Top Performing Real Estate Sectors: Unique Property Types Leading the Way

Manufactured housing communities (MHCs) and industrial real estate are unique property types that are experiencing current growth. The performance of the sectors justifies a closer look at these once overlooked real estate investment opportunities.

According to Green Street Advisors’ Green Street CPPI: Sector-Level Indexes, the property values of both MHCs and industrial rose more than any other sector in 2019. MHCs rose by 16 percent and industrial followed closely at a 13 percent increase.¹

The market index value, which measures the value of a portfolio of holdings with specific market characteristics and often used as benchmarks to gauge the movement and performance of market segments, indicates MHCs and industrial real estate are seeing continued expansion.

Manufactured Housing Communities

Manufactured housing communities are the parks in which manufactured homes are installed. With tenants renting sites and responsible for individual housing costs and maintenance, MHC owners have relatively low overhead limited to capital needs such as roads, water and sewer infrastructure. Additionally, the potential for annual rental increases may generate an attractive and growing income.

With the increase in demand for cost-effective housing solutions, the MHC property type has exhibited growth over the last two decades and outperformed all other real estate classes.

- 22 million people live in manufactured homes²
- 62% of all MHC residents anticipate living in their homes for more than 10 years³
- Manufactured homes are competitively priced at an average of $49 per square foot vs $107 per square foot for traditional homes²

Industrial Real Estate

Industrial real estate is a type of commercial property that is used by companies to execute business and manufacturing operations. Industrial properties typically include factories, warehouses, and distribution centers. Owners of industrial real estate experience relatively low maintenance costs since most properties are large spaces used as storage for inventory or production areas for companies. Additionally, industrial tenants tend to sign longer leases which leads to lower turn-over and the potential for long-term stable cash flow.

Due to the success of e-commerce, its impact to supply chains, and the need for distribution centers closer to consumers, the demand for industrial real estate continues with 13.4 billion square feet of industrial space across the U.S.⁴

- 4.9% average industrial vacancy rate⁵
- 292 million square feet of industrial real estate constructed in 2019⁵
- Net absorption* of 166 million square feet⁵

*According to JLL, Net absorption is the sum of square feet that became physically occupied, minus the sum of square feet that became physically vacant during a specific period.

Please see reverse side for important footnotes and disclosures.
MHC & Industrial REITs Outperform S&P 500

In addition to MHCs and industrial real estate property values and market index leading in the private investment sector, both property types topped the publicly traded REITs (real estate investment trusts) sector in 2019. These top performing property types surpassed the S&P 500 by nearly 17 percent and 18 percent, respectively.

<table>
<thead>
<tr>
<th>Property Type</th>
<th>2019 REIT Sector Returns</th>
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</thead>
<tbody>
<tr>
<td>Manufactured Home</td>
<td>49%</td>
</tr>
<tr>
<td>Industrial</td>
<td>48.7%</td>
</tr>
<tr>
<td>Single-Family Home</td>
<td>44.3%</td>
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<tr>
<td>Data Centers</td>
<td>44.2%</td>
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<tr>
<td>Timber</td>
<td>42%</td>
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<tr>
<td>S&amp;P 500</td>
<td>31.5%</td>
</tr>
</tbody>
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Source: Nareit, S&P 500 historic data

Generally, REITs invest in real properties or mortgages/loans and often focus on particular property types such as apartments, hotels and retail. REITs have the potential to deliver competitive returns through stable dividend growth and long-term capital appreciation.

In its 2020 Real Estate Outlook, Fidelity states that the REIT market has grown more diversified over the last ten years. Traditional REIT segments are giving way to new and emerging categories including MHCs and industrial.

With their stable growth and long-term return potential, it’s no wonder that unique properties types like manufactured housing communities and industrial real estate are dominating the marketplace in terms of value.

Sources:

Important Risk Factors to Consider
Investments in real estate assets are subject to varying degrees of risk and are relatively illiquid. Several factors may adversely affect the financial condition, operating results and value of real estate assets. These factors include, but are not limited to:

- changes in national, regional and local economic conditions, such as inflation and interest rate fluctuations;
- local property supply and demand conditions;
- ability to collect rent from tenants;
- vacancies or ability to lease on favorable terms;
- increases in operating costs, including insurance premiums, utilities and real estate taxes;
- federal, state or local laws and regulations;
- changing market demographics;
- changes in availability and costs of financing; and
- acts of nature, such as hurricanes, earthquakes, tornadoes or floods

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