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REAL ESTATE

Low-Cost Housing Demand Boosts Mobile-Home Park Operators

Three public manufactured housing REITs generate 44% total return

Demand for manufactured housing is boosting the fortunes of companies that deal in mobile-home parks, such as Florida's Blue Heron Pines, which is owned by Sun Communities. *PHOTO: SUN COMMUNITIES*

By LAURA KUSISTO

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Strong demand for low-cost housing is proving a boon for one of the real-estate industry's least glamorous sectors: companies that operate mobile-home parks.

Although few new mobile-home communities are being built, the larger companies in the sector are actively buying up the smaller players, reducing competition. At the same time, rising demand from families seeking space in the parks has allowed mobile-home landlords to raise rents, producing strong growth.

"I've been at this for about 10 years and I would say the demand right now for manufactured housing communities is at an all-time high," said Jonathon McClellan, senior director of the national manufactured home communities group at Marcus & Millichap. Mobile homes are also called manufactured homes because they are built in a factory and shipped to a community.

The three real-estate investment trusts in the sector— Sun Communities Inc., Equity LifeStyle Properties Inc. and UMH Properties Inc. —all are seeing strong gains in the number of properties owned and in revenue.

Sun Communities, based in Southfield, Mich., for example, has nearly doubled its holdings since 2011 and now operates 249 communities with about 90,000 individual home sites compared with 136 communities with about 45,000 home sites.

John McLaren, Sun's president and chief operating officer, said the company was prompted to expand in part by low interest rates and the desire by many smaller owners to get out of the business. Average monthly rent at Sun Communities grew 2.5% to $456 in 2014 from $445 a month in 2013. The company reported net operating income for the same properties in the fourth quarter rose 6.2% compared with the same period a year earlier.

The three companies primarily own lots in communities and collect rent from homeowners for those sites.

Investors are betting the industry's fortunes will continue to improve. In the 12-month period ended in March, the total return for the three public manufactured housing REITs was 44%, the best performance of any REIT category, according to the National Association of Real Estate Investment Trusts. Although performance has slipped in the stock-market volatility of recent weeks, the category remains one of the top performers among REITs.

For retirees ready to downsize, snowbirds seeking inexpensive vacation homes and lower-income families, mobile homes offer a lower cost housing option than traditional homes. And in many locations, the monthly costs of owning a manufactured homes are less than renting an apartment.

According to the National Association of Realtors, the median U.S. price for an existing single-family home was $202,600 in February. In contrast, the average price for a manufactured home was $64,200 as of November 2014. Meanwhile, apartment landlords have raised rent nearly 15% over the past five years, putting the average rent at about $1,131 at the end of the first quarter of 2015, according to REIS Inc., a real-estate research firm in New York.

For an average price mobile home purchased with a mortgage, the typical monthly costs can run about $800, with about half going to monthly mortgage payments and the other half going to the landlord of the mobile-home community where the house is parked. “Some people could no longer afford that traditional home in the suburbs but they could afford a mobile home,” said Paul Adornato, an analyst at BMO Capital Markets.

Equity Lifestyle, based in Chicago, is especially optimistic about the growth in the population of Americans over the age of 55, which is expected to keep growing from 2015 to 2030. The average age of new residents entering Equity Lifestyle’s communities is 62 years old, according to an investor presentation.

Eugene W. Landy, chairman of the board of UMH Properties Inc., said that companies like his are doing well because of growth through consolidation, or renting out existing properties, not because the industry itself is expanding. Mr. Landy said his company has been buying mobile homes and renting them out because some families have struggled to get mortgages in a tighter credit environment.

“For many years, what we tried to do was build established communities with good service to the tenants and tenants all own their own homes,” he said. But now, “we’re like an apartment company.”

Still, the company is growing. During 2014, UMH acquired 14 communities with 1,600 developed sites for $42.6 million, the company said. In total, the company now owns 89 communities with 15,200 sites. UMH said that occupancy for the same properties increased to 83.2% in the fourth quarter of 2014 from 81.5% in the year-earlier quarter.

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