Northmarq

INVENTORY GROWTH

UNITS SHIPPED YTD	21,200
CHANGE FROM 2022	-29%

MARKET FUNDAMENTALS

OCCUPANCY RATE	94.7%
CHANGE FROM Q1 2022	+50bps
AVERAGE RENTS	$637
CHANGE FROM Q1 2022	+6.7%

TRANSACTION ACTIVITY (YTD)

MEDIAN PRICE PER SPACE	$41,900
AVERAGE CAP RATE	6.40%

Manufactured Housing
1Q 2023

MARKET INSIGHTS

Occupancies continue to trend higher, while rent gains cool

HIGHLIGHTS

- While the economy continues to expand, a more uncertain outlook dragged on the national manufactured housing market at the start of 2023. The volume of new shipments slowed, even as occupancy rates continued their upward trend.
- The national occupancy rate rose 30 basis points in the first quarter to 94.7 percent, reaching its highest level in more than 20 years. During the past 12 months, the rate has improved by 50 basis points.
- Rents ended the first quarter at $637 per month and are 6.7 percent higher than one year ago. The pace of growth slowed at the start of 2023, although the first quarter is historically the time of the year when rent growth is the softest.
- Sales velocity in the manufactured housing market lagged prior periods during the first quarter. In transactions that did occur, prices declined and cap rates rose, with both measures returning closer to levels achieved a few years ago.

MANUFACTURED HOUSING MARKET OVERVIEW

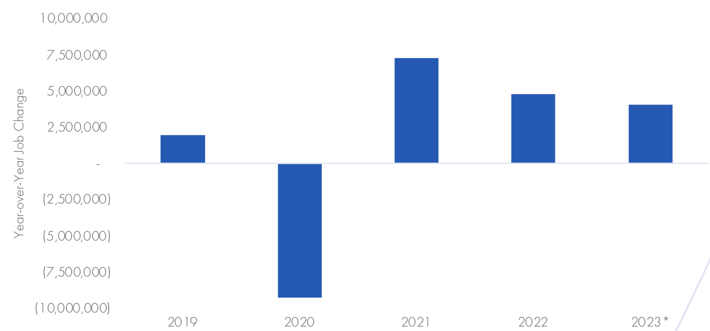
The national manufactured housing market showed its first signs of slowing down during the first quarter, following an extended run of improvement that has lasted for nearly a decade. Shipment volumes fell considerably at the start of the year, suggesting a slowing pace of new demand. Rent trends were mixed, with operators implementing only modest gains across much of the country in recent months. Some of this is seasonal, as the first quarter is traditionally the weakest period for national rent growth. Still, rents are up 6.7 percent from one year ago, although the pace of increases will likely level off in the coming months. The strongest operational performance metric remains occupancy, which rose again at the start of the year, reaching 94.7 percent. Since mid-2020, the national occupancy rate has improved in every quarter but one, although it is unlikely that the rate can rise much higher than 95 percent.

Trends in the investment market also reflected a more uncertain environment at the start of 2023. Transaction activity levels declined, lagging counts from both the prior quarter and the same period one year ago. While manufactured housing communities continue to record healthy operational performance, the rising costs of financing are restricting deal flow. Transactions that have closed to this point in the year have been concentrated in some of the traditional, high-growth markets across the Sunbelt, led by Florida and Arizona, as well as in supply-constrained California. Cap rates have increased, reaching 6.4 percent on average. In markets in the Midwest, where sales activity has slowed but not stalled completely, cap rates are generally ranging from 6.5 percent to 7.5 percent. Looking ahead, investment activity should gain some momentum as lending rates level off and cap rates settle in closer to levels that prevailed from 2018 through 2020.

EMPLOYMENT

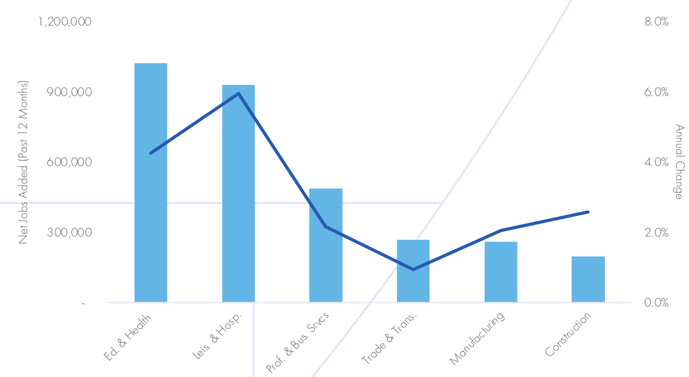
- The pace of employment growth accelerated at the start of the year, surpassing nearly all forecasts. During the first quarter, employers added 937,000 net new jobs, after about 850,000 jobs were created at the end of 2022. Preliminary indications suggest additions continued into the second quarter.
- During the past 12 months, total nationwide employment has expanded by 2.7 percent as payrolls have swelled by more than 4 million jobs. Current employment totals are up 3.1 million jobs from the pre-COVID peak.
- The education and health services sector has accounted for nearly one-in-four of the new jobs created during the past year. Employment in the sector has spiked by 4.2 percent with the addition of more than 1 million positions.
- The leisure and hospitality sector of the economy is expected to continue to be a source of growth through the remainder of the year. During the past 12 months, more than 925,000 jobs have been added across the sector, a 6 percent gain. Despite the continued recovery, leisure and hospitality employment is still down 2.5 percent from its 2019-2020 peak.
- The manufacturing and construction sectors continue to record steady gains. Year over year, manufacturing employment has grown by 2 percent with 260,000 new jobs, while nearly 200,000 construction jobs have been added, a 2.6 percent rate of growth.
- The top three states for manufactured housing supply have combined to account for more than one-third of total employment growth in the past year. The labor markets in Texas, California, and Florida added 1.4 million jobs in the past 12 months, expanding at an average annual growth rate of 3.7 percent.
- The economy in Nevada continues to recover at a rapid pace. In the past year, employers in the state have added 75,000 jobs, a 5.1 percent rate of expansion. In neighboring Arizona, nearly 70,000 jobs have been created, a 2.3 percent gain.
- In the Southeast, Georgia and North Carolina both added about 130,000 net new jobs in the past year. The states posted nearly identical year-over-year rates of growth at approximately 2.7 percent.
- Annual employment growth in Illinois led the Midwest. Total employment growth in the state reached 2.2 percent in the past 12 months with the addition of 129,600 jobs. The region as a whole recorded a growth rate of nearly 2 percent year over year, with Indiana and Minnesota also recording above-average gains.

U.S. EMPLOYMENT
TRENDS



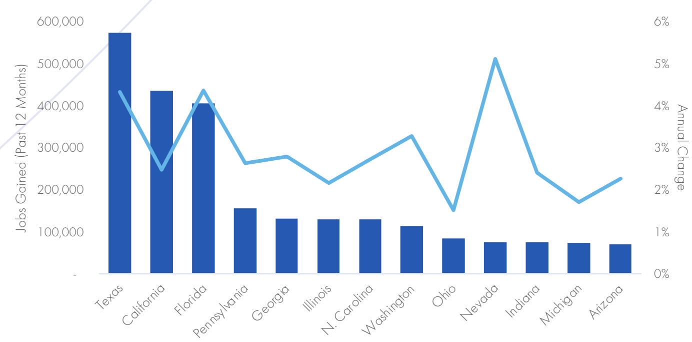
* 12-Month Period Ending 1Q 2023

SECTOR EMPLOYMENT
TRENDS



Sources: Northmarq, Bureau of Labor Statistics

EMPLOYMENT TRENDS
BY STATE

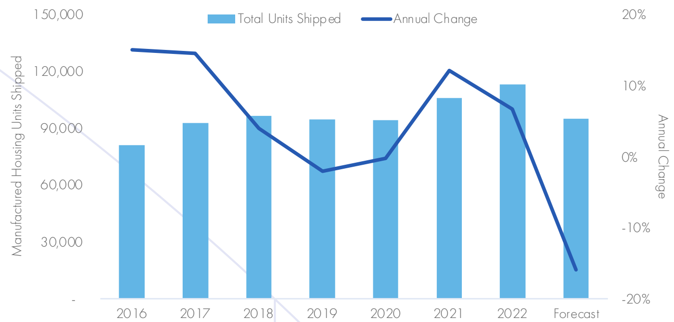


Sources: Northmarq, Bureau of Labor Statistics

SUPPLY GROWTH

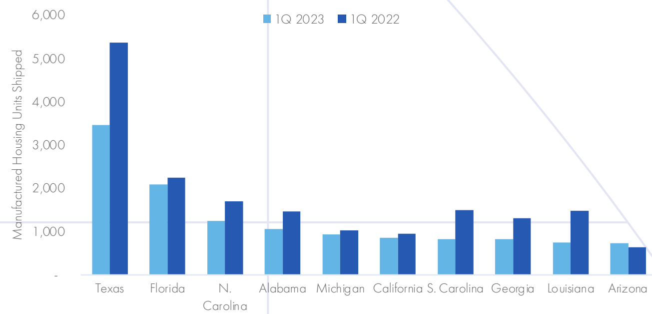
- Shipments of manufactured housing totaled just 21,200 units during the first quarter, the slowest start to a year since 2016. Shipment volume peaked in the second quarter of 2022 and has declined in each of the past three quarters.
- Shipment volume in the first quarter was down 29 percent from the same period in 2022. Supply growth had remained in a fairly tight range from 2018 to 2020 before spiking in each of the past two years.
- Each of the six regions in the country recorded year-over-year shipment declines in the first quarter. The Pacific region posted the smallest decline, dropping 14 percent. California accounts for the bulk of the volume in the region, and shipments to the state fell just 11 percent compared to one year ago.
- The South region recorded the most units shipped in the first quarter but also posted an above-average annual decline. Fewer than 8,300 units were shipped to the South region in the first quarter of 2023, 34 percent lower than during the same period, one year earlier. Florida, North Carolina, and Alabama were all among the top-5 states for shipment volumes at the start of 2023.
- Texas led the way for shipment activity at the beginning of this year, but the state posted a significant decline. During the first quarter, approximately 3,500 units were shipped to Texas, down from more than 5,300 units in the first quarter of 2022.
- Arizona was one of the few top states that posted an increase in overall shipments from the prior year. During the first quarter, approximately 725 units were shipped to Arizona, up 15 percent year over year.
- In the Midwest, shipment volume was down about 24 percent from the prior year. Michigan was the leading state in the region for activity with nearly 950 units shipped at the start of the year.
- Activity levels in the Northeast declined 24 percent to modest levels, although Pennsylvania was one of the top states for inventory growth. More than 500 units were shipped to Pennsylvania in the first quarter, down 11 percent year over year.

U.S. MANUFACTURED HOUSING SHIPMENTS



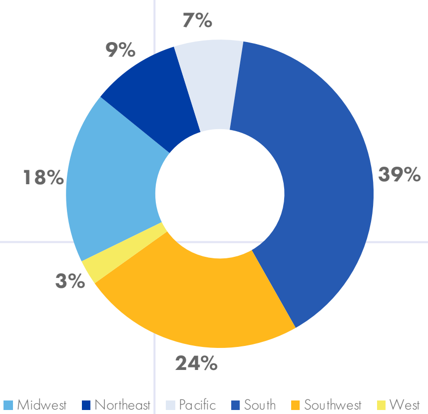
Sources: Northmarq, U.S. Census Bureau

MANUFACTURED HOUSING SHIPMENTS BY STATE



MANUFACTURED HOUSING SHIPMENTS BY REGION

Sources: Northmarq, U.S.Census

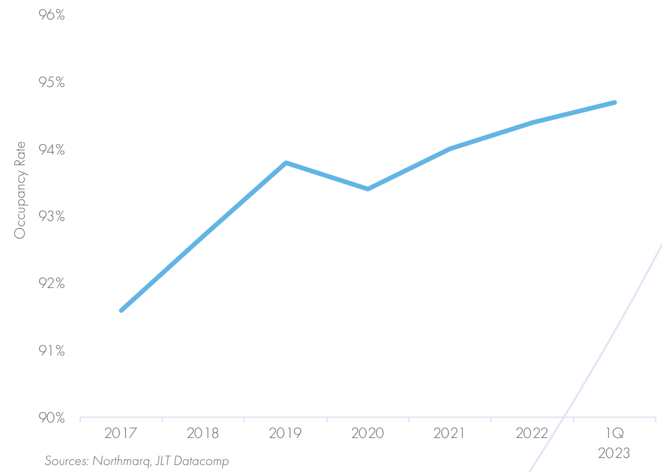


OCCUPANCY

- The national occupancy rate rose 30 basis points in the first quarter, reaching 94.7 percent, the highest figure in more than 20 years. This marked the 10th quarter out of the past 11 where occupancy levels pushed higher.
- In the past year, the occupancy rate has increased 50 basis points. While the rate has been steadily improving over the past several years, gains have been gradual. Since 2018, the national occupancy rate has averaged 93.4 percent.
- Occupancy trends in the South region ended the first quarter at 95.7 percent, 30 basis points higher than one year earlier. Occupancy in Florida reached 96.1 percent, while the rate in Georgia is among the lowest in the region at 90 percent.
- Occupancy in the Southwest has been very steady in recent years, ranging between 94.5 percent and 95 percent. The rate held steady at 95 percent in the first quarter, matching the figure from one year ago. In Texas, the largest state in the region, occupancy is 95.6 percent. The rate rose 30 basis points in Arizona year over year, reaching 95.9 percent.
- The Pacific region consistently posts the highest occupancy rates in the country. The rate was 98.8 percent in the first quarter and has been at or above 98 percent since 2018. The rate consistently averages between 98 percent and 99 percent across the three largest states in the region: California, Washington, and Oregon.

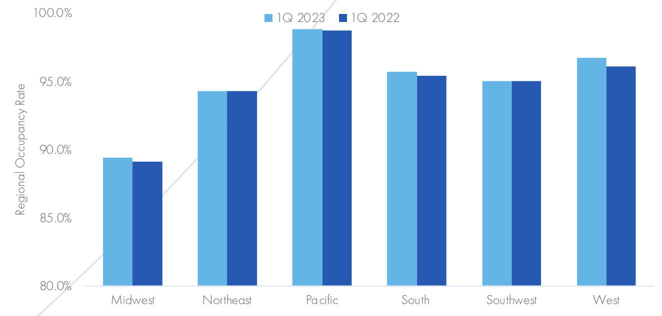
In the past year, the occupancy rate has increased 50 basis points.

OCCUPANCY OVERVIEW



Sources: Northmarq, JLT Datacomp

MANUFACTURED HOUSING OCCUPANCY BY REGION



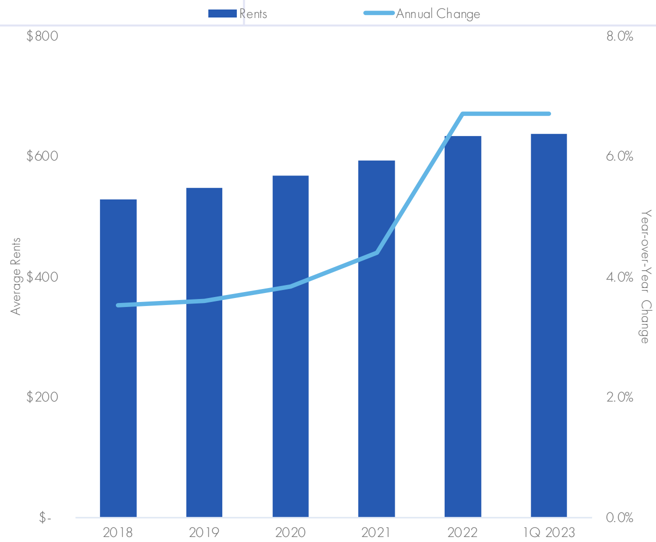
Sources: Northmarq, JLT Datacomp

RENTS

- Rents inched higher in the first quarter, ticking up 0.6 percent in the first three months of the year. While rents advanced, this was the slowest quarter of gains since the first quarter of 2021. The average rent reached $637 per month.
- Even with the pace of growth cooling at the start of 2023, rents are up 6.7 percent year over year. Rents have increased at an average rate of 4.3 percent per year since 2019.
- The strongest growth has been recorded in the Southwest region, where rents have spiked 8.4 percent in the past 12 months. Average rents in Texas are up 9.1 percent year over year, while rents have increased 8 percent in Arizona.
- Rents in the South region rose 4.9 percent year over year, reaching $596 per month. Rents in Florida were at the high-end of the growth range, rising 6.1 percent in the past 12 months to $625 per month.
- Rents in the Pacific region have surged by 6.5 percent in the last 12 months, ending the first quarter at $940 per month. California has some of the highest rents in the nation; rents in California reached $975 per month in the first quarter, 5.5 percent higher than one year ago.

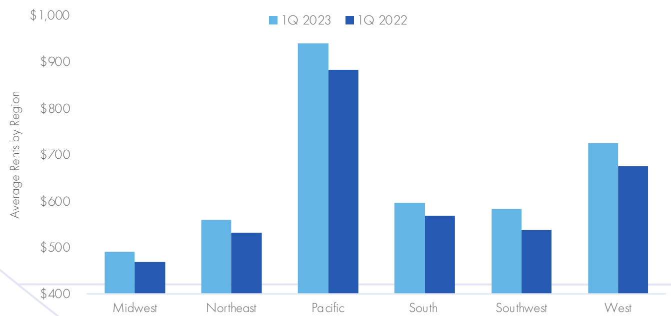
Rents are up 6.7 percent year over year.

RENTS OVERVIEW



Sources: Northmarq, JLT Datacomp

MANUFACTURED HOUSING RENTS BY REGION

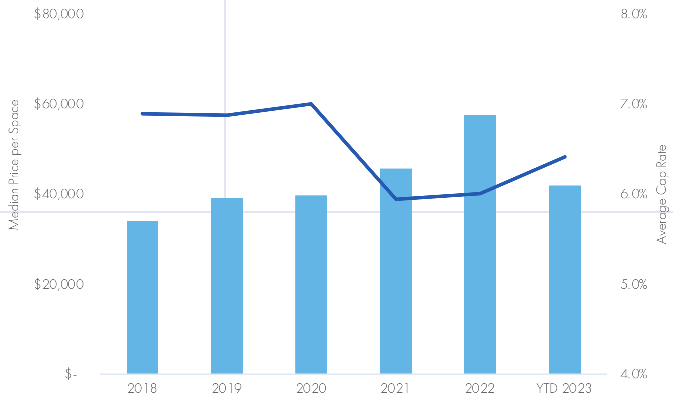


Sources: Northmarq, JLT Datacomp

MANUFACTURED HOUSING SALES

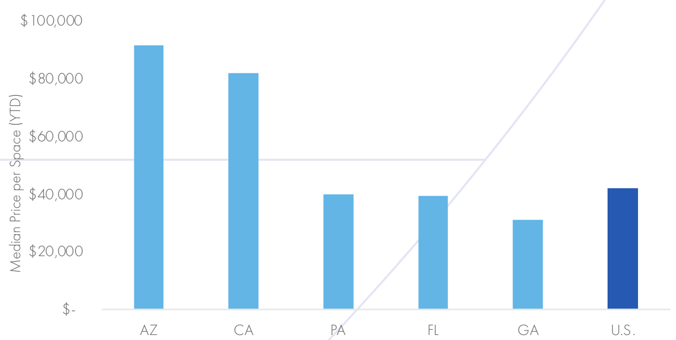
- Sales velocity has slowed in recent periods. During the first quarter, transaction activity was down nearly 50 percent from levels recorded in the fourth quarter of 2022.
- The number of transactions that closed in the first quarter also lagged levels from the same period in 2022. Total transaction volume at the start of 2023 declined 30 percent from the number of sales that closed in the first three months of last year.
- One segment of the transactions market that has recorded the greatest decline has been in the largest transactions. Sales velocity above $40 million slowed by more than 60 percent from levels at the end of 2022.
- After spiking by approximately 45 percent from 2020 to 2022, prices have begun to trend lower at the start of this year. The median price in transactions that closed in the first quarter was $41,900 per space, down 27 percent from the median price in 2022.
- Cap rates rose approximately 40 basis points in the first quarter, averaging 6.4 percent. While there are still properties that transact with cap rates between 5.5 percent and 6 percent, some other communities are selling with cap rates closer to 8 percent to 10 percent.
- Florida has been the top state for transaction activity to this point in 2023. Properties have traded throughout the state, with the median price reaching $39,400 per space, down more than 40 percent from the median price in 2022. The highest-priced properties in the state that traded during the first quarter sold for approximately $65,000 per space. Cap rates in the state have averaged 5.9 percent.
- Arizona was one of the most active states for property sales at the start of this year, and prices were elevated. The median price per space topped $90,000, about 3 percent higher than statewide pricing levels in 2022. Prices were elevated around the Phoenix metro area but were much lower in the state's outlying counties.
- The Midwest recorded fairly steady paces of transaction activity across several states, led by Minnesota, Michigan, and Ohio. The median price across the Midwest region was approximately $43,000 per space, while cap rates are averaging between 6.5 percent and 7.5 percent.
- Pennsylvania was the state in the Northeast region with the most activity at the beginning of 2023. The median price in the state was nearly $40,000 per space. In higher-cost states in the Northeast, there were fewer transactions but higher prices. Properties in Maryland, New Jersey, and New Hampshire traded near $100,000 per space or higher.

U.S. MANUFACTURED HOUSING
SALES & CAP RATES



Sources: Northmarq, CoStar

MANUFACTURED HOUSING SALES
PRICES BY STATE



Sources: Northmarq, CoStar

Cap rates rose approximately 40 basis points in the first quarter.

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