Northmarq

MARKET INSIGHTS

With demand elevated, occupancies and rents push higher

HIGHLIGHTS

- Manufactured housing communities posted strong operational performance during the third quarter. Shipments of new units have slowed to this point in 2023, but demand for units is elevated and rents are on the rise.
- Occupancy rose 20 basis points during the third quarter, reaching 94.6 percent. The rate has risen 30 basis points year over year, with strong gains in the Midwest and the Southwest.
- Rents maintained an upward trajectory in the third quarter, rising 2.5 percent in just the last three months. Year over year, average rents are up 7 percent, reaching $669 per month.
- Sales velocity accelerated in the third quarter, but transaction levels remain about 40 percent behind the 2022 pace. Prices have dipped. The median price to this point in 2023 is $42,300 per space, while cap rates averaged 6.5 percent.

MANUFACTURED HOUSING MARKET OVERVIEW

Manufactured housing is one of the top performing commercial real estate property types in the country in 2023. While many segments of the real estate market are being slowed by either lagging demand or heightened supply growth, manufactured housing is benefitting from a slowing pace of inventory growth and a shortage of reasonably priced housing options. Occupancies have pushed higher in recent years, and rose again in the third quarter, following a modest dip in the prior three months. Rents have been rising at an elevated rate for the past two years and show little signs of slowing down. Average rents gained 2.5 percent in the third quarter and are up 7 percent year over year. Some of the largest and fastest-growing regions are posting the fastest rent growth, led by the South and Southwest.

A more challenging capital markets climate has dragged on investment activity, despite the manufactured housing sector's healthy property performance. Sales velocity is behind the pace established in 2022, although more assets changed hands in the third quarter than during the prior three-month period. Cap rates are higher—averaging approximately 6.5 percent—but may level off as interest rates decline and properties continue to post strong fundamentals. Prices have declined to this point in 2023, which is likely a result of two factors. The first is the increase in cap rates, which has dragged on values. The second is a decline in the number of manufactured housing communities that are being sold for conversion to other housing uses.

INVENTORY GROWTH

UNITS SHIPPED YTD	66,800
CHANGE FROM 2022	-26%

MARKET FUNDAMENTALS

OCCUPANCY RATE	94.6%
CHANGE FROM Q2 2022	+30bps
AVERAGE RENTS	$669
CHANGE FROM Q2 2022	+7.0%

TRANSACTION ACTIVITY (YTD)

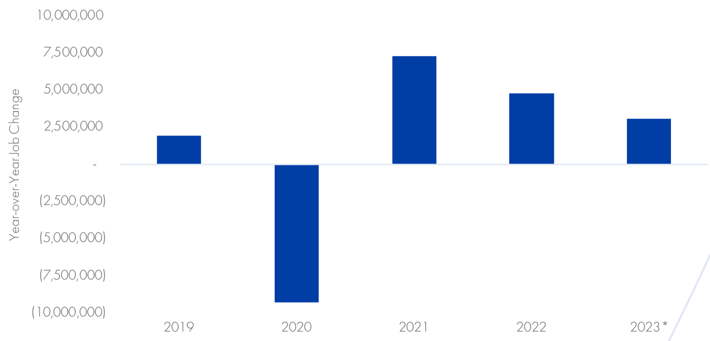
MEDIAN PRICE PER SPACE	$42,300
AVERAGE CAP RATE	6.5%

Manufactured Housing
3Q 2023

EMPLOYMENT

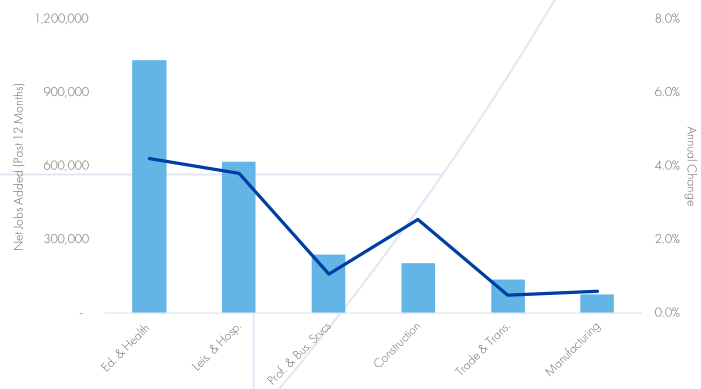
- The pace of employment growth picked up slightly in recent months after job additions slowed during the second quarter. Total employment across the U.S. expanded by 663,000 positions during the third quarter, up from 603,000 jobs added in the second quarter.
- Year over year through the third quarter, total employment on a national level expanded by 2 percent, with the addition of nearly 3.1 million workers.
- Employment is up across nearly every sector in the United States in the past 12 months. The education and health services sector is leading the way, with more than 1 million net new hires in the past year.
- Following the sector's greatest quarterly gain since 2019, construction employment rose modestly in recent months. In the past year, this sector added 204,000 positions, expanding by 2.6 percent.
- Growth in manufacturing has been minimal, with sector adding only 77,000 workers during the past 12 months, a 0.6 percent advance.
- Employment trends in the retail sector have been alternating between quarters of additions and cuts since early 2021. Year over year, total employment in this sector rose 0.4 percent, a gain of 56,100 workers.
- Elevated interest rates dragged on white-collar industries in recent periods. The professional and financial sectors each posted increases of about 1 percent during the past 12 months, down from more than 2.5 percent last year.
- Manufactured housing's leading states continue to post the greatest employment growth. Texas, California, and Florida added a combined 985,000 workers in the past year. Net new jobs were greatest in Texas, which posted an increase of more than 435,000 workers.
- Year over year, total employment in Pennsylvania expanded by 2.5 percent, one of the top rates of expansion in the Northeast. Nearly 150,000 jobs have been added statewide in the past 12 months.
- North Carolina and Georgia added a combined 194,500 net new jobs during the past year, respective gains of roughly 2 percent.
- Nevada posted some of the steepest employment growth in the country during the past 12 months. Year over year, Nevada employers added 52,900 workers, increasing total employment by 3.5 percent. During the same period, nearby Arizona and Colorado expanded by 1.8 percent and 1.3 percent, respectively.
- In the Midwest, solid labor gains were posted across several states. Employers in Ohio added 92,600 workers during the past year, an increase of 1.7 percent, while Illinois recorded 81,300 new hires and Michigan added 47,700 net new jobs.

U.S. EMPLOYMENT TRENDS



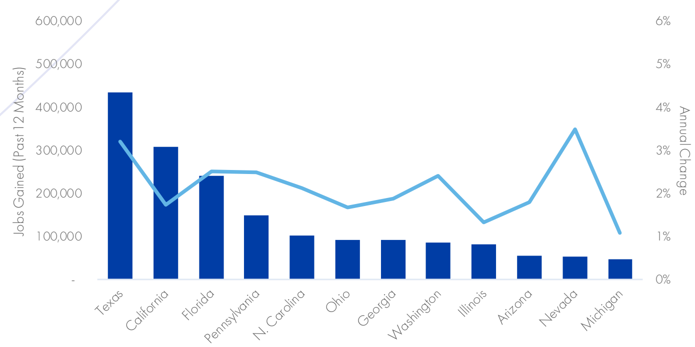
* 12-Month Period Ending 3Q 2023
Sources: Northmarq, Bureau of Labor Statistics

SECTOR EMPLOYMENT TRENDS



Sources: Northmarq, Bureau of Labor Statistics

EMPLOYMENT TRENDS BY STATE

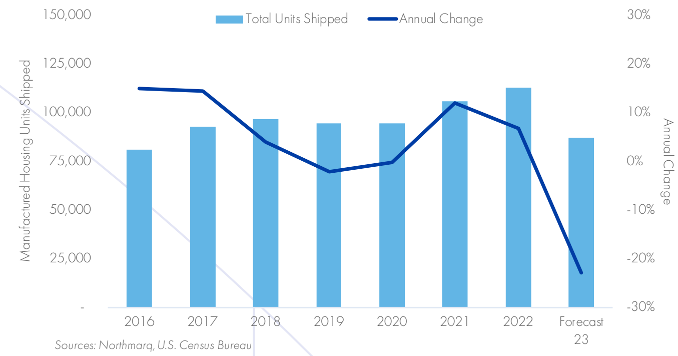


Sources: Northmarq, Bureau of Labor Statistics

SUPPLY GROWTH

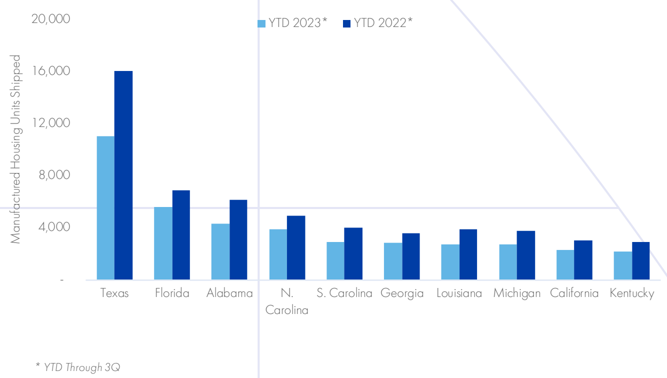
- Shipments of manufactured housing units totaled 22,800 units in the third quarter, duplicating the total from the prior three-month period. This marked the lowest third quarter total shipments since 2017.
- Year to date through the third quarter, shipments totaled 66,800 units, down from 90,000 units during the same period in 2022. The market is on pace for its lowest annual total of new shipment volume since 2017.
- Each of the nation's six regions posted year-to-date shipment declines when compared to 2022 levels. Shipments to the Northeast region are down 17 percent from one year earlier, the smallest annual drop among the regions.
- More than 11,000 units have been shipped to Texas to this point in 2023, down from approximately 16,000 units through the first three quarters of last year. Texas accounts for about 16 percent of the total shipments throughout the country and more than 70 percent of the shipments to the Southwest region.
- After Texas, the next six states with the highest shipment volumes year to date are all in the South region. Florida leads the way with nearly 5,600 units shipped, followed by Alabama with approximately 4,300 units and North Carolina with more than 3,800 units. Shipment volumes to the South region are down 25 percent year to date.
- The drop in shipment volume to California is closely tracking the national slowdown. Year to date, about 2,300 units have been shipped to California, down 24 percent from the same period in 2022.
- In the Midwest, Michigan and Kentucky each were among the top-10 states for new units. More than 2,700 units were shipped to Michigan, while 2,150 units were shipped to Kentucky. Indiana and Ohio each posted shipments of more than 1,250 units year to date.
- The West posted the largest regional decline through the first three quarters of this year, with shipments dropping 41 percent from 2022 levels. Activity in Colorado was the primary source of the change; shipments to Colorado are down 52 percent year to date, totaling fewer than 550 units.

U.S. MANUFACTURED HOUSING SHIPMENTS



Sources: Northmarq, U.S. Census Bureau

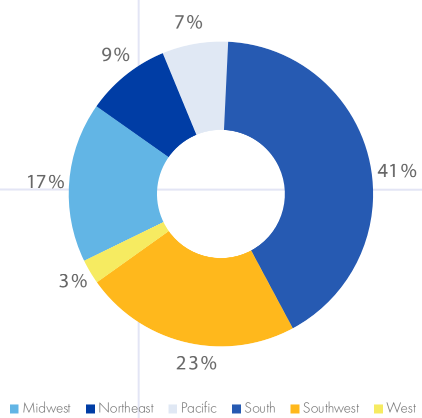
MANUFACTURED HOUSING SHIPMENTS BY STATE



* YTD Through 3Q

MANUFACTURED HOUSING SHIPMENTS BY REGION

Sources: Northmarq, U.S.Census

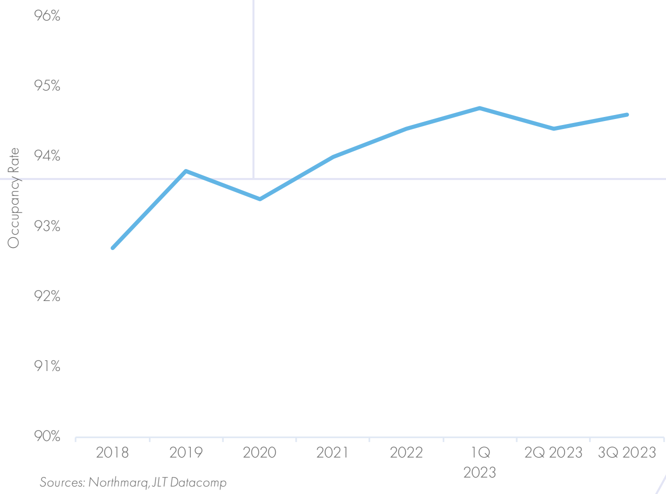


OCCUPANCY

- The national occupancy rate increased by 20 basis points during the third quarter, reaching 94.6 percent. This followed a modest decline recorded during the prior quarter. Year to date, occupancy levels are up 20 basis points.
- In the past 12 months, occupancy rates at the national level have increased by 30 basis points, a slightly slower pace of improvement than was being recorded one year ago. The longer-term trend has been of rising occupancies; as recently as 2016, occupancy rates were below 90 percent.
- At the regional level, most parts of the country are recording fairly flat occupancies, with the rate holding steady in the mid-90 percent range.
- The Midwest region recorded the nation's strongest year-over-year improvement through the third quarter. Occupancy in the Midwest reached 89.8 percent and is up 70 basis points from one year ago. The rate is on pace to top the 90 percent threshold in early to mid-2024.
- During the third quarter, occupancy levels in Texas spiked by 60 basis points, rising to 96.2 percent, the state's highest figure in more than five years. Strong performance in Texas is fueling the Southwest region; occupancy in the Southwest rose to 95.4 percent in the third quarter.
- The South is the only region to record an annual decline in occupancy as of the third quarter, despite healthy demand growth. Occupancy in the South region dipped 10 basis points in the past year, ticking down to 95.6 percent. The rate in Florida declined 20 basis points year over year.
- California continues to record some of the tightest conditions in the country, with occupancy in the state rising 20 basis points in the last three months to 99 percent. Since 2018, occupancy in the state has averaged approximately 98 percent.

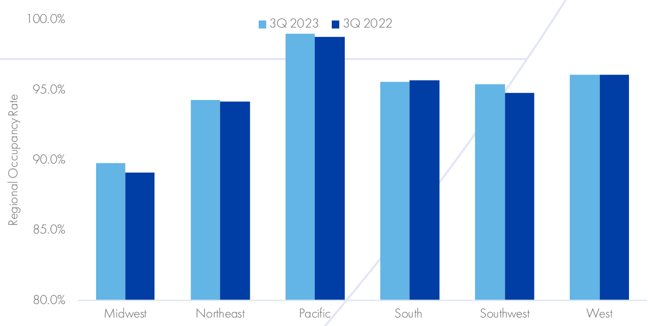
Year to date, national occupancy levels are up 20 basis points.

OCCUPANCY OVERVIEW



Sources: Northmarq, JLT Datacomp

MANUFACTURED HOUSING OCCUPANCY BY REGION



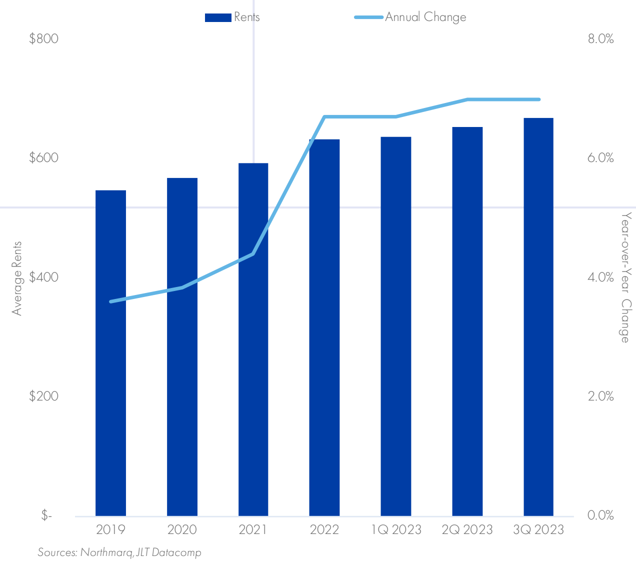
Sources: Northmarq, JLT Datacomp

RENTS

- Rent growth maintained its rapid pace in recent months. Rents spiked 2.5 percent in the third quarter, matching the increase recorded in the prior three-month period. Rents have posted a quarterly increase of at least 2 percent in four of the past six quarters.
- During the past 12 months, rents have spiked 7 percent, reaching $669 per month. Recent rent growth is about 2.5 percentage points higher than the sector's long-term average growth rate.
- The South region has led the way; area rents have spiked by 9.4 percent in the past year, reaching $651 per month. Average rents in the South first topped $500 per month in 2019 and have been trending higher at an elevated pace for the past several years.
- Rents in the Northeast have accelerated in recent quarters. Current rents in the Northeast have surged 6.1 percent in the past year to $576 per month. In prior rent growth in the region averaged between 2.8 percent and 4 percent.
- Rapid rent increases in high-growth Colorado have supported gains in the West region. Average rents in Colorado have gained approximately 9.5 percent in the past year, pushing overall rents in the region up 8.2 percent to $765 per month.
- In the Midwest, rents are up 6.3 percent year over year. Rents in the Midwest reached $503 per month in the third quarter. Rents in Ohio and Michigan are up more than 6 percent from one year ago.

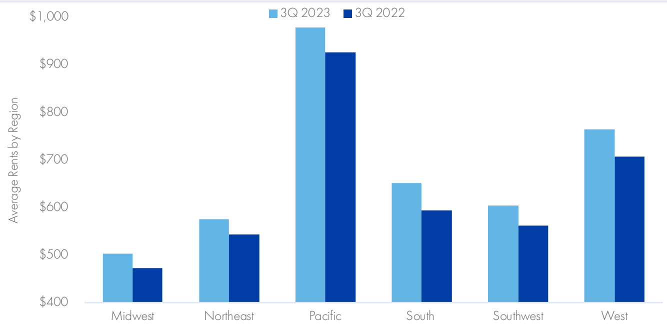
Rents have spiked 7 percent, reaching $669 per month.

RENTS OVERVIEW



Sources: Northmarq, JLT Datacomp

MANUFACTURED HOUSING RENTS BY REGION

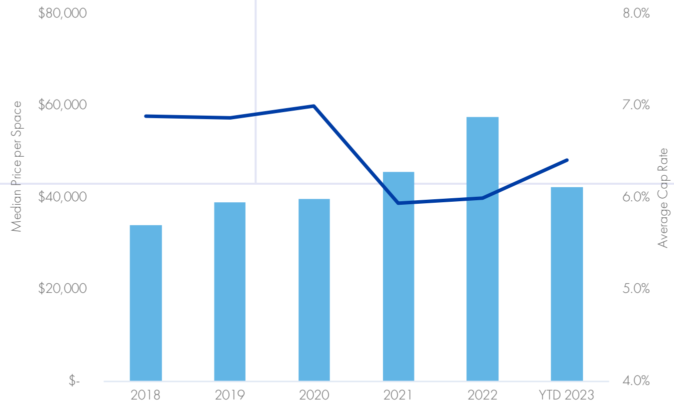


Sources: Northmarq, JLT Datacomp

MANUFACTURED HOUSING SALES

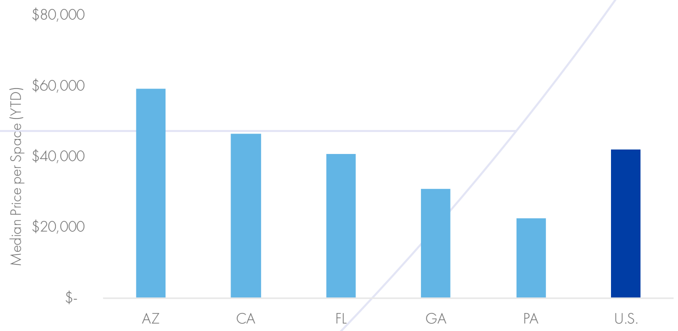
- After a sluggish first half of 2023, sales began to accelerate in recent months. Transaction volume rose by roughly 30 percent from the second quarter to the third quarter.
- Despite sales activity for manufactured housing communities rising in recent periods, total transactions year to date are down 40 percent from levels recorded last year.
- Cap rates held steady in recent months after several consecutive quarters of increases. The average cap rate during the third quarter was 6.5 percent, closely tracking levels recorded in the preceding quarter.
- The median price to this point in the year has fallen to $42,300 per space, down 27 percent from last year's figure. The current median price is lagging behind levels recorded in each of the past two years.
- Florida continues to lead the country for transaction volume to this point in 2023, but overall sales across the state are down from levels recorded last year. Total transactions in the state have declined 19 percent year over year. Pricing is also lower than last year, with the median sales price at $41,000 per space, down from $70,000 per space in 2022.
- Transaction volume in the last nine months in California is down roughly 40 percent from levels posted in the same period of last year. Cap rates in the state are averaging about 6 percent thus far in 2023, although a handful of deals have traded with cap rates near 5 percent.
- Transaction velocity in Arizona has picked up in the last six months, with roughly a dozen properties changing hands. Year to date, sales volume in Arizona is up 18 percent from the same period last year. In the parks sold in Arizona, the median price to this point in 2023 is $59,400 per space.
- Ohio is leading the Midwest in transaction volume, with Michigan and Minnesota also posting solid levels of activity in the third quarter.

U.S. MANUFACTURED HOUSING
SALES & CAP RATES



Sources: Northmarq, CoStar

MANUFACTURED HOUSING SALES
PRICES BY STATE



Sources: Northmarq, CoStar

The average cap rate during the third quarter was 6.5 percent.

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