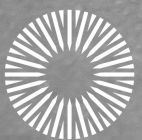


# ALTERNATIVE RESIDENTIAL SECTORS

## EXPLORING MANUFACTURED HOUSING AND SINGLE-FAMILY RENTALS

On the topic of housing affordability, one of the specialty real estate sectors gaining further attention are manufactured homes (MH) and single-family rentals (SFR), both of which offer the comfort of a home, without the high costs associated with owning a conventional house. Like other specialized industries, Real Estate Investment Trusts (REITs) focused on MH communities and SFRs offer investors a chance to diversify their investment portfolios, improve performance, and ultimately increase returns.



**hazelview**  
INVESTMENTS

# Affordable Housing Alternatives

---

MHs, also known as factory-built homes, initially targeted individuals seeking mobility. However, in the 1950s, they began to be promoted as a cost-effective and accessible housing alternative, as they offer more living space at a lower cost, compared to other rental options such as multi-family, SFRs, and duplex two-bedroom rentals. For instance, MHs have 25% more space than these other rental options, while costing approximately 50% less per square foot.<sup>1</sup>

The aftermath of the 2008 Global Financial Crisis saw SFRs emerge as an investable asset class and as an affordable alternative to traditional home ownership. Institutional investors strategically maneuvered through the period of declining home values, slowly building portfolios of SFRs for the purpose of renovation and leasing. SFRs now account for approximately 36% of all rental housing households in the U.S., totaling around 45 million households.<sup>2</sup> Interestingly, most of these rentals are owned and managed by individual investors, often referred to as mom-and-pop investors, with institutional owners representing just 2% of the market.<sup>2</sup>

## Demographics

Within the U.S., both MH and SFR REIT portfolios are primarily concentrated on the West Coast, East Coast, and Sunbelt areas.

MHs are more often found in designated MH parks/communities, on private land, and in rural areas. Within MH communities, residents have the option to either own or rent their own MHs, and they pay a monthly site lease to the landlord or community owner, which covers the use of amenities and services provided within the community. Certain operators of MH communities have also expanded their services to include recreational vehicle sites, which are primarily used for travel. MHs are attractive to all age groups, with the exception being MH communities that are restricted by age or to retired residents.

On the other hand, SFRs tend to be predominantly located in high-growth markets, such as the suburbs of major metropolitan areas, as well as in-fill neighborhoods with convenient access to jobs, transportation, and schools. They are particularly attractive to aging millennials, with 39 years old being the average age of residents, and potential future demand anticipated from the 20-34 age group.<sup>3</sup> SFR residents also typically have an average annual income estimated at over \$134,000 USD.<sup>3</sup>

## Market Profile

Over the years, the private SFR and MH asset categories have attracted the interest of sophisticated investors. In certain cases, investors have taken their businesses public, creating these additional SFR and MH specialized market sectors. This transition has expanded investment possibilities, making SFRs and MH investments available to the public, attracting a broader spectrum of individuals and institutions.

As of September 2023, the MH market cap stands at \$27 billion, while the SFR market cap is valued at \$33 billion.<sup>4</sup> Over the past five years, both the SFR and MH sectors have significantly outperformed the iShares U.S. Real Estate ETF by annualized returns of approximately 7% and 4%, respectively.<sup>5</sup> Our estimation indicates that the SFR and MH sectors are currently trading at a 15% and 10% discount to Net Asset Value (NAV), respectively.<sup>6</sup>

Notable MH public REITs include:



In the SFR sector, prominent public REITs include:



## Why are MHs and SFR REITs a good investment?

MH REITs exhibit resilience during recessions due to low turnover and consistent rent increases. For instance, Equity Lifestyle Properties and Sun Communities were able to continue increasing rents during the aftermath of the 2008 Global Financial Crisis.<sup>2</sup> This has led to Sun Communities reporting positive same property net operating income growth, every individual year or rolling four-quarter period, for more than 20 years.<sup>1</sup> Sun Communities data also showcases annual home move-outs at just 0.4%, with residents staying an average of 15 years.<sup>1</sup> Low capital expenditure and uninterrupted rental income contribute to their attractiveness as an investment property.

Turning to SFRs, in an inflationary environment, SFRs with shorter lease durations can serve as a valuable hedge, making them a compelling investment opportunity. Furthermore, data reveals that national average SFR rent growth has consistently demonstrated strength over the past four decades, without any significant declines.<sup>7</sup>

The scarcity and cost of housing across North America has boosted the appeal of SFRs as an affordable living choice that helps address the housing shortage. However, a consistent lack of available rentals is expected, intensifying demand, and granting greater pricing leverage to operators. This shortage can be attributed to mounting labour and material costs, impact fees, land scarcity, and regulatory hurdles, all of which hinder supply. Moreover, the inflation-driven escalation in materials and labour expenses has significantly raised the replacement cost for SFRs, compounding the supply gap.

# Conclusion

---

MH and SFR investments benefit from the increasing demand for affordable housing, tenant demand from varying demographics, and evolving lifestyle preferences. Consequently, investing in MH and SFR public REITs offers an appealing chance for diversification and growth within investment portfolios. Investing in these sectors via public REITs presents opportunities for long-term value and favourable returns.

#### Sources:

1. Sun Communities Investor Presentation, Sun Communities, Inc., 2023.
2. Spector, Jeffrey et al. U.S. REITs: REIT Primer, 13th Edition: A Comprehensive Handbook for Investors, B of A Global Research, 2022.
3. Invitation Homes Investor Presentation, May 2023.
4. Data sourced from Bloomberg as of 09/30/2023.
5. Data sourced from Bloomberg as of 05/31/2018 - 09/30/2023.
6. Internal Valuations as computed by Hazelview Securities Inc. as of 09/30/2023.
7. John Burns Real Estate Consulting, Burns US Housing Analysis and Forecast, published April 19, 2023, as cited in the Invitation Homes Investor Presentation, May 2023.

#### Disclaimer

This document is for informational purposes only and is not an offer or solicitation to deal in securities. Any opinion or estimate contained in this document is made on a general basis and is not to be relied upon for the purpose of making investment decisions. The statements made herein may contain forecasts, projections, or other forward-looking information regarding the likelihood of future events or outcomes in relation to financial markets or securities. These statements are only predictions. Actual events or results may differ materially, as past, or projected performance is not indicative of future results. Readers must make their own assessment of the relevance, accuracy, and adequacy of the information contained in this document and such independent investigations as they consider necessary or appropriate for the purpose of such assessment. This document does not constitute investment research. Consequently, this document has not been prepared in line with the requirements of any jurisdiction in relation to the independence of investment research or any prohibition on dealing ahead of the dissemination of investment research. Any research or analysis used in the preparation of this document has been procured by Hazelview Securities Inc. for its own use. The information is not guaranteed as to its accuracy.