



## Mobile Home and Self-Storage Sectors Boast Sterling Performance

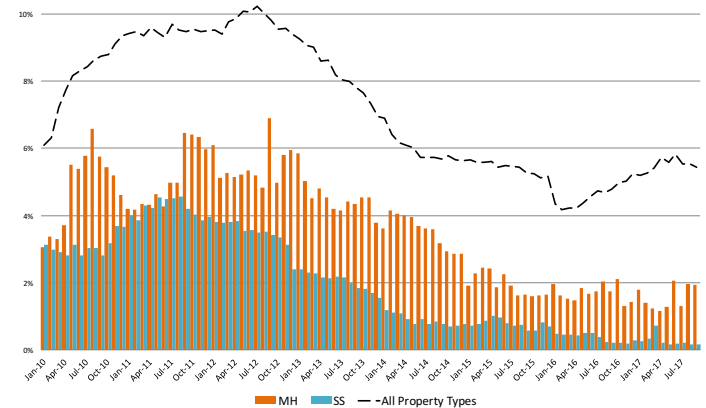
It's no secret that the office, retail, lodging, multifamily, and industrial sectors typically receive much of the coverage in the securitized lending landscape as the five major property types. However, lesser-known property categories such as mobile home parks (also called manufactured housing) and self-storage facilities have been carving up considerable representation in CMBS. Demand for both segments has grown over recent years: mobile homes are a prime choice for low-income families looking for a more affordable home ownership alternative, and self-storage facilities provide those in dense urban areas with a place to store their excess goods as major metros continue to fill to the brim. Contrary to other real estate investment assets, the mobile home and self-storage segments present investors with unique opportunities due to their lower requirements for capital, persistent results during economic slowdowns, and high barriers to entry. These factors have enabled current industry participants to enjoy steady returns with minimal competition.

The manufactured housing and self-storage industries have demonstrated rapid production growth in recent years, driven by the need for more affordable housing options and generational demographic shifts thanks to drastic lifestyle changes. According to annual production and shipment data sourced from the Institute for Building Technology and Safety (IBTS), 2017 marks the fifth consecutive year of sustained annual production growth in mobile home communities in the United States. Over 81,000 units were delivered in 2016 alone, while monthly shipments for 2017 consistently posted double-digit growth year-over-year. Self-storage demand – which is often buoyed by events related to dislocation, family separation, downsizing, and disaster – has also exhibited immense supply-side growth. Annual construction spending for self-storage facilities surpassed the \$1 billion-mark in both 2015 and 2016. The US Census Bureau estimates that self-storage construction costs

reached a record \$1.9 billion last year, and tallied \$928 million through the first four months of 2017.

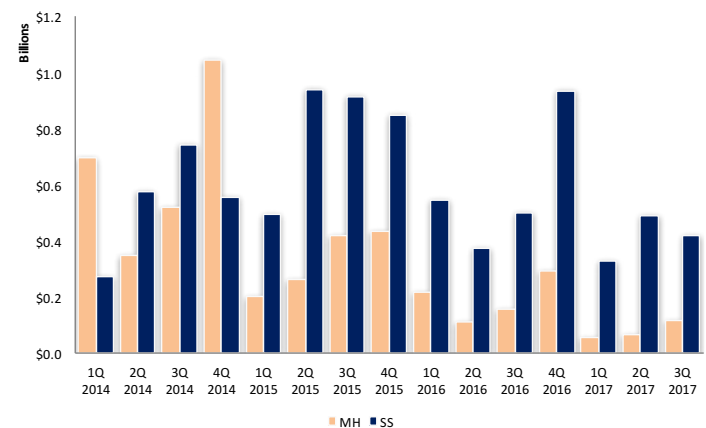
### Even in Worst of Times, Delinquency Rates for Mobile Home and Self-Storage Trail Overall Reading

**GRAPH 1: CMBS DELINQUENCY RATES**



Source: Trepp

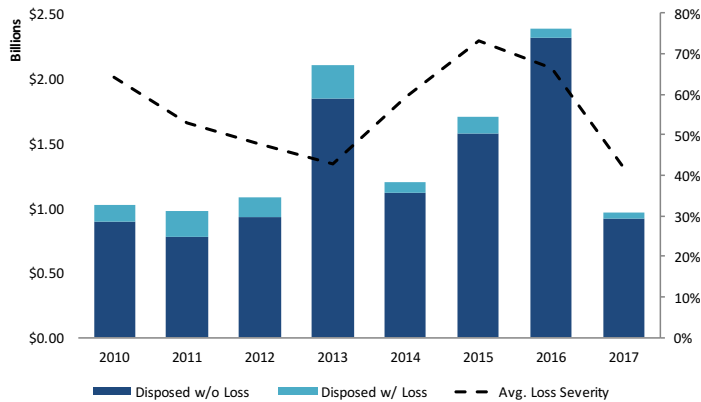
**GRAPH 2: MOBILE HOME/SELF-STORAGE CMBS - ISSUANCE**



Source: Trepp

In contrast to the drastic uptick in delinquencies that swept over much of the CMBS industry during the recovery, rates across the non-major property types

**GRAPH 3: MOBILE HOME CMBS LOSSES**



Source: Trepp

have remained relatively stable in comparison. While the national delinquency rate across all property types hit a peak of 10.23% in early 2012, monthly readings have rebounded steadily, settling between 4-5% within the past year. Historically, mobile home and self-storage loans are generally well-performing and subject to minimal loss rates and low delinquency percentages. In particular, the two property sectors are highlighted by consistent cash flow potential, lower maintenance costs, and are generally resistant to, if not aided by, rough economic downturns.

Of the two property types, mobile home notes have posted the largest increase in troubled loan percentages during this period, rising to an all-time high of 6.90% in September 2012. Since mobile home financing in the CMBS universe is somewhat smaller in size, one or two large loans falling into payment default can pose a significant impact to the sector's overall delinquency reading. The bulk of the distressed pipeline in the years leading up to 2014 was comprised by the long-term distress of the Denmark MHC Portfolio (which backed JPMCC 2007-LD11), the Morgan Resort Portfolio (COMM 2006-C8), and the Tri-Star Estates Manufactured Housing Community (BACM 2005-1). The overall delinquency rate for manufactured housing fell to the 1-2% range by early 2015, and recently clocked in at 1.94% for September 2017.

Bolstered by strong recovery rates, low operating costs, as well as growing demand and usage of self-storage

units by a generation of hoarders, loans backed by self-storage properties have exhibited low levels of distress. The delinquency rate for self-storage CMBS, which peaked at 4.55% in August of 2011, has stabilized and remained below the 1%-mark since the second quarter of 2014. The reading declined to a historical low of 0.16% last month, down 43 basis points from the same period in 2015. However, the delinquency percentages for self-storage prior to 2014 were elevated due to defaulted loans such as the Dahn Corp – NJ Self Storage Portfolio (which served as collateral for GCCFC 2005-GG5), the Philly Self Storage Portfolio (Rollup) (BACM 2007-3), and the Storage Bin Portfolio (BSCMS 2005-PWR9).

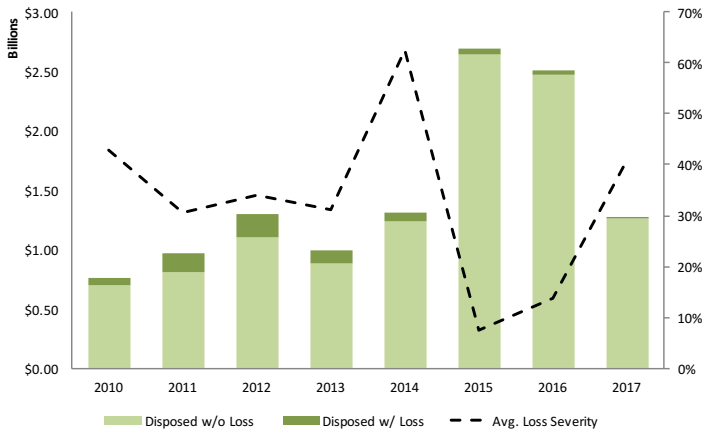
### Losses Dwindle, Investors Rejoice

Since 2010 through the first three quarters of 2017, more than \$11.4 billion in mobile home loans have paid off in any manner, 9.32% of which were written off with losses at disposition. Loans liquidated with some sort of loss took on cumulative losses of \$579.4 million during this time frame at an average loss severity of 54.50%. Average loss severity for this sector hit a peak of 73.15% in 2015, but later dipped to 66.51% and 42.04% for loan disposals reported in 2016 and in the first nine months of 2017, respectively. From an overall market perspective, the percentage of mobile home loans resolved with a loss has been steadily declining since 2013. Only 3.06% of all mobile home notes suffered a loss at liquidation in 2016, down from 12.14% in 2013 and 7.39% in 2015.

In the self-storage space, there's been a sharp drop-off in losses attributed to resolved loans in the years following 2013. Nearly \$11.8 billion in self-storage CMBS loans have paid off since January 2010, with cumulative losses topping off at about \$231.1 million. Only 5.76% of all loans from this period were closed out with realized losses, generating an average loss severity of 34.05%. On a yearly basis, the average loss severity for these loan dispositions climbed to its highest point in 2014 at 62.53%. However, that figure later dropped to a mere 7.48% in 2015 and 13.83% in 2016 amid healthy sector fundamentals, strong investor demand, and rising rent growth.

## Since 2015, Self-Storage Leads the Issuance Race

**GRAPH 4: SELF-STORAGE CMBS LOSSES**



Source: Trepp

Approximately \$1.84 billion in CMBS loans were issued to collateral tied to these two property sectors in the first three quarters of 2017, which includes \$243.8 million in financing for mobile home parks and over \$1.24 billion for self-storage properties. Overall, these new issues account for roughly 2.47% of the \$60.2 billion in securitized transactions that have closed in 2017 year-to-date. From 2014 to 2016, manufactured housing issuance totaled \$4.7 billion, while \$7.7 billion in self-storage debt was securitized through CMBS.

In terms of notable issuances backed by these segments, the \$540 million Simply Self Storage Portfolio ranks as the largest self-storage loan that is currently outstanding in the CMBS market. Issued in the fourth quarter of 2016, the loan fully comprises the single-asset CGCMT 2016-SML deal and matures in September 2021. The loan portfolio features 102 self-storage properties spanning 14 states with a combined footprint of 428 million square feet. For the first half of 2017, DSCR (NCF) for the Simply Self Storage Portfolio was pegged at 1.78x on an occupancy rate of 92%.

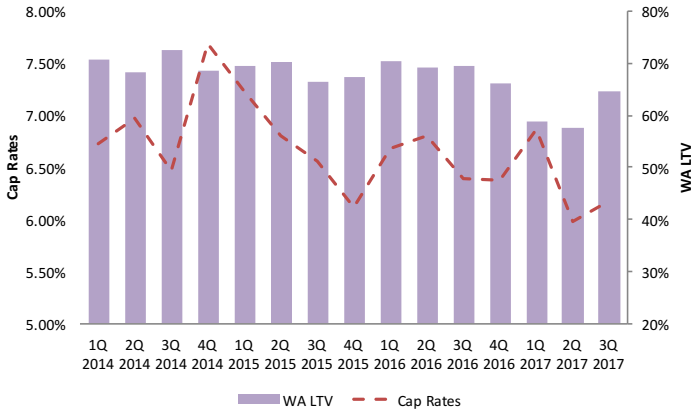
Looking at the manufactured housing space, a significant share of mobile home loans are

currently under the ownership of Michigan-based CRE investment firm RHP Properties, which is spearheaded by CEO Ross H. Patrich. RHP is one of the largest privately-held operators of manufactured home communities nationwide and serves as the guarantor for 55 loans totaling \$1.86 billion. Securitized across 39 CMBS deals issued since 2011, many of these loans were sponsored in partnership with NorthStar Realty Finance Corp. before NorthStar sold off its extensive mobile home portfolio in 2016.

Due to the overall run-up in property values following the recovery and a limited market supply, underwritten cap rates and leverage ratios reported on newly-issued mobile home and self-storage loans have been trending downwards on a quarter-by-quarter basis. Cap rates, which are defined as a property's net operating income given its appraised value, for mobile home mortgages tightened to 6.18% on transactions which closed in the third quarter of 2017, down 22 basis points from the same period in 2016. For self-storage issues in 2017, cap rate compression has kept prevailing percentages below the 6%-mark thanks to improvements in vacancy, rent growth, leasing fundamentals, and investor appetite. At the same time, weighted-average leverage ratios at securitization have also decreased, boosted in part by heightened underwriting standards under risk retention. Some of the downward pressure on cap rates could lessen in upcoming quarters as the Fed works to increase interest rates and property values continue to stabilize.

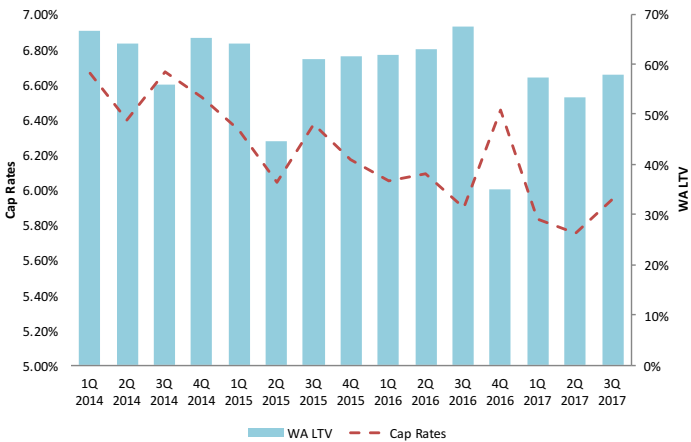
In terms of reported operating income, mobile home collateral has showcased positive year-over-year NOI growth for all years since 2005, even when average NOIs were generally in decline across all property types. On the other hand, overall income growth in the self-storage segment has been especially pronounced after 2011 despite negative growth rates in 2009 and 2010. For the 2016 fiscal year, manufactured housing logged a 5.29% NOI growth

**GRAPH 5: MOBILE HOME CMBS WALTV & CAP RATES**



Source: Trepp

**GRAPH 6: SELF-STORAGE CMBS WALTV & CAP RATES**



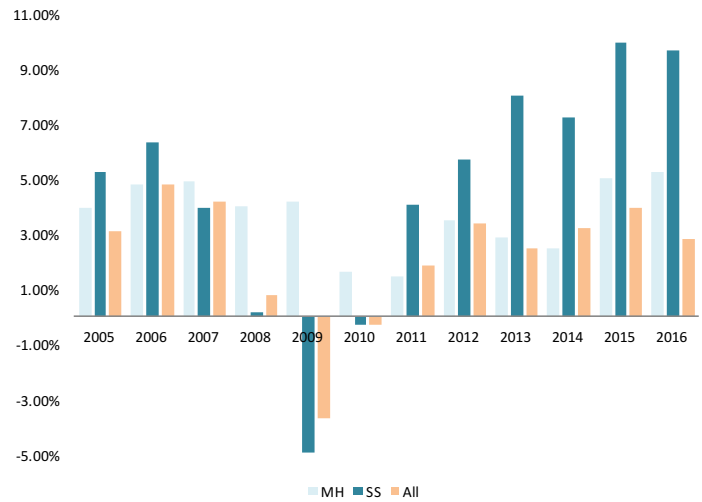
Source: Trepp

over the prior fiscal year, while year-over-year growth for self-storage came in at 9.68%.

## Top Metropolitan Markets

California's CMBS exposure to these two property sectors currently surpasses the totals linked to other US states by a considerable margin. In the Golden State, fixed income financing for mobile home units amounts to \$759.1 million, while CMBS debt for self-storage properties totals \$2.39 billion. The Los Angeles MSA, which tops the list of the largest metropolitan markets for CMBS lending in these property sectors, accounts for 47.14% and 35.43%,

**GRAPH 7: MOBILE HOME/SELF-STORAGE CMBS YOY NOI GROWTH**



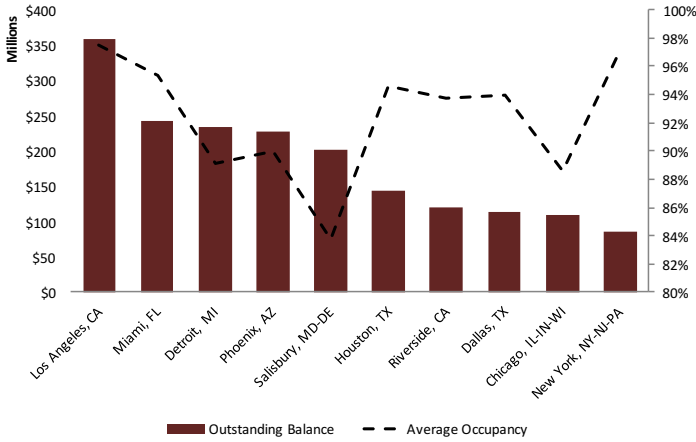
Source: Trepp

respectively, of the total debt backed by all mobile home and self-storage facilities across the entire state of California.

In addition to a strong presence in lower-income rural communities, mobile homes also serve as a popular housing option in major cities with high rent and living costs like Miami, Detroit, Phoenix, and Houston. For the self-storage segment, demand remains robust in densely populated urban areas in New York, California, Texas, Florida, Michigan, and Colorado, particularly for value-conscious residents seeking to store their belongings for practical and sentimental reasons. Many of these self-storage customers are frequently on the move, or are looking for ways to de-clutter small living quarters constrained by limited space.

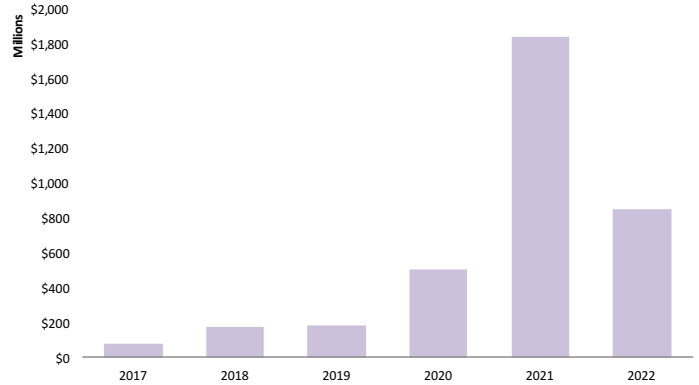
Vacancy has been tightening across large metropolitan areas as a result of solid employment growth and elevated home prices. In the ten MSAs with the largest CMBS concentration for these real estate assets, average occupancy falls between 83% and 97% for mobile home parks, and ranges from 86% to 92% for self-storage properties. Not surprisingly, Los Angeles boasts one of the lowest vacancy levels in each category. As of October 2017,

**GRAPH 8: MOBILE HOME CMBS TOP 10 MARKETS**



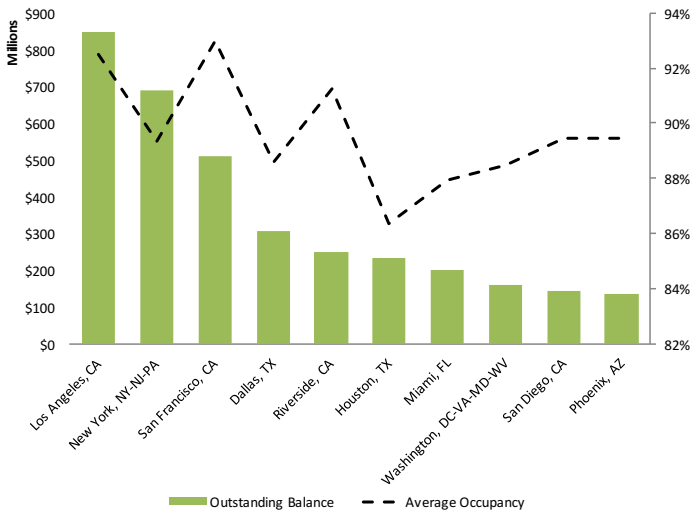
Source: Trepp

**GRAPH 11: SELF-STORAGE CMBS MATURITY OVERVIEW**



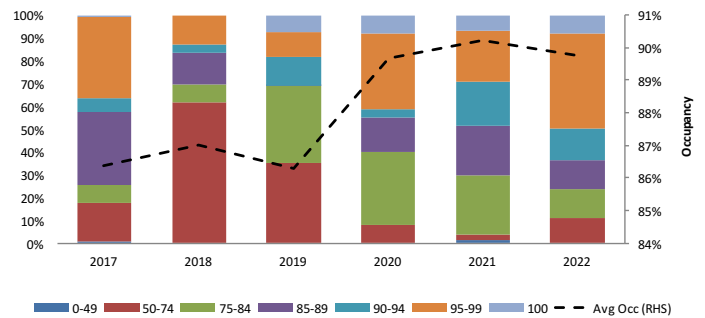
Source: Trepp

**GRAPH 9: SELF-STORAGE CMBS TOP 10 MARKETS**



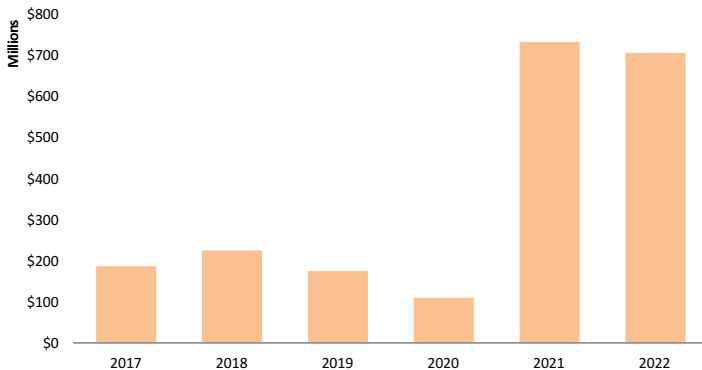
Source: Trepp

**GRAPH 12: MOBILE HOME CMBS AVERAGE OCCUPANCY**



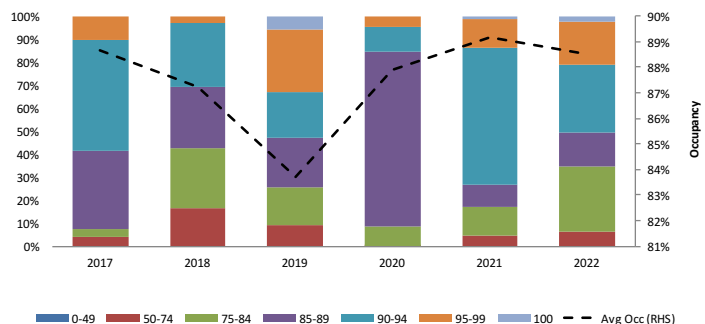
Source: Trepp

**GRAPH 10: MOBILE HOME CMBS MATURITY OVERVIEW**



Source: Trepp

**GRAPH 13: SELF-STORAGE CMBS AVERAGE OCCUPANCY**



Source: Trepp

average occupancy for Los Angeles properties currently sits at 97.48% for mobile home parks and 92.49% for self-storage.

### **Low Vacancy Rates Bode Well for Maturing Loans**

Based on an October 2017 snapshot, around \$407.6 million in mobile home loans and \$255.2 million in self-storage mortgages are still up for refinancing from now through the end of 2018. In the years between 2019 and 2022, the maturing volume rises to \$1.71 billion for mobile homes and \$3.37 billion for self-storage notes. While vacancy rates tick up slightly for loans maturing in 2019, overall leasing activity exceeds 75% for 71.64% of mobile home notes maturing in this time frame. The most recently reported occupancy rates are even higher for self-storage collateral, as 95% of the maturing pool currently boasts vacancy rates below the 15%-mark.

Looking forward, manufactured housing and self-storage still rank as two of the strongest-performing real estate sectors in terms of cash flow returns and long-term growth potential, especially given the current strength of demand-side fundamentals during a period of deteriorating housing affordability. When looking at 2017 alone, manufactured housing REITs have posted extraordinary double-digit returns that outpace most other property categories. In the self-storage space, supply headwinds have softened growth in recent quarters following explosive expansion and vacancy compression between 2014 and 2015. However, the outlook in this segment still remains favorable as rising income and aging population groups sustain a wider consumer base. Overall, the maturing overview for mobile home and self-storage loans are among the strongest in CMBS, as peak occupancy levels and rock-bottom distress rates continue to drive long-range property performance and investment.

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For inquiries about the data analysis conducted in this research, contact [press@trepp.com](mailto:press@trepp.com) or 212-754-1010.

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