

# Past Should Not Be Prologue for Manufactured Housing Community Investors



**Dags Chen**

**From January 2000 to March 2022**—the period in which the Federal Reserve (Fed) started its most recent hiking cycle—manufactured housing communities (MHCs) were by far the best-performing sector within commercial real estate, according to Green Street CPPI as of March 2025.<sup>1</sup> MHCs' cumulative property appreciation return over the period was 442%, trouncing even the online commerce-fueled industrial warehouse sector's return of 319%. Despite the insatiable demand for affordable rental housing, fewer than two million MHC units were for rent nationwide in 2023, according to the Census Bureau Manufactured Housing Survey, and over the past decade, only around 30,000 MHC units for rent have been added annually. Given the potential return and fundamentals profile of MHCs, institutional investors understandably have been drawn to this highly supply-constrained alternative property sector.

## MHC Historical Cap Rates and Risk Premium Trends

Should the past serve as prologue for investors considering the MHC space? Although core yields on MHCs have fallen, abysmal housing affordability remains a strong demand tailwind for the sector. The amount of real

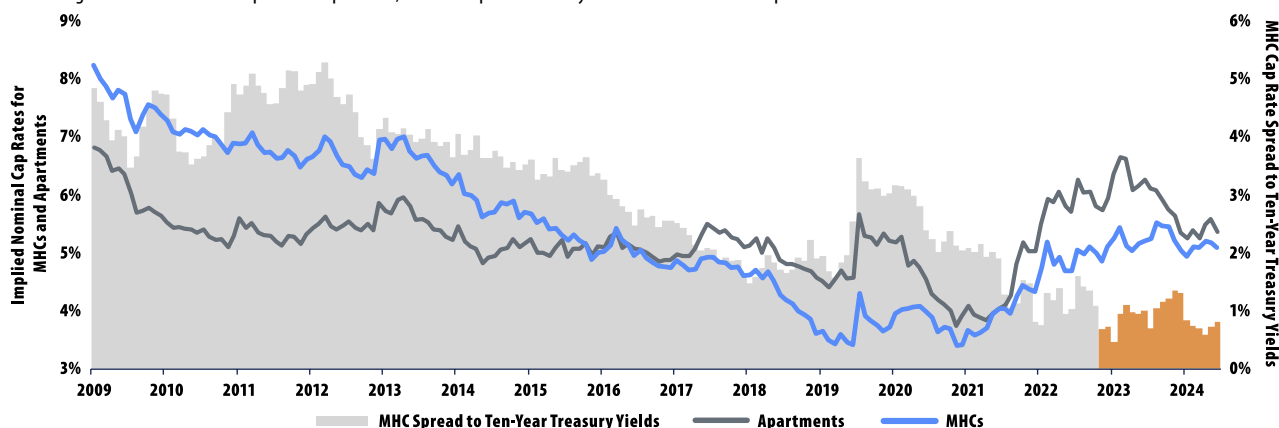
estate dry powder relative to MHC transaction volumes presents the classic conundrum of too much money chasing too few assets. Within this context, investors are leaning on MHCs to continue delivering robust and durable net operating income (NOI) growth following some capital improvement plans to drive revenues higher. But residents seeking affordable rental housing in the form of MHCs are increasingly cost burdened. The irony is that MHCs' long run of impressive rent growth may be putting the sector out of reach for those for whom it is intended.

From January 2010 to the cap rate nadir of August 2021, cap rates compressed by 270 basis points (bps) for conventional apartments but by 440 bps for MHCs (Exhibit 1).<sup>2</sup> That compression spurred much of MHCs' outsize property value appreciation. MHC cap rates fell below apartment cap rates in 2016, and since then, they have remained tighter than conventional apartments'. There are two main explanations for this. First, NOI growth for MHCs has been higher and more robust,

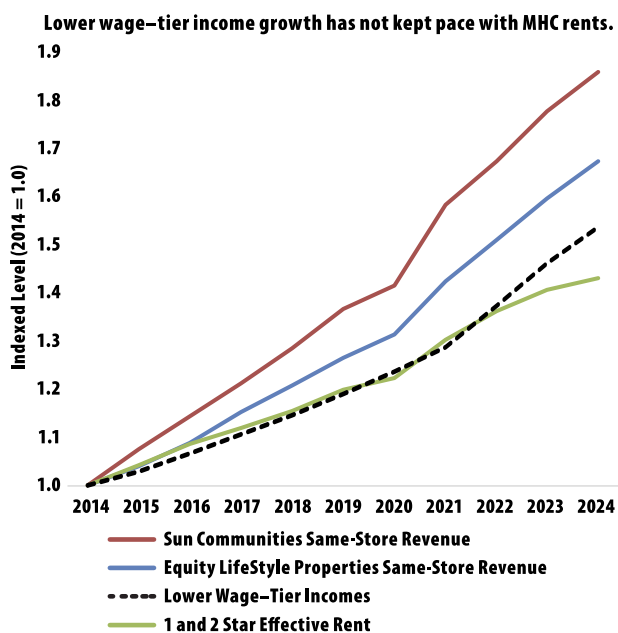
1. Self-storage technically had stronger appreciation over the period, but much of it was because of parabolic pricing trends fueled by hot money in late 2021. Even then, it was clearly not sustainable.
2. Reference to implied nominal cap rates by Green Street. Appraisal cap rates did not move as much but, by that same argument, do not reveal as much about underlying market movements.

## Exhibit 1: MHC, Apartment Cap Rates and MHC Cap Rate Spread to Ten-Year Treasury Yields

Following an era of unbridled cap rate compression, the MHC spread to ten-year Treasuries is still compressed.



**Sources:** Federal Reserve, Green Street; as of March 2025

**Exhibit 2: Lower Wage–Tier Incomes and MHC Rents Indexed to 2014**

Sources: Atlanta Fed, CoStar, Green Street; as of March 2025

averaging 5.0% per annum over the past 20 years versus 3.8% for apartments, per Green Street (as of March 2025). Second, capital competition for MHCs has increased significantly.

### Should MHCs Continue to Price Tightly Relative to Historical Trend?

Over the past three years, real estate capital markets have witnessed a broad-based inflection in cap rate trends. With inflation accelerating uncomfortably in the second half of 2021, the Fed responded by raising the policy rate in the hopes of containing inflation. That put upward pressure on the risk-free rate, which is often associated with the ten-year Treasury yield. From August 2021 to November 2022, MHC cap rates rose by as much as 200 bps, yet the spread of the MHC cap rates to the ten-year Treasury indicated that risk premiums were historically tight (Exhibit 1). The era of unbridled cap rate compression brought about by loose monetary policy is likely over. To be fair, all property sectors, not just MHCs, benefited from this phenomenon. A deepening trade war between the US and the rest of the globe is squashing hopes that cap rate compression could resume in the short-term.

Proponents of MHCs point to continued robust NOI growth as a rationale for tighter-than-apartment cap rates. The justification centers around worsening housing affordability in general and the overall supply constraints around “affordable” housing. Underpinning this is the dominance of local zoning regimes that make it all but impossible to develop MHCs, especially in infill areas.

As a result, MHC rents have risen faster than lower wage–tier incomes for at least the past decade. Exhibit 2 shows that from 2014 to 2024, same-store revenues at Sun Communities and Equity LifeStyle Properties—the two largest MHC owners in North America—have outpaced incomes of lower-wage workers, who are more likely to own or rent within MHCs. Revenues have risen by 76% cumulatively for the MHC REITs compared with 56% for incomes. Exhibit 2 is not a perfect representation of the yawning gap between MHC rent levels and MHC tenant incomes, but it does illustrate how a run-up in rents/NOI must ultimately slow.<sup>3</sup> In addition, many MHCs are age restricted, meaning tenants are living on fixed incomes, including government transfer payments that grow more slowly than wages—if at all. Exhibit 2 includes CoStar’s effective rent series for 1 and 2 star properties, which some use as a proxy for MHC rents.

Most institutional investors that have entered the space in recent years or that want to enter the space are taking a core-plus / value-added approach. The plan is to acquire MHCs and execute some modest capital improvement to lift the properties’ return profiles. The general reasoning centers around three assumptions: (1) small increases in rent levels can be easily absorbed by MHC tenants; (2) many MHC residents are “captive” because they are effectively renting the ground beneath a structure they may own (i.e., pad rents); (3) a long line of prospective tenants is more than willing to backfill vacancy.

This view illustrates a problematic undercurrent. Harvard’s Joint Center for Housing Studies (HJCS) has long pointed out that the percentage of moderately and

3. An area for additional analysis is to parse same-store revenues for MHCs versus RV parks and marinas.

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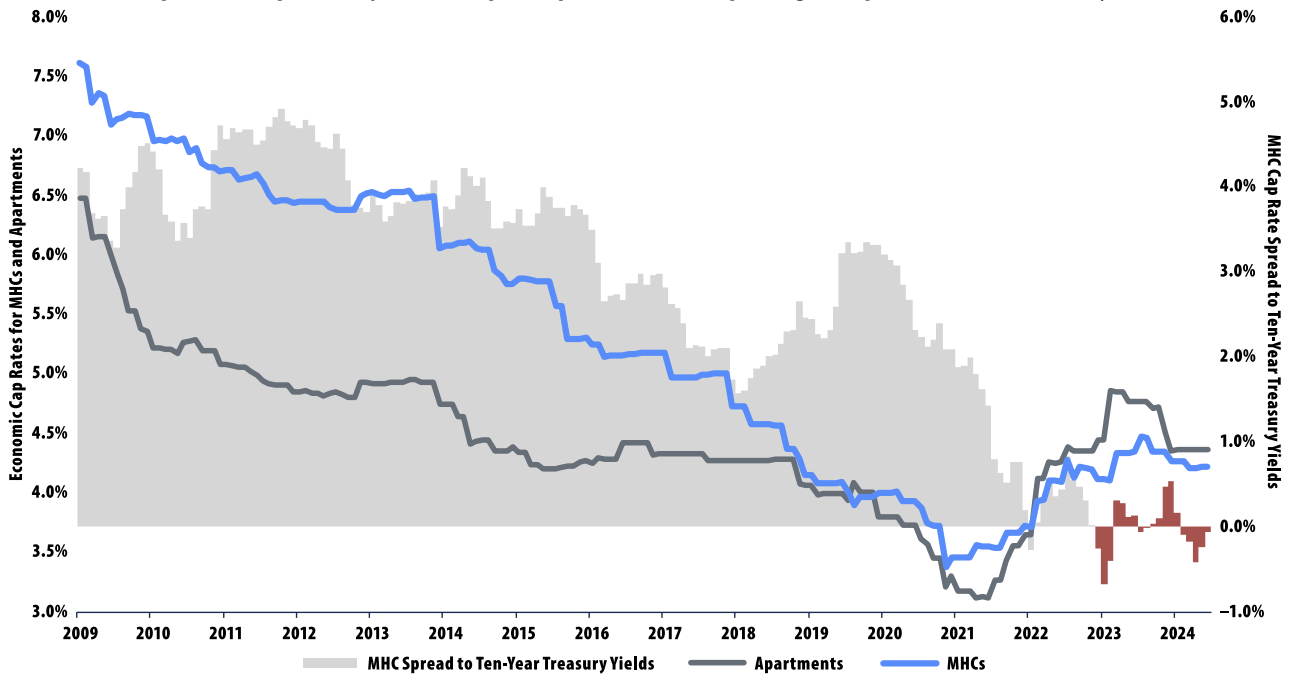
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**Exhibit 3: MHC, Apartment Cap Rates Adjusted for Capital Expenditures; Corresponding MHC Spread to Ten-Year Treasury Yields**

Sources: Federal Reserve, Green Street; as of March 2025

severely cost-burdened renter households among all renter households continues to rise. As of 2022, HJCS reported, half of all renter households were at least moderately cost burdened, spending between 30% and 50% of their incomes on rent. For comparison, in 2001, 41% of renter households were cost burdened. This suggests that for one-third of all renter households, the median MHC monthly rent of \$900<sup>4</sup> translates into 37% of income going just to rent and utilities. Now, an investor wants to raise their rent to “market” rent by \$200 to \$300 a month—but market rent is already out of reach for more than a third of all renter households.

### Do Investors Grasp How Management Intensive MHCs Are?

Most real estate investors are aware that cap rate risk premiums are compressed relative to their historical averages. A flight to quality during times of elevated uncertainty is expected. MHC REITs have benefited from their haven status during the period of tariff-induced market volatility, declining by only 3% the first two weeks in April versus apartment REITs, which were down 8%, according to Bloomberg. This doesn’t mean that private equity real estate generalists should rush into MHC investment in

the current environment. Even for those with illustrious track records around multifamily investing, MHCs can be more challenging and higher touch than expected. Sun Communities and Equity LifeStyle Properties have spent more than four decades aggregating and value engineering property portfolios of the highest quality.

Do private equity real estate generalists underestimate the amount of effort required to even operate an MHC, much less transform one from a 2 or 3 star asset to a 4 or 5 star? Exhibit 3 shows the capex-adjusted cap rates for apartments and MHCs as well as the economic cap rate spread for MHCs to the ten-year Treasury, and it suggests that the premium to the risk-free rate is 0 or negative when factoring property capex requirements. Many MHCs are well outside the urban core and consist of small, detached wood-frame structures, not preferred characteristics for institutional real estate asset management teams or most market-rate renter households.

This is not to say that those generalists are not capable MHC investors, but it’s clear that investors with enviable

4. Referencing the Census Bureau’s American Housing Survey (data as of 2023). This figure also includes utilities, as does the HJCS’s calculations of renter housing burden.



expertise and property portfolios did not earn their success overnight. For example, a particular case study of an MHC investment management firm describes how employees “worked [their] tails off” to create a noteworthy investment outcome at an MHC in Butte Valley, CA—a town 80 miles north of Sacramento.<sup>5</sup> The MHC was purchased for approximately \$6 million. The following lists the major events and projects over a four-year hold. The investor

- built a \$1.3 million, 600 kW solar power plant, which saves approximately \$160,000 of energy costs annually
- repaved broken roads, added playgrounds, supported after-school tutoring and holiday parties (for reference, the Butte Valley Unified School District has a total of 302 students)
- rebuilt the well control system and replaced failed underground electrical lines
- cycled through four community managers
- dug fire lines, sparing the community during the 2018 Camp Fire; the fire burned 153,336 acres, destroyed nearly 19,000 homes, and killed at least 85 people (The investor admits that future wildfire risk was a key motivator for selling this property.)
- created new lots to house people following the Camp Fire, allocating 11 new RV lots to house displaced families and cleanup workers
- overhauled the MHC’s 50-year-old sewer treatment plant by installing lift controls, new pumps, and upgraded pipe; hired a part-time plant operator

■ installed propane-powered generators to keep the public plant operational during rolling blackouts caused by the local utility’s failing power infrastructure

Regardless of whether this account represents an exceptional case, it is illustrative of the intensity of asset management required to run, much less upgrade, an MHC. Investment managers should ask themselves how much bandwidth their highly talented and hardworking team has before embarking on a focused MHC strategy—even one assisted by a competent operationally focused partner. In fact, and as this article emphasizes, investors should be encouraged to ask the right questions about MHC investment. Judiciously deploying capital into the MHC space is a potential win-win for both investors looking to earn a reasonable return potential and the many tenants needing and deserving of affordable, safe, and dignified places to live. I am wholeheartedly supportive of that. ■

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5. Daniel Weisfield, “How We Transformed Foothills Solar Mobile Home Park and Sold It for \$11,450,000,” press release, December 2, 2022.