MARKET REPORT | 2Q/2020

Manufactured Housing

Rents Still Tick Higher Despite Occupancy Dip

Highlights

- After remaining stable at the start of the year, the national manufactured housing market softened somewhat during the second quarter. Occupancies, which have been on an upward trajectory for nearly a decade, inched lower in the second quarter.
- The national occupancy rate dipped 60 basis points to 93.2 percent in the second quarter. This marked just the second quarterly decline since the end of 2017. Despite the recent drop, the current occupancy rate is up 30 basis points year over year.
- While occupancy dipped, rents continue to trend higher. Asking rents rose 1.3 percent in the second quarter, reaching $556 per month. Year over year, rents have increased 3.7 percent.
- Investment activity slowed during the second quarter, but sales velocity for the first half of the year is running only slightly behind the 2019 pace. The median price per space is up 6 percent year to date, while cap rates have averaged 8.1 percent.

Q2 Snapshot	Manufactured Housing
Market Fundamentals	
Occupancy	**93.2%**
- Change from 2Q 2019 (bps)	**+30**
Average Rents	**$556**
- Change from 2Q 2019	**+3.7%**
Transaction Activity	
Median Sales Price Per Space (YTD)	**$41,200**
Average Cap Rates (YTD)	**8.1%**
Inventory Growth	
Units Shipped (YTD)	**46,000**
- Change from 1H 2019	**-1.7%**

Manufactured Housing Overview

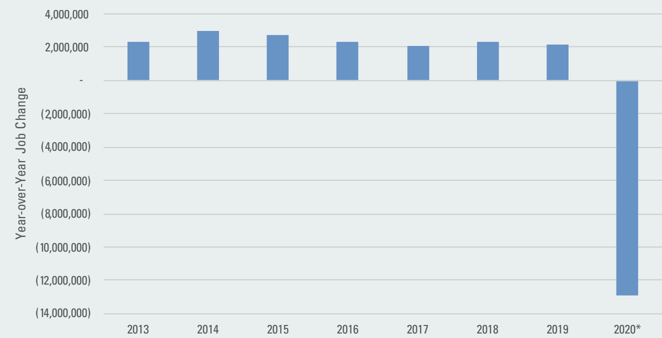
Conditions in the national manufactured housing market cooled during the second quarter, reflecting trends in the economy as a whole. Shipments of manufactured housing units dipped by more than 15 percent as supply chains became disrupted and demand slowed. Occupancy dipped slightly, following an extended run of strengthening performance. These conditions are expected to be relatively short-lived, and the market is expected to regain momentum by the end of the year.

Fewer manufactured housing communities traded during the second quarter, but transaction levels for the first half of this year are down less than 10 percent from the same period in 2019. Transaction activity during the second quarter was concentrated in parts of the country where tenant demand is strongest, including Florida, California, and the Southwest. Investor demand is being supported by low financing rates. Cap rates compressed during the second quarter, dipping below 8 percent, and properties in several high-demand markets can sell with cap rates below 6 percent.

Employment

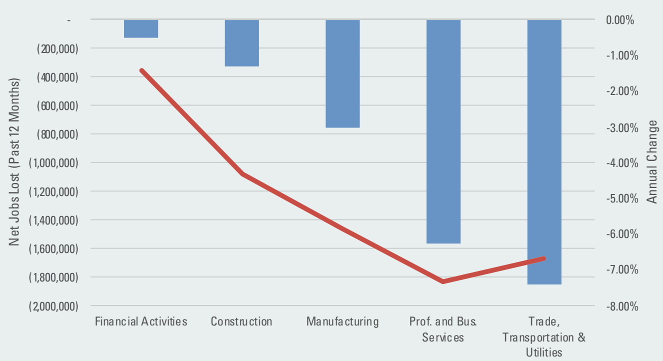
- The national employment market had been steadily adding workers before forced business shutdowns occurred in the spring. Net job losses totaled more than 22 million positions in March and April, but the labor market began to add back workers in May.
- The second quarter of 2020 was the most volatile period on record for employment in the United States. Employers slashed nearly 21 million jobs in April, before adding back 7.5 million total jobs in the next two months. Total job losses in the second quarter were 13.3 million positions.
- The **national unemployment rate** spiked from 4.4 percent in March to 14.7 percent in April, but the rate has been trending lower in subsequent months. The national unemployment rate dipped to 11.1 percent by the end of the second quarter and is expected to end the third quarter around 7.5 percent.
- Unemployment trends have varied by state, with areas with strong tourism economies being hit the hardest. In Nevada, the rate topped 30 percent in April and was still above 15 percent at the end of the second quarter. Unemployment reached 16.4 percent in California in April, and the rate has posted only minimal improvement in the subsequent months. In Florida, unemployment peaked at 13.8 percent in April and ended the second quarter at 10.3 percent.
- Some states have been able to bounce back more quickly than others. Texas, which has the largest inventory of manufactured housing units, has been particularly resilient. Unemployment in Texas reached 13.5 percent in April but had fallen to just 8.4 percent by June. In North Carolina, unemployment ended the second quarter at 7.5 percent.
- While all employment sectors recorded job losses, no industry was harder-hit than **leisure and hospitality**. The sector contracted by 28 percent year over year through the second quarter, shedding 4.6 million jobs. Nearly 80 percent of the job losses in the sector were recorded in restaurants and bars.
- Approximately 2.3 million **retail** jobs were cut in April, but more than 1.2 million jobs in the sector were added back in May and June. Year over year, retail employment is down 6.9 percent through the second quarter.
- **Construction** employment contracted slightly in the second quarter as supply chains were disrupted and some communities restricted construction activity. Approximately 400,000 construction jobs were lost, but the sector is expected to rebound very rapidly.
- Among the largest markets in the country, Phoenix and Dallas-Fort Worth had the most modest job losses. Year-over-year job losses in Dallas-Fort Worth were 3.9 percent, and in Phoenix losses totaled just 3.3 percent. Both markets recorded job losses that were less than half as severe as the nation as a whole, and rebounds are expected.
- The **employment outlook** for the remainder of this year is mixed. Many employers are expected to continue to add back positions that were cut during the economic shutdown, but gains in the second half of the year are expected to be tougher to achieve as many furloughed workers will find themselves permanently laid off, and lower corporate profits cause more cautious business spending.

U.S. Employment Trends



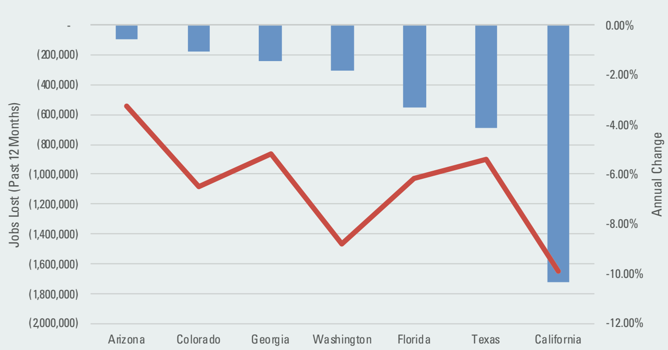
*12-Month Period Ending 2Q 2020
Sources: NorthMarq, Bureau of Labor Statistics

Sector Employment Trends



Sources: NorthMarq, Bureau of Labor Statistics

Employment Trends by State

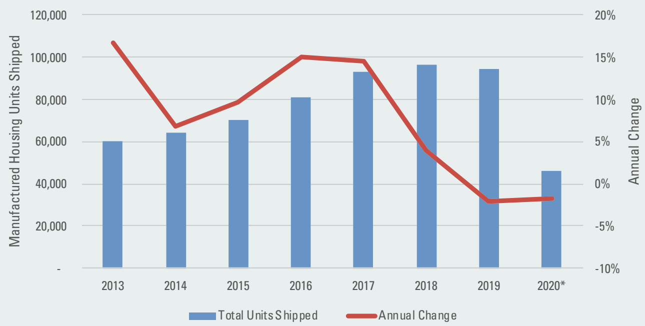


Sources: NorthMarq, Bureau of Labor Statistics
Year over Year Through 2Q 2020

Supply Growth

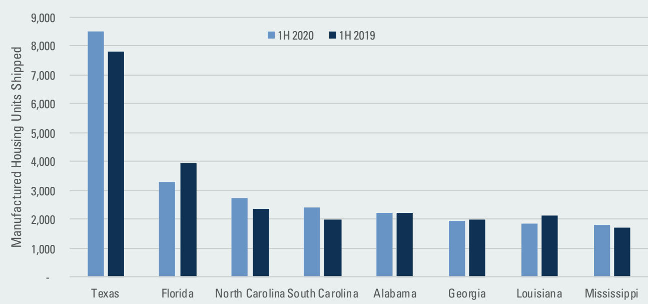
- After a rise in the first quarter, national shipments of manufactured housing units slowed during the second quarter. Despite the quarter-to-quarter inconsistency, shipments in the first half of this year totaled 46,000 units, nearly identical to levels from the first half of 2019.
- In the second quarter, shipments reached approximately 20,800 units, down from 25,200 units during the first quarter. Shipments in the second quarter were down 15 percent when compared to the second quarter of last year. Disruptions to supply chains because of the COVID-19 outbreak slowed manufacturing of many products, including manufactured housing.
- Texas consistently ranks as the top state for shipments and that trend has been maintained to this point in 2020. During the first half, approximately 7,800 units were shipped to Texas, up 9 percent when compared to the first half of 2019.
- Four states posted shipments of more than 1,000 units during the second quarter, down from seven states in the first quarter. Shipments slowed from the first quarter to the second quarter in 40 of the 50 states in the country.
- Shipments to the South region rose 2 percent in the first half of the year, totaling 18,700 units. Tennessee, South Carolina, and North Carolina all posted increases of more than 10 percent from the first half of 2019 to the first half of 2020.
- Eight of the top 10 states for shipments during the first half of this year were located in the South region. Florida led the way, followed by North Carolina, South Carolina, and Alabama.
- Shipments to the Midwest region have been very consistent thus far in 2020. Approximately 3,600 units have been shipped to states in the Midwest, down 3 percent from the first half of 2019. Kentucky and Michigan led the way for shipments to the Midwest region.
- After a slowdown in the second quarter, shipments are expected to gain momentum in the second half of the year. Shipments have averaged nearly 95,000 units per year since 2017.

U.S. Manufactured Housing Shipments



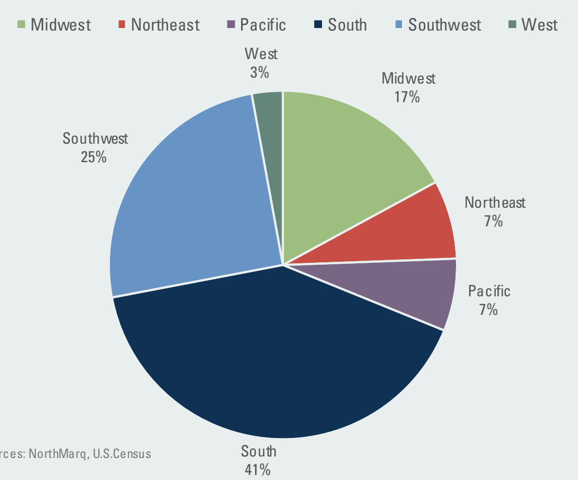
Sources: NorthMarq, U.S. Census
* Through 2Q

Manufactured Housing Shipments by State



Sources: NorthMarq, U.S.Census

Manufactured Housing Shipments by Region



Sources: NorthMarq, U.S.Census

Occupancy

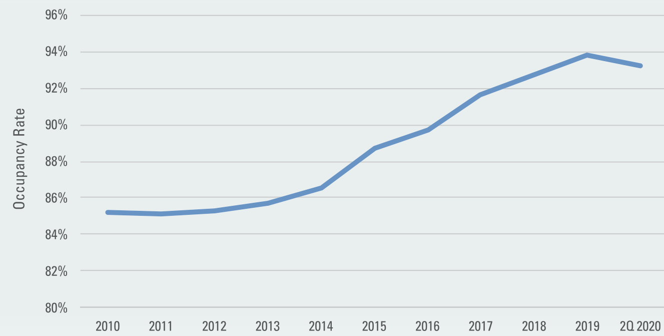
> National occupancy reached a cyclical high of 93.8 percent at the end of 2019, and the rate held steady in the first three months of this year. Occupancy dipped 60 basis points in the second quarter. This marked only the second quarterly occupancy decline since the end of 2017.

> Despite the dip during the second quarter, occupancy is higher than one year earlier. The current occupancy rate of 93.2 percent is up 30 basis points year over year.

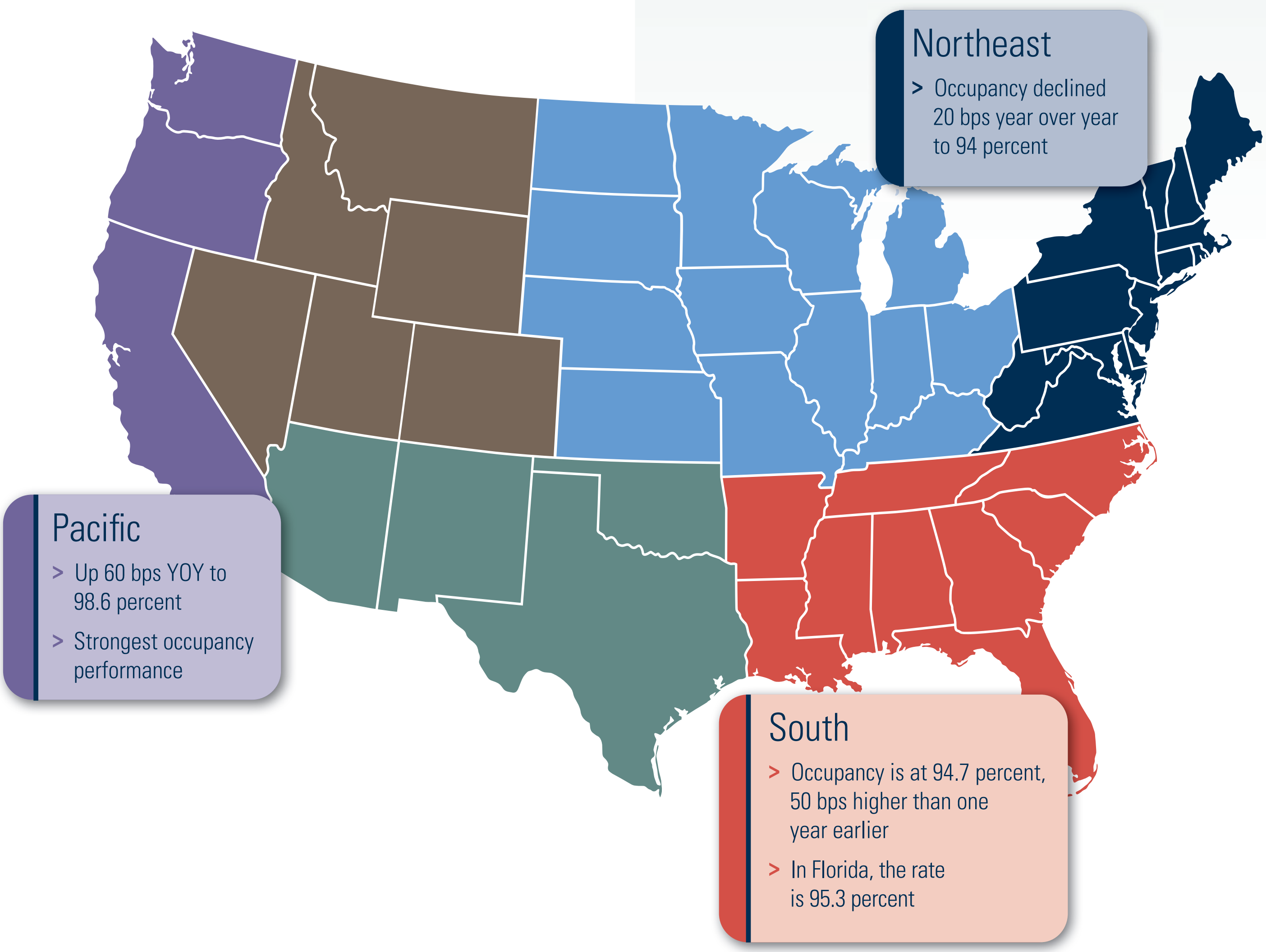
> Occupancy topped 90 percent in 2017, and the rate has remained above that threshold for 13 consecutive quarters. The average occupancy rate in that time is 92.5 percent.

Vacancy has declined in five of the six geographic regions year over year

Occupancy Overview



Sources: NorthMarq, JLT Datacomp



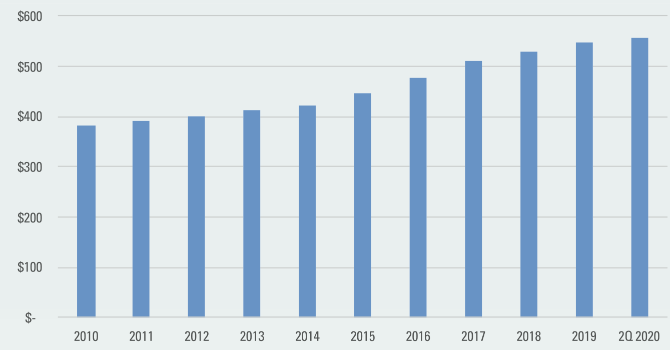
Rents

> Rents for manufactured housing continued to trend higher in the second quarter, while rents for most forms of commercial and residential real estate declined. Asking rents rose 1.3 percent in the second quarter, reaching $556 per month.

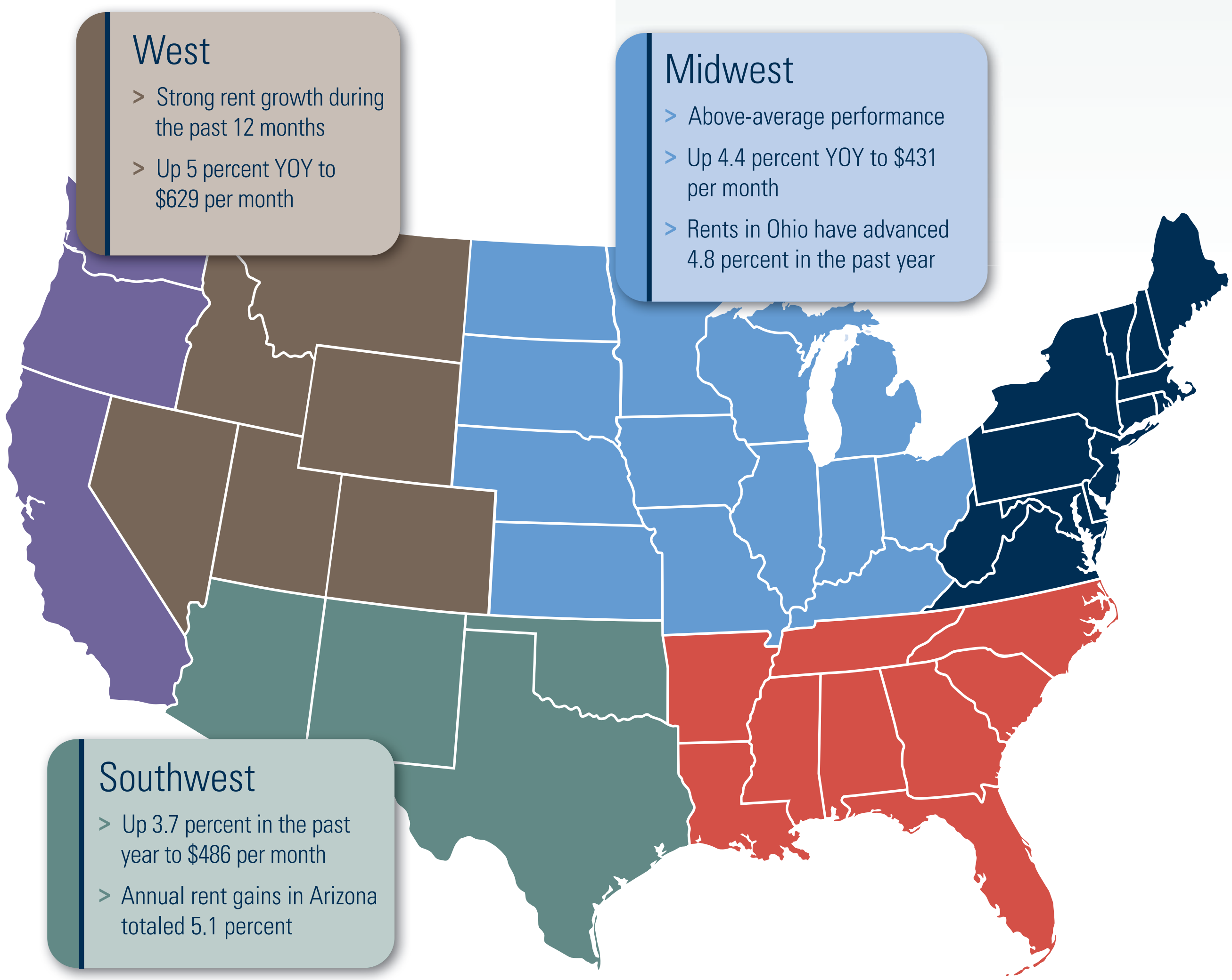
> Year over year, manufactured housing rents have increased 3.7 percent. Annual rent growth had spiked to as high as 7 percent a few years ago but has averaged 3.7 percent since 2018.

Annual rent growth has averaged 3.7 percent since 2018

Rents Overview



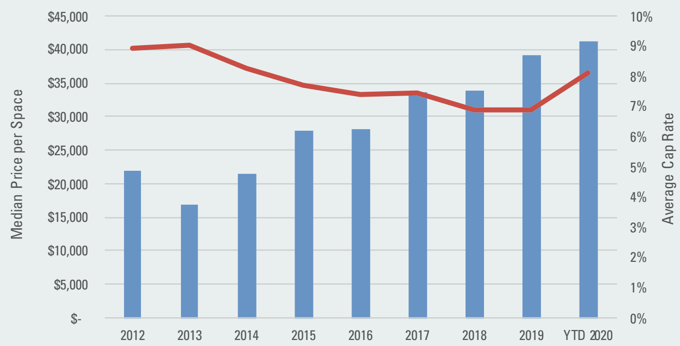
Sources: NorthMarq, JLT Datacomp



Manufactured Housing Sales

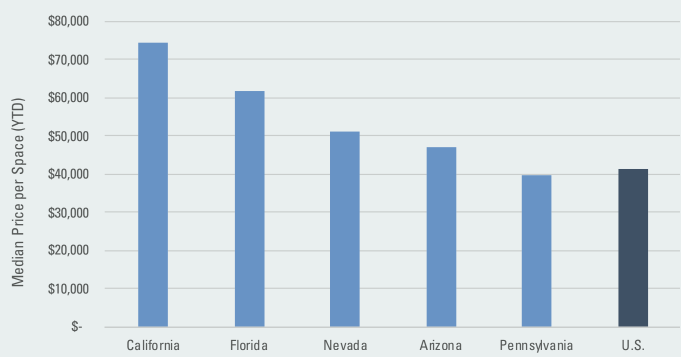
- **Sales velocity** for manufactured housing communities started off 2020 ahead of the year-earlier pace, but activity slowed in the second quarter. Sales declined 40 percent from the first quarter to the second quarter.
- Despite the drop-off in the second quarter, sales velocity through the first half of 2020 is down just 9 percent from levels recorded in the first half of last year.
- The **median price** in transactions closed thus far in 2020 is $41,200 per space, 6 percent higher than the median price in 2019. During the second quarter, the median price was approximately $40,000 per space.
- After rising in the first quarter, **cap rates** returned closer to long-term averages in the second quarter. Cap rates averaged 7.9 percent in the second quarter. Year to date, cap rates have averaged approximately 8.1 percent, up 110 basis points from the 2019 average.
- Year to date, **Florida** has been the state with the most property sales. The median price in sales of properties in Florida thus far in 2020 is $61,900 per space, up 18 percent from the median price in 2019. Florida also had the most property sales in 2019.
- Sales velocity in **California** has approached levels recorded in Florida to this point in 2020. The median price in California sales is $74,200 per space, while the average cap rate is approximately 5.2 percent.
- Activity has gained momentum in the **Southwest region** this year, with some significant activity occurring in Arizona. Sales velocity surged in Arizona during the second quarter, highlighted by a $230 million portfolio sale. The median price in Arizona year to date is $47,200 per space, while cap rates are just under 6 percent.
- **Michigan** led the way for sales velocity in the Midwest, with Indiana, Kansas, and Ohio also posting consistently healthy levels of transaction activity.
- In the **Northeast**, the most activity has occurred in Pennsylvania. Year to date, the median price in Pennsylvania is nearly $40,000 per space, with cap rates between 6 percent and 7 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 half of 2020 is down just 9 percent from levels recorded in the first half of last year*

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.

For more information, contact:

Don Vedeen
VICE PRESIDENT – INVESTMENT SALES
602.952.4043
dvedeen@northmarq.com

Jared Bosch
SENIOR ASSOCIATE – INVESTMENT SALES
602.952.4049
jbosch@northmarq.com

Chris Michl
SENIOR ASSOCIATE – INVESTMENT SALES
602.952.4051
cmichl@northmarq.com

Pete O’Neil
DIRECTOR OF RESEARCH
602.508.2212
poneil@northmarq.com

NORTHMARQ