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Economics Group

Special Commentary

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Manufactured Housing Outlook: 2019

After a Soft 2018, Nowhere to Go but Up for Manufactured Housing

For many sectors of the U.S. economy, 2018 marked a significant acceleration in growth compared to the slower trend experienced for much of this expansion. The housing market was a notable exception. We estimate real GDP growth accelerated to a 2.8% pace in 2018, but residential fixed investment was likely a net drag, declining 0.3%. Following years of home prices rising faster than incomes, higher mortgage rates eroded single-family affordability even further and steered many potential homebuyers towards renting. Existing home sales declined 3.1% in 2018, while new single-family home sales grew just 2%. Furthermore, while new multifamily construction rose 5.6% this past year, new single-family home construction grew just 2.8%, the smallest rise since 2014.

Manufactured housing also remains in the slow lane. Annual shipments of manufactured homes rose just 3.9% in 2018, following double-digit gains in 2016 and 2017. Despite a modestly improving trend, the number of new manufactured home shipments remains remarkably modest, particularly given all the concern about finding affordable housing. The 96,555 units shipped was the most since the recession, yet falls well below the 186,000 units shipped on average since 1982.

Manufactured housing remains in the slow lane.

While volatile on a monthly basis, manufactured home sales, which lag shipments, have shown a softening trend, following more robust growth in earlier years. Sales through September, which is the latest data available, were running 1% below their year-ago pace. Similar to what is occurring in the single-family market, the combination of rising interest rates and higher prices likely discouraged many potential buyers. Average prices breached $80,000 for the first time in early 2018 and rose 16.4% year-over-year to $83,600 in September. The culprit has likely been higher material and labor costs. Financing for manufactured housing buyers has loosened somewhat but remains tighter than it was in decades past. Moreover, zoning has been more restrictive, which has made it more difficult to find affordable and desirable lots to place manufactured homes. Despite these hurdles, we expect manufactured home sales to continue to grind higher, driven by the improving quality of factory-built homes and the value proposition manufactured homes offer.

Figure 1

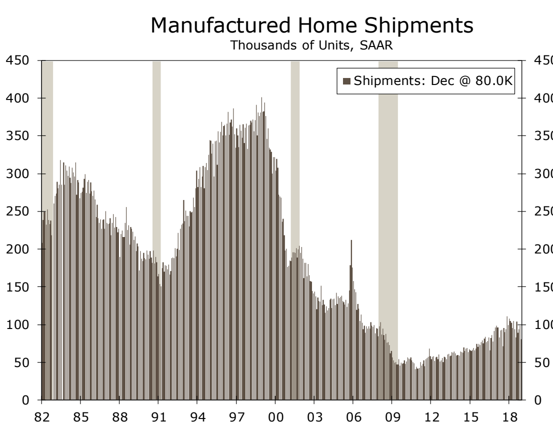
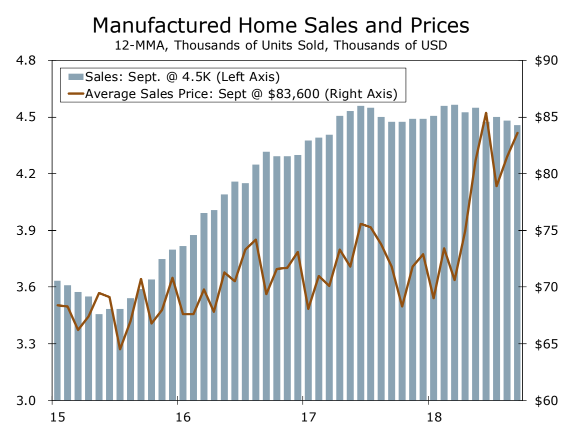


Figure 2



Source: U.S. Department of Commerce and Wells Fargo Securities

South Driving Manufactured Housing Market

Some of the largest markets for manufactured housing fared slightly better in 2018, mostly in the Southeast. Florida, North Carolina and Georgia together account for 15.8% of all manufactured housing shipments, and each saw shipments ramp up last year. This was not unusual. Each of these states has seen shipments grow at above-average rates in recent years, thanks to stronger economic growth, particularly in many of the rural parts of these states, and the continued inflow of retirees looking to downsize and tap into the region's warm climate and natural amenities. Shipments to Texas also remain solid. Texas saw a 38.7% surge in 2017, mostly owed to the influx of FEMA-manufactured units to the Houston area following Hurricane Harvey. Demand appears to have held firm in 2018, as shipments rose an additional 5.4%. Texas is by far the largest market for manufactured homes, accounting for roughly 19% of total shipments in 2018. Factory housing is a popular option among transient oil and gas field workers, of which Texas has a relative abundance of, especially around Houston and the booming Permian region in West Texas.

Texas is the largest market for manufactured homes.

The Outlook for Manufactured Housing Remains Bright

Despite the recent slowdown, demand for manufactured homes should remain strong in coming years, with both demographic and economic factors serving as tailwinds. Strong employment growth and rising wages will continue to set the stage for growth in home buying across all property types. Rural areas have seen a greater relative improvement in their economies, as manufacturing has rebounded. Rural population growth turned positive for the first time this decade in 2017 and likely remained positive this past year. Given the affordability issues hampering the single-family market, manufactured housing should gain favor with homebuyers. An aging demographic will also produce a steady stream of homebuyers in the form of retirees looking to downsize and/or relocate to parts of the country where manufactured housing communities are more popular. Moreover, manufactured housing demand will benefit from the coming wave of young Millennial buyers, many of which have smaller families and prefer a minimalist lifestyle and a smaller footprint.

Rising labor and material costs as well as severe weather conditions were a substantial headwind for homebuilding in 2018. Manufactured home producers are less exposed to these risks, given that homes are built in plants with a more streamlined production process. One downside risk is that rapidly appreciating land values have made manufactured housing communities an attractive target for redevelopment. Policymakers are increasingly looking for more affordable housing options and restrictive zoning measures may soon be reconsidered in many supply-constrained markets. Tighter consumer credit and an overall lack of lenders in the industry have played a role in tamping down demand over the past few decades. Manufactured home sales boomed in the 90's, mostly the result of loose lending standards that have since been heavily restricted. Freddie Mac recently initiated a program to enable homebuyers to receive conventional financing for some manufactured homes, such as those with permanent foundations and pitched roofs, and Fannie Mae and HUD have also indicated that they are working on similar programs.

Manufactured housing should gain favor with homebuyers.

Figure 3

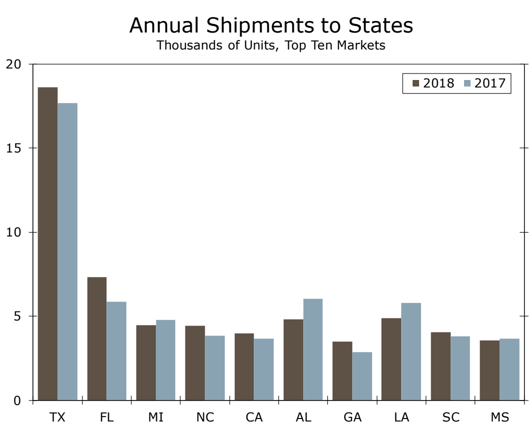
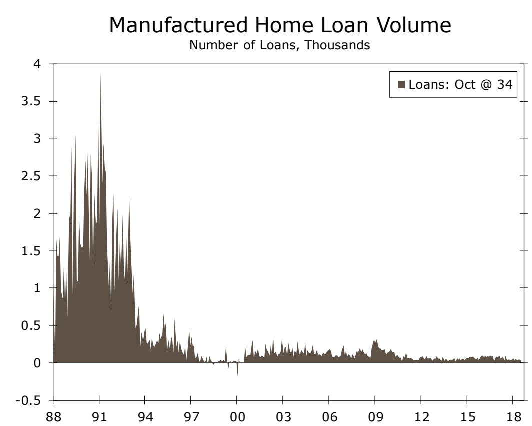


Figure 4



Source: U.S. Department of Commerce and Wells Fargo Securities

National Housing Outlook

	2011	2012	2013	2014	2015	2016	2017	Forecast 2018	Forecast 2019	Forecast 2020
Real GDP, Percent Change	1.6	2.2	1.8	2.5	2.9	1.6	2.2	2.8	2.5	2.2
Residential Investment, Percent Change	-0.1	13.0	12.4	3.9	10.1	6.5	3.3	-0.3	-1.5	1.5
Nonfarm Payroll Change (Avg. Monthly)	173	181	192	251	227	193	179	223	178	120
Unemployment Rate	8.9	8.1	7.4	6.2	5.3	4.9	4.4	3.9	3.7	3.4
Home Construction										
Total Housing Starts, in Thousands	608.8	780.6	924.9	1,003.3	1,111.9	1,173.7	1,202.9	1,246.7	1,290.0	1,310.0
Single-Family Starts, in Thousands	430.5	535.3	617.7	647.8	714.6	781.5	848.9	872.7	910.0	930.0
Multifamily Starts, in Thousands	178.3	245.3	307.2	355.5	397.3	392.2	354.0	374.0	380.0	380.0
Home Sales										
New Home Sales, Single-Family, in Thousands	305.0	369.0	429.0	439.0	501.0	561.0	613.0	625.0	640.0	650.0
Total Existing Home Sales, in Thousands	4,260.0	4,660.0	5,090.0	4,940.0	5,250.0	5,450.0	5,510.0	5,340.0	5,490.0	5,540.0
Existing Single-Family Home Sales, in Thousands	3,787.0	4,128.0	4,484.0	4,344.0	4,646.0	4,838.0	4,892.0	4,742.0	4,880.0	4,930.0
Existing Condominium & Co-op, in Thousands	477.0	528.0	603.0	591.0	608.0	614.0	619.0	601.0	610.0	610.0
Manufactured Homes										
Total Shipments, in Thousands	51.6	54.9	60.2	64.3	70.5	81.1	92.9	96.6	102.3	108.5
Percent Change	3.1	6.3	9.7	6.8	9.7	15.0	14.5	3.9	6.0	6.0
Home Prices										
Median New Home, $ Thousands	227.2	245.2	268.9	288.5	294.2	307.8	323.1	322.5	326.4	330.9
Percent Change	4.8	7.9	9.7	7.3	2.0	4.6	5.0	-0.2	1.2	1.4
Median Existing Home, $ Thousands	166.1	176.8	197.1	208.3	222.4	233.8	247.2	259.3	271.2	283.4
Percent Change	-3.7	6.4	11.5	5.7	6.8	5.1	5.7	4.9	4.6	4.5
FHFA Purchase Only Index, Percent Change	-4.2	2.9	7.1	5.1	5.3	6.0	6.6	6.1	4.5	4.4
S&P Case-Shiller C-10 Home Price Index, Percent Change	-3.5	0.3	11.7	7.9	4.6	4.5	5.3	5.4	4.5	4.2
Interest Rates - Annual Averages										
Federal Funds Target Rate	0.25	0.25	0.25	0.25	0.27	0.52	1.13	1.96	2.63	2.69
Prime Rate	3.25	3.25	3.25	3.25	3.27	3.52	4.13	4.96	5.63	5.69
10-Year Treasury Note	2.78	1.80	2.35	2.54	2.14	1.84	2.33	2.91	2.99	3.05
Conventional 30-Year Fixed Rate, Commitment Rate	4.46	3.66	3.98	4.17	3.85	3.65	3.99	4.54	4.59	4.65

Forecast as of: February 27, 2019

Source: U.S. Dept. of Commerce, U.S. Dept. of Labor, FRB, FHFA, FHLMC, National Association of Realtors, S&P, Wells Fargo Securities

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