

Market Insights

Manufactured Housing 3Q 2022



Inventory Growth



90,000

Units shipped (YTD)

+13%

Change from 2021

Market Fundamentals



94.3%

Occupancy rate

+40bps

Change from
2Q 2021

\$625

Average rents

+6.7%

Change from
2Q 2021

Transaction Activity



\$58,500

Median sales price
(per space YTD)

5.8%

Average cap
rate (YTD)

Fewer Properties Trade, Despite Rapid Rent Gains

Highlights

- Shipment volume of manufactured housing units is ahead of the pace recorded in recent years. Approximately 90,000 units have shipped throughout the country, including 28,200 units in the third quarter.
- Year over year, average rents have surged 6.7 percent, reaching \$625 per month. Rents advanced 2.5 percent in the third quarter alone, topping the 2.2 percent rise recorded in the preceding period.
- Occupancy levels stabilized in the third quarter, following eight consecutive quarters of increases. The occupancy rate ended the third quarter at 94.3 percent, 40 basis points higher than one year ago.
- Sales velocity slowed from the second quarter to the third quarter as borrowing costs hampered deal flow. Cap rates have begun to push higher, and buyers and sellers are adjusting expectations to reflect the new market conditions. Prices have remained elevated; the median price to this point in 2022 is approximately \$58,500 per space.

Manufactured Housing Market Overview

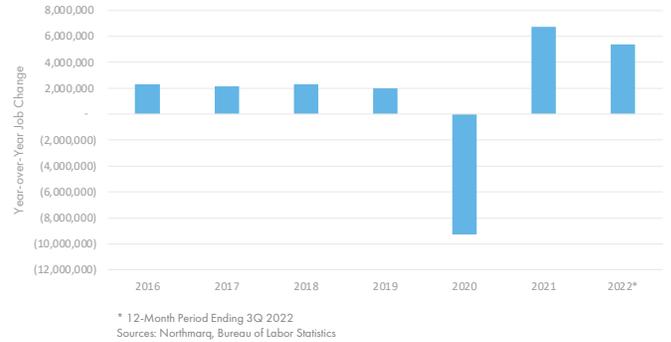
Operating demand in the national manufactured housing market recorded continued strong performance in the third quarter, setting the stage for a healthy close to the year. Two key measures of the demand for manufactured housing were on display during the third quarter: elevated shipments of new units and rapid rent growth. Shipment volume was up about 20 percent from average third-quarter levels from recent years, and the total units shipped to this point in 2022 is well ahead of the pace recorded during the first nine months of last year. Recent rent trends are also clear signs of strength; rents spiked 2.5 percent in the third quarter, building on strong gains in the preceding three-month period. Occupancy rates remained heightened but did not improve for the first time in two years. At over 94 percent, national occupancies are unlikely to trend much higher than current levels.

The persistent increases in interest rates have slowed the pace of investment activity in the manufactured housing sector in recent months. The number of properties that changed hands in the third quarter dipped, and year-to-date sales velocity is lagging 2021 levels. To this point, increases in cap rates have been modest and have lagged the upward trends in borrowing costs. This disconnect has pushed some buyers to the sidelines. Cap rates have increased about 20 basis points on average year to date, although steeper increases have been recorded in the last few months. In the transactions that are getting closed, prices have trended higher, posting a gain of more than 10 percent in the third quarter. This reflects the higher in-place rents in the market, as well as the investor demand for properties in high-growth parts of the country.

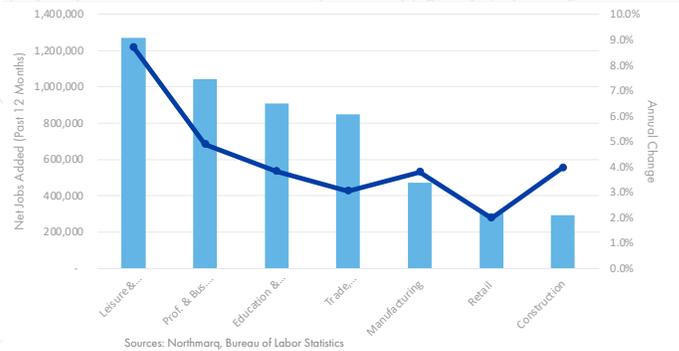
Employment

- The national employment market continued to expand during the third quarter. Nearly 1.1 million employees were added to payrolls in the third quarter, up about 5 percent from the second-quarter pace of growth. The strongest gains were recorded early in the quarter; more than 500,000 jobs were added in July, before an average of 280,000 jobs were added per month in August and September.
- Year over year, growth has topped 5.6 million jobs, a 3.8 percent rate of expansion. An important milestone was reached during the third quarter, as the national employment total surpassed the pre-COVID peak in August.
- While the labor market as a whole has rebounded, the leisure and hospitality sector has additional ground to gain before returning to earlier levels. Leisure and hospitality employers include hotels, casinos, amusement parks, and spectator sports. The sector has added more than 1.25 million jobs in the 12-month period ending in the third quarter, but it is still down more than 6 percent from early 2020 levels. Leisure and hospitality employment is forecast to add about 500,000 jobs in 2023.
- Logistics employment continues to expand. The trade, transportation, and utilities sector has added 850,000 jobs in the past year, expanding by 3 percent.
- Texas moved back into the top spot for total jobs added in the past year. Employers have expanded payrolls across the state by 5.7 percent in the past 12 months with the addition of more than 730,000 jobs. Total employment in Texas is up 660,000 jobs—or 5.1 percent—from the pre-COVID peak.
- Labor markets in California posted rapid rebounds throughout much of 2021 and during the first few months of this year. Recent growth has leveled off with employers adding a total of about 255,000 jobs in the past six months. Year over year, employment growth in the state has reached 4.2 percent, but forecasts call for expansion of about 1.0 percent to 1.5 percent in the year to come.
- Rapid population growth into Florida is supporting continued expansion in the state’s labor markets. In the 12-month period ending in the third quarter, employment growth in Florida exceeded 5 percent with a gain of 467,000 jobs. In the Tampa area alone, employers have added nearly 65,000 jobs year over year.
- In addition to Florida, several states in the Southeast are recording significant gains. Employers in Georgia have added 231,000 jobs in the past 12 months, while growth in North Carolina topped 200,000 positions. Total employment in Georgia has expanded by 5 percent in the past year, followed by a 4.4 percent surge in North Carolina.
- In the western portion of the Sunbelt, employment in Arizona has spiked by 3.5 percent in the past year with 105,000 net new jobs, including more than 85,000 positions added in Phoenix. In Nevada, a gain of nearly 5 percent has occurred with more than 50,000 jobs added in Las Vegas.

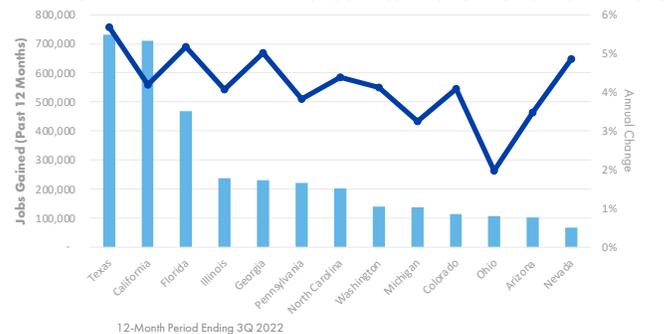
U.S. Employment Trends



Sector Employment Trends



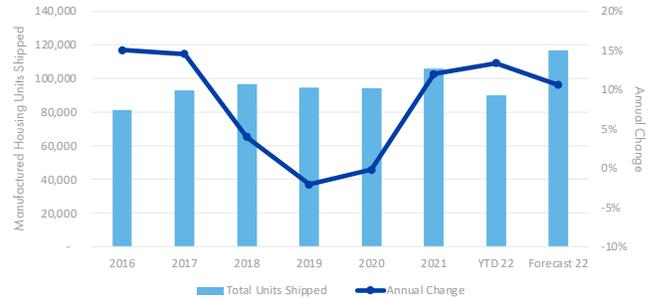
Employment Trends by State



Supply Growth

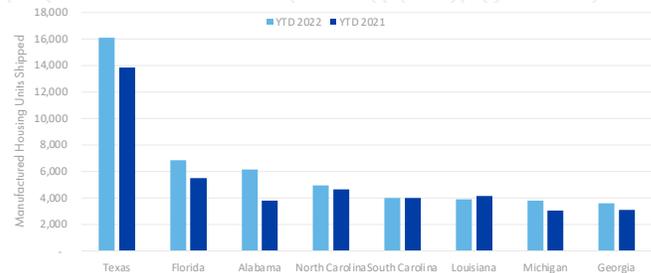
- Shipments of manufactured housing totaled 28,200 units in the third quarter, down 12 percent from peak levels in the second quarter. Despite the modest decline, shipments this year were up 19.5 percent from the average third-quarter total during the past five years.
- Year to date, shipments have totaled 90,000 manufactured housing units, up 13 percent from the same period in 2021. This follows a 12 percent increase in supply growth from 2020 to 2021.
- Most top states for shipments are recording year-over-year increases. More than 16,000 units have been shipped to Texas through September, up 16 percent from one year earlier. Shipments to Alabama have surged by more than 60 percent from 2021 to 2022.
- Shipments to Florida spiked by 25 percent through the first three quarters of 2022, approaching 7,000 units. The state is on pace for its highest year of shipment volume since 2006.
- North Carolina and South Carolina are both top states for shipments in 2022, but neither state's rate of increase is keeping track with the national pace of acceleration. Nearly 5,000 units have been shipped to North Carolina, up 6 percent from 2021, while approximately 4,000 units have been shipped to South Carolina, nearly identical to the year-earlier period.
- Nearly 37,000 units have been shipped to states in the South region year to date, a 13 percent year-over-year increase. All major regions of the country reported annual increases, with most parts of the country reporting gains of 10 percent to 15 percent. Rapidly growing Western region states posted a 30 percent annual increase.
- Shipments to the Midwest totaled 15,500 units to this point in 2022, up 10 percent from one year earlier. Michigan, Ohio, and Indiana posted the greatest annual increases in the region.
- California's large population and lack of inexpensive housing create a steady wave of demand for manufactured housing. Year to date, more than 3,000 units have been shipped to California, a 21 percent year-over-year advance.
- In fast-growing Arizona, shipment volumes are up 15 percent from one year ago with nearly 2,100 units delivered so far in 2022. The state is on pace to record a 15-year high for shipment volume this year.

U.S. Manufactured Housing Shipments



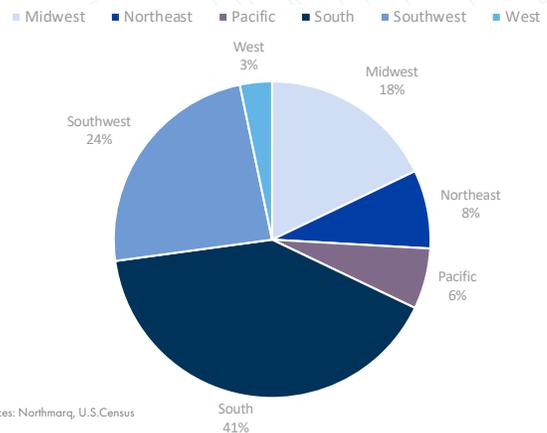
Sources: Northmarq, U.S. Census Bureau

Manufactured Housing Shipments by State



Sources: Northmarq, U.S. Census

Manufactured Housing Shipments by Region

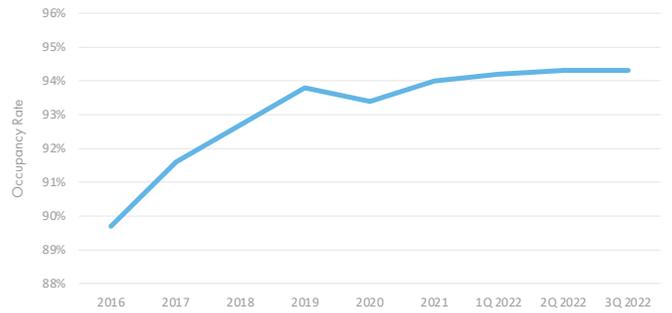


Sources: Northmarq, U.S. Census

Occupancy

- National occupancy held steady in the third quarter, maintaining a rate of 94.3 percent. This marked the first time in more than two years that national occupancy levels did not post a quarterly improvement.
- Even after holding steady in the past three months, occupancy at the national level has risen 40 basis points year over year. Occupancy has averaged 93.8 percent since the beginning of 2020.
- The South region has been recording steady growth in the past several quarters. The rate is up 40 basis points year over year, ending the third quarter at 95.7 percent. Florida, the largest state in the region, reported a 96.2 percent occupancy rate.
- Occupancy in the Midwest inched lower in the third quarter, the region's first decline in more than a year. The occupancy rate in the Midwest region fell 10 basis points in the last three months, ending the third quarter at 89.1 percent. Despite the recent softening, the rate is still up 100 basis points year over year.
- Occupancy in the Southwest ended the third quarter at 94.8 percent, down from 95 percent in the second quarter. Texas and Arizona both boast rates that are among the highest in the region. Each state has a current occupancy rate of 95.6 percent.
- The Pacific region maintained its 98.8 percent occupancy rate in the third quarter. The rate has been at 98 percent or higher since 2018. The region is dominated by trends in California, where occupancy levels ticked up 10 basis points in the third quarter to 98.8 percent.

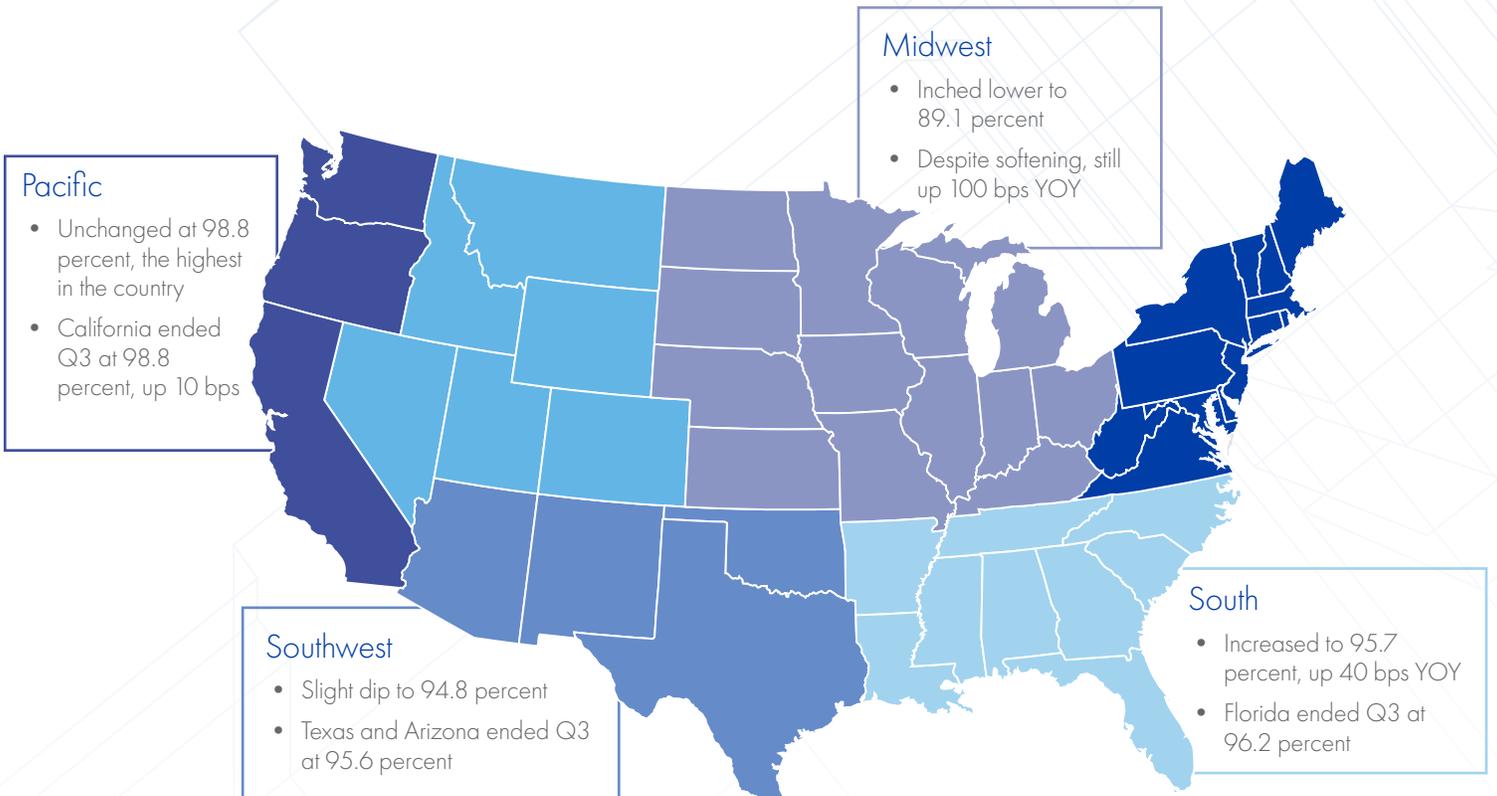
Occupancy Overview



Sources: NorthMarq, JLT Datacomp



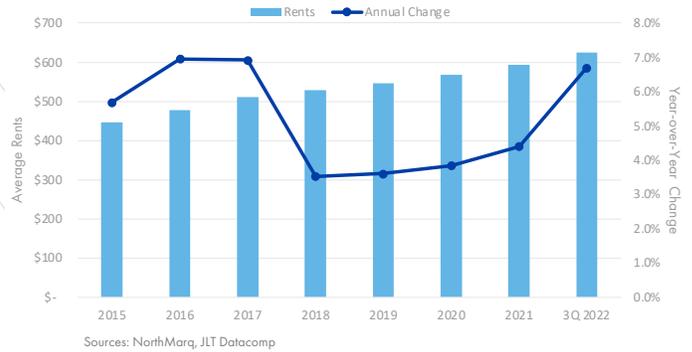
National occupancy held steady in the third quarter.



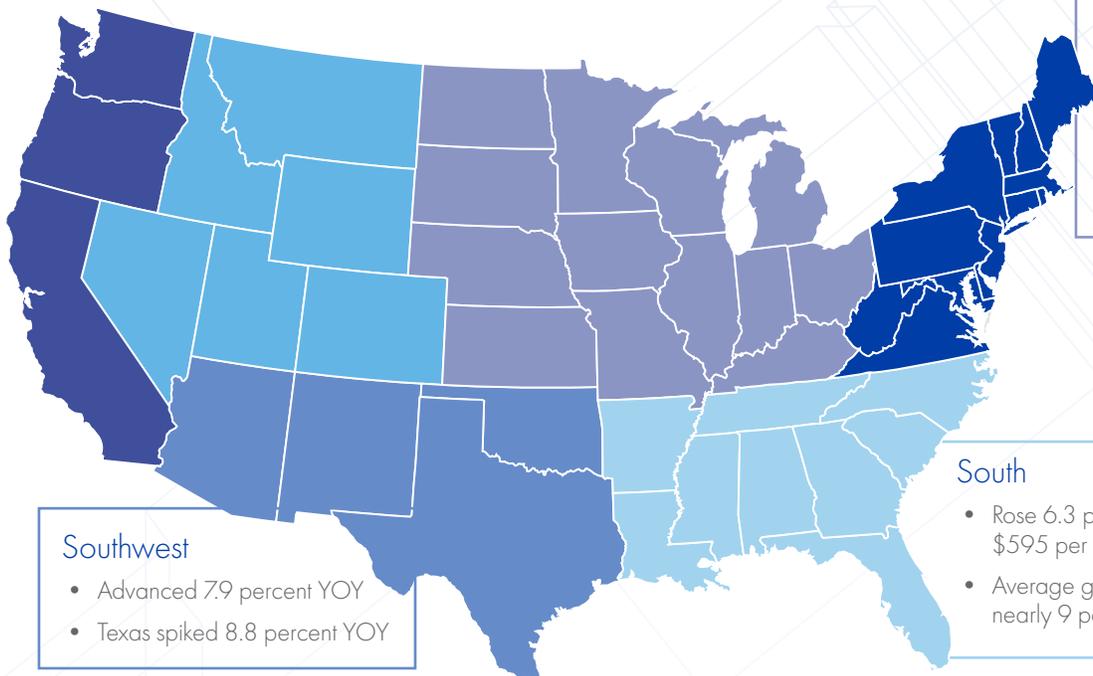
Rents

- Rents rose 2.5 percent in the third quarter, building on a 2.2 percent increase in the preceding period. The average rent advanced to \$625 per month in the third quarter. This is the strongest quarterly period of rent growth in more than five years.
- Rents have pushed 6.7 percent higher in the past year, up from a 5.5 percent annual gain through the second quarter. Rent growth year to date has reached 5.4 percent, with a modest gain in the fourth quarter anticipated. This year is on pace to be the highest year of rent increases since 2017.
- Rents in the South region are up 6.3 percent year over year, ending the third quarter at \$595 per month. Rent gains in the South have averaged 4.5 percent in recent years but will likely top 6.5 percent in 2022. Rents in Georgia have surged by nearly 9 percent in the past 12 months.
- Rapid rent growth in Texas fueled gains in the Southwest region. Rents in the Southwest advanced 7.9 percent in the 12 months ending in the third quarter. Rents spiked 8.8 percent in Texas during the same period.
- Rent growth has been slower in the Northeast. Rents in the region ended the third quarter at \$543 per month, up 4.4 percent year over year. In Pennsylvania, rents rose 3.2 percent in the past year.

Rents Overview



Rents have pushed 6.7 percent higher in the past year.



Southwest

- Advanced 7.9 percent YOY
- Texas spiked 8.8 percent YOY

Northeast

- Ended Q3 at \$543 per month, up 4.4 percent YOY
- Pennsylvania rose 3.2 percent YOY

South

- Rose 6.3 percent YOY to \$595 per month
- Average gains in Georgia up nearly 9 percent YOY

Manufactured Housing Sales

- Sales velocity during the third quarter slowed as interest rates rose. Transaction counts were down 21 percent from the second quarter to the third quarter.
- Year to date, sales have declined 23 percent from levels recorded during the same period in 2021. The drop in investment volume follows four consecutive years of rising transaction activity.
- Prices have been largely stable in recent quarters. The median price year to date through the third quarter was \$58,500 per space, up slightly from the figure at midyear.
- In transactions that closed in the third quarter, the median price rose to \$65,700 per space. Several properties traded in high-growth markets where costs of all forms of housing have been on the rise for the past 24 months.
- Cap rates have averaged about 5.8 percent for much of the year. During the third quarter and in the early stages of the fourth quarter, cap rates for most properties that sold were between 6.3 percent and 6.6 percent, although there are significant differences based on market and property.
- Florida has been the most active state for investment thus far in 2022. The state has posted a median price of nearly \$78,000 per space year to date, although several properties have traded at prices topping \$100,000 per space. Cap rates in Florida have averaged about 6.2 percent in 2022.
- Transaction activity in California slowed in the third quarter, but properties continue to change hands. The median price in the state to this point in 2022 is \$90,000 per space, up about 15 percent from the 2021 figure. Cap rates have varied throughout the year but have averaged 5.6 percent.
- Several properties sold in Arizona in excess of \$20 million during the third quarter, and prices have remained elevated throughout the year. The median price in Arizona in 2022 has reached \$89,750 per space, doubling last year's median price.
- Transaction activity in Nevada is ahead of the 2021 pace, although most of this year's sales occurred during the first half. The median price year to date is approximately \$57,800 per space, down 16 percent from the previous year.
- In the Midwest, volume has been strongest in Illinois and Wisconsin. In Illinois, the median price year to date is approximately \$57,700 per space with an average cap rate around 6 percent. In Wisconsin, the median price is close to \$40,000 per space with cap rates averaging 8 percent.
- Investor demand has picked up in high-growth North Carolina and South Carolina. In North Carolina, the median price is approximately \$60,000 per space with cap rates near 6 percent. In South Carolina, the median price has reached \$41,700 per space in 2022 with cap rates near 6.75 percent.



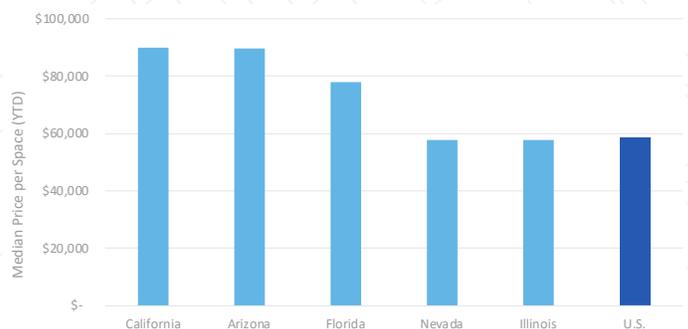
The median price year to date was \$58,500 per space.

U.S. Manufactured Housing Sales and Cap Rates



Sources: NorthMarq, CoStar

Manufactured Housing Sales Prices by State



Sources: NorthMarq, CoStar



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