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MARKETS

This Stock Has Returned 4,100% Since the Housing Crash

Owners of mobile-home parks have trounced the broader market thanks to soaring house prices, nimbyism and tenants that can't move out

By Ryan Dezember

Feb. 25, 2020 7:00 am ET

One of the best-performing investments since last decade's housing crash: trailer parks.

From the March 2009 stock-market bottom, shares of big mobile-home park owners Sun Communities Inc. SUI **+0.22%** ▲ and Equity LifeStyle Properties Inc. ELS have returned a tech-like 4,141% and 1,205%, respectively, counting price changes and dividend payments. The S&P 500's return has been 520%.

"They've been rocket ships," said John Pawlowski, an analyst at real-estate research firm Green Street Advisors. "It's baffling how good of a business it has been."

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Trailer-park companies usually just own the land where manufactured homes and recreational vehicles are parked. They are responsible for the upkeep of roads and amenities—if there are any—but not the homes themselves. It is as if apartment owners didn't have to maintain or pay taxes on their buildings but still collected rent from those who lived inside.

Park owners don't worry much about tenants leaving as they would have to take their home with them.

Despite the name, moving mobile homes is expensive and difficult. Old ones might fall apart when lifted off the ground. Many newer models are more like houses than trailers, even if they did arrive on the back of a truck.

"Its an incredibly resilient model," said Alec Perkins, portfolio manager at Perkins Investment Management, a unit of Janus Henderson Group PLC. Mr. Perkins's funds own Equity LifeStyle shares and have held Sun stock. "If you invest in hotels, apartments and offices, you're constantly worried about capital expenditures and new supply. Neither are an issue with manufactured homes."

Even if residents can afford to move their homes, there aren't many places to plop an old double-wide. Plans for new parks usually meet local resistance. The right zoning is hard to find.

Meanwhile, demand for manufactured homes has been stoked by retiring baby boomers, millennials with a taste for minimal living and prices for site-built single-family houses that have risen beyond the reach of many Americans.

The median-priced single-family house is about $280,000 and requires annual income of about $68,000, assuming a 10% down payment and prevailing interest rates, according to mortgage data provider HSH. The average sales price for a single-width mobile home last year was around $53,000, according to the U.S. Commerce Department.

Sun Communities Chief Executive Gary Shiffman said the Southfield, Mich.-based company receives about 47,000 applications a year to live in the 422 parks it owns in the U.S. and Canada.

Sun paid $815 million for properties with 10,300 developed home sites last year and spent another $235 million adding 2,300 in new, redeveloped and expanded communities. That gives Sun about 141,000 spots for mobile homes and recreational vehicles, nearly all of them taken.

Year-end occupancy was 96.4%, Sun said last week when it reported fourth-quarter results. The real-estate-investment trust's shares reached a high after it disclosed a 50% rise in annual net operating income. It also said it would pay a dividend this year of $3.16 a share, up from $3 in 2019.

Sun's challenge will be to find more sites. It is unlikely to repeat 2019, which included the $344 million purchase of a 31-park East Coast chain. Future purchases will more likely look like the 193-lot facility in Utah that cost $8.3 million. Sun said it would probably spend between $150 million and $250 million this year acquiring properties.

"Because the supply is so limited, our expectations are—barring some unforeseen portfolio transaction—that everything will be the onesies and twosies this year," Mr. Shiffman said of park purchases.

Equity LifeStyle Properties, of which Chicago real-estate baron Sam Zell is chairman, spent $150 million expanding in 2019. It owned 156,513 sites at year-end, about 11% more than it had in 2011, a period during which rival Sun more than doubled its count.

“We are in active discussions with sellers and have properties in all stages of the acquisition process,” CEO Marguerite Nader told investors last month. ”But consistent with what we’ve seen over the past few years, there’s a lot of interest for our product type.”

A who’s who of big investors has joined the trailer-park hunt, boosting competition for facilities that hit the block. Buyers have included pensions, sovereign-wealth funds and private-equity firms, such as Carlyle Group Inc. CG **-1.97%** ▼ and Blackstone Group Inc., BX **-0.55%** ▼ which has teamed with the same Arizona group with which it built Invitation Homes Inc., INVH **-1.33%** ▼ an 80,000-home rental-house empire aimed at higher-earning tenants.

The trajectory of trailer-park stocks in recent years has been similar to that of shares of self-storage consolidators—at least until lately. Soaring storage stocks led investors to flood the market with new facilities, pressuring sector giants Public Storage PSA **-1.79%** ▼ and Extra Space Storage Inc. EXR **-1.37%** ▼ Since reaching highs last summer, their stocks have declined 15% and 13%, respectively.

Imitators aren’t expected to swamp the trailer-park market, though, given how much more difficult it is to build mobile-home communities than to convert old industrial buildings or parking decks into storage facilities.

“People don’t want to have a trailer park in their backyard,” Mr. Pawlowski of Green Street Advisors said. “It’s nimbyism to the nth degree.”

If they can’t grow by adding home sites, Sun and Equity LifeStyle can always raise rents. Both companies said they expect average monthly increases of at least 4% in 2020.

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