FT Magazine Residential property

Why big investors are buying up American trailer parks

Amid an affordable housing crisis, residents are battling private equity and others over mobile homes

Rana Foroohar FEBRUARY 7 2020

The words "trailer park" aren't used in America any more — at least not in polite company. Manufactured housing is the preferred term for the snug and relatively inexpensive prefabricated spaces that represent "home sweet home" for the roughly 22 million Americans now living in them around the country.

Many of us know only the stereotypes: rows of dilapidated white rectangles occupied by the poor and owned by grumpy landlords only a bit wealthier than their tenants. Low-cost mortgages are not available for this kind of property.

But times have changed — and so has the manufactured housing business. There are still places that look very much like the trailer parks of old. But there are just as many that reflect a new reality.

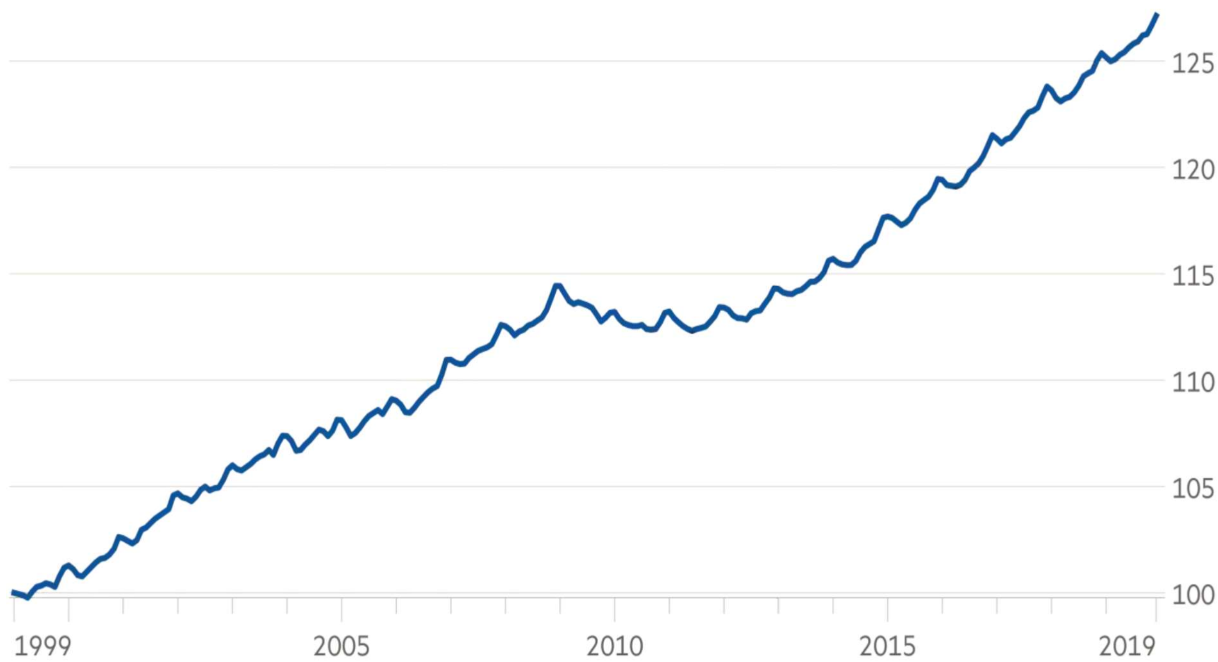
Manufactured housing is no longer about mobility (trailers that can be carted from place to place by holiday-goers or migrant workers) but about affordability. These homes look pretty much like your typical ranch house but, depending on where you live, they might cost half the price.

This makes manufactured housing a hot commodity. And this, in turn, reflects another shift. While the past several decades of globalisation and technological development have lowered the price of most goods and services in the US, there's been inflation in all the things that make people middle class: healthcare, education and, most important, housing.

Over the past decade, the cost of shelter has risen sharply compared with everything else — housing prices contributed a record 81 per cent to core inflation in summer 2017 and remain responsible for "the lion's share" of all inflation in the US, according to a recent Cornell University study.

US rents have been consistently rising faster than overall prices

Consumer price indices, rent of primary residence relative to all items (less food and energy), Jan 1999 = 100



Source: Haver Analytics
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The result is an affordable housing crisis in much of America. According to one survey last year, median-priced homes are now considered technically unaffordable for average wage earners in three-quarters of the country. This is particularly true for younger people (who now hold a record amount of debt), older people on fixed incomes and renters.

Last year, Harvard's Joint Center for Housing Studies reported that 47 per cent of people who rent in America are "cost-burdened", meaning they spend more than 30 per cent of their income on housing. That proportion increases to 83 per cent when looking specifically at low-income renter households. Meanwhile, the amount of low-rent housing (costing $800 per month or less) fell by about four million units between 2011 and 2017.

As a result, manufactured housing has become "one of the few sources of naturally occurring affordable housing" in the country, according to a recent study by Fannie Mae, the Washington-backed residential mortgage agency.

While most residents in these communities still make less than $50,000 a year, they include all sorts of people — from retired teachers and social workers looking to downsize and still live in the same community to snowbirds looking for a cheap part-time property in the Sun Belt, to new immigrants and younger people who need more space than they can afford in places where the jobs are.

22m

The approximate number of Americans who live in 'manufactured housing'

But prospective residents aren't the only ones who want in. The world's richest investors do too. As older owners of mobile-home parks are retiring and selling up, big-name investors — from real estate investment trusts such as Equity Lifestyle Properties (ELS) to the Singaporean sovereign wealth fund GIC and large private equity funds such as The Carlyle Group and Apollo — have all begun buying mobile-home parks.

A number of smaller regional real estate investors have entered the game as well. Institutional investors accounted for 17 per cent of the $4bn in sector transactions in 2018, up from just 9 per cent of the $1.2bn in transactions in 2013.

Mobile-home parks are attractive to investors because of the reliable annual rate of return they provide: 4 per cent or more. This is about double the average US real estate investment trust return, according to a report by the Private Equity Stakeholder Project and two other consumer advocacy groups. The sector is also booming, with shipments of new manufactured housing units rising consistently since 2009 as people have been priced out of traditional homes.

But as big money has entered the sector, so have high-profile complaints: from tenants and activists concerned about rent spikes and poor maintenance under their new owners, to lower-income people, forced to choose between paying rent or medical costs.

Anne Morin, 77, moved to an investor-owned park called Shadowbrook 'because it seemed like a really good financial idea', but now worries about being able to pay the rent long-term © Ricardo Nagaoka

Shortly after a spate of publicity last year, Democratic presidential candidate Elizabeth Warren sent letters to some of the big investors getting into the sector, citing dramatic rent increases and requesting information about their "use of predatory practices to boost profits in the communities they own".

Since then, legislators at both state and national level have been agitating for new rules that would ensure rich investors don't end up driving tenants out — and forcing up prices in one of America's last remaining bastions of affordable housing.

A Tale of Two Parks

On the banks of the Clackamas river in Portland, Oregon, you'll find any number of $1m homes. You'll also find the Clackamas River Community Cooperative (CRCC), a model of resident-owned manufactured housing, filled with beautifully kept, lushly landscaped bungalow-style properties that sit on some of the most attractive land in the area. Peaceful and green, the site is only a 15-minute drive to the centre of one of America's most desirable coastal cities.

On sunny days, residents of many ages and ethnicities will be outside tending their flowers and lawns, or walking dogs along well-paved trails that wind down to a community park with a basketball court and a swimming area on the river.

"We've invested about $160,000 in our green spaces," says Kahlei Howard, a resident who takes me on a tour of the site, which is owned by the residents as a group. This is unusual — most people who live in manufactured housing parks in America typically own their home but not the land with it.

Howard, 59, is a former Milwaukee resident who downsized to the property along with her husband a few years ago. "We had a big house and a beautiful yard, but I just wanted less," she says. Less upkeep, less space and less work to support a lifestyle she didn't really want or need.

Greg and Elizabeth Lindstrom outside their manufactured home at the Clackamas River Community Cooperative. 'It's a secure, friendly community,' says Greg. 'We won't be moving ever again' © Ricardo Nagaoka

The same goes for Greg and Elizabeth Lindstrom, aged 50 and 45 respectively, who moved to CRCC after one of their children went to college. "My wife has multiple sclerosis, and we just wanted less house to take care of," says Greg.

The pair bought and refurbished a three-bedroom, two-bathroom property for half of what they would have paid for a traditional home. “It’s a secure, friendly community,” says Greg. “We won’t be moving ever again.”

The Clackamas park, a 76-lot property, was bought by its residents in 2012 for $5m, with the help of ROC USA, a non-profit venture that aims to expand resident-owned manufactured housing across the country, and its local affiliate Casa. The previous owners, Michael Fingerut and his son Mike, chose to sell after the senior Fingerut decided to retire.

The CRCC residents were lucky. The Fingeruts lived nearby and had no desire to see the park go to a large corporate owner. “My dad was the original developer of this property,” says Mike.

“There had been a lot of high-profile cases in Oregon of investors who bought parks and kicked people out. We had a great relationship with the residents and didn’t want that to happen.”

Julie Massa, the Casa employee on the project at the time, and ROC’s president Paul Bradley, a social entrepreneur who worked on community housing for decades before founding the group in 2008, walked around the park with Fingerut.

Together they met residents, many of whom had never owned their own homes before. “People were worried about what would come next,” Massa says. Would the co-operative be able to manage the financial load? What would happen if there were disagreements among residents about how to run the park? How might the demographics change? (Portland is a blue city in a red state that is still struggling to adapt to economic shifts, which have brought more minorities and immigrant families to the area.)

“We were trying to do three things,” says Massa. “Build a co-op, do a real estate deal and, ultimately, create a community.”

Manicured topiary at the Clackamas park in Portland, Oregon, which some see as a model of resident-owned manufactured housing © Ricardo Nagaoka

They succeeded, in part because the Fingeruts were patient. They had plenty of investor offers but they were willing to wait for Casa and ROC, which underwrote the loan, to organise the co-op and orchestrate the purchase.

A state tax break that waived capital gains for parks sold to residents helped bridge the gap between what the co-op and the investors could pay (the Fingeruts say they could have made up to a million dollars more from a single investor).

People in these communities tend to be financially conservative. They know what it's like to live on the edge, and they don't want to

Paul Bradley, president of ROC, a non-profit that supports resident-owned manufactured housing

ROC is part of a growing national movement to help lower-income people hang on to their homes by turning older mobile-home parks — that might otherwise be sold to large investors — into resident-owned co-operatives.

The non-profit and its affiliates have helped more than 17,000 owners of manufactured homes in 17 states come together to buy their parks since 1984. None has foreclosed or faced bankruptcy, despite the fact that 75 per cent of buyers were from low-income households.

As a Fannie Mae report noted: "Residents of these communities were willing to go to great lengths to secure their futures."

Bradley sees this as a model to build not only housing security but a middle-class life for vulnerable Americans. Data tallied by ROC for 25 resident-owned properties over five years showed average site fee increases of only 0.86 per cent a year, compared with a national average across all manufactured home communities of 3.9 per cent.

"People in these communities tend to be financially conservative," Bradley previously told the FT. "They know what it's like to live on the edge, and they don't want to."

Still, he says, "we're competing all over the place with private equity firms", which can often put up more money, more quickly, than residents. Indeed, in many states, residents aren't even entitled to know whether properties are being sold until they receive their eviction notices.

That's something Bradley and other activists want to change. But to do so, they'll have to compete for prime properties with some of the richest investors in the world.

CRCC is in many ways the dream scenario for a manufactured housing park. About two minutes down the road is Shadowbrook, another manufactured housing community where you'll find a more common reality: a group of residents aged 55 and older, living on fixed incomes, who have plenty of complaints about their remote corporate owner — in this case, ELS, the Chicago-based publicly traded real estate investment trust founded by investor Sam Zell.

Even at first glance, the two communities seem different. Shadowbrook is less lush, less green, filled with a mix of tidy, well-tended bungalow-style homes, and less well-kept trailers in various states of disarray.

Anne Morin, 77, owns one of the former. I meet the retired schoolteacher at her cosy, carpeted two-bedroom home with a pretty deck out back. It is about half the monthly price of the smaller condo she was renting previously.

"I really didn't want to live in a manufactured home park," she tells me. "That's the truth. I wanted to be nearer to the museums and theatres downtown, with everything close by. But I did it because it seemed like a really good financial idea."

That turned out to be only partly true. The cost of her home was about $100,000; much less than a condo. But Shadowbrook's average site fees — the monthly costs paid by a manufactured homeowner for the land on which their property sits — increased dramatically between 2012 and 2017, from $638 to $828 according to JTL Associates data. (At CRCC, where residents control the rates, average fees have remained steady at $590.)

Morin frets about being able to afford her rent over the long term. Her trailer would cost as much as $20,000 to move, even if she could find another space at a nearby park. "You end up being stuck," she says.

Shelly Watson feels she was ‘sold an empty package’ of promises about subsidised activities and entertainment at Shadowbrook © Ricardo Nagaoka

Indeed, as the Fannie Mae report on manufactured housing noted, residents who can’t afford to move their homes if properties are acquired by investors and rents go up may be forced to leave them altogether if they can’t find a buyer. (Trailers tend to be harder to sell than a typical house, since part of the value is in the nature of the park community itself, which can vary widely.)

Morin’s neighbour, 60-year-old Shelly Watson, worries about rent increases as well. She feels that she was “sold an empty package” of promises about subsidised activities and entertainment at the park, which she chose in part so that her elderly mother could have a social life while she worked.

“A lot of things here that the park management claimed they would do,” she says, from cleaning and repairs to social functions, “end up being done by residents.”

ELS, the country's largest single owner of mobile-home parks, would dispute that. Its website touts its scale as something that allows the company to be more responsive to the needs of its residents. But those who live at Shadowbrook have for some time claimed just the opposite.

When I met them last August, there was a litany of concerns — from complaints that management was slow to deal with poor paving on streets and pavements, to erosion along the Sieben creek bank that borders the park, a problem exacerbated by leaks from decrepit pipes.

Bill Strauch, 61, who has lived in the park with his wife from 2014, tells me that since 2018 he has been complaining about pipe, drainage and erosion issues to little effect. "We moved here from California, where it was more expensive. It seemed like a good size for us, and we liked that it wasn't isolated."

But almost immediately, he had issues with exposed pipes near his house that leaked into the nearby creek. Strauch says he complained, sent a lawyer's letter and even called excavators and city officials on his own.

"Nothing gets done," he says. "The ELS website [suggests] they are a big publicly traded company with the resources to handle things like this, but they don't put their money where their mouths are."

Jennifer Ludovice, a senior director at the company, noted in an email response to the FT's query about these issues that the company was looking into a paving project that, weather permitting, would be completed this spring; she also said the company "has been working to address the drainage issue outside of Mr Strauch's site".

Cracked paving at Shadowbrook. ELS, the real estate investment trust that owns the park, says it hopes to complete a paving project there this spring, weather permitting © Ricardo Nagaoka

Ludovice said that in the past two years the company's customer service phone log showed just one phone call from a Shadowbrook resident, "indicating that residents' needs are being raised to and addressed by community management, as well as indicating overall resident satisfaction in the community". But the residents I speak to say it's often difficult to make contact with management.

I heard multiple complaints at Shadowbrook about everything from a lack of cleanliness in the community pool to black mould in a resident's home, and slow responsiveness on the part of management, according to a number of residents.

Some people have felt intimidated and been reluctant to go to the site office when they know the property manager is in, according to Sande Quinonez, a Shadowbrook resident whose husband Carlos was at one point barred from the office after a dispute over maintenance issues. Quinonez questions whether property managers might be given financial rewards for saving money.

Ludovice did not respond to a written query about the company's compensation policies or financial practices. She did respond by email to other queries, noting that the pool was serviced twice a week by a contractor and that pH levels met Department of Health standards.

On the drainage, pipe and erosion issues, she said the creek was a protected waterway and a geologist had been engaged to advise on planned improvements.

Ludovice alleged that it was 79-year-old Carlos who was being "intimidating" during a conversation with the site manager (who did not personally respond to requests for a comment).

Carlos and Sande Quinonez at their home in Shadowbrook. ELS is the country's largest single owner of mobile-home parks © Ricardo Nagaoka

In the past few months, since I first began following the residents at Shadowbrook and asking ELS for comment, Carlos and the site manager went into mediation, according to Sande Quinonez, who says that things have improved a bit at the park since then. Her husband is now allowed in the office, more time is being spent on maintenance and a city housing official came out to discuss tenants' rights and rent issues.

Still, says Quinonez, nothing has yet been done about repairs to the pavements and streets. She says there are new sewage leaks near the clubhouse. And she still feels the relationship with management is not as good as it could be. "They don't talk to us. They don't seem to have time."

Park residents seem to have a wholly different view of Shadowbrook life than their out-of-state landlords. It's a refrain that I hear throughout my reporting on mobile-home communities (I have visited several, in Massachusetts and New Hampshire as well as Oregon).

While local owners have an incentive to deal with maintenance, cost and safety issues, remote landlords are, well, remote. When private equity first moved into investing in single family homes after property prices dropped off a cliff following the 2008 crisis, there were also complaints about neglect and property price rises.

Investors such as Invitation Homes, formerly owned by Blackstone, have previously acknowledged that there were "bumps in the road," and a steep learning curve before things got better. The same is true in manufactured housing.

Still, as one portfolio manager at a brand-name private equity shop admits to me: "I can understand why people are concerned. It's housing. And we're at the end of a market cycle, with a big search for yield." All of that makes homeowners, and politicians, worry when private equity buyers come looking at mobile-home parks in their communities.

It also underscores larger tensions in Portland and the country at large. Who gets to own what and for how much? Should large corporate landlords be able to move poor people out of their homes at will? And what's to be done about the growing sense that the basics of middle-class life — chiefly affordable housing — seem out of reach for so many?

The History of Mobile Homes

Mobile homes in America are as old as the covered wagons that took settlers west. But as a modern industry, they really took off in the second world war era as temporary housing for soldiers and, then, returning veterans and baby boomers. Typically they existed on the outskirts of urban areas.

But as cities such as Portland have grown and expanded outward, the sites that these parks now sit on — land that was once fairly cheap — have become prime real estate, which is now being occupied by people paying relatively little for their housing.

In the early 2000s, in the run-up to the 2008 subprime crisis, booming property values in the Portland area resulted in the sale and eventual closure of 63 mobile-home communities, displacing 2,300 households.

John VanLandingham, a legal-aid lawyer who has worked with Oregon landlords and tenants for decades, notes that there has been a pick-up in property turnover again in the past two years as the real estate market has revived.

While he says there is a wide variance in the quality of investor-run properties, from good to bad, the issue is that real estate investment trusts "can come in and spread a lot of money around", driving up prices and site fees.

17,000

The number of owners of manufactured homes across 17 states who have come together to buy their mobile-home parks since 1984 with the help of ROC and its affiliates

There is also concern around rising rents on private-equity-owned manufactured houses. Michael Swack, director of the Center for Impact Finance at the University of New Hampshire, has previously suggested that in some areas these have soared by as much as 15 per cent over two years.

A few cases have led to public outcries. In late 2019, after Utah-based Havenpark Capital bought several mobile-home communities in Iowa and jacked up rents by as much as 58 per cent, the local government issued a report recommending limits on private equity ownership of such housing.

In January, Democratic House representatives Cindy Axne of Iowa and Ro Khanna of California introduced the Manufactured Housing Community Preservation Act, which would encourage states and cities to work with activists and community lenders such as ROC to keep property in the hands of residents.

That's tough for many reasons. First, there's a huge gap in the lending terms offered to individuals seeking to buy a manufactured home versus large investors wanting to purchase an entire park.

While many of today's "trailers" are more or less normal single-family properties, as assets they are still considered "chattel," like boats or cars, rather than homes. This means mortgage rates can be more than 8 per cent rather than, say, 3 per cent for a single-family home or an apartment.

In my experience, the living environment in a tenant-owned park is virtually the same as in a well-managed park by a decent landlord

Mike Whitty, director of the Oregon Park Managers Association

In some cases, government-backed loans are also benefiting big investors rather than the homeowners for whom they were originally intended. Private equity firm TPG Capital bought dozens of mobile-home communities with the help of more than $200m in financing from Fannie Mae in 2018.

As mobile homes and private equity go head to head, the issue is becoming a topic on the 2020 campaign trail. Elizabeth Warren visited the park in Iowa that was hit by the 58 per cent rent rise. Prosperity Now, a non-profit advocate for affordable housing, believes there will be a spate of legislation this year or next making it easier for residents to buy homes and tougher for big investors.

There are those who argue that some big companies are being unfairly vilified. Mike Whitty, director of the Oregon Park Managers Association, is a former lawyer who has lived in, owned and managed parks locally.

He says: "In my experience, the living environment in a tenant-owned park is virtually the same as in a well-managed park by a decent landlord." That's most true if the landlords aren't so large that they become detached from problems, but also not so small that they don't have the capital to maintain the property well.

Ken Pryor, a representative from Oregon's State Housing Authority who has worked with residents at Shadowbrook to help mediate complaints with management, says the issues there are certainly "threatening the livelihood of residents" but are also not the worst he's seen.

"[Shadowbrook] is actually in fair shape compared to some older parks in the Portland area. It's a C plus rather than an F." But he would also say that it's not comparable to a well-run co-operative such as CRCC.

Co-operative Living

A big reason for this is that co-operatives have every incentive to make improvements, since the increase in property value goes directly back to owners. That tends to increase the price and prestige of the properties. CRCC has a waiting list of people who want to purchase properties within the co-op.

Because there's no profit motive beyond the maintenance of the park, the group has built up a $125,000 reserve fund, in part from the savings that come from the community doing its own maintenance, repairs and landscaping, but also via renting extra parking spaces to workers or other residents in the area. "This is about building financial stability," says Julie Massa. "But it's also about solidarity."

Of course, resident-owned mobile-home communities can have their own challenges. They require a certain number of occupants who have the time and energy to take ownership of sometimes complicated projects, and can struggle with community board turnover.

Yet ROC, which had a record year in terms of lending and facilitating co-op purchases in 2019, expects to do even better this year. "We're scaling out and scaling deep," says Bradley, who has a vision that goes beyond collective home ownership to collective economic security.

He hopes for a time when the economics of scale that allow low-income people to band together to secure multimillion-dollar real estate deals could be expanded to group purchasing of healthcare, or collective investment in things such as pensions or even on-site childcare services.

"People talk about 'trailer park kids,'" he says. "But what if you had manufactured housing communities where people were like, 'Hey, look at all the great stuff they have there! I want to live there too.'"

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