

Manufactured Housing



After Hitting a Peak in 2018, Stability Prevails During the First Quarter

Highlights

- > The manufactured housing property sector posted steady performance during the first quarter. Occupancy was flat, rents rose and shipments of new units slowed modestly.
- > Occupancy in manufactured housing remained flat from the end of last year to the beginning of 2019, holding steady at 92.7 percent. The rate has risen 90 basis points year over year.
- > Rents inched higher during the first quarter, rising to \$532 per month. During the past 12 months, the average rent has posted a 3.7 percent increase.
- > Sales velocity in manufactured housing communities in the first quarter was down from levels in the fourth quarter but was nearly identical from one year earlier. Prices are on the rise, with the median reaching \$45,700 per space in the first quarter. Cap rates averaged 6.4 percent.

Manufactured Housing Overview

The national manufactured housing market was highlighted by stability during the first quarter. Occupancy was flat in the first quarter, following increases over the past several years. With occupancy stable, rents continued on their recent upward trajectory, increasing at a sustainable pace following more robust gains a few years ago. On the supply side, shipments of new manufactured housing units slowed, and levels were down 12 percent from the first quarter of 2018. Shipments of manufactured homes approached 100,000 units in 2018, a figure that has not been recorded in more than a decade. The current forecast indicates new supply will slow modestly in 2019, with approximately 90,000 homes shipped.

Investment activity in the manufactured housing sector got off to a healthy start to 2019. Transaction activity in the first quarter lagged levels from the end of last year, but the number of properties changing hands closely tracked data from one year earlier. Prices continue to push higher, reflecting both strong property performance and steady investor demand for properties. Cap rates averaged just 6.4 percent during the first quarter, down 50 basis points from the 2018 average and 100 basis points lower than the 2016-2017 averages.

Market Indicators

10/2019

Occupancy	→
Rents	↑
Transaction Activity.....	↓
Price Per Unit.....	↑
Cap Rates	↑

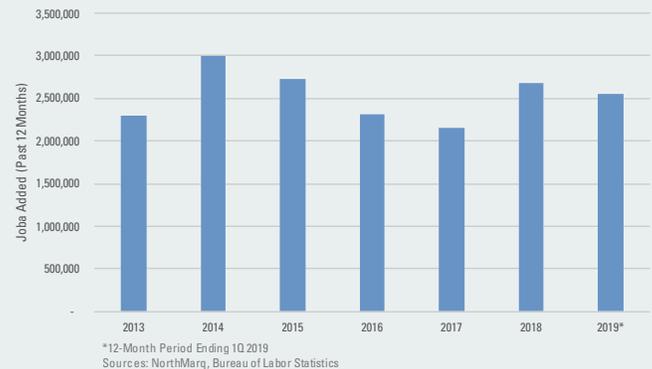
Summary Statistics Manufactured Housing

Occupancy Rate.....	92.7%
- Change from 1Q 2018 (bps).....	+90
Average Rents	\$532
- Change from 1Q 2018.....	+3.9%
Median Sales Price (per space YTD).....	\$45,700
Average Cap Rate (YTD).....	6.4%

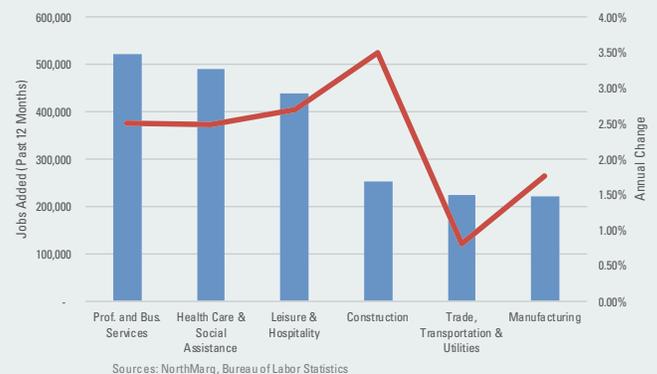
Employment

- > After a strong close to 2018, the pace of employment growth slowed during the first quarter of 2019 as employers added approximately 557,000 jobs, down from 700,000 net new jobs during the fourth quarter of last year and down nearly 20 percent from the first quarter of last year.
- > Two sectors have accounted for more than 40 percent of the total job growth in the past year. The **professional and business services** and **health care and social assistance** sectors have combined for more than 1 million new jobs in the past year, with growth averaging approximately 2.5 percent.
- > The pace of growth in the **construction** sector slowed during the first quarter, adding 53,000 jobs, but construction employment is still outpacing the national rate of expansion. Year over year, construction employment has expanded by 252,000 jobs, a 3.5 percent increase.
- > During the 12-month period ending in the first quarter, **retail employment** contracted by 0.2 percent, with a loss of 33,000 jobs. Employment losses in the retail sector—even at a time when the economy is growing at a fairly healthy rate—is a drag on traditionally lower-wage jobs.
- > Another sector that traditionally pays lower wages is **leisure and hospitality**. Growth in in this category has more closely tracked trends in the economy as a whole. Year-over-year employment growth in the sector totaled 2.7 percent, with 439,000 new jobs added.
- > Three states added more than 200,000 jobs each during the past year. Texas led the way, with more than 275,000 new jobs compared to one year earlier. California added more than 240,000 new workers, while Florida tallied approximately 200,000 new positions. These three states combined for net job growth of more than 720,000 positions, or approximately 28 percent of the total for the entire United States.
- > In the South region, Florida led the way with job growth of more than 2.3 percent. South Carolina, North Carolina and Tennessee all had year-over-year growth rates around 1.5 percent.
- > Growth in the Southwest is concentrated in Texas and Arizona. Texas had one of the highest rates of growth, with a 2.2 percent expansion in the past year. Arizona added nearly 67,000 jobs year over year, representing an increase of 2.4 percent.
- > In the Midwest, most states expanded payrolls by about 0.6 percent. One exception was Indiana, where payrolls expanded by 1.2 percent in the past year with the addition of 37,200 workers.

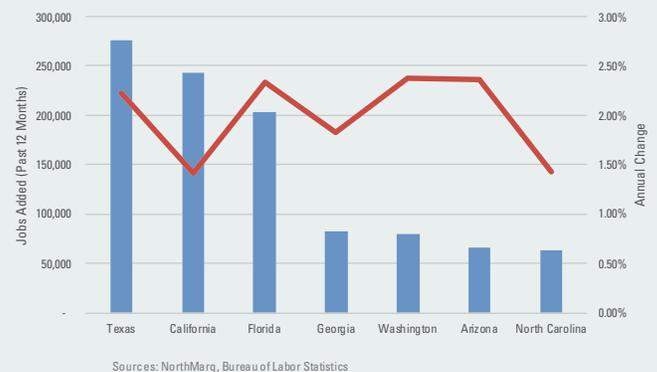
U.S. Employment Trends



Top Employment Growth Sectors



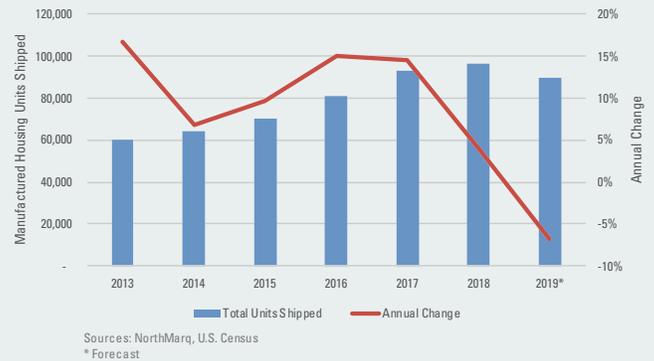
Top States For Employment Growth



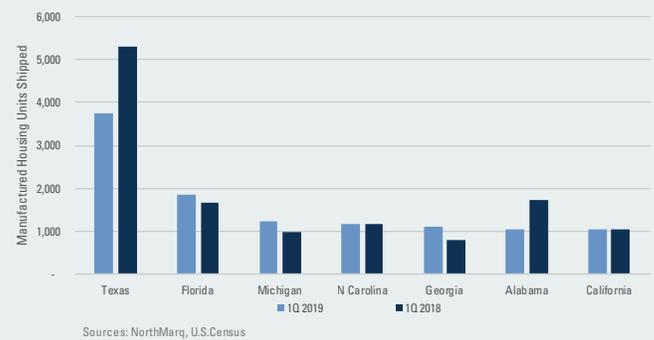
Supply Growth

- > Supply growth in manufactured housing has been on an upswing, with shipments increasing in eight of the past nine years. The pace slowed in the fourth quarter last year, however, and this trend was repeated during the first three months of 2019.
- > During the first quarter, approximately 22,400 manufactured housing units were shipped in the United States, down 12 percent from the same period in 2018.
- > Texas had the most units shipped during the first quarter, with a total of more than 3,700 shipments. Texas accounted for a 16 percent share of all shipments in the country during the first quarter. While Texas led the way to start 2019, shipments to the state in the first quarter 2019 were down 30 percent from the same period in 2018.
- > More than 8,600 manufactured housing units were shipped to the South region, the highest total for all of the regions. The South region posted a 15 percent decline from the first quarter 2018.
- > While many states posted shipment declines compared with one year ago, there were increases in a few states with a large number of shipments. Approximately 1,850 manufactured homes were shipped to Florida in the first quarter, up 10 percent from one year earlier. Another southern state, Georgia, posted a spike of nearly 40 percent with more than 1,100 homes shipped at the beginning of 2019.
- > In the Midwest, more than 1,200 homes were shipped to Michigan in the first three months of this year, reflecting a 26 percent spike from one year earlier. Many of the other states in the Midwest posted shipment declines; in Illinois and Ohio, shipment totals in the first quarter of this year were down more than 30 percent from the previous year.
- > Arizona ended the first quarter just outside the top-10 states for shipments, with inventory growth of nearly 600 units. This represented an increase of 29 percent from the first quarter of last year.

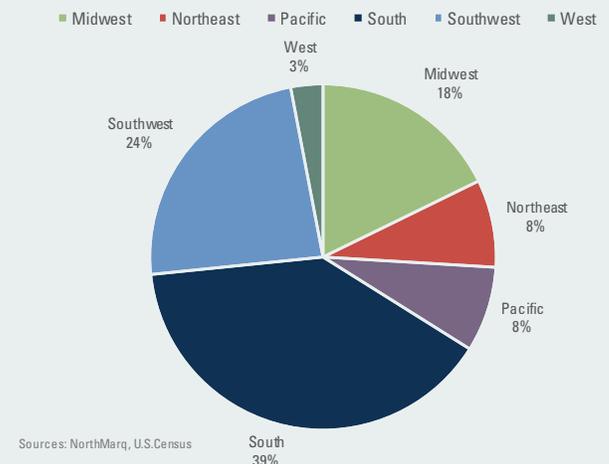
U.S. Manufactured Housing Shipments



Manufactured Housing Shipments by State



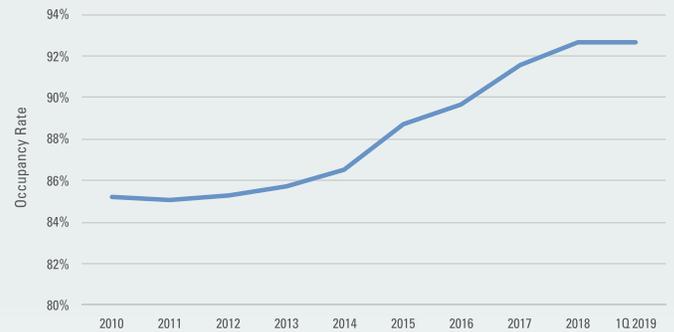
Manufactured Housing Shipments by Region



Occupancy

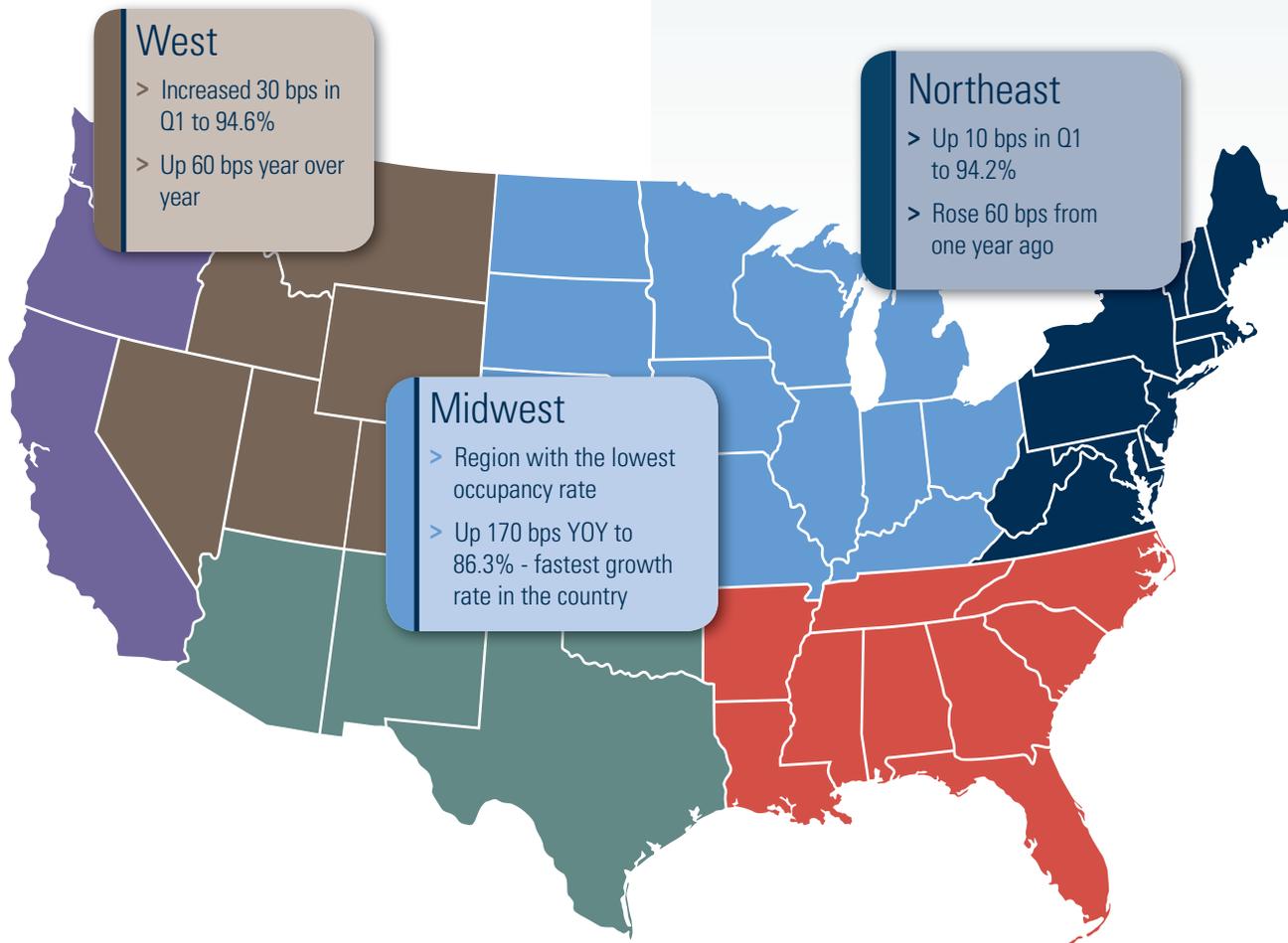
- > After rising 110 basis points in 2018, the national occupancy rate held steady from the end of last year to the first quarter 2019. The rate ended the first quarter at 92.7 percent.
- > Despite leveling off to start 2019, occupancy improved 90 basis points during the past 12 months. Occupancy has been rising at a pace of 110 basis points per year since 2012.
- > Occupancy trends across the six major geographic regions were mixed in the first quarter, but there was not significant quarterly movement in much of the country.

Occupancy Overview



Sources: NorthMarq, JLT Datacomp

Occupancy improved 90 basis points during the past 12 months

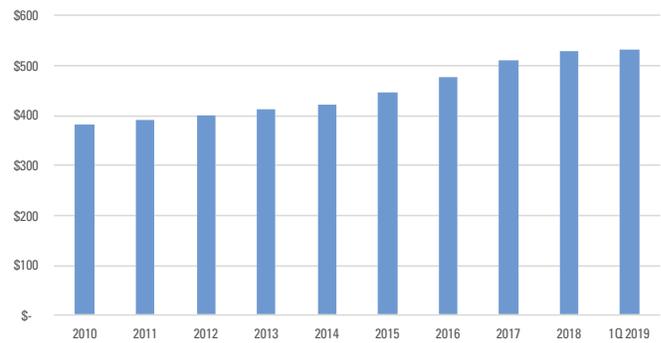


Rents

- > Rents for manufactured housing continued on their upward trajectory during the first quarter. The average rent has increased 3.7 percent year over year, reaching \$532 per month.
- > Rents have been increasing by more than 1 percent per quarter in recent years, but ticked up just 0.4 percent during the first quarter.

Rents ticked up just 0.4 percent during the first quarter

Rents Overview



Sources: NorthMarq, JLT Data comp

West

- > Strongest increases – up 4.8% in one year
- > Fueled by increases in Utah and Colorado, where housing affordability has been declining in recent years

Midwest

- > Up 3.5% from one year ago to \$415 per month in Q1
- > Expected to post steady gains as occupancy rate rises

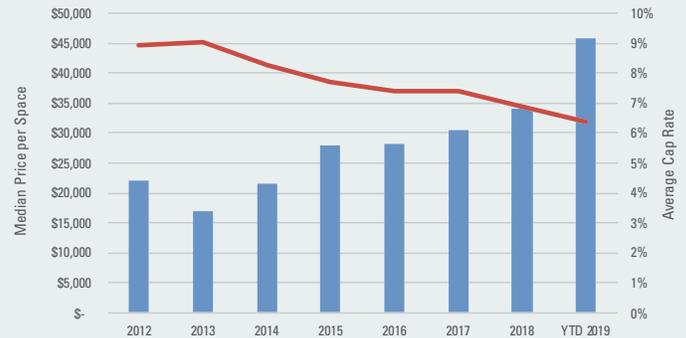
Southwest

- > Accelerated in Q1
- > Up 4.4% YOY to \$470 per month

Manufactured Housing Sales

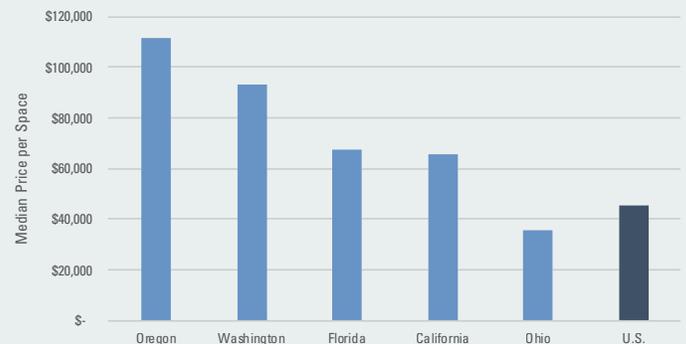
- > After a spike in the second half of last year, sales of manufactured housing communities cooled during the first quarter 2019.
- > From the fourth quarter of last year to the first quarter of this year, sales velocity dipped by nearly 15 percent. Transaction activity to start 2019 was nearly identical to levels recorded during the first quarter of last year.
- > Transaction activity during the first quarter was concentrated in a handful of states, with Florida, California, Michigan and Ohio leading the way. Combined, those states accounted for approximately 40 percent of the total transaction volume during the first quarter.
- > The median price in the first quarter rose to approximately \$45,700 per space, up nearly 40 percent from the median price in 2018. The median price in the first quarter reflects an increase of approximately 11 percent from the median price in sales from the fourth quarter of last year.
- > The Pacific Northwest had some of the highest prices in the country during the first quarter. The median sales price in Oregon during the first quarter was more than \$100,000 per space, while the median price in Washington was over \$90,000 per space.
- > The median price in property sales in Florida was nearly \$68,000 per space during the first quarter, up from a median price of \$42,600 per space in 2018. The age-restricted communities in Florida traded at a premium during first-quarter sales.
- > After dipping into the low-6-percent range during at the end of last year, cap rates rose approximately 30 basis points in the first quarter to an average of 6.4 percent. Cap rates for the past few years have averaged in the high-6-percent to mid-7-percent range, so the figure from the first quarter is closer to recent norms.
- > During the first quarter, the lowest average cap rates were found in California. Cap rates in the state averaged approximately 4.8 percent during the first quarter, closely tracking rates from 2018.

U.S. Manufactured Housing Sales and Cap Rates



Sources: NorthMarq, CoStar

Manufactured Housing Sales Prices by State



Sources: NorthMarq, CoStar

The median price in the first quarter rose to approximately \$45,700 per space, up nearly 40 percent from the median price in 2018.

About NorthMarq

As a capital markets leader, NorthMarq offers commercial real estate investors access to experts in debt, equity, investment sales, and loan servicing to protect and add value to their assets. For capital sources, we offer partnership and financial acumen that support long- and short-term investment goals. Our culture of integrity and innovation is evident in our 60-year history, annual transaction volume of \$13 billion, loan servicing portfolio of more than \$55 billion and the multi-year tenure of our more than 500 people.

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