homes—](#)

something that has sparked huge controversies in Palo Alto and San Jose — Carlyle intends to operate the Sunnyvale park much as it has always been run, according a source with knowledge of the deal. Residents will still own their units and rent their lots. That's in contrast to Pacific Skies Estates, where Carlyle plans to bring in high-end manufactured homes to rent out to tenants after buying out the last remaining existing mobile-home owners. Through a spokeswoman, Carlyle declined to comment.

Both deals show there is plenty of money left in operating mobile-home parks as going concerns. Investors such as Carlyle and mobile-home REIT Equity LifeStyle Properties, see them as particularly well positioned as traditional home ownership becomes tougher thanks to rising prices, experts say. At the same time, new parks are not being built because of the rising cost of land, making existing parks more valuable.

Indeed, last week's sales price represents a big premium over the last time the park was in contract to sell. In 2008, Plaza Del Rey signed an agreement to sell to an entity called Rutherford Holdings LLC for \$110 million. That deal never closed, [and was later the subject of litigation](#).

Efi Luzon, senior vice president of Intero Commercial, who has worked on some of the Valley's largest and most complicated investment sales transactions, said the Sunnyvale deal makes sense given the park's huge size and proximity to major growing employers like Google and Apple.

"There's a lot of money available right now, with cheap interest rates, and the rental increases have been tremendous," said Luzon, who is managing director of [the Los Altos-based Luzon Team](#) and brokered the sale of Vallco Shopping Mall last year. "All those players realize that this is a good place to park their money, because it's safe. And there are not too many parks like this one."

Room for rent growth

The mobile-home park sector remains dominated by private owners, often families, who may not have pushed rents — or property improvements — as much as their institutional multifamily brethren in recent years. Up until the sale, Plaza Del Rey had been owned by the descendants of Marge and Mike Engdol; the couple, who also ran a homebuilding company, Dura Style Homes, built the park in the early 1970s. A person who answered the phone at the park on Monday declined to answer questions.

"Mom-and-pop owners have kept their rents more or less low," said [Kyle Baskin](#), a senior director of Marcus & Millichap's National Manufactured Housing Communities Group based out of Cincinnati. That means runway to increase rents while signs point to slowing rent growth in the traditional multifamily housing sector.

As a consequence, well-capitalized buyers are scouring California for assets like these, Baskin said, though acquisition opportunities remain rare. When they do come up, pricing gets aggressive — resulting in lower cap rates, a measure of yield that drops as prices rise.

"You can take a park that's a 2.5-star park, and if it's in a good solid location in California you're looking at sub-6 cap rate," Baskin said. "In Florida, it will be in the 8s."

A Marcus & Millichap report for the second half of 2015 said that mobile-home investment sales activity jumped 13 percent for the 12 months ended in July. That followed a 42-percent jump a year earlier. The West Coast represented the most active market.

Close to tech

Plaza Del Rey is located near growing campuses occupied by tech juggernauts like Apple and Google, where housing is highly sought after. While manufactured homes were once seen as less desirable than traditional housing types, that's changing, with new homes boasting similar fit and finish to new single-family units.

"The stigma's gone a little bit," Baskin said.

Luzon agreed that the park's location is irreplaceable. Silicon Valley is mostly built out, and nearly 90 acres in Sunnyvale simply doesn't exist. "Where would you find this location with so many units? It's a very nice addition to someone's portfolio," he said.

Sunnyvale does not have rent control for mobile-home parks, so there's theoretically no limit on how much Carlyle could raise rents. Yet landlords who get too aggressive on rents can run into political pushback and spark calls for rent regulations. Mobile-home parks are often seen as "naturally affordable," and their preservation has become a major issue in the South Bay, [with San Jose instituting a moratorium to temporarily halt](#) closures after Pulte announced plans to convert the Winchester Ranch Mobile Home Park to homes this summer.

Hanson Hom, Sunnyvale's community development director, said city officials had received no plans for major changes to Plaza Del Rey. "We don't have rent control, but we do have a strict ordinance that controls conversions and tenant relocations," he said. The property is zoned for mobile-home park use, meaning any changes to the use would have to be approved by the city. Under the city's planning guidelines, it must maintain a minimum acreage of land dedicated to mobile-home parks.

A deed filed on Friday shows a price of nearly \$150 million for the land, but that price isn't believed to include a large parcel ground leased from the Sunnyvale school district. A source valued the entire deal at approximately \$180 million, though that number couldn't be confirmed, and an assignment transfer filed with the county didn't list a valuation.

Jonathan Sommer, a partner at Lubin Olson who represented the seller, declined to comment. Scott Buser, a partner with Mayer Brown who represented Carlyle, didn't return a phone call.

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