MBA's Commercial Real Estate Finance/ Multifamily Housing Convention & Expo

Niche Multifamily Markets: Challenges and Opportunities

Manufactured Home Communities

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Discussion Outline

- Manufactured Home Communities – A Property Overview
- Resident Demographics
- Financing Alternatives Overview
- Financing Case Studies – Recent Loans closed through GMAC's Manufactured Home Community Lending Group
- Conclusion

Manufactured Home Communities ("MHC's") – A Property Overview

- MHC's consist of the land and infrastructure including the home sites, streets, private utility lines, and common area amenities.
- The individual homes are generally owned by the resident, and therefore not part of the security for the loan.
  - » Exceptions may include employee units.
  - » A limited number of rental homes (i.e., non-owner occupied homes) may be permitted under permanent loans.
- Like multifamily complexes, MHC's have a rating system:
  - » Communities are rated by "stars," 1 being the lowest quality, 5 being the highest.

Manufactured Home Communities ("MHC's") – A Property Overview

- MHC's are generally "seniors only" or "all-age" (i.e., family) communities.

- Residents are typically permanent residents of the community, unlike RV parks where the tenant can be more transient in nature.

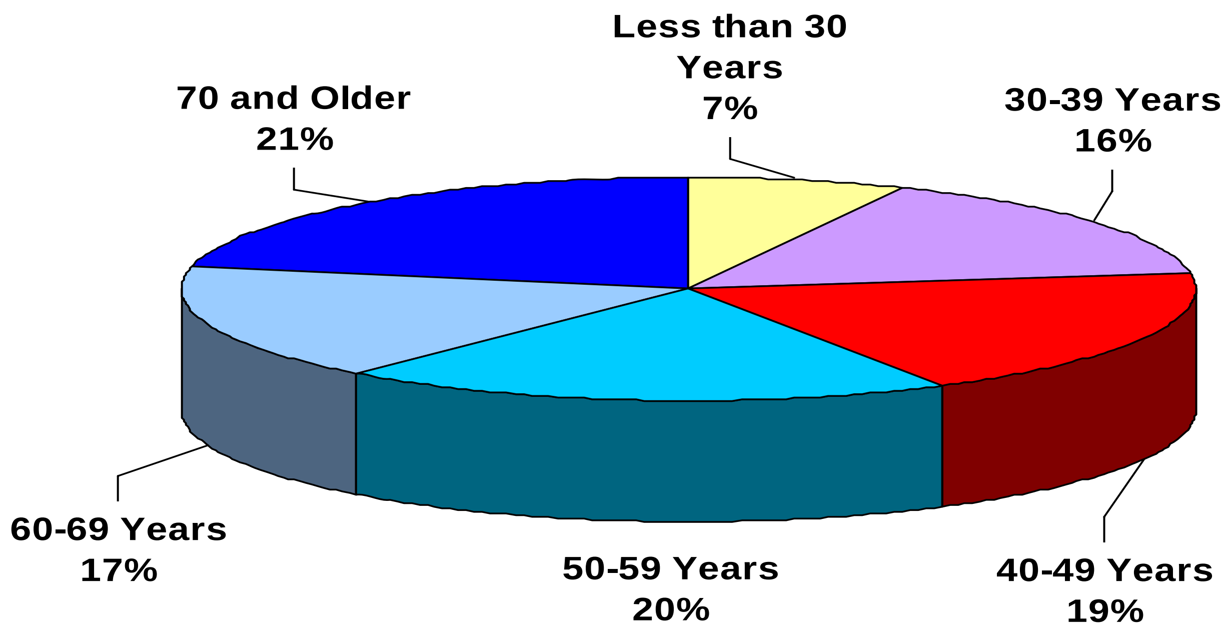
- Many, but not all, MHC's will have an amenity package and can include:
  - » Clubhouse
  - » Swimming Pools
  - » Sports courts/playgrounds
  - » Secured storage areas for boats and RVs
  - » Laundry facilities
  - » Golf courses
    - **Yes, there are communities with Golf Courses!**

Manufactured Home Communities ("MHC's") – A Property Overview

- Unlike a traditional multifamily complex, month-to-month leases are very common and acceptable for underwriting purposes.

Resident Demographics – By Age of Household Head:

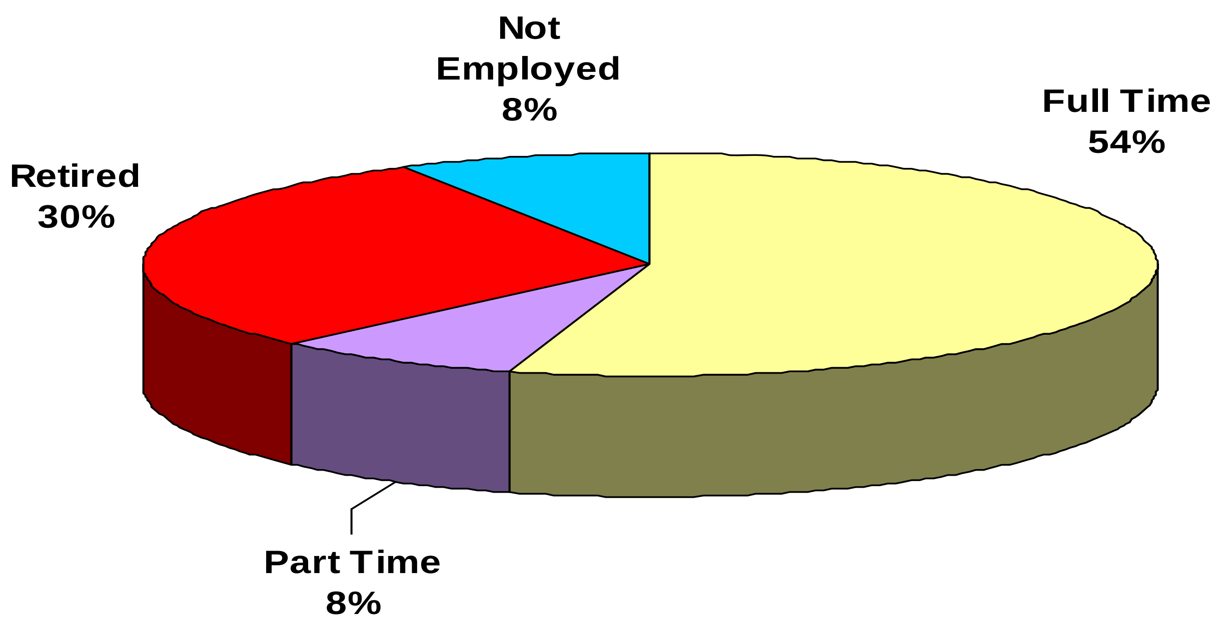
- Approximately 58% of MHC residents are 50 years of age or older.



Source: Manufactured Housing Institute

Resident Demographics – by Employment Status:

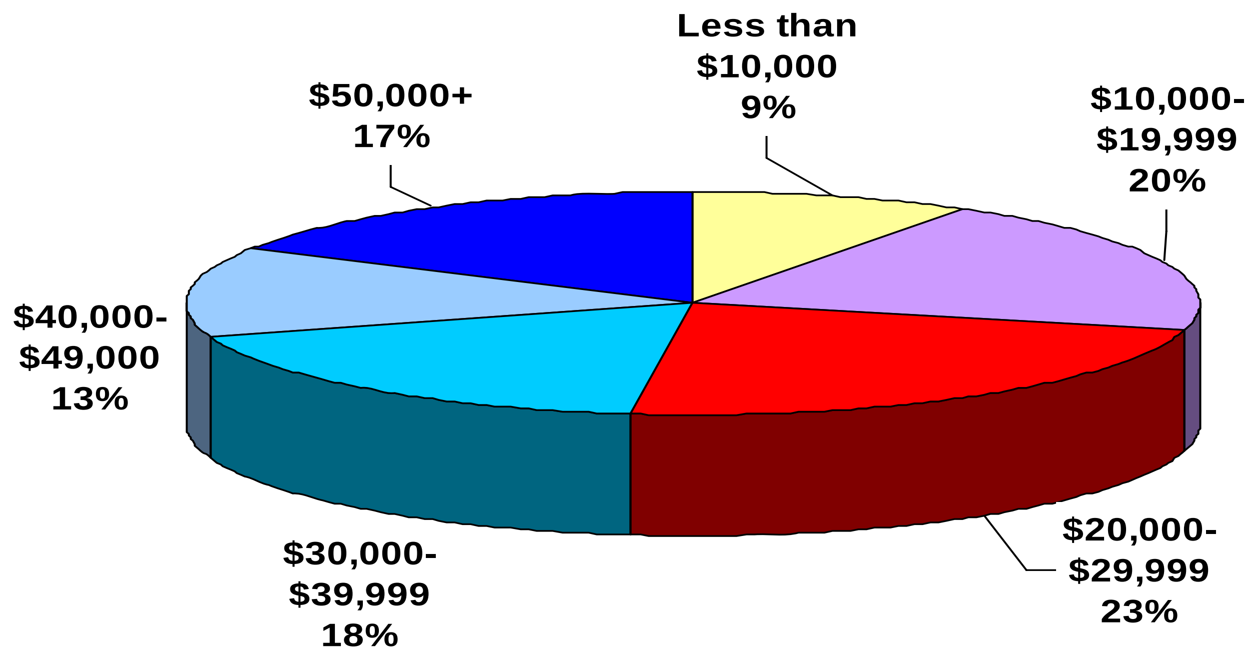
- The majority of residents (54%) are employed full time.
- 30% are retirees.



Source: Manufactured Housing Institute

Resident Demographics – by Income:

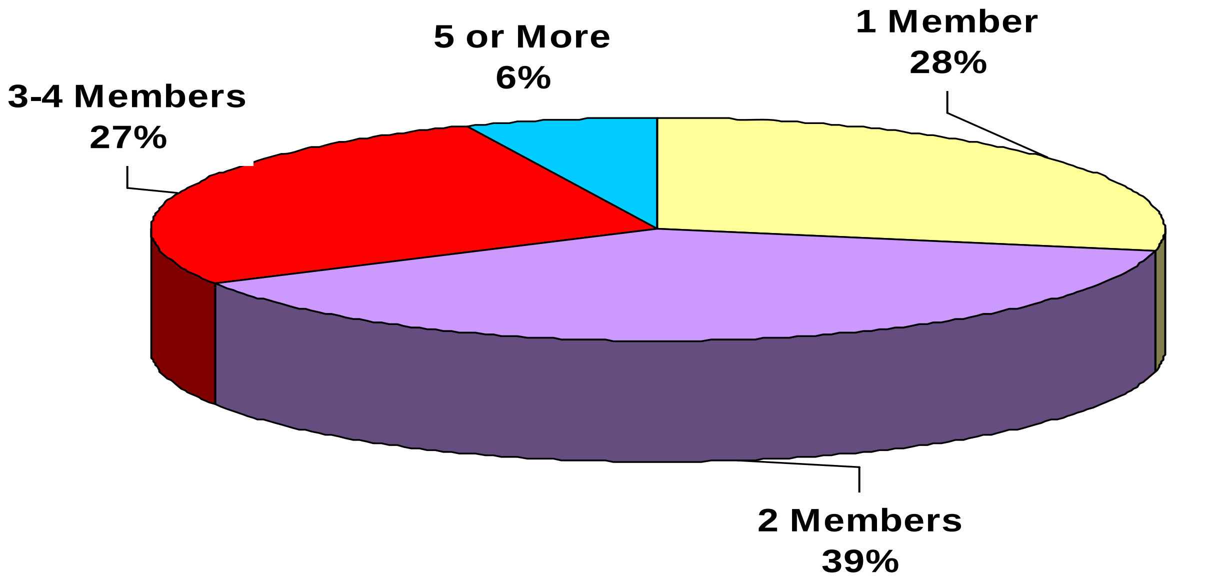
- The median household income is $28,000 per year.



Source: Manufactured Housing Institute

Resident Demographics – by Household Size:

- The Average household size is 2.3 persons.



Source: Manufactured Housing Institute

Manufactured Home Communities ("MHC's") – Financing Alternatives

- The Permanent Lenders:

Generally speaking, most traditional permanent lenders are active with financing MHC's. However, the level of experitise and understanding of the nuances to the property type can vary significantly for lender to lender.

» Conduits – 2.5 star properties and above.

» Life Companies – Higher quality properties only.

» Fannie Mae (through the DUS program) – Generally, higher quality properties.

» FHA 207 (m) – New Construction Only. No refinances. HUD is not aggressively pursuing this product type and has closed only 2 loans during 2004-2005.

Manufactured Home Communities ("MHC's") – Financing Alternatives

- General Permanent Loan Property Requirements:
  - » Paved Streets
  - » The Community is substantially complete and has an occupancy of at least 80%
  - » Planned parking or minimum of 2 spaces per home is preferred.
  - » All homes must be skirted.
  - » The community should be well kept and have good "street appeal."
- Borrower's and/or management must be experienced in operating this asset class.

Manufactured Home Communities ("MHC's") – Financing Alternatives

General Loan Terms and Conditions:

• Eligible Borrowers:	Single Asset Domestic Entities. Tenants In Common (TIC) structures are also eligible.
• Maximum LTV:	80%.
• Minimum DSCR:	1.20:1.
• Terms:	3 to 30 years for fixed rate.

Manufactured Home Communities ("MHC's") – Financing Alternatives

General Loan Terms and Conditions (Continued):

- Amortization: Up to 30 Years.
- Prepayment: Yield Maintenance or Defeasance. Other structured prepayments are available.
- Secondary Financing: Not permitted under CMBS loans. Fannie Mae will allow under it's DUS program.
- Recourse: Non-recourse, except for standard "carve-outs."

Manufactured Home Communities ("MHC's") – Financing Alternatives

General Loan Terms and Conditions (Continued):

- Pricing: Generally consistent with multifamily pricing.

  As of January 25, 2006, an 80% loan with a ten year call and 30 year amortization is ranging from 100 to 115 bps.

Financing Case Studies

Property Description / History:

This is not an ideal community.

Financing Case Studies

Property Description / History:

4-star, all-age (family) manufactured home community portfolio of 6 properties in California and New Mexico with approximately 1,800 sites.

Purpose of the Loan:

The DUS loan refinanced existing debt along with paying pre-payment penalties and returning equity to the Key Principals.

Loan Information:

- *Loan Amount:* $94,758,000
- *LTV max.:* 80%
- *DSC min.:* 1.25x
- *Loan Term:* 9-Yrs + 1-yr ARM
- *Prepayment:* 9 Years YM
- *Amortization:* 30 Years
- *All-in Rate:* 5.22%
- *Occupancy:* 99.6%

Financing Case Studies

Property Description / History:

4-star seniors-only manufactured home community with 167 sites, all of which can accommodate multisectional homes. Originally developed in 1969. Over the past two years the property has averaged a 99% occupancy rate.

Purpose of the Loan:

The DUS loan was used to acquire the subject property.

Loan Information:

- *Loan Amount:* $9,7000,000
- *LTC:* 80%
- *DSC min.:* 1.25x
- *Loan Term:* 10 Years
- *Prepayment:* Yield Maintenance.
- *Amortization:* 30 Years
- *All-in Rate:* 5.10%
- *Occupancy:* 98%

Financing Case Studies

Property Description / History:

3 star, all age (family) manufactured home community with 81 sites. Primarily standard-size (single-wide homes)

Purpose of the Loan:

The CMBS/Conduit loan was used to acquire the subject property.

Loan Information:

- *Loan Amount:* $2,600,000
- *LTC:* 80%
- *DSC min.:* 1.20x
- *Loan Term:* 10 Years
- *Prepayment:* 2 year lockout; then defeasance.
- *Amortization:* 30 Years
- *All-in Rate:* 5.74%
- *Occupancy:* 96.2%

Conclusions:

- Why Is This A Niche?
  - » Despite the number of communities in the U.S., it is a fairly tightly controlled market from an ownership perspective.
  - » Only in the Past 10 Years have the advantages to MHC's become widely realized in the lending community.

- Why Do Lenders (and Owners) Find This Product Attractive?
  - » Stability of Occupancy and Cash Flow.
  - » Low Expense Ratios in Comparison to Other Properties.
    - After all, the only R&M is for streets and a clubhouse!

- Why Is There Not More New MHC Development Taking Place?
  - » Lenders for the individual home financing are very limited, therefore absorption to fill a new community can be painfully long, unless the developer/owner can provide the individual home financing.
  - » An extraordinary opportunity exists in the lending industry for those willing to provide individual home financing.

PROSPERITY IN AN EVOLVING MARKET

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Thank You for Your Attendance and Participation

Enjoy the Rest of the 2006 CREF Convention!

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