

# Manufactured Housing



## Investment Activity on an Upswing in Manufactured Housing Market

### Highlights

- > The manufactured housing market had a very strong 2018, with occupancy rising across all regions of the country and rents posting healthy gains. Supply growth is accelerating, but the uptick in demand is outpacing the delivery of new inventory.
- > Occupancy in manufactured housing communities rose 110 basis points from 2017 to 2018, ending the year at 92.7 percent. This was the seventh straight year of occupancy improvement in the sector.
- > Rents have been pushing higher since 2002, a trend that continued in 2018 with a 3.9 percent increase nationally. Annual gains were strongest in the West region in 2018.
- > Investor demand for manufactured housing was robust in 2018, with transaction activity spiking by nearly 20 percent, the median price pushing higher, and cap rates compressing.

### Manufactured Housing Overview

Demand for manufactured housing strengthened in 2018, supported by accelerating economic growth and rising housing costs. Sale prices for single-family homes rose more than 5 percent in 2018, and apartment rents increased by 4.9 percent. As a result, housing became less affordable at the same time construction costs continued to rise. Manufactured housing benefits in these conditions, with occupancy rising and rents pushing higher, albeit at a more modest pace than in the apartment sector. These trends are expected to continue in 2019, although employers are not predicted to add jobs at the same pace they did in the past year.

Investors are responding to the favorable conditions, and sale velocity for manufactured housing communities is gaining momentum. Transaction activity rose by approximately 20 percent in 2018, compared with declines across most other commercial property sectors. Prices rose and cap rates compressed, particularly during the fourth quarter. While traditional investment in performing properties accounts for most of the investment volume, transaction activity is also receiving a boost from the establishment of Opportunity Zones in the 2017 tax law as well as some parks being sold for redevelopment into other residential uses.

### Market Indicators

	4Q/2018
Occupancy .....	↑
Rents .....	↑
Transaction Activity.....	↑
Price Per Unit.....	↑
Cap Rates .....	↓

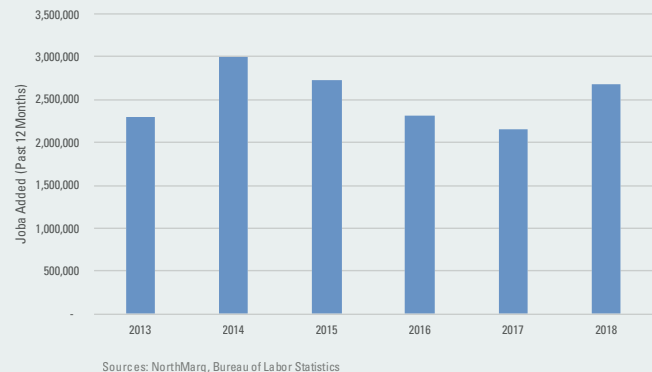
### Summary Statistics Manufactured Housing

Occupancy Rate.....	<b>92.7%</b>
- Change from 4Q 2017 (bps).....	<b>+110</b>
Average Rents .....	<b>\$530</b>
- Change from 4Q 2017.....	<b>+3.9%</b>
Median Sales Price (per space YTD).....	<b>\$33,900</b>
Average Cap Rate (YTD).....	<b>6.9%</b>

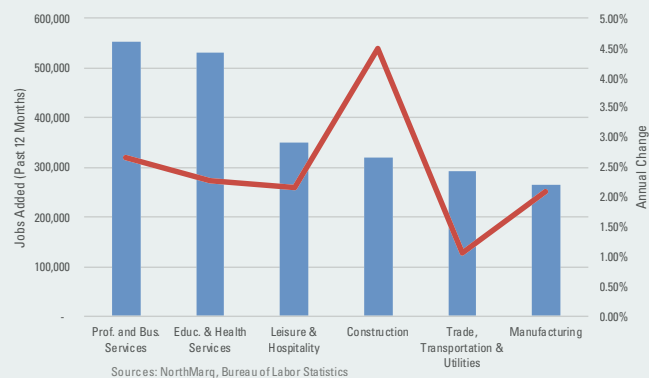
## Employment

- > The national economy strengthened in 2018. Total employment expanded by 1.8 percent for the year, with nearly 2.7 million net new jobs added. Job growth in 2018 was up by more than 500,000 jobs from the additions recorded in 2017, and this marked the first annual acceleration in job growth since 2014.
- > One of the fastest-growing sectors in the economy in 2018 was construction, which grew by 4.5 percent. Nearly 320,000 construction jobs were added for the year, building on a gain of 268,000 positions in 2017.
- > The manufacturing sector was another area that posted healthy and accelerating job growth in 2018. Employers added more than 260,000 manufacturing jobs in 2018, a 2.1 percent increase. In 2017, manufacturing employment expanded by 1.5 percent.
- > Growth was widespread throughout the country, with nearly every state recording job gains in 2018. The fastest expansion is being recorded in the Southwest and Mountain regions of the country. Nevada and Arizona were the top two states for job growth by percent in 2018. Utah and Colorado also posted gains that put them among the 10 fastest-growing states in the U.S. in 2018.
- > Job growth in Texas was the third-fastest on a percentage basis, and the state led the way for the most jobs added. In 2018, employers in Texas added nearly 392,000 jobs, up from about 250,000 new positions in the preceding year.
- > Florida and Georgia were the top performers in the Southeast. Employment growth in Florida expanded by 2.7 percent in 2018, with the addition of more than 230,000 jobs. In Georgia, the pace of growth was similar; employers expanded payrolls by 2.5 percent and 113,800 jobs were created. In Louisiana, growth was more modest, totaling 1.1 percent as nearly 22,000 jobs were added.
- > In the Midwest, Ohio added far more jobs than any other neighboring state. More than 116,000 jobs were added in the state, a 2.1 percent increase.

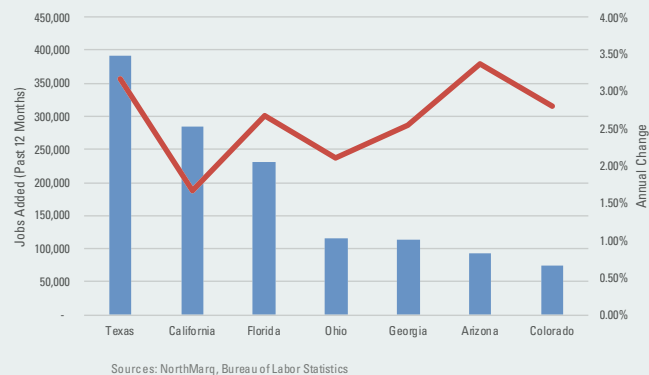
### U.S. Employment Trends



### Top Employment Growth Sectors



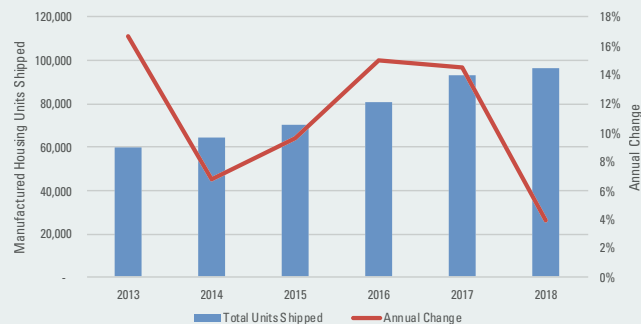
### Top States For Employment Growth



## Supply Growth

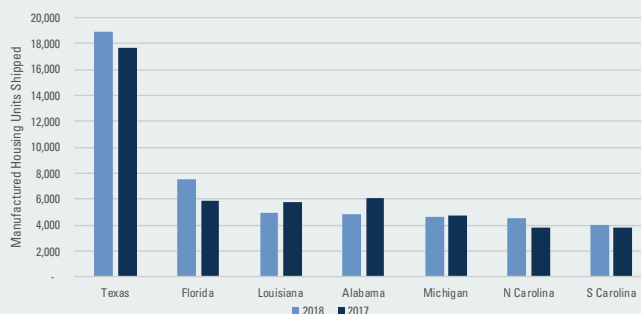
- > Demand for manufactured housing is on the rise, causing continued increases in shipments of homes. In 2018, 96,600 manufactured homes were shipped across the country, a 4 percent increase from the 2017 figure.
- > The rise in shipments of manufactured homes was the eighth increase in the past nine years, but there are signs that the pace could be moderating a bit. Through the first nine months of 2018, shipments were up 8.8 percent from the same period in 2017. In the fourth quarter, however, shipments were down 9 percent from one year earlier.
- > Texas led the way with the most shipments, with nearly 19,000 units in 2018. This was a 7 percent increase from the 2017 total for the state.
- > The state with the second-most shipments in 2018 was Florida, with approximately 7,500 units. Florida also posted one of the most significant increases from 2017 to 2018, recording a spike of 29 percent.
- > Georgia was another state that had a significant number of homes shipped and also recorded a steep rise in shipments. In 2018, more than 3,500 manufactured homes were shipped to Georgia, a 25 percent increase from the preceding year.
- > The strong job growth in Nevada and Arizona fueled demand for manufactured housing in these states. The number of units shipped to Nevada spiked by 40 percent in 2018, while the number of units shipped to Arizona rose 17 percent.
- > A few of the states in the Southeast that received some of the highest shipment totals in 2018 also recorded declines from 2017 levels. Approximately 5,000 units were shipped to Louisiana in 2018, a 14 percent decline from one year earlier. More than 4,800 manufactured homes were shipped to Alabama in 2018, down from more than 6,000 units in 2017.

## U.S. Manufactured Housing Shipments



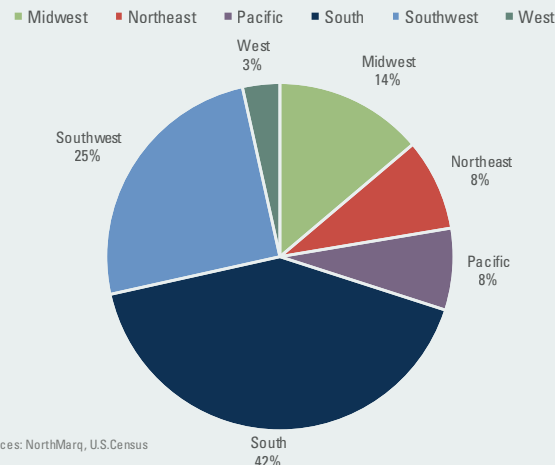
Sources: NorthMarq, U.S. Census

## Manufactured Housing Shipments by State



Sources: NorthMarq, U.S. Census

## Manufactured Housing Shipments by Region



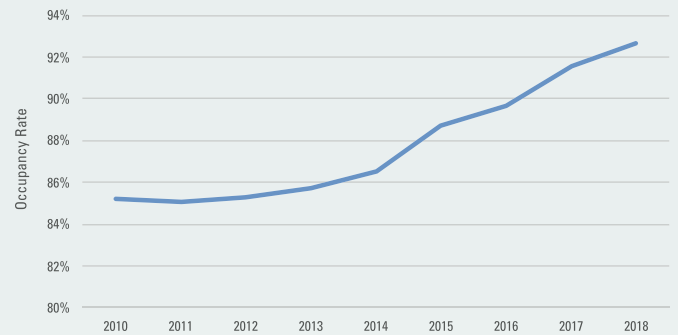
Sources: NorthMarq, U.S. Census

## Occupancy

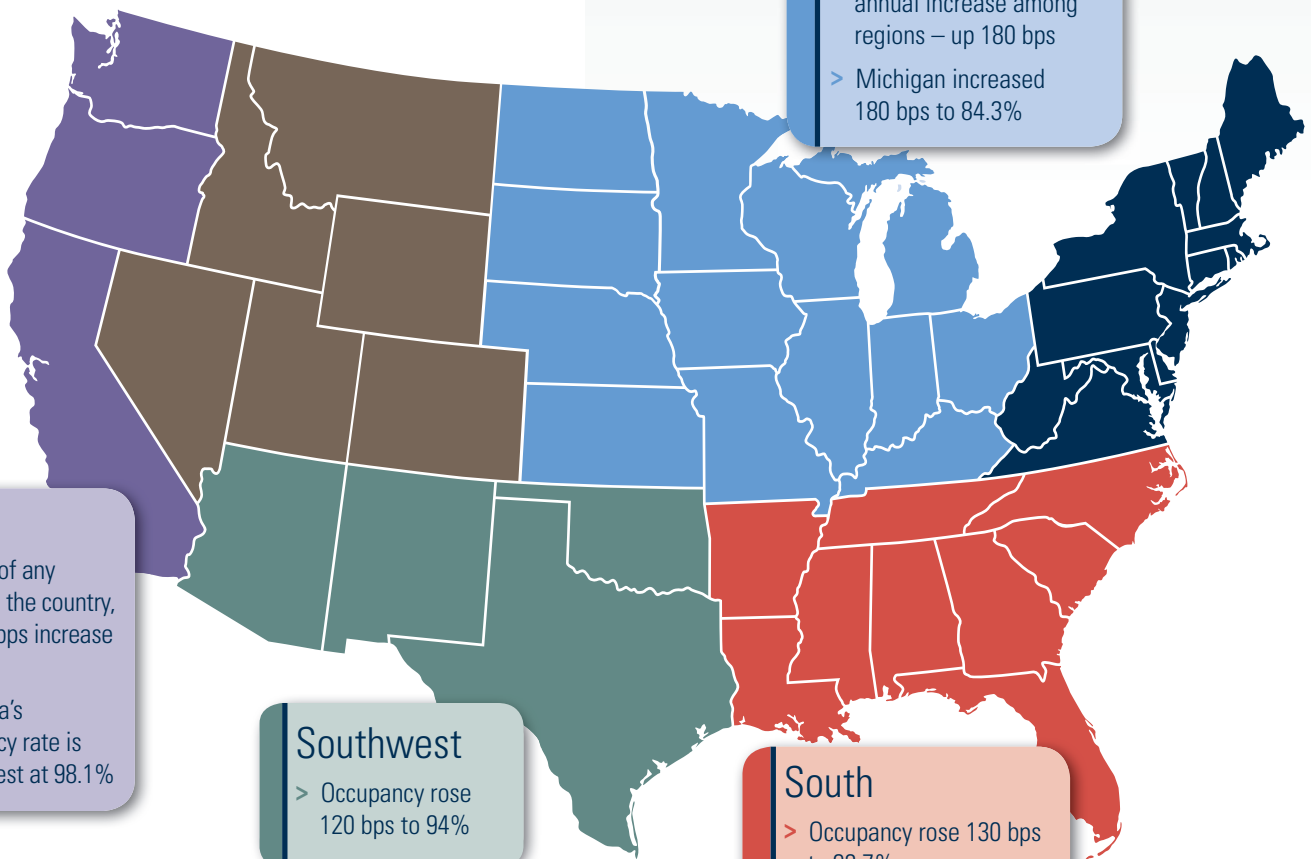
- > The national occupancy rate for manufactured housing improved in 2018. The occupancy rate rose 110 basis points from 2017 to 2018, ending the year at 92.7 percent.
- > This marked the seventh consecutive year of occupancy improvement in the national manufactured housing market. Occupancy has been improving at an average increase of 100 basis points per year since 2012.
- > Occupancy rose in each of the six major geographic regions in 2018, highlighting the strong demand for manufactured housing throughout the country.

*2018 was the seventh consecutive year of occupancy improvement in the manufactured housing market*

### Occupancy Overview



Sources: NorthMarq, JLT Datacomp



#### Pacific

- > Highest of any region in the country, with 30 bps increase to 98%
- > California's occupancy rate is the highest at 98.1%

#### Southwest

- > Occupancy rose 120 bps to 94%

#### South

- > Occupancy rose 130 bps to 93.7%
- > Georgia increased 240 bps to 85.1%

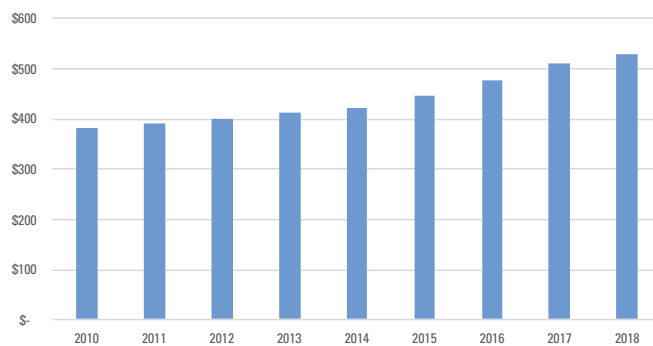
#### Midwest

- > Most significant increase annual increase among regions – up 180 bps
- > Michigan increased 180 bps to 84.3%

## Rents

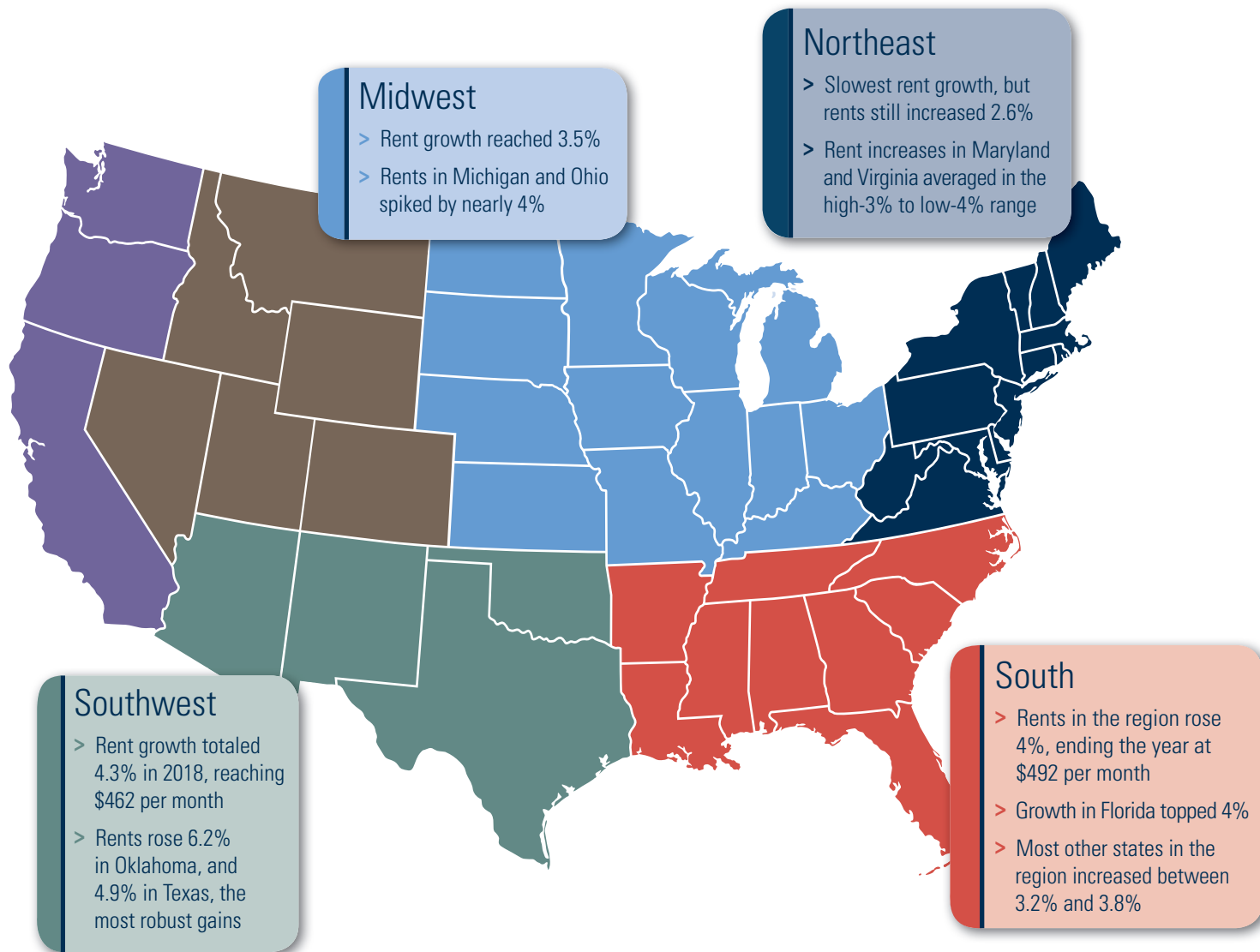
- > Rents for manufactured housing rose 3.9 percent in 2018, ending the year at \$530 per month.
- > Rents have posted gains every year since 2002, with gains averaging approximately 3.5 percent per year. During the past five years, rent growth has averaged more than 3 percent per year.
- > Rents rose across all six of the major geographic regions in 2018. Growth was strongest in the West region, where average rental rates gained 4.5 percent in 2018 to \$580 per month.

### Rents Overview



Sources: NorthMarq, JLT Data comp

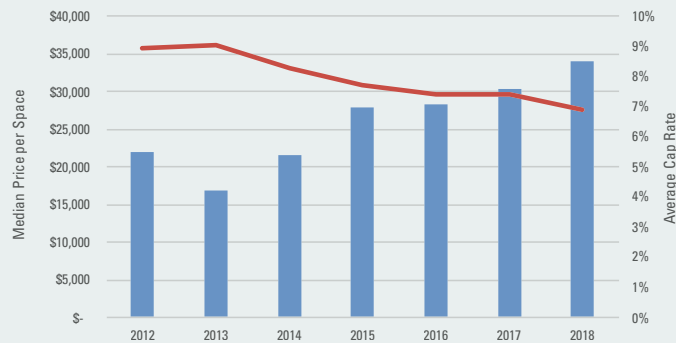
*Rents rose across all six of the major geographic regions in 2018*



## Manufactured Housing Sales

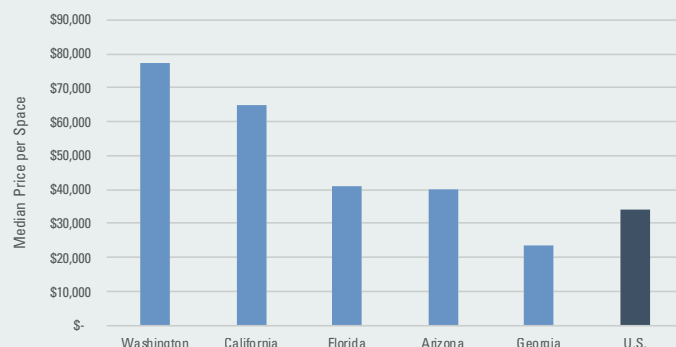
- > Sales velocity in manufactured housing communities was very consistent from 2015-2017 but spiked by nearly 20 percent in 2018.
- > From the third quarter to the fourth quarter, sales activity rose 5 percent. Transaction activity in the fourth quarter of 2018 was up 9 percent when compared with the fourth quarter of the preceding year.
- > Activity during the fourth quarter was most active in California and Florida. For the full year, Florida had the most sales of any state, followed by California and Arizona in second and third positions, respectively.
- > Prices rose in 2018; the median price for the year was \$33,900 per space, up 11.7 percent from the median price in 2017.
- > The fourth quarter was the high point for pricing in 2018. The median price in sales during the fourth quarter was \$45,500 per space, 3 percent higher than the median price in the third quarter.
- > Pricing trends vary significantly by state. In 2018, Washington posted the highest prices, with the median price of more than \$77,000 per space. In California, the median price was \$64,700 per space. Arizona and Florida both posted median prices of approximately \$40,000 per space. One state where there was a great deal of activity and fairly low pricing was Georgia, where the median price was just \$23,700 per space.
- > Cap rates averaged 6.9 percent in 2018, 50 basis points lower than the average in 2017. Cap rates have compressed at a fairly steady pace in recent years after averaging in the 8-percent to 9-percent range from 2012-2014.
- > Cap rates averaged just 6.1 percent during the fourth quarter, 40 basis points lower than the average recorded in the third quarter.
- > Cap rates in California averaged in the mid- to high-4-percent range in 2018, marking the lowest average cap rate in the country. Cap rates in Arizona and Washington averaged approximately 5.7 percent in 2018, while cap rates in Florida checked in at about 6.1 percent on average.

### U.S. Manufactured Housing Sales and Cap Rates



Sources: NorthMarq, CoStar

### Manufactured Housing Sales and Cap Rates by State



Sources: NorthMarq, CoStar

*Sales velocity in manufactured housing communities spiked by nearly 20 percent 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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