

Manufactured Housing



Sales of Manufactured Housing Communities Bounce Back

Highlights

- > The manufactured housing sector recorded healthy performance during the third quarter with occupancies ticking higher and rents continuing their upward trajectory. With housing continuing to become increasingly expensive, demand for manufactured housing is expected to remain consistently strong.
- > The national occupancy rate rose 10 basis points in the third quarter, reaching 93.3 percent. The rate is 50 basis points higher than the rate one year ago.
- > Rents have been on a steady upward climb during the past several quarters. Rents ended the third quarter at \$563 per month, up 3.7 percent year over year.
- > Investment activity regained momentum during the third quarter with properties selling across the country. The median price in sales to this point in 2020 is \$36,400 per space with cap rates averaging 7.8 percent. In sales that occurred during the third quarter, cap rates compressed to 7.3 percent.

Manufactured Housing Overview

The national manufactured housing market strengthened during the third quarter. The national occupancy rate ticked higher, and most regions in the country are reporting higher occupancies than one year ago. Shipments of new units accelerated after slowing during the second quarter, reflecting the resumed demand for manufactured housing. Rents maintained their steady upward climb. Year over year, average rents are up 3.7 percent, nearly identical to the pace of rent gains recorded one year ago. While rents are rising across all regions of the country, the most significant increases are being recorded in the West and Southwest regions, where population growth is rapid and housing costs are rising.

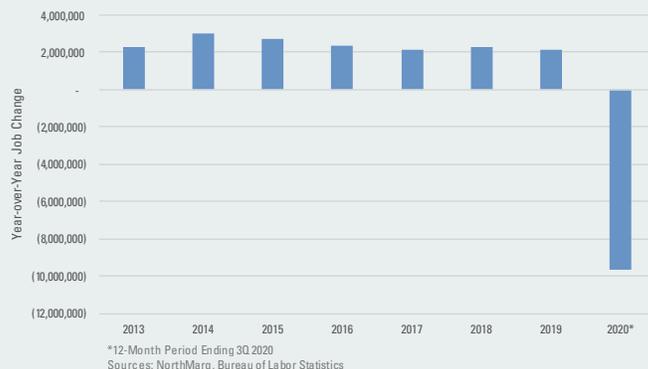
Q3 Snapshot	Manufactured Housing
	Market Fundamentals
	Occupancy 93.3%
	- Change from 3Q 2019 (bps) +50
	Average Rents \$563
	- Change from 3Q 2019 +3.7%
	Transaction Activity
	Median Sales Price Per Space (YTD) \$36,400
	Average Cap Rates (YTD) 7.8%
	Inventory Growth
	Units Shipped (YTD) 69,500
	- Change from 2019 -1.0%

After a pause in sales velocity during the second quarter, investment activity for manufactured housing resumed at its pre-coronavirus pace in the third quarter. Properties changed hands across the country, with traditional markets including Florida and California leading the way. In addition to these traditional investment leaders, activity gained momentum in Arizona, Michigan, and Pennsylvania during the quarter. While there was a wide range in property cap rates, on average, cap rates compressed during the third quarter. Year to date, cap rates are still higher than levels recorded in 2018 and 2019, and the expectation is some additional compression is likely in the coming quarters.

Employment

- > The national employment market began to rebound during the third quarter. After a net loss of more than 13.2 million jobs during the second quarter, employers added back nearly 4 million jobs in the third quarter.
- > While employers have been adding workers back to payrolls, the pace of the bounce-back has slowed. In July and August, **additions to payrolls** averaged approximately 1.6 million jobs per month. In September, however, the pace of additions slowed, with approximately 670,000 jobs added.
- > Year over year through the third quarter, total employment was down 6.4 percent, with net losses of 9.6 million positions. Current employment levels are similar to totals from five years ago.
- > After peaking at nearly 15 percent during the spring, the **national unemployment rate** closed the third quarter at 7.9 percent. The unemployment rate has improved in each of the past five months and is likely to continue to tighten through the end of the year.
- > All states are still showing year-over-year employment declines, but some states are rebounding faster while steep losses have lingered in many other parts of the country.
- > Job losses in **Arizona** were more modest than in many other states and employers have added back the bulk of the positions that were slashed earlier in the year. Year over year, total employment in Arizona is down less than 3 percent. During the third quarter, employers in Arizona added approximately 35,000 positions.
- > **Texas** is another state where employment is coming back more quickly than the nation as a whole. Year over year, employment in Texas has contracted by 4.5 percent. During the third quarter, employers in Texas added back 185,000 jobs.
- > In **California**, employers added back nearly 300,000 jobs during the third quarter, but cumulative losses in the state still total nearly 1.5 million positions. Year over year, employment in California is down 8.5 percent.
- > As the economy has begun to reopen, industries that faced shutdowns have begun to re-staff payrolls. During the third quarter, **retail employment** recovered more than half of the jobs that were cut in the second quarter.
- > Contraction in the **construction sector** has been more modest than in the economy as a whole. Year over year, construction employment is down just 3.5 percent. With the for-sale and rental housing markets remaining quite strong, construction employment is expected to continue to recover in the coming quarters.

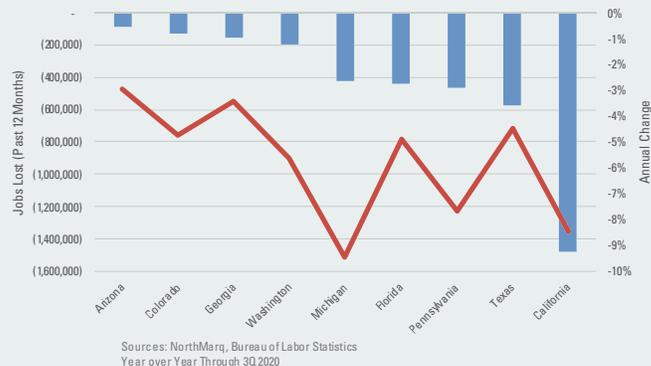
U.S. Employment Trends



Sector Employment Trends



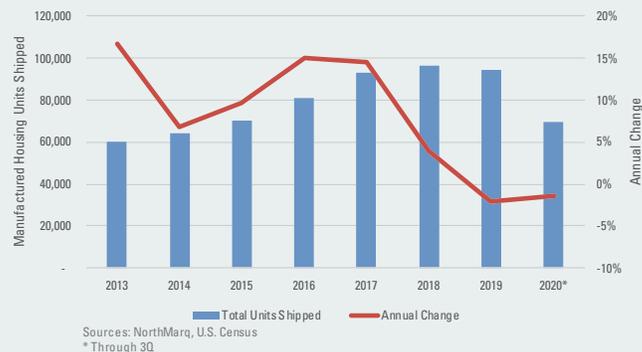
Employment Trends by State



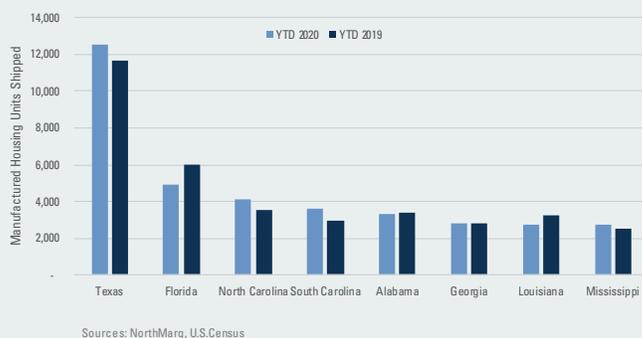
Supply Growth

- > Following a decline during the second quarter, shipments of manufactured housing units regained momentum in the third quarter. Year to date through the third quarter, shipments have totaled 69,500 units, down just 1 percent when compared with the same period in 2019.
- > In the third quarter, national shipments totaled approximately 23,500 units, nearly identical to the total from the third quarter of last year.
- > During the third quarter, shipments to Texas totaled approximately 4,000 units, up slightly from the figure during the second quarter. Thus far in 2020, nearly 12,500 units have been shipped to Texas, up 7 percent from the same period in 2019.
- > After Texas, states in the South region led the way for manufactured housing shipments during the third quarter. Florida, North Carolina, South Carolina, and Alabama all recorded shipments of more than 1,000 units during the third quarter. Each of these states recorded increases in supply growth from the second quarter with an average rise of 9 percent.
- > Kentucky led the way for shipments to the Midwest, followed closely by Michigan. Year to date, shipments to Kentucky have totaled approximately 2,600 units, while shipments to Michigan are approaching 2,500 units. Ohio is the third-most active state in the Midwest region, with nearly 1,500 units shipped year to date.
- > In the Southwest, Arizona has recorded a consistent pace of shipments from 2019 to 2020. Year to date in Arizona, approximately 1,750 units have been shipped. The rate of shipments has accelerated in Oklahoma; to this point in 2020, shipments to Oklahoma have reached more than 1,500 units, up approximately 5 percent from 2019 levels.

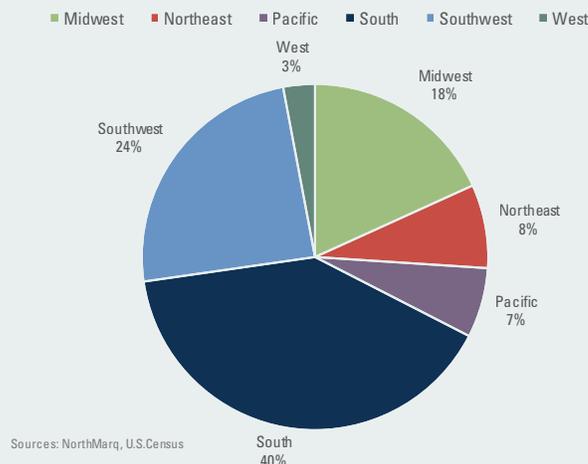
U.S. Manufactured Housing Shipments



Manufactured Housing Shipments by State



Manufactured Housing Shipments by Region

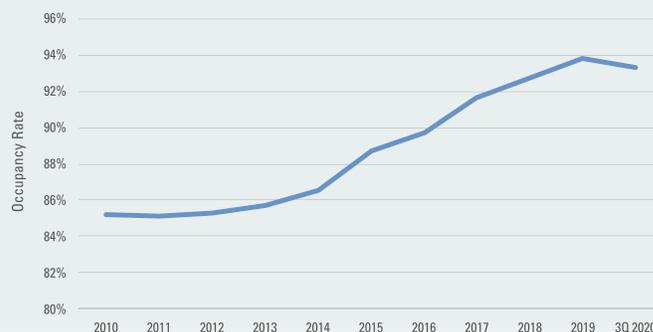


Occupancy

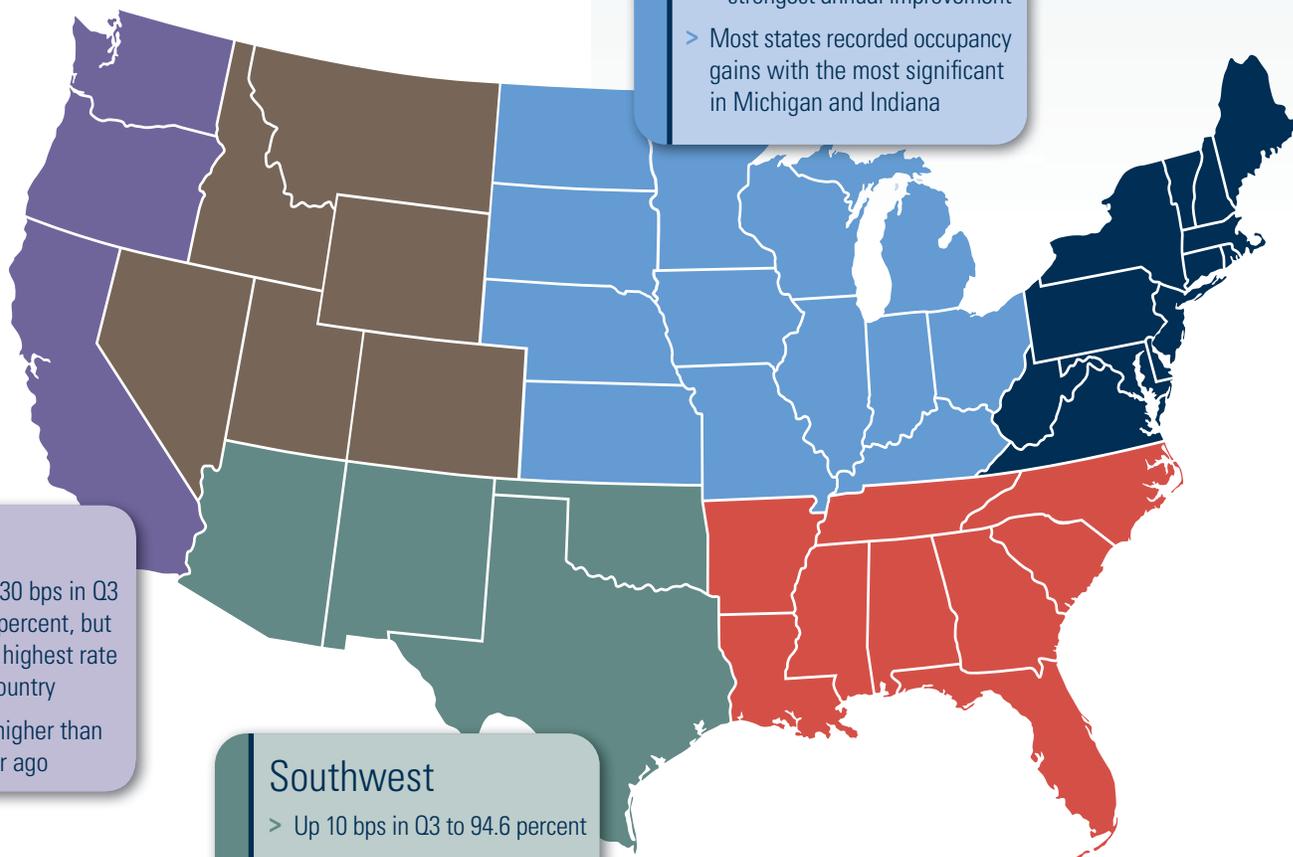
- > After falling during the second quarter, the national occupancy rate inched higher in the third quarter. The rate rose 10 basis points during the quarter, ticking up to 93.3 percent.
- > The current occupancy rate is 50 basis points higher than one year ago. The rate peaked in late 2019 and early 2020 but is still near cyclical highs.
- > The national occupancy rate has maintained a heightened level for the past few years. Since the beginning of 2018, occupancy has averaged 92.8 percent and has not dipped below 91.5 percent in that time.

The current occupancy rate is 50 basis points higher than one year ago

Occupancy Overview



Sources: NorthMarq, JLT Datacomp



Pacific

- > Dipped 30 bps in Q3 to 98.3 percent, but still the highest rate in the country
- > 10 bps higher than one year ago

Southwest

- > Up 10 bps in Q3 to 94.6 percent
- > Up 30 bps in the past year

Midwest

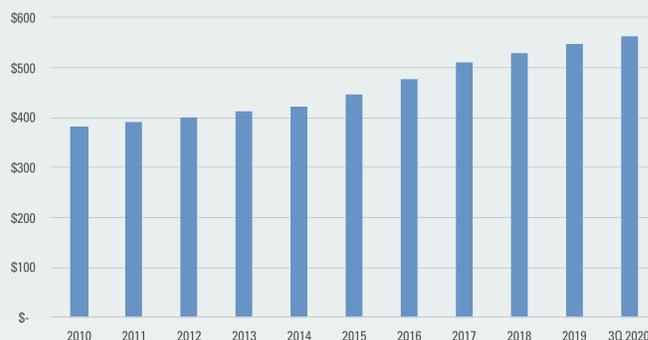
- > Up 100 bps YOY to 87 percent – strongest annual improvement
- > Most states recorded occupancy gains with the most significant in Michigan and Indiana

Rents

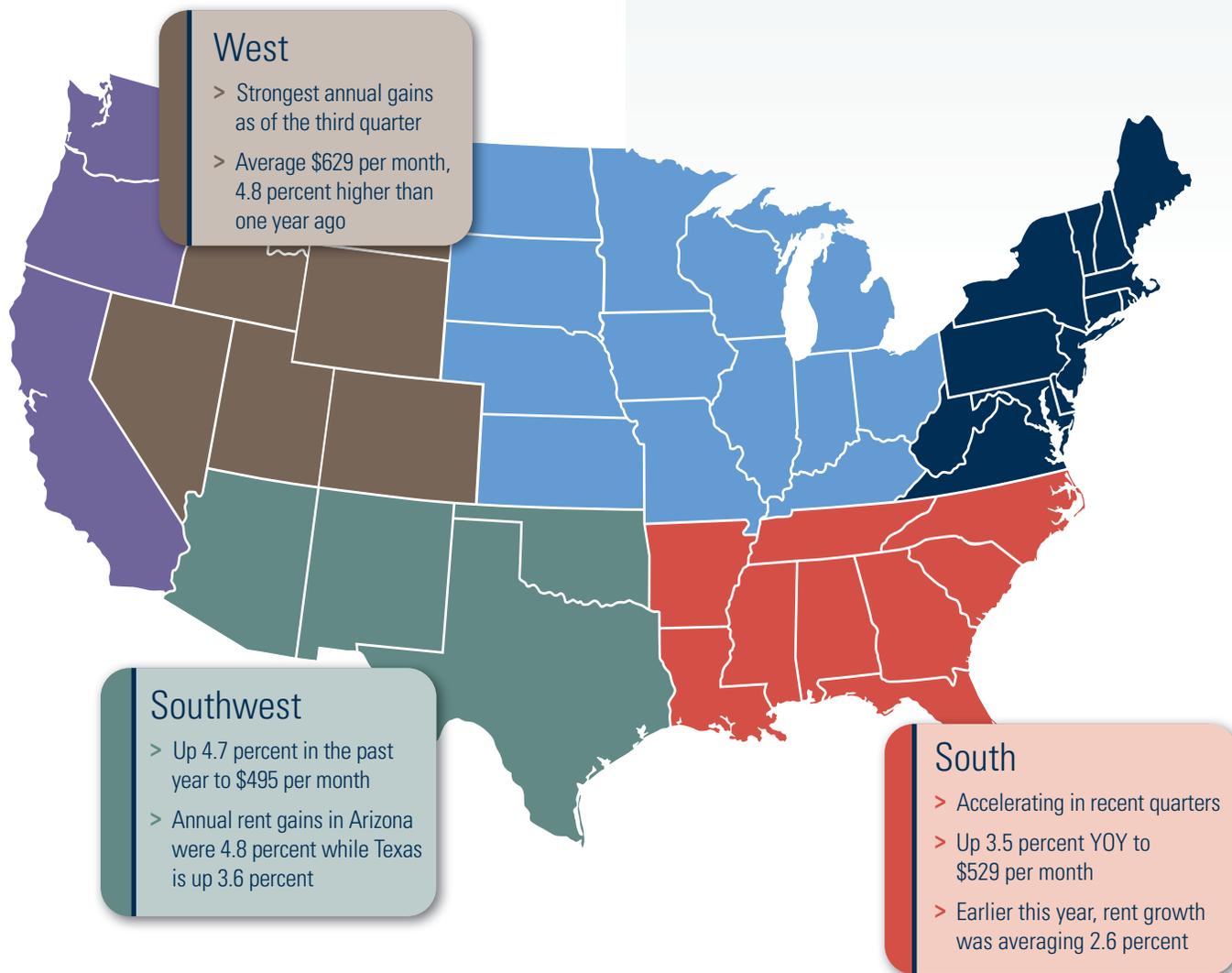
- > Rents for manufactured housing continued to advance at a steady pace during the third quarter. Average rents rose 1.3 percent for the quarter, reaching \$563 per month.
- > During the past 12 months, rents for manufactured housing units have increased by 3.7 percent. Rent growth in the sector has maintained a very steady pace. Annual gains have averaged 4.5 percent since 2015.

Average rents rose 1.3 percent for the quarter, reaching \$563 per month

Rents Overview



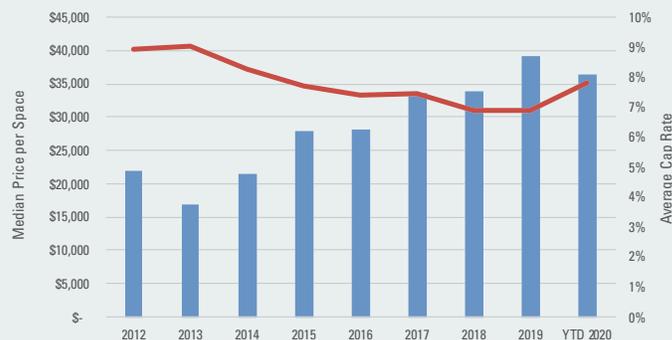
Sources: NorthMarq, JLT Data comp



Manufactured Housing Sales

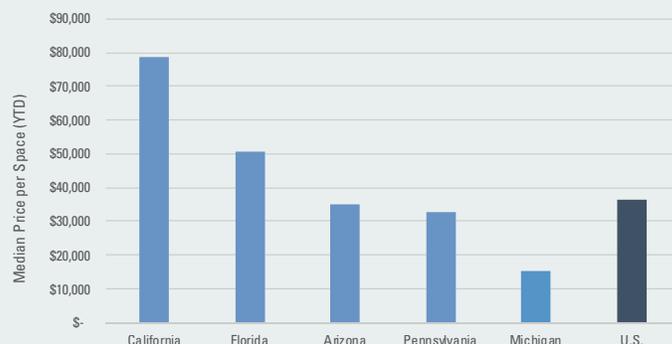
- > After slowing in the second quarter in response to the uncertainty surrounding the coronavirus, sales velocity resumed at an active pace in the third quarter. Sales activity rose 75 percent from the second quarter to the third quarter.
- > The number of properties changing hands during the third quarter was nearly identical to levels recorded at the beginning of 2020 and outpaced sales activity from the third quarter of last year by nearly 15 percent.
- > Despite the decline in activity during the second quarter, sales velocity through the first nine months of 2020 is nearly identical to levels from the same period in 2019. The manufactured housing sector's steady property performance has continued to attract investors.
- > With more properties trading across a wider range of markets, prices have dipped somewhat. The median price year to date in 2020 is \$36,400 per space, down 7 percent from the median price in 2019.
- > Cap rates had pushed higher during the second quarter but began to compress in recent months. The average cap rate in sales to this point in 2020 is 7.8 percent, but cap rates were closer to 7.3 percent in sales that closed in the third quarter.
- > There is a wide range in property cap rates across regions and states. At the low end of the range, cap rates in California average below 5 percent; in other markets where land and housing costs are lower, properties can trade with cap rates at 10 percent or higher.
- > Florida continues to be the state with the greatest number of property sales. Transactions in Florida account for approximately 15 percent of the total sales activity in the country. The median price in sales in Florida thus far in 2020 is nearly \$50,500 per space, with cap rates averaging 6 percent.
- > Properties in California have attracted the highest prices. The median price in sales in California through the first three quarters of the year is \$78,500 per space, up 17 percent from the statewide median price in 2019.
- > In the Midwest, the most activity has occurred in Michigan. The median price in sales in Michigan is approximately \$15,000 per space, with cap rates averaging 9 percent.
- > Sales volume in Pennsylvania during the third quarter exceeded the state's total for the first half of the year. The median price in Pennsylvania year to date has been approximately \$32,700 per space, while cap rates have averaged 6 percent.

U.S. Manufactured Housing Sales and Cap Rates



Sources: NorthMarq, CoStar

Manufactured Housing Sales Prices by State



Sources: NorthMarq, CoStar

Sales velocity through the first nine months of 2020 is nearly identical to levels from the same period in 2019

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 more than \$14 billion, loan servicing portfolio of more than \$61 billion and the multi-year tenure of our nearly 600 people.

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