Manufactured Housing Community Report

National MHC Insights | 1st Quarter 2016

Accelerating success.

COLLIERS INTERNATIONAL VALUATION & ADVISORY SERVICES

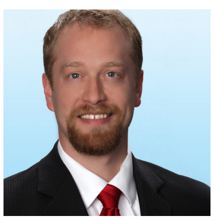
Manufactured Housing Community Report

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

Rob Detling, MAI
San Diego, CA

Rob Detling, MAI joined PGP Valuation Inc in Sacramento, CA in 2003. PGP was later acquired by Colliers International Valuation & Advisory Services. He has valued MHC/RV properties in California, Northern Nevada, and Arizona for several years, co-managed the firm's CalPERS account, earned the Appraisal Institute's MAI designation, and trained several other appraisers before becoming Managing Director of the San Diego, CA office. While Rob also has expertise in other core commercial real estate and self-storage, most of his valuation work consists of MHC/RV. He led the firm's valuation team that completed appraisals of 270+ MHC across the country for the 2007 acquisition financing of the ARC portfolio. Rob has experience with proposed and under construction properties, expansions, renovations, and conversions to alternative uses. Courts in California, Illinois, and Nevada have qualified Rob as an expert in commercial real estate valuation.

Rob enjoys traveling and spending time with his wife and five children, ages 3-12. He has managed youth baseball, basketball, and soccer teams in San Diego and has helped build with Homes for Hope in Tijuana, Mexico. Rob lived in the Dominican Republic for several years, speaks fluent Spanish, and hopes to return to the Caribbean and Central America in the future.

REIT SPOTLIGHT - EQUITY LIFESTYLE PROPERTIES (ESL)

Andrew Boespflug, MAI
Boise, ID

Equity Lifestyle Properties is the largest U.S. MHC REIT with 143,938 homesites in 384 Properties located in 32 states and British Columbia, and a market capitalization of $1.8B. The company owns and operates lifestyle MHCs and RV resorts with a primary focus on retirees, empty nesters, and vacationers. The largest markets for ELS are Florida (40.9%), California (15.2%), and the Northeast (11.5%) collectively representing 67.6% of the company's operating revenue.

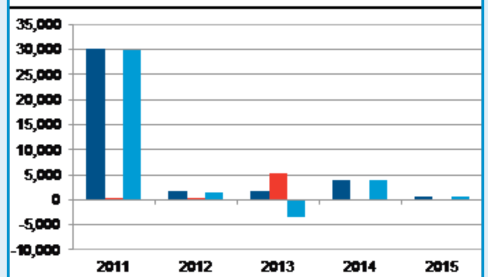
EXPANDING OR CONTRACTING?

ELS's acquisitions slowed significantly in 2015 compared to the past five years as the REIT struggled to find properties accretive to its net asset value (NAV). After a substantial increase in its portfolio in 2011 which included the purchase of 74 MHCs and 1 RV resort for a total purchase price of $1.5B, acquisitions slowed significantly in 2012 and 2013. Acquisitions experienced a sizeable increase in 2014 with 7 new Properties predominately in Florida and Arizona with a total purchase price of $81.4MM. 2015 acquisitions included 2 RV resorts and 1 MHC with a total of 700 sites for $23.7MM.

Dispositions have been negligible with the exception of 2013 which included the sale of 11 properties and 5,344 sites which no longer corresponded with the REIT's long term focus on retirement and destination resorts. Overall, net acquisitions have been generally positive over the past five years resulting in 32,636 additional homesites to ELS's portfolio. ELS's recent history of aggressive expansion during the trough year of 2011 but lack of large scale dispositions up to this point suggests that the market cycle has yet to reach its peak.

ACQUISITIONS VS. DISPOSITIONS

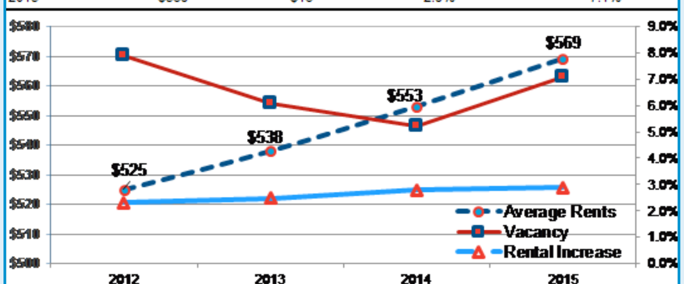
YEAR	ACQUISITIONS	DISPOSITIONS	NET ACQUISITIONS
2011	30,129	165	29,964
2012	1,765	163	1,602
2013	1,815	5,344	(3,529)
2014	3,868	-	3,868
2015	731	-	731



Source: ESL 10 K SEC filings- 2011, 2012, 2013, 2014, and 2015

RENTAL INCREASES & VACANCY

YEAR	RENTAL INCREASE MIN	MAX	AVERAGE	VACANCY
2012	$525	$13	2.3%	7.9%
2013	$538	$13	2.5%	6.1%
2014	$553	$15	2.8%	5.2%
2015	$569	$16	2.9%	7.1%



Source: ESL 10 K SEC filings- 2011, 2012, 2013, 2014, and 2015

RENTS AND VACANCY

ELS has experienced stable but limited rent growth of 2.3% -2.9% per year with increasing velocity over the analysis period. Vacancy has been somewhat volatile; decreasing from 2012-2014 but increasing in 2015 due to the acquisition and subsequent lease-up of underperforming properties. Overall, ELSs portfolio generally consists of higher-end properties which enjoy higher rent levels and lower vacancy.

OPERATING HISTORY

ELS has delivered top-line rent revenue growth of 3.3% and overall EGI growth of 3.6% over the past three years. The revenue increases have outpaced the expense growth of 2.8% resulting in widening margins and total NOI growth of 4.3%. The REIT has a higher than industry average Expense Ratio of ~48% which is partly explained by the higher percentage of RV and resort communities in its portfolio.

EQUITY LIFESTYLE OPERATING HISTORICALS

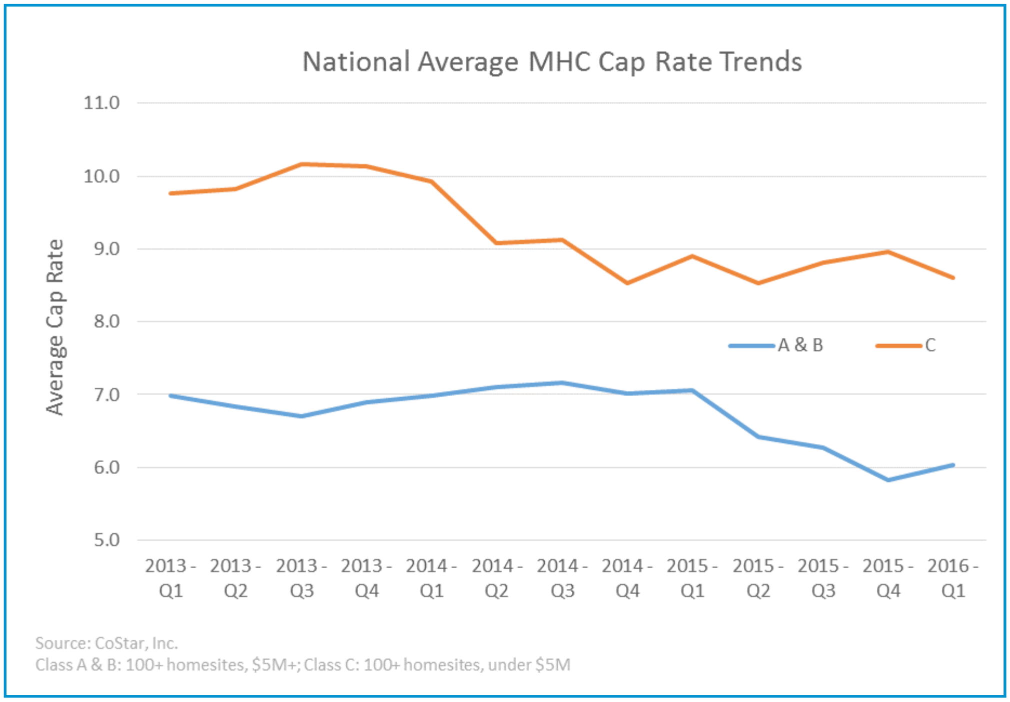
YEAR	2013			2014			2015			ANNUAL GROWTH
INCOME ITEMS	**TOTAL**	**$/SITE**	**%EGI**	**TOTAL**	**$/SITE**	**%EGI**	**TOTAL**	**$/SITE**	**%EGI**	
Potential Rental Income	$623,858,000	$4,430	90.8%	$660,368,000	$4,690	90.4%	$685,333,000	$4,867	90.1%	3.3%
TOTAL RENTAL INCOME	$623,858,000	$4,430	90.8%	$660,368,000	$4,690	90.4%	$685,333,000	$4,867	90.1%	3.3%
OTHER INCOME										
Reimbursements	$63,119,000	$448	9.2%	$69,962,000	$497	9.6%	$75,038,000	$533	9.9%	6.3%
TOTAL OTHER INCOME	$63,119,000	$448	9.2%	$69,962,000	$497	9.6%	$75,038,000	$533	9.9%	6.3%
POTENTIAL GROSS INCOME (PGI)	$686,977,000	$4,879	100.0%	$730,330,000	$5,187	100.0%	$760,371,000	$5,400	100.0%	3.6%
EFFECTIVE GROSS INCOME (EGI)	$686,977,000	$4,879	100.0%	$730,330,000	$5,187	100.0%	$760,371,000	$5,400	100.0%	3.6%
EXPENSE ITEMS										
Real Estate Taxes	($47,479,000)	($337)	(6.9%)	($48,493,000)	($344)	(6.6%)	($50,163,000)	($356)	(6.6%)	1.9%
Repairs & Maintenance	($233,096,000)	($1,655)	(33.9%)	($249,525,000)	($1,772)	(34.2%)	($255,624,000)	($1,815)	(33.6%)	3.2%
Off-Site Management	($40,193,000)	($285)	(5.9%)	($42,638,000)	($303)	(5.8%)	($44,526,000)	($316)	(5.9%)	3.6%
Advertising	($13,509,000)	($96)	(2.0%)	($12,418,000)	($88)	(1.7%)	($11,742,000)	($83)	(1.5%)	-4.4%
TOTAL EXPENSES	($334,277,000)	($2,374)	(48.7%)	($353,074,000)	($2,507)	(48.3%)	($362,055,000)	($2,571)	(47.6%)	2.8%
NET OPERATING INCOME (NOI)	**$352,700,000**	**$2,505**	**51.3%**	**$377,256,000**	**$2,679**	**51.7%**	**$398,316,000**	**$2,829**	**52.4%**	**4.3%**

Source: ESL 10 K SEC filings- 2011, 2012, 2013, 2014, and 2015

A TALE OF TWO CAP RATES

Michael Yeager
Phoenix, AZ

With the beginning of a new year upon us, many owners, operators and investors often ask: "Where are MHC cap rates these days and where are they going?" As discussed in past CIVAS MHC newsletters, this is a bit of a loaded question since there are several factors that go into the derivation of a cap rate. Generally speaking, however, there is dispersion in trends between institutional-grade Class A & B products versus Class C assets. Following the most recent recession, MHC cap rates nationwide began to decrease in 2014 with accelerated compression primarily among Class A & B product through 2015 and into 1Q 2016. According to CoStar data, the national average cap rate among Class A & B communities decreased about 100 basis points over the course of 2015 from the 7.0% range in 4Q 2014 down to the 6.0% range based on 1Q 2016 data. Meanwhile, average cap rates hovered in the mid- to high-8.0% range for Class C properties during this time. *Please note that cap rates provided to CoStar are often up to 100 basis points higher than actual figures.*



Although improving property fundamentals contributed to the compression among institutional-grade assets, this decrease was also spurred by the announcement of Freddie Mac in 2Q 14 that they will begin purchasing and securitizing manufactured home community loans. Prior to this announcement Fannie Mae was the dominant player in this arena. These loans are typically restricted to stabilized, high quality, professionally-managed communities owned by experience operators where the majority of the income is from the homesite rents. Additionally, these are considered affordable housing loans; therefore, they do not count towards the $30 billion annual limit on GSE multifamily lending. Since inception, Freddie Mac purchased more than $1 billion in MHC loans in 18 months through 3Q 15. Based on conversations with market participants, Freddie Mac's entrance into the MHC secondary mortgage market has placed pressure on existing MHC lenders to offer more favorable financing terms, including lowering interest rates and increasing loan-to-value (LTV) ratios, in turn driving down cap rates for Class A & B properties based on the band of investments methodology example below:

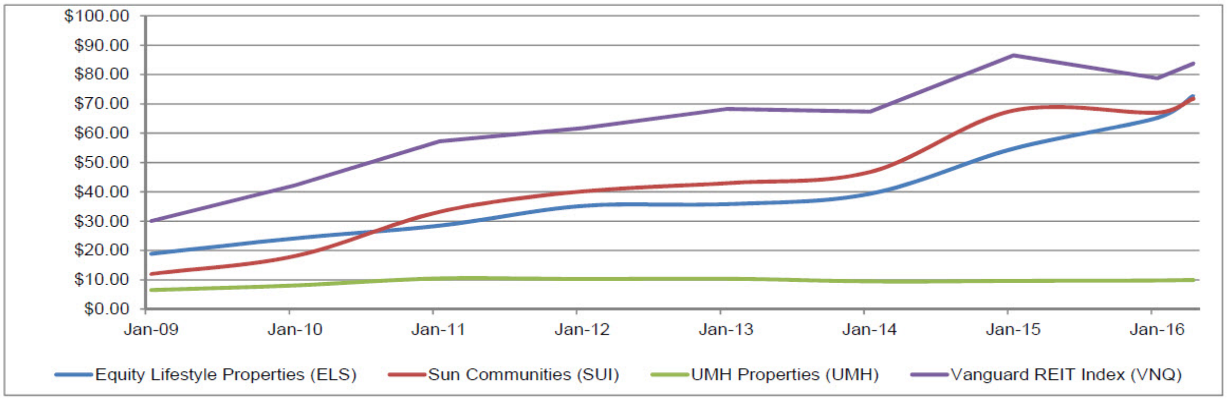
BAND OF INVESTMENT ASSUMPTIONS	
Loan Amortization Period	30 Years
Interest Rate	4.00%
Loan-to-Value (LTV) Ratio	75%
Mortgage Constant	5.73%

BAND OF INVESTMENT CALCULATION					
Mortgage Component	75%	x	5.73%	=	4.297%
Equity Component	25%	x	8.00%	=	2.000%
Indicated Capitalization Rate					6.297%
INDICATED CAPITALIZATION RATE					**6.30%**

In the near term, continued MHC lending from Freddie Mac and Fannie Mae should keep institutional-grade Class A & B cap rates at bay absent any major movement in the economy with Freddie Mac estimating about $1 billion in annual loans under their MHC lending program. While no set estimates for MHC lending have been released for Fannie Mae, their total multifamily lending increased 46% in 2015 to $42.3 billion, with $12.3 billion attributed to the uncapped side, which includes affordable housing, workforce housing, senior housing, manufactured housing, and some smaller multifamily properties. Meanwhile, Class C MHC cap rate movement will primarily be based on improving fundamentals through effective management, repairs and maintenance upkeep, stabilizing occupancy rates, and maintaining rents and expenses at market levels.

MHC REITS

STOCK PRICE	Jan-09	Jan-10	Jan-11	Jan-12	Jan-13	Jan-14	Jan-15	Jan-16	Apr-16
Equity Lifestyle Properties (ELS)	$18.86	$24.16	$28.44	$35.17	$35.80	$39.31	$54.73	$65.24	$72.70
Sun Communities (SUI)	$12.00	$18.11	$33.12	$40.11	$42.95	$46.75	$67.73	$67.00	$71.75
UMH Properties (UMH)	$6.49	$8.10	$10.43	$10.31	$10.35	$9.45	$9.63	$9.78	$9.93
Vanguard REIT Index (VNQ)	$30.06	$42.27	$57.17	$61.70	$68.26	$67.32	$86.55	$78.77	$83.69



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

RESTRICTED APPRAISAL REPORTS FOR PROPERTY OWNERS

Robert Steed
Northern 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.

RECENTLY APPRAISED COMMUNITIES

Bloomington, Illinois

Ft Pierce, Florida

Lake Elsinore, California

Shelbyville, Tennessee

Ocala, Florida

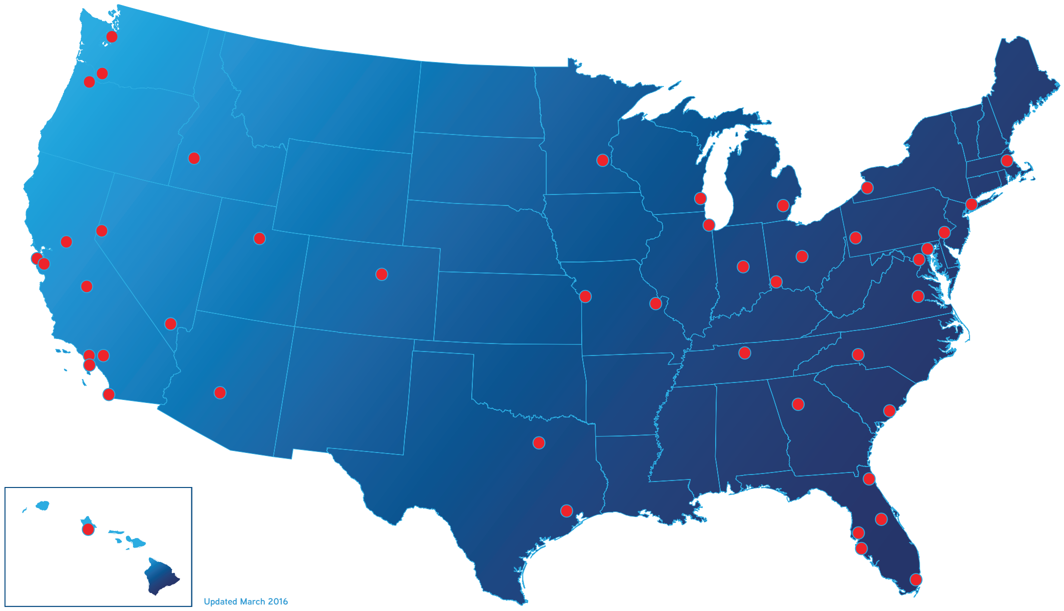
El Mirage, Arizona

Sacramento, California

Mesa, Arizona

Lakewood, Washington

VALUATION OFFICE LOCATIONS



**CIVAS has 45 Valuation Offices Nationwide*

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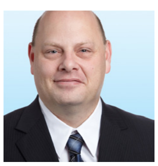
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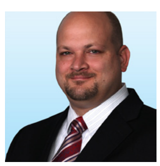
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