



**Appraisal
Institute®**
*Professionals Providing
Real Estate Solutions*

Appraising Manufactured (Mobile) Home Communities and Recreational Vehicle Parks

by Robert S. Saia, MAI



Appraising Manufactured (Mobile) Home Communities and Recreational Vehicle Parks

Readers of this text may be interested in the following publications from the Appraisal Institute:

- *The Appraisal of Real Estate*
- *Convenience Stores and Retail Fuel Properties*
- *The Dictionary of Real Estate Appraisal*
- *Golf Property Analysis and Valuation*
- *Self Storage Economics and Appraisal*

Appraising Manufactured (Mobile) Home Communities and Recreational Vehicle Parks

by Robert S. Saia, MAI

Reviewers: Larry O. Dybvig, MAI
John A. Schwartz, MAI
Steven M. Shockley, MAI, SRA, AI-GRS, AI-RRS

Chief Executive Officer: Frederick H. Grubbe, MBA, CAE
Director of Professional Services and Resources: Evan R. Williams, CAE, IOM
Senior Manager, Publications: Stephanie Shea-Joyce
Senior Technical Book Editor: Emily Ruzich
Manager, Book Design/Production: Michael Landis

For Educational Purposes Only

The materials presented in this text represent the opinions and views of the author. Although these materials may have been reviewed by members of the Appraisal Institute, the views and opinions expressed herein are not endorsed or approved by the Appraisal Institute as policy unless adopted by the Board of Directors pursuant to the Bylaws of the Appraisal Institute. While substantial care has been taken to provide accurate and current data and information, the Appraisal Institute does not warrant the accuracy or timeliness of the data and information contained herein. Further, any principles and conclusions presented in this publication are subject to court decisions and to local, state and federal laws and regulations and any revisions of such laws and regulations.

This book is sold for educational and informational purposes only with the understanding that the Appraisal Institute is not engaged in rendering legal, accounting or other professional advice or services. Nothing in these materials is to be construed as the offering of such advice or services. If expert advice or services are required, readers are responsible for obtaining such advice or services from appropriate professionals.

Nondiscrimination Policy

The Appraisal Institute advocates equal opportunity and nondiscrimination in the appraisal profession and conducts its activities in accordance with applicable federal, state, and local laws.

© 2017 by the Appraisal Institute, an Illinois not for profit corporation. All rights reserved. No part of this publication may be reproduced, modified, rewritten, or distributed, either electronically or by any other means, without the express written permission of the Appraisal Institute.

Library of Congress Cataloging-in-Publication Data

Names: Saia, Robert S., author.

Title: Appraising manufactured (mobile) home communities and recreational vehicle parks / by Robert S. Saia, MAI.

Description: Chicago, IL : Appraisal Institute, [2017] | Includes bibliographical references.

Identifiers: LCCN 2016059776 | ISBN 9781935328698

Subjects: LCSH: Mobile home parks--United States--Valuation. | Trailer camps--United States--Valuation.

Classification: LCC HD7289.62.U6 S35 2017 | DDC 333.33/720973--dc23 LC record available at <https://lcn.loc.gov/2016059776>

Table of Contents

About the Author	vii
Acknowledgments.....	viii
Foreword	ix
Chapter 1 Introduction.....	1
Manufactured Home or Mobile Home?.....	2
What Is a Mobile Home?.....	4
What Is a Mobile Home Park?	6
What Is a Recreational Vehicle?.....	8
What Is a Recreational Vehicle Park?	12
Differences Between Mobile Home Parks and RV Parks.....	14
Chapter 2 Types of Mobile Home Parks	17
Resident-Owned Parks and In-Space Value.....	17
Rent-Controlled Parks	19
Senior Parks.....	20
Seasonal Parks	21
Star Ratings	21
Chapter 3 Types of Recreational Vehicle Parks.....	25
Overnight Parks.....	25
Extended-Stay Parks	26
Destination Parks	27
Other Types of RV Parks.....	28
Good Sam Ratings	29

Chapter 4	Site Analysis	31
	Physical Site Features.....	31
	Environmental Issues.....	33
	Types of Spaces.....	33
	Zoning and Governmental Issues.....	34
Chapter 5	Improvement Analysis	37
	General Design Criteria	37
	Park Improvements	38
	Park Ratings	41
	Personal Property and Non-Realty Items.....	41
Chapter 6	Market Analysis and Industry Data	43
	The Evolution of Two Markets.....	43
	Sources of Information.....	46
	Demographic Characteristics.....	48
Chapter 7	The Cost Approach	51
	Land Valuation.....	51
	Improvement Cost	52
	Depreciation	53
	Examples.....	54
Chapter 8	The Sales Comparison Approach	57
	Units of Comparison.....	58
	Presenting Sales Information in the Appraisal Report	63
	Appraising Park Properties Without the Use of Comparable Sales.....	66
	The Adjustment Process.....	67
Chapter 9	The Income Capitalization Approach	71
	Required Information	72
	Estimating Gross Revenue.....	76
	Operational Expenses	80
	The Capitalization Process	89
Chapter 10	Separating Real Property and Non-Realty Components	97
	Purpose	97
	The Valuation of Personal Property and Park-Owned Units.....	97
	Conclusion.....	103
	Glossary	105
	Bibliography	123



About the Author

Robert S. Saia, MAI, has been a real estate appraiser since 1981. He is a Senior Appraiser/Director of Valbridge Property Advisors—Los Angeles/Inland Empire, part of a national appraisal company with 68 offices nationwide, which provides comprehensive commercial real estate valuation and advisory services for corporations, institutions, and private and public clients. Mr. Saia holds an economics degree with distinction from San José State University. He is the author of *A Guide to Appraising Recreational Vehicle Parks*, which was published by the Appraisal Institute in 1998.

Acknowledgments

This book would not have been possible without the help of Appraisal Institute staff, Stephanie Shea-Joyce and Emily Ruzich. I would also like to thank my parents, Robert J. and Barbara Saia, and my children, Janae and Savannah.

Foreword

Mobile homes and recreational vehicles (RVs) are unique housing types that are increasing in popularity. Mobile homes have shed the stigma of low-cost housing, and some can rival site-built designs in terms of quality. Meanwhile, the number of recreational vehicles produced and the amenities they offer have increased. The popularity of mobile homes and RVs can only grow as manufacturers continue to refine their designs and more aging baby boomers look for affordable housing options.

Mobile homes and RVs are popular, but the parks that house them face unusual legal, physical, and economic challenges. Current knowledge of the mobile home and RV industries and the particularities of mobile home and RV parks is required of appraisers who work with these properties in their valuation assignments.

Appraising Manufactured (Mobile) Home Communities and Recreational Vehicle Parks provides appraisers with a broad overview of the mobile home and RV industries and the methods used in valuing mobile home and RV communities. Because this book provides insight into the methodology applied in analyzing these properties, it can also be useful to investors, regulators, owners, and buyers and sellers of mobile home and RV parks.

As the Appraisal Institute continues to advance the real estate appraisal profession, we are proud to add *Appraising Manufactured (Mobile) Home Communities and Recreational Vehicle Parks* to our collection of practical guides on specialty properties.

Jim Amarin, MAI, SRA, AI-GRS
2017 President
Appraisal Institute



Manufactured housing site rental communities, commonly referred to as “mobile home parks” or “trailer parks,” have provided for consumer housing needs for the past eight decades.

Factory-built housing first emerged in the United States during the 1920s. However, it wasn’t until World War II that this era truly began in North America, as the onset of war provided an unexpected boost for factory-built housing manufacturers.

The war effort required massive resources, so housing had to be built quickly and with as little material as possible so as not to divert supplies needed overseas. Mobile homes and trailers were constructed in a quick, low-cost manner. These inexpensive prefabricated housing units became permanent homes when the troops came back to the US in the latter half of the 1940s, and parks were then constructed to accommodate them. Due to the inexpensive quality of materials and the need to produce units quickly, factory-built or manufactured housing was seen as “cheap” by the public.

Over the years, factory-built housing has gradually shed this stigma and has exploded in popularity. Today, factory-built manufactured homes compete with site-built housing in terms of price as well as quality.

Modern manufactured home communities do not fit the derogatory image of older “trailer parks.” While manufactured homes are considered to be economically priced housing, modern units do not have the look of cheaply constructed structures and are often indistinguishable from site-built homes.

Today, the term *manufactured home* is often used interchangeably with *mobile home*, although there are differences (as will be discussed later in this chapter). Recreational vehicles (RVs) are another type of factory-built housing. The communities or parks that accommodate mobile homes and RVs are legally differentiated, but their designs sometimes make them difficult to distinguish.



Mobile home parks and RV parks share several similarities that allow them to be discussed together in this valuation guide. Both types of parks function as communities for factory-built living quarters. Also, the underlying unit of comparison for both types of parks is the rental site or space. This allows both mobile home parks and

RV parks to be defined generally as manufactured housing communities, although the parks are designed differently in terms of the type of units they accommodate and the quality of income stream they produce.

The most obvious distinction between mobile homes and RVs is that RVs are movable and their primary function is for temporary or seasonal use, which is often regulated. Because RVs are expected to be moved, they are truly mobile. Although a mobile home is, as its name would suggest, movable, the high cost of relocation often makes a mobile home permanent housing. Mobile homes are less movable than RVs and more likely to have blocking or skirting and attached building additions.

This book provides practicing appraisers with a broad overview of the mobile home and recreational vehicle industry and the specific methods used in the valuation of privately owned mobile home and RV communities. Because this book provides insight into the methodology applied in analyzing these types of properties, it can also be useful to buyers and sellers of mobile home parks and RV parks.

Manufactured Home or Mobile Home?

Manufactured homes are often confused with other prefabricated factory-built housing types. In order to properly value communities such as mobile home parks and RV parks, an understanding of what defines the various classifications of prefabricated units is necessary.

A lack of specificity has created ambiguities. The current distinctions between manufactured homes (historically known as *mobile homes*) and recreational vehicles are spelled out in the multifaceted US Department of Housing and Urban Development (HUD) laws and regulations, which are subject to interpretation.

A manufactured home is a structure fabricated in conformity with the provisions of the national Manufactured Home Construction and Safety Standards, created under the legal authority of the National Manufactured

Housing Construction and Safety Standards Act of 1974, which is controlled federally by HUD under Title 24, CFR Section 3280.2. According to the Manufactured Home Construction and Safety Standards,

Manufactured home means a structure, transportable in one or more sections, which in the traveling mode is 8 body feet or more in width or 40 body feet or more in length or which when erected on-site is 320 or more square feet, and which is built on a permanent chassis and designed to be used as a dwelling with or without a permanent foundation when connected to the required utilities, and includes the plumbing, heating, air-conditioning, and electrical systems contained in the structure...The term does not include any self-propelled recreational vehicle.¹

Despite this precise definition, *mobile home* is still the common term used for this type of housing. The HUD definition includes non-self-propelled recreational vehicle units that exceed 320 square feet when erected on site. However, as a result of efforts by lawmakers to amend the definition from 320 to 400 square feet, HUD released a series of regulatory actions exempting RVs from meeting the manufactured housing standard.

These actions preceded the introduction of technological advancements such as the “slide out room” in travel trailers and the evolution of the park model RV. This ambiguity continues to create confusion in distinguishing manufactured homes from RVs, especially in regard to zoning and taxation.

Notwithstanding the HUD definition, prefabricated units are usually defined by their primary purpose. Manufactured homes have been shown to provide economically efficient *permanent* residential housing, while recreational vehicles provide *temporary* or *seasonal* living quarters for leisure activities such as vacations and camping. These roles are occasionally reversed, and RV accommodations are sometimes used for daily living.

All manufactured homes built in the United States after June 15, 1976, must have a HUD certification label and a data plate affixed to the exterior of the home. If the home is a multi-wide unit, each transportable section is sequentially labeled. In some states, a manufactured home may not be resold without the HUD label. In states where resale without the HUD label is permitted, a manufacturer’s certification verifying the date of sale is required.

The Manufactured Housing Institute’s National Communities Council (MHINCC), a



A HUD data plate attached to a manufactured home

1. Available online at www.law.cornell.edu/cfr/text/24/part-3280.

national trade organization formed in 1996, distinguishes manufactured homes from other factory-built housing such as mobile homes, modular homes, and panelized homes. The MHINCC defines *mobile homes* as “the term used for manufactured homes produced prior to June 15, 1976, when the HUD Code went into effect.” In essence, mobile homes built after 1976 are officially referred to as a manufactured homes. Still, manufactured and modular or panelized homes often get confused with each other.

There are two traditional ways in which manufactured or mobile homes differ from other types of factory-built housing, such as modular, panelized, and pre-cut homes. First of all, panelized homes and similar types of prefabricated homes do not have a chassis with attached axles or a frame. Secondly, manufactured homes are required to conform to federal codes administered by HUD, while modular, panelized, and pre-cut homes are controlled by local and/or regional uniform building codes.

Manufactured homes are constructed on a steel frame, shipped on their own wheels, and then anchored to a slab of concrete or a crawl space on the site. There is no construction of the unit on site. Modular homes are constructed in separate box-like modules within the factory and then shipped to the site on flatbed trucks, where they are assembled.

Other than these distinctions, prefabricated homes resemble site-built homes. The use of factory-built housing in new subdivision development has proved to be a sensible development technique. Newer homes, particularly multisectionals and the contemporary single-wide units featuring high-efficiency appliances and building design, are manufactured to better standards than were used in the past.

What Is a Mobile Home?

A *mobile home* is a factory-built manufactured structure designed for human habitation. Today, the term *mobile home* is interchangeable with *manufactured home*. This form of housing evolved from travel trailers, which are small prefabricated units with wheels attached. A mobile home is a complete, livable dwelling unit capable of being moved on a street or highway under a permit pursuant to the state vehicle code.

While mobile homes are similar to travel trailers in that they are built on a permanently attached chassis, modern mobile homes differ from travel trailers in size, design, and fixtures. Once transferred to the site, mobile homes become “permanent,” even though they legally can be moved. Mobile or manufactured homes are usually non-realty, but they can be brought to a site and placed on a preconstructed foundation, which makes them realty. The high cost of relocation relative to the cost of the home itself and the difficulty of finding another site or space usually makes moving a mobile home infeasible or impractical.

Mobile homes are typically less expensive than comparable site-built structures. As will be discussed in Chapter 3, mobile homes typically carry

an “in-space” value, which means that the home is worth substantially more when sited within an established park than it is outside of the park. This is especially true for homes in rent-controlled parks, as practical alternative site choices are extremely limited or nonexistent.

Mobile homes have historically come in two major sizes: single-wide and double-wide. More recently, manufacturers are building triple-wide and even larger homes.

Older single-wide mobile homes are the least desirable in terms of utility and overall size, with a maximum width of only 18 feet. Although single-wides are easier to tow, some jurisdictions do not allow them.

Multisectional units such as double-wides are at least 20 feet wide and up to 90 feet long. They are often found in better-quality parks. Multisectionals also include triple-wides and homes of four, five, or more units.

A mobile home park appraiser should have a full understanding of the zoning regulations and the park’s conditions, covenants, and restrictions (CC&Rs), especially



A single-wide mobile home



A single-wide mobile home



A double-wide mobile home with an attached porch and carport



A single-wide mobile home next to a double-wide mobile home

as these regulations relate to density, design, minimum size requirements, and the acceptance of additional factory-built structures.

Mobile homes are a good housing option for some due to their affordability and the modern amenities they often include. Many multisectional mobile homes are similar in size and quality to tract-built homes.

What Is a Mobile Home Park?

A mobile home park is commonly defined as an area of land where two or more mobile home spaces or sites are sited for habitation. Such parks are also referred to as “trailer parks,” “trailer courts,” and manufactured or factory-built home communities. Like other forms of housing facilities, mobile home parks provide basic utilities, such as electricity and water, waste disposal (sewer or septic), and trash removal.

Mobile home spaces are typically concrete slabs with overhead carports abutting paved roads. In addition to site improvements such as roads, utility connections, and landscaping, building improvements commonly include recreation halls or community buildings, laundry rooms, and rental offices. Other amenities often found in parks include swimming pools, sports facilities (weight rooms, tennis courts), playgrounds, and guest parking areas.

According to the Database of Mobile Home Parks in the United States (available online at www.mhbo.com), there are more than 38,000 mobile home parks in the United States. Roughly 6% of the US population lived in mobile homes in 2012, according to the US Census Bureau. Mobile home parks offer mobile home owners a chance to have privacy, a small yard, pets, and a neighborhood feel similar to that of a site-built subdivision. Also, owning a mobile home in a mobile home park is often more economical than a multifamily alternative, such as renting an apartment in a multiunit building.

A high percentage of mobile home units are located within parks or communities. Most parks are located in the Southern states, where land is often abundant and the weather is warmer. While mobile home parks are found in every state, Florida has the greatest number and some of the highest concentrations of mobile home parks. The lowest concentrations of mobile home parks are in the New York and New Jersey metropolitan

areas. When developable land becomes available in wealthier metropolitan areas such as these, mobile home parks rarely fit the highest and best use criteria.

Mobile home parks typically do not include



any transitory residency. When a mobile home owner moves, he or she sells the unit rather than relocates it. The high cost of moving and the near impossibility of finding a suitable replacement site make relocation infeasible.

Zoning and other legalities often restrict single-wide units in parks, and newer developments have more units resembling site-built homes. While single-wide units may still be found and purchased in certain regions, the trend is for modern mobile homes to be built from materials similar to those found in site-built structures. In addition to their amenities, mobile home park types are defined by their overall quality rather than by type of occupancy.

A park with modern units (including the new type of single-wide), for example, would be more desirable than a similarly located park offering only single-wide spaces. In addition to the space type, higher-quality parks often feature amenities such as a pools, sports facilities, and an all-purpose room. However, some owners prefer to shut down pools and offer fewer amenities to save operating expenses and reduce liability. Some luxury parks resemble site-built subdivisions of above-average to good-quality tract homes.

Like other housing communities, mobile home parks can be operated for seniors only (typically over 55 years old) or for specific occupancy types, such as military personnel. Other mobile home parks have no age restrictions and may appeal to families.

Tenants of a mobile home park typically own their mobile homes, but in some cases the park owner owns some of the units. Some owners purchase units to fill up vacant spaces in the park or to avoid the influence of rent control.

Tenants typically pay on a monthly basis. One-year or longer leases are not uncommon, especially in communities with rent control. The utilities commonly included are water, sewer, and trash removal. Many parks are metered for electricity, and some owners charge back for water, trash collection, and other expenses.

Mobile home parks are usually owned by a single entity, whether it is an individual, partnership, corporation, or real estate investment trust (REIT). In some cases, the owner of the mobile home also owns the space or site on which the unit sits. In these cases, the park operates like a condominium or planned unit development (PUD) in which common amenities require homeowner dues.

Appraisers should analyze the park's potential for conversion to a different ownership structure and the CC&Rs, local mobile home park laws, and zoning issues as part of the highest and best use analysis.

Some states have acts governing lot rentals for all manufactured homes in cases when the tenant/homeowner is only renting the lot. The Montana Lot Rental Act of 2007, for example, covers all rental agreements for the homeowner (RV or mobile home) on any site, even if there is no agreement or lease. This act does not apply to someone renting both the manufac-

tured home and the site (or land) or to someone in the process of buying the land rather than renting.

In Montana, the term *mobile home* means “a form of housing known as ‘trailers’, ‘housetrailers’, or ‘trailer coaches’ exceeding eight feet in width or 45 feet in total length designed to be moved from one place to another by an independent power connected to them, or any trailer, housetrailer, or trailer coach up to eight feet in width or 45 feet in length used as a principal residence.”²

Other states control mobile home park rentals by residency laws. In California, for example, parks are subject to the Mobile Home Residency Law (MRL), which is a “landlord-tenant law” found in the California Civil Code. The California State Department of Housing and Community Development (HCD) or delegated local government agencies enforce the parks act through inspections.

In addition to covering park rental agreements, residency laws cover issues relating to the resale of a home in the park, termination of tenancy, and health and safety (building code) requirements for both parks and the homes located in the parks. These code requirements describe the minimum standards for common area facilities, such as park roads and utility systems, as well as accessory installations.

What Is a Recreational Vehicle?

There are many ways to describe a recreational vehicle, and definitions vary by state. In general, RVs are motor vehicles or towable units designed for temporary recreational leisure activities, camping, travel, and seasonal or emergency use. RVs come in many types, sizes, and prices, but most fall into two broad categories: motorized (motor homes and van conversions) and towable (travel trailers, tent trailers, truck campers, and fifth-wheel trailers).

Maximum vehicle dimension laws have increased since HUD’s manufactured home law definition was implemented in 1976, and some RVs, such as travel trailers, include “slide out rooms.” These may fall under the manufactured housing definition by virtue of their larger dimensions. While there are exceptions, the maximum motor home length in most states is 45 feet, and the maximum width is 8 feet, 6 inches. The maximum trailer length is 40 feet, and the maximum “combined” length is 65 feet. Relatively few parks and campgrounds have spaces to accommodate RVs over 45 feet long, however.

Several states and RV associations have adopted the American National Standards Institute (ANSI) as the standard for RV production development. In terms of safety regulations, the National Highway Transportation Safety Administration (NHTSA) controls virtually all RVs. As with cars and trucks, RVs are subject to NHTSA recall notice requirements for defective units and parts.

2. State of Montana Rule 42.4.201, Definitions, www.mtrules.org/gateway/ruleno.asp?RN=42.4.201.

Because RVs are used for housing, most are self-contained. Vacationers may use their RV units for overnight or weekend excursions within 100 miles of their home or for extended trips requiring stays at several RV parks. The occupants of some RVs have everything they need for extended periods of time and no need to hook up to outside utilities in an RV park.

Self-contained motor homes and travel trailers have cooking facilities and refrigeration, lights, bathrooms, showers, a gas supply, water, and waste containment. The more expensive models are typically equipped with washer/dryers, microwaves, GPS navigational systems, security and video cameras, satellite televisions, granite and/or marble flooring and countertops, and central air and heating systems.

Types of Recreational Vehicle Units

Even though they are much more than automobiles, recreational vehicles are taxed as automobiles through the Department of Motor Vehicles. The six basic types of recreational vehicles are as follows:

- Motor home
- Travel trailer
- Truck camper
- Tent trailer
- Fifth-wheel trailer
- Park model RV

While the real property appraiser of an RV park is generally not concerned with individual vehicle valuation, it is important to have a basic understanding of the types of units in such establishments because the RV types in use in the region largely determine the type of park occupancy.

Personal property and non-realty items often get combined in an RV park appraisal, as will be explained in more detail later in this book. It is the appraiser's responsibility to distinguish these values. The appraiser should be familiar with the types of units described below.

Motor Home

A motor home is a self-powered vehicular unit designed to provide living quarters, usually for recreation, camping, and/or travel. These units are permanently attached to a self-propelled motor vehicle chassis. The motor home has become the most popular type of recreational vehicle among users. It is also the most expensive type of RV, with prices ranging well in excess of \$200,000 for luxurious, bus-style models.

Travel Trailer

A travel trailer is a vehicular unit mounted on wheels, which generally does not require a special highway permit when towed by truck or au-



A motor home



An older travel trailer



A truck camper

Source: Wally Herral, North American Truck Camper Owners Association, www.natcoa.com

tomobile. While travel trailers share the same historic origins as mobile homes, today the two can be quite different in style and size. Prices vary depending on style. Some full-time occupants prefer the travel trailer to motorized versions because it can be unhooked from the tow vehicle.

Truck Camper

A truck camper, also known as a truck trailer, is a movable structure that is mounted or loaded onto the bed of a pickup truck. This type of RV is generally less expensive than a motor home or travel trailer. These models can be full-time residences, but they are primarily used for short camping trips.

Tent Trailer

A tent trailer is a vehicular unit mounted or loaded onto the bed of a pickup truck. This type of RV is less expensive than a motor home or travel trailer. In fact, it is typically the least expensive of the various RV units. Tent trailers are also known as *folding camping trailers*. The cover material is made of canvas, and some units include a portable toilet.

Fifth-Wheel Trailer

A fifth-wheel trailer is a mounted, self-contained vehicular unit designed for towing by a motorized vehicle. The unit is mounted above or in front of the tow vehicle's rear axle. These units do not require special highway movement permits and usually do not exceed 400 square feet in the set-up mode. Also known as a “fiver,” the fifth-wheel trailer is similar to a travel trailer in that it does not require a large site. However, it is easier to park than a travel trailer.



Park Model RV

The Recreation Vehicle Industry Association (RVIA) defines a park model RV (PMRV), also known as a recreational park trailer, as “a unique trailer-type RV that is designed to provide temporary accommodation for recreation, camping, or seasonal use. PMRVs are built on a single chassis, mounted on wheels, and have a gross trailer area not exceeding 400 square feet in the set-up mode. They are certified by their manufacturers as complying with the ANSI A119.5 standard for recreational park trailers.”³

Park model RVs are typically owned by the RV park or campground and rented to guests, or they may be sold to individuals on a site rented or leased from the RV park/campground.



3. Recreational Vehicle Industry Association, “Park Model RVs (aka Recreational Park Trailers): Definition and Use,” www.rvia.org/UniPop.cfm?v=2&OID=3465&CC=7616.



There are two basic types of park model RVs. The most popular type is approximately 12 feet wide and 36 feet long (transported with a special permit) and has a pitched shingled or metal roof. Some units feature bay windows, porches, and decks, and have the appearance of a contemporary cabin or summer cottage. The park model must have 399 square feet or less to be classified as a lower-taxed RV rather than as a manufactured home as defined by HUD.

What Is a Recreational Vehicle Park?

The Dictionary of Real Estate Appraisal defines a recreational vehicle (RV) park as “a campsite facility with parking for recreational vehicles and individual hookups for water, electricity, and other utilities. Communal bath houses and laundries are also typically available.”⁴ RV parks are properties that accommodate RVs on “sites,” “spaces,” or “pitches.” RV parks are sometimes referred to as “campgrounds,” although a true RV park is also a place where owners of RVs such as motor homes can rent “sites” overnight or for longer stays. A campground can offer RV sites, but it must also have facilities for tent camping.

Like other forms of lodging, the quality of RV parks ranges from basic, or rustic, to luxury. Most parks charge on an overnight or weekly basis, although monthly and even annual rentals are not uncommon. Membership or timeshare campground organizations charge a membership fee and monthly or annual maintenance fees.

The largest and best-known RV park chains and franchise networks are Kampgrounds of America (KOA) and Yogi Bear’s Jellystone Park Camp Resorts. KOA is the world’s largest privately held chain, with almost 500 locations across the United States and Canada. Good Sam Club (www.goodsamclub.com) is the largest RV park membership network, with over 2,100 parks and resorts in the US and Canada. There are approximately 16,000 parks in the US that cater to campers, RVers, and travelers. Of

4. *The Dictionary of Real Estate Appraisal*, 6th ed. (Chicago: Appraisal Institute, 2015), 191.

these, about 13,500 are private.

Some parks have maximum stay requirements restricting the length of time an RV unit owner can stay. RV park rent laws distinguish “guests” from “occupants” and “tenants.” In California, for example, a “tenant” is the owner or operator of an RV who has occupied a site in a park for more than 30 consecutive days.



A “resident” is a tenant who has occupied a site in a park for nine months or more. A “guest” is a person who is lawfully occupying an RV in a park but who is not an occupant, tenant, or resident. It is recommended that the appraiser consult with local or regional authorities as to use (permit) requirements on the subject property as well as the properties used for comparison purposes.

In most RV park appraisals, the real property consists of the land and improvements to the land, such as the structures created for the use and enjoyment of RV owners. Again, RVs may be used for either temporary or permanent housing, but most units are for temporary use.

Park structures that are affixed to the land typically include the rental office, restroom/shower facilities, and recreational buildings. Overnight and destination-type parks also typically provide stores (for groceries and supplies) and recreational facilities such as a pool/spa, basketball or tennis courts, and picnic and barbeque areas. Site improvements include paved roads and utilities as well as landscaping and drainage.

The real estate value component of an RV park is the land and its supporting improvements. The market value of an RV park generally includes not only the real estate, but also the personal property, the legality of operations (e.g., jurisdictional zoning or use), and often goodwill.

Personal property and other non-realty assets are only a small part of the overall market value, but they should be identified and valued separately. The appraiser must be careful when analyzing the income stream to identify the income generated by personal property as well as other non-realty items such as goodwill.

The economic lives of personal property items are generally substantially shorter than the lives of structures. For example, the net income generated from an old trailer that has only three to five years of remaining economic life should be separated from the income obtained from real

estate. The capitalization into perpetuity of this personal property income would overstate its value.

As will be discussed in Chapter 4, identifying the type of park is important in the valuation process because the type of park typically determines the type and durability of the income stream. A park designed to capture mostly overnight travelers is typically more management-intensive and subject to seasonal rental income than a park catering to permanent residency. A residency RV park operates like a mobile home park rather than an overnight park.

RV park facilities include the following:

- Rental office and/or entrance booth
- Recreation hall or all-purpose structure
- Men's and women's restrooms with showers
- Dump station

In addition, RV parks may also include these features:

- Laundry facility
- Convenience store
- Manager's apartment or house
- Picnic area
- Entertainment and meeting facilities (for bingo, cards, reunions, etc.)
- Basketball, tennis, and/or volleyball court
- Pool and/or spa
- Horseshoe and barbeque pits
- Miniature golf course
- Waterscape (pond or river)/boating area/water slides/fishing area
- Weight room
- Level sites (pitches or spaces) with utilities such as electricity, television, Wi-Fi, sewer connection, and/or water

Differences Between Mobile Home Parks and RV Parks

Although they play different roles, mobile home parks and RV parks often get confused. While both function as communities for factory-built living quarters, there are important differences between them. The most obvious distinction is that RVs are mobile, and their primary function is temporary or seasonal use. Although a mobile home is, by definition, movable, the high cost of relocation often makes it infeasible. Once in a mobile home park, units are rarely moved, as owners tend to re-sell their units rather than try to relocate them.

RV and mobile home parks are operated differently, as RV parks are more transitory and mobile home parks are more stable. However, as will be discussed in subsequent chapters, some types of RV parks act and operate like mobile home parks.

Despite some overlap, mobile home parks usually cater to long-term tenancy while RV park occupancy is transitory. Higher turnover in RV parks translates to greater management intensity. RV parks typically carry a greater degree of risk due to less income stability. Simply put, RV parks are real estate with a typically greater business component than mobile home parks. A greater perception of risk separates the typical RV park from the typical mobile home park.

While mobile home parks and RV parks can usually be distinguished simply by type of occupancy, several visual, legal, and economic differences set these property types apart. The most obvious variation is that self-powered vehicular “motor homes” and travel trailers are not generally found in mobile home parks. Mobile home parks do not typically have on-site stores, registration, and individual restroom buildings. It is not uncommon for both property types to feature recreational facilities such as a recreation hall and basketball or tennis courts.

Outside of jurisdictional zoning and the general development plan, the biggest legal difference between mobile home parks and RV parks is that mobile home parks can be subject to rent control. It is not uncommon to find mobile home rent control laws governing parks in cities within larger metropolitan areas. Rent control is not a concern for RV parks, where occupancy is transitory.

Economic conditions tend to impact RV parks more than mobile home parks. While all forms of housing can be affected by interest rates and other economic conditions, RVs tend to be purchased less during downturns. Decreased RV sales are among the first indicators of an economic downturn, while increased RV sales are one of the first signs of recovery. Some of the more salient similarities and differences between mobile home parks and RV parks are shown in Table 1.

Table 1

Mobile Home Parks vs. RV Parks

	Mobile Home Park	RV Park
Vehicle movability	Legally, yes, but relocation is expensive and impractical	Yes (RVs are designed for travel)
Occupancy type	Ranges from extended to permanent	Ranges from transitory to extended
Management intensity	Ranges from low to medium-high	Usually high
Campers/tents allowed	No	Yes, in some parks
Types of sites/spaces	Single, multisectional	Pull-through, back-in, tent, group, etc.
Utility services	Water, gas, electricity, TV, phone, sewer or septic	Water, electricity, TV, sewer and/or septic
Typical improvements	Roads, spaces, rec hall, rental office, laundry facilities	Roads, sites/spaces, store, restrooms/showers
Common recreational facilities	Rec hall, pool/spa, playground	Pool/spa, rec hall, basketball court, picnic area, playground
Subject to transient occupancy tax	No	Yes (daily and weekly)
Property taxes	Originally taxed as vehicles, now reclassified	Typically taxed as vehicles
Rental charge payable	Usually monthly	Daily, weekly, monthly
Resident-owned	2±% of parks in US	Rare (some membership parks)
Most important value indicators	EGIM/PGIM, price per space, overall capitalization rate	GIM, GPM, capitalization rate
Typical capitalization rate range	5-10% (approximate)	8-14% (approximate)
Conventional loan financing availability	Yes, including major banks	Yes, but generally low



Types of Mobile Home Parks

There have historically been two basic ownership structures for mobile home parks. In most cases, the owner of a mobile home rents or leases a space or site within the park. This type of park is a *rental park*. The second type of mobile home park is resident-owned, and the park is held by the residents in one of a variety of ownership structures. In this type of park, the homeowner must buy the space or site or purchase a share in a corporation that owns the property, much like buying a unit in a cooperative. The methods of calculating property taxes differ depending on the ownership type.

A third type of ownership structure has also evolved, perhaps largely in response to rent control. In this ownership structure, the park owner not only owns the space but also owns the mobile home. Because the space is regulated by the mobile home rent control ordinance but the unit is not, this is an effective means for park owners to avoid the effects of rent control.

The different mobile home park ownership structures create business and non-realty elements that are intermingled with the real estate, but not nearly to the same degree as in more transitory RV parks. Mobile home parks, especially rental parks, are similar to apartment complexes or cooperatives, while RV parks are more similar to lodging facilities, such as motels or inns. This is true because mobile home parks have permanent residency, much like tenancy at a condominium building. It is imperative for the appraiser to understand the type of ownership, the durability of the income stream based on the land ownership, and what is necessary to achieve those earnings into the future.

Resident-Owned Parks and In-Space Value

In most communities, excluding those on public land, the “in-space,” “in-park,” or “in-place” value of a mobile home is significantly more than the “blue book” value of the unit without the right to use the park land. For ex-

ample, an owner may be able to sell his or her mobile home unit for \$100,000 or more in a good quality, non-residency park. The same owner may only get \$10,000 to \$20,000 for the unit once it is taken outside the park.

The amount of “in-space” value is determined by buyer demand based on the park’s location, quality, condition, and other factors such as rent control. A home in a higher-rated park costs more than one in a similarly located lower-rated park. Due to rent control, a mobile home park with lower space rent is typically more attractive to buyers than one with higher space rent. Following the same logic, a mobile home with low space rent usually costs more to buy than one with high space rent.

Mobile home and manufactured housing parks can be specifically developed as *resident-owned parks* (ROPs) or converted from rental parks. In an ROP, residents have a voice in setting park policies and controlling park rents since they own their spaces or shares. ROPs tend to be well maintained, as resident owners have equity in their interests in the park.

The title holder of a resident-owned site owns either the underlying space plus a fractional interest in the communal improvements (similar to condominium ownership) or a share in a corporation that owns the park (similar to a cooperative). The owner pays recurring homeowner dues to support the maintenance and repair of the improvements and potentially some of the utilities and insurance.

The conversion of a rental park to an ROP can be complicated, as residents may not be able to agree to purchase the park. Moreover, initial acquisition costs may be too high. Some state and local governments as well as commercial banks may be able to provide financial assistance. A number of mobile home park resident ownership programs, including low-income and disabled assistance programs, are available. In the past, programs have been provided to offer low interest rate loans to residents and non-profit organizations for park purchases.

In a converted *resident-owned park*, the subdivider typically controls the park until a majority of the lots are sold. The subdivider is required to offer each existing tenant an option to either purchase his or her condominium or subdivided unit or continue residency as a tenant. Specific requirements relating to park conversion are incorporated into the tentative subdivision or parcel map at the time of filing to avoid the economic displacement of all non-purchasing residents.

To value such a park, the appraiser needs to research the remaining residents’ future rental requirements, as these may have a significant impact on value. The rents of non-purchasing tenants can in some cases be increased from the pre-conversion rental amounts to market levels or adjusted by the increase in the Consumer Price Index (CPI) within a set future time frame. Those who cannot afford to buy their lots usually continue to rent, but may have to pay higher rent in the future unless they are protected by applicable laws.

Rent-Controlled Parks

Due to the high cost of mobile home relocation and increasing space rents, various local governmental entities, mostly in the states of New York, New Jersey, and California, have adopted mobile home park rent control through either ordinance or initiative. These laws recognize that mobile home relocation is economically infeasible and thus owners are at the mercy of the market.

Relocation costs incurred by the owner of the mobile home unit are two-fold: the actual cost of physically picking up the mobile home unit and moving it to another location and the loss of “in-space” or “in-park” value when the unit is moved from the park.

In rent-controlled locations, alternative site locations are extremely limited or nonexistent. The “in-space” value is likely lost once the unit is moved from the park, since it is unlikely that another space in a similar park can be found. In some regions, rent control laws are more commonly adopted for mobile home parks than apartments. For example, California has 97 local mobile home rent control laws, which is roughly eight times the number of local apartment rent control laws in that state. There are 626,600 rent-controlled residential units in Los Angeles alone. A list of California jurisdictions with mobile home park rent stabilization ordinances is provided online by the Golden State Manufactured-home Owners League at www.slomap.org/CA%20Jurisdictions%20Rent-Stabilization.pdf.

Rent control limits annual rent increases to a specified amount, usually to the inflation rate or a percentage of the rate of inflation defined by the CPI up to a ceiling (such as 5% to 8%). While original rent control ordinances had no vacancy control, unregulated rent increases may not always be allowed when a space becomes vacant. Vacancy control is an important consideration for the appraiser when valuing a park governed by rent control.

Under some local ordinances, a park owner may raise rents above the annual ceiling on a case-by-case basis to cover the costs of capital improvements, refinancing, and rehabilitation. Some ordinances allow vacancy control, while others do not. The appraiser needs to fully understand what increases are allowed prior to forecasting rental income.

Rent control laws exempt new construction in an attempt to encourage development. Despite the exemption, no new parks have been built in rent-controlled areas in California since the early 1990s. The reason is not the rent control ordinance itself, although there is some fear that rent control will be extended at a future date to include a newer park. Rather, new parks are not being built because of highest and best use issues.

For example, the San Francisco Bay/Silicon Valley area has 20 separate community ordinances. Since 1980, several mobile home parks have been converted or redeveloped to high-tech developments, patio homes, or condominiums. When developable land becomes available in desirable areas, mobile home parks are not the most financially feasible use.

When analyzing a park property under rent control, the appraiser should determine the difference, if any, between the actual rental income and the potential market rental income. Since many mobile home owners are long-time park residents, the likelihood is good that actual rents lag behind market rents.

Rent control essentially limits the park owner's ability to immediately raise rents, although in certain cases costs can be passed through. For most types of real estate, the difference between actual and market rent is the leasehold bonus; that is, the tenant has a profit rent. For mobile home parks, rents are typically month-to-month, with rent control effectively acting as an annual lease.

Park owners' attempts to circumvent the effects of rent control often end up in arbitration or lengthy litigation. Tenants in rent-controlled parks who voluntarily sign long-term leases are not governed by rent control. However, rent increases are not retroactive or cumulative, which creates a widening gap between actual and market rents and makes converting to a resident-owned park more difficult. This is particularly true for age-restricted parks where senior residents live on fixed incomes. When asked to appraise an existing rental park as an ROP, the appraiser should not be quick to assume that conversion is a reasonable hypothetical condition.

In addition to understanding the specific nuances of rent increases, the appraiser needs to account for the additional municipal permit fees and managerial time necessitated by rent stabilization. In some cases, a portion of the fees required to certify rent-controlled spaces is reimbursable.

For the reasons described above, it is advisable that the appraiser use sales of parks subject to similar rent control ordinances when comparing park properties in the sales comparison approach.

Senior Parks

Federal law prohibits discrimination against the disabled or families with children in housing, including mobile home parks. However, federal law makes an exception to allow for senior-only housing, such as mobile home parks designed for persons 55 years of age and older.

Senior parks are not required to provide special facilities to accommodate residents' needs, although they may voluntarily do so. Park management, under park rules, may require everyone residing in the park to be a senior, or may allow younger residents as long as at least one member of each household is a senior. Unless zoning is an issue, parks may convert to or from a senior park with advance notice (e.g., six months).

Senior parks are perceived as having the best income stability. A greater "sense of community" among seniors is thought to be the primary reason for this. Another reason may be that seniors have more time to spend maintaining and improving their homes and the surrounding spaces. Collection loss is less common for senior parks as compared to family parks.

On the other hand, tenants of age-restricted parks may demand better park maintenance and be resistant to increases in rent. Senior parks are largely tenanted by retirees and tend to be of three-star quality and higher. (Star rating systems will be discussed next in this



chapter.) The appraiser should be aware that maintenance and management expenses at senior parks are often higher as a percentage of collected income.

Several factors enter into the overall appeal of a senior park. In addition to the quality of recreational amenities, physical attributes such as road width, the placement of utilities, and the type of homes allowed are important.

Higher-quality parks have wider, well-paved interior roads with rolled curbs and gutters and underground utilities with adequate lighting. The homes are contemporary, with lap siding and pitched or peaked roofs. The front yard is landscaped. The recreation building, or clubhouse, is usually equipped with a kitchen, dining or assembly area, laundry room, and rental office. If a pool is on the premises, outdoor showers and restrooms are provided.

The rules and regulations of a good-quality, age-restricted park are not overly onerous or unduly permissive. The better-quality parks typically do not allow homeowners to sublease their homes. On-site social activities may be important, and most senior parks allow small pets.

Seasonal Parks

Seasonal communities are another subset of mobile home parks. These parks are located in popular vacation destinations or are used as summer homes. This is a concept similar to the combination extended-stay/destination RV park, although in seasonal mobile home communities the homes are not moved but simply occupied only during certain periods of the year.

Star Ratings

Mobile home parks have historically been rated on a one- to five- star rating system based on a directory first published over 60 years ago by Woodall's Publishing. According to this directory, the one-star park offered the lowest level of service and the five-star park offered the highest level of service.

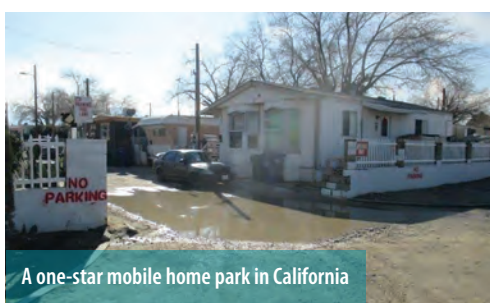
As mobile homes grew in popularity within the United States, future residents or occupants needed a way to determine the overall appeal and services provided by competing parks. The Woodall's rating is not an investment grade. Rather, it is a consumer rating opinion poll based on vari-

ous levels of service and appeal. Woodall's, through Good Sam Enterprises, still publishes ratings for campgrounds and RV parks, but discontinued the mobile home park directory over 25 years ago. Although the star rating system has survived to some degree, and some lenders and institutional investors have developed their own systems, there is no nationally recognized standard for rating mobile home parks.

The appraiser should carefully point out to the reader of the appraisal report that the star system is based on opinion, and that star ratings do not necessarily denote that one park is better than another. Still, including a star rating in an appraisal can provide a measure of park appeal for comparison purposes. A brief summary of the Woodall's star rating system follows.

One-Star Parks

While one star is the lowest rating in the Woodall's rating system, this does not mean that a one-star park is not a decent development in which to live.



A one-star mobile home park in California

The overall appearance of such a park is fair. Patios of concrete, asphalt, or wood should be found on most lots. Streets are in fair to average condition but may be of gravel or dirt. If common restroom facilities are on the premises, they should be clean. Some (minimal) landscaping (grass, rock, or shells to cover the ground) is required. Homes may be older models, but they should be in average condition.

Two-Star Parks

In addition to what a one-star park offers, a two-star park has fair to average landscaping, neat storage, a well-equipped laundry facility (or nearby laundromat), 220-volt electrical connections, a playground (if children are permitted), and streets in good condition that are dust-free and made of gravel and crushed rock. The park should be reasonably well maintained and managed.



A two-star mobile home park in a rural area



A typical street in a two-star mobile home park



A laundry facility in a two-star mobile home park

Three-Star Parks

A three-star park must have what one- and two-star parks have plus an attractive entrance, paved or hard streets, and some spaces for larger mobile homes. However, a three-star park may still have a high percentage of smaller spaces. All mobile homes in a three-star park should be in good condition.



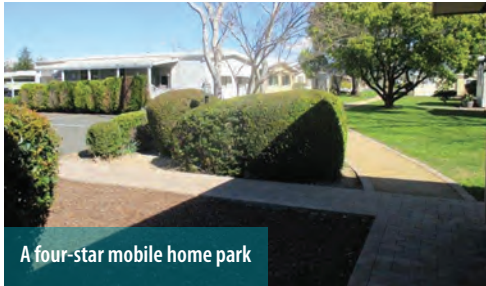
A three-star family mobile home park



A cul-de-sac located in a three-star mobile home park

Four-Star Parks

Four- and five-star parks offer luxury. In addition to what is found in the preceding parks, four-star parks have good landscaping, paved streets, concealed tanks, spaces that can accommodate double- and triple-wide homes, uncrowded spaces, underground utilities (if required by code), and a clubhouse with a swimming pool or recreational facilities. In general, four-star parks have good visual appeal as well as good management and maintenance.



A four-star mobile home park



A four-star mobile home park in California

Five-Star Parks

Under the Woodall's rating system, a five-star park is the finest mobile home park. This type of park is essentially improved to its highest potential. Roads and off-street parking (carports and guest spots) are nicely paved. Five-star parks offer a community or meeting hall, a recreation building equipped with a kitchen, and facilities for sports and activities such as golf, horseshoes, shuffleboard, and swimming. All of the homes in the park are in good to excellent condition, and all are skirted. Any tanks and hitches are concealed. A five-star park has very good appeal in terms of spaciousness and condition.

Five-star parks feature larger homes and are well-planned and within or near quality neighborhoods. These parks also have very good professional management and excellent maintenance programs.

Other Quality Rating Systems

The star system is not the only method for determining the appeal of a mobile home park. One simple method is to compare the typical number of mobile homes resold annually in parks that compete with the subject park. A higher-than-typical number may be due to above-market space rents, poor management, functional problems, overly restrictive rules and regulations, or poor maintenance.

A related method of judging quality is for the analyst to research the number of “for sale” listings of mobile home units at any given time. If the subject has 15% of its total mobile home units for sale, for example, and competitive parks have only 5% of units for sale at the same time, the appraiser needs to explore further to see if there is a problem.



As the recreational vehicle industry has matured over the past 40 years, RVs have evolved to meet the preferences of both travelers and full-time RV enthusiasts. Some RV parks cater mainly to overnight visitors, while others offer one-stop vacations and extended residency.

No two RV parks are alike. Although most share the characteristics of two or more classifications, RV parks are generally categorized as a single, predominant type based on their market appeal or segmentation. Identifying the type of park is important because it helps the appraiser define the stability of the park's income stream. The three most common types of RV parks are overnight, extended-stay, and destination.

Overnight Parks

The overnight or “en route park” is one of the most common types of RV facilities. Such parks are often located along or just off interstate highways and freeways. The typical length of stay is one to two nights for travelers who are en route to other destinations. The typical length of stay is sometimes longer for business travelers.

The key to an overnight RV park's success is location. This type of park has relatively few amenities and activities, so a good location off of a major thoroughfare is imperative. Ease of access



The park pictured here is a combination overnight/residency RV park with full utility hookups.



is crucial, especially for parks without freeway frontage. Signage and exterior appearance are also important. Billboards advertising the park for miles in each direction are often necessary. A listing in an online or published directory is also essential. In addition to these features, successful overnight parks often have at least one major attraction or are located on the way to an established tourist area.

Overnight stays generate the highest daily/nightly rates but also increase management and labor costs. Depending on

the average annual occupancy, expense ratios may be higher for overnight parks than for parks with more stable occupancy rates. Parks with less stable income streams sell at higher capitalization rates.

Extended-Stay Parks

Extended-stay or residency parks have become increasingly popular in recent years as conventional housing becomes too expensive for many Americans. This type of RV park is similar to mobile home parks where tenants stay on an extended or even permanent basis. Legal restrictions and the type of demand are important considerations in valuing extended-stay RV parks. Zoning ordinances and park laws as well as specific use permits may restrict the tenant's length of stay. The appraiser should identify any maximum stay requirements for the subject property. Before selecting comparable park sales and rentals for analysis, the appraiser should discuss existing regulations thoroughly with zoning and planning officials. Any local rent control ordinance should be investigated, although rent restrictions typically apply to mobile home parks and not RV parks.

Extended-stay parks can have year-round permanent "residents," seasonal "tenants" or "occupants," or a combination of these. A park's location usually determines the seasonality of the demand. Facilities in the southwestern United States, for example, tend to report higher occupancy rates in winter months as "snowbirds" travel from northern states and Canada in search of a warmer climate. Most parks report higher occupancy during summer and vacation periods. Unless a thorough explanation is provided, it could be misleading to compare a seasonal park with a year-round facility.

Another factor to consider in an appraisal is the structuring of rental payments. Most residency parks charge by the month (unlike overnight parks, which charge by the day or week). A few parks specify quarterly, semiannual, or even annual payments. When annual rent is paid in advance, the payment is discounted by the landlord to reflect the lower risk



of collection and lower management costs. In this situation, the park owner may earn interest income from investing the annual rents paid in advance. The appraiser should be careful not to include any investment income in deriving net operating income for a market value appraisal (value-in-exchange).

Some extended-stay park owners prefer leases, while others are more comfortable with month-to-month occupancy. If leases are used, the appraiser should pay particular attention to the term, expense provisions, included utilities, and any subletting agreement. Subletting is not typically allowed, and this provision could be important if the lease is long-term and the market rent is above the contract rent.



Destination Parks

The trend for the past several years is for parks to offer a broad range of amenities, services, and activities. Unlike an overnight facility visited by travelers en route to another destination, the destination park itself is the attraction.

Destination parks tend to be similar to resorts. Most parks feature activities and amusements for people of all ages, but some cater to senior adults. Recreational facilities often include swimming pools, basketball and horseshoe courts, spas, children's playgrounds, and enclosed recreation halls (with free Wi-Fi). Some feature miniature golf, waterslides, river fishing, boat marinas, petting farms, game rooms, beaches, biking and walking trails, restaurants, convenience stores, and tennis courts. Live entertainment and dancing are common at certain times of the year. Many activities and entertainment options are provided to encourage visitors to stay an extra night.

Disney's Fort Wilderness Resort and Campground in the Orlando, Florida, area is an example of a popular destination park. Although Disney World, Epcot Center, and Universal Studios are the main attractions in the area, Fort Wilderness is itself a destination. It offers a pool and waterslides, 750 acres of pine and cypress forest, a beach, four types of campsites accommodating tents as well as large RVs, and live entertainment. A facility does not have to be in a prominent tourist area to qualify as a destination park. Of course, such parks capture a share of overnight travelers and extended-stay occupants during certain times of the year in addition to destination resort guests.

Destination parks may generate the majority of their income on a seasonal basis or during certain times of the year. Some parks even close down during the off-season. Other destination parks generate a relatively even income stream over 365 days, and it can be hard for guests to get in



during certain holidays and weekends. The appraiser should not simply annualize the monthly income or try to average it over a year based on the most recent months. Doing so could lead to an overvaluation or an undervaluation. Instead, the appraiser should analyze the trends over the past several years.

Daily rental rates at destination parks tend to be higher than rates at other parks. The additional activities, amenities, and services result in higher rental rates and higher expenses in the form of supplies and labor (management and maintenance). Some park owners

include the cost of extra features in the daily or weekly rent, and others charge separately for additional amenities.

Other Types of RV Parks

As mentioned earlier, recreational vehicle parks have diversified into a variety of niche markets. In addition to the parks described above, there are condominium and membership RV parks, prepaid lease co-ops, and corporate share parks with occupancy lease arrangements. Purchase financing can be affected depending on the directives for creating ownership.

A condominium, or condo-site, park is a multispace facility that offers buyers fee title to an individual site and an undivided interest in common areas. This is essentially the same concept as the resident-owned mobile home park. Like a mobile home condominium park, RV condo parks charge residents association dues to cover the maintenance of common amenities. Condominium or cooperative parks target those who prefer to have equity interest in their principal or vacation residence rather than a rental agreement.

Membership parks include many of the amenities offered by destination parks, but users of this type of park purchase a membership or right-of-use permit for a specified period of time (typically three family generations). Related to membership parks are timeshared parks, in which the RV owner buys the right to use a home park and other affiliated parks. Membership prices vary with the park, but the average price is generally well below \$10,000. In addition to the initial cost of membership, members must pay a relatively small annual maintenance fee. Like timeshares, members may transfer or sell their memberships. Members are typically allowed to use their home park at any time, although many have maximum stay requirements of 14 days. There are restrictions on the number of members a park may have. The historical rule of thumb indicates that a park may

have 10 times as many members as there are sites. However, higher or lower ratios are not uncommon, especially if some of the sites are cabins.

Another type of membership is represented by military campgrounds, which are not open to the general public. Only active or retired career military personnel with proper identification may camp at these parks. Like membership parks, these campgrounds may have the characteristics of destination parks and offer a variety of amenities.

Good Sam Ratings

Good Sam Enterprises (www.goodsam.com) offers a membership club for RV owners. Woodall's publishes a comprehensive directory of Good Sam-affiliated RV parks and campgrounds. Good Sam is similar to the American Automobile Association (AAA) in that it provides a number of services to its members, including park directories and a 10% rental discount at participating RV parks.

The *Good Sam RV Travel Guide and Campground Directory* (available in print and as an online directory at www.woodalls.com) provides a three-number rating for each park listed to indicate (in order) the quality of its amenities, its cleanliness, and the environment. All three rating categories are measured on a scale of 1 to 10, with 10 being the best. Less than 1% of RV parks and campgrounds receive the coveted 10/10/10 rating, which indicates a superior facility with very good appeal and condition.

An appraiser can compare the subject and comparable properties using the rating system. Like Woodall's star ratings for mobile home parks, the numerical ratings of RV parks are subjective and based on the raters' opinions on the date of inspection.

If the appraiser decides to use the Good Sam rating in the appraisal, he or she should make the reader aware that the ratings are general guides rather than fact. The Woodall's/Good Sam system is not an investment grade of the property.



In the valuation of mobile home and RV parks, the appraiser needs to analyze two distinct entities: the underlying land (the site of the park) and the individual spaces or sites that comprise the facility. Although they are joined physically, the land and the spaces must be analyzed separately. The individual spaces and other park improvements are subject to physical and functional obsolescence due in part to changing consumer preferences. Park sites are also subject to external (economic and environmental) obsolescence.

Physical Site Features

The park site's utility may be affected by its topography, configuration, size, and soil conditions and by the availability and adequacy of utilities. Land with few physical barriers is more desirable and less costly to develop. Level sites are preferred, as mobile homes and RVs require relatively flat ground.

The shape and size of the parcel dictate how the site is to be developed. Some sites may be too small or too large for the market. In other cases, a larger site may be preferred so that the developer can take advantage of economies of scale. Competition and zoning restrictions may also impose size requirements.





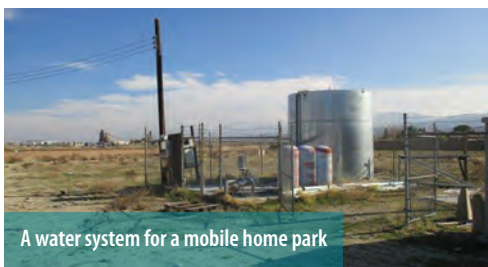
The shape of the land parcel may limit the number of individual RV sites that can be developed. The typical density of 15 to 20 spaces per acre may not be achieved due to governmental restrictions, an irregular parcel shape, or other physical challenges. In several states, mobile home parks may only be built on sites of five acres or more, with a maximum density of 10 spaces per acre. RV and mobile home spaces may be combined in one park but located in separate sections of the park.

A park site must have adequate utility service. Existing and proposed moratoriums on sewer and water hookups should be carefully researched and discussed in the appraisal report. Mobile and manufactured homes are not permitted outside of mobile home parks or communities unless satisfactory sanitary waste disposal and basic utility hookups are provided.

In areas where a sanitary sewer is not available, the appraiser is required to gauge the site's adequacy for septic and leach field systems. Water sources (e.g., well capacity) also require investigation, as do hookups for electricity, telephone, Wi-Fi, and cable or satellite TV service. Private sewer and water systems add risk and affect the unit prices and capitalization rates applicable to the park.

Even if the existing systems are adequate, they might no longer conform

to current standards. System failure could result in considerable expense, and the operation of the park would be put at risk. If the subject park has private utility service, the appraiser may wish to make it clear that continued safe operation is assumed and recommend that an engineer look at the system if confirmation of the assumption is needed.



Environmental Issues

The public is increasingly concerned with environmental issues, and a Phase I environmental report should be analyzed for the appraisal if one is available. Although most appraisers are not licensed as environmental engineers, any potential site hazards should be identified as part of the appraisal process. Such hazards may include current or past underground and aboveground fuel and oil tanks and proximity to gas stations, refineries, heavy manufacturing plants, and known toxic sites.

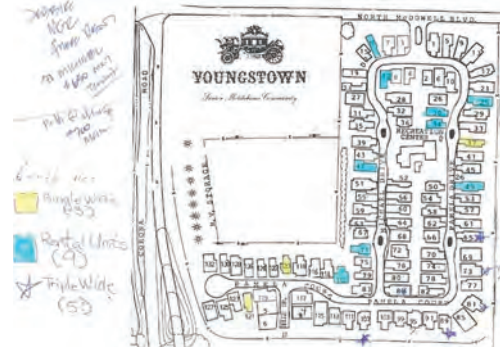
As in any commercial or multifamily property analysis, the appraiser must recognize and address a variety of issues specific to the local area. In some states, this includes wetlands and earthquake zones. Properties in coastal areas are typically subject to the directives of a coastal commission and other government planning regulations. The presence of underground fuel tanks, chemicals, pesticides, asbestos, and potentially dangerous solvents must also be addressed.

Types of Spaces

Although there are variations, three basic types of spaces or sites are found in mobile home parks, and another three site types are found in RV parks.

Mobile home parks are generally designed with spaces for single-wide, double-wide, and triple-wide mobile homes. Actual space dimensions may vary slightly, but generally would be approximately 2,400 square feet for a single-wide unit, 3,400 square feet for a double-wide unit, and 4,400 square feet for a triple-wide unit.

The three common types of RV park spaces are pull-through, back-in, and group sites. A fourth type of space is a tent site, which is an area designated for pitching tents, sometimes with fire pits and communal water and restrooms. Pull-through and back-in spaces are most common, and both are angled to the road for easy access.



A site plan for a mobile home park that includes spaces for single-wide, double-wide, and triple-wide units

Pull-Through Spaces

Pull-through spaces are preferred by drivers of larger vehicles and trailers because these spaces are longer and situated between two roadways. Some parks feature special sites for units that are at least 45 feet long.



Back-In Spaces

Back-in spaces are typically positioned between the property line and the roadway. Drivers of smaller vehicles such as campers and van conversions can access these sites comfortably.



Group Sites

A group site is a cluster of spaces. These sites are normally intended for clubs or group gatherings and are sometimes segregated from the other sites in the park.

The site's ground cover may be dirt, grass, gravel, or asphalt. Grass requires more maintenance but is aesthetically preferable to gravel or blacktop.

The appraiser should identify the utility services available. Since mobile home owners are generally living in their units on a full-time basis, each site is equipped with basic utilities (water, electricity, and waste).

Many RVs are self-contained, and not all sites have full hookups. Partial hookup sites (water and electricity only) generally rent for less than similarly located full hookup sites. Since electricity is a large expense, most park spaces are metered or submetered. In some cases, master-metered sites include electricity in the rent, although park owners typically prorate or estimate share costs to get reimbursed by the tenant. Appraisers should explain what utilities, if any, are included in rents in the rental survey section of the appraisal.

Zoning and Governmental Issues

Mobile home parks, recreational vehicle parks, and campgrounds are governed by a number of specific regulations to provide for orderly development and a safe and attractive residential environment. States and local municipalities have their own regulations and specific design requirements to ensure compatibility with adjacent land uses. The appraiser should research the most recent laws, as regulations for the establishment of new manufactured housing communities have been revised as the industry has matured. All mobile homes installed in established parks should meet the minimum standards set forth by the existing HUD standards and applicable building codes and ordinances.

The appraiser should research and discuss the following zoning issues related to the subject property with the appropriate governing body, such as the municipal planning and building department:

- Specific zoning district (and potential for rezoning or changes in land use)
- General development plan (if applicable)
- Minimum site area under the current zoning
- Any variances and use permits
- Minimum standards regarding maximum density, space area, coverage, storage, parking, fencing height, buffer areas, setbacks, access, the recreation area, utilities, trash storage, signs, and accessory uses
- Manager or caretaker quarters
- Allowed accessory uses
- Length-of-stay requirements

Use permits are important to the valuation. If a conditional use permit does not allow certain types of occupancy, the income stream durability may be less than what potentially would be realized under optimum zoning. Length-of-stay requirements do not affect mobile home parks, but they can impact RV parks. The appraiser of an RV park must find out if occupants or guests are required to move after a certain amount of time. In membership RV parks, the length of stay in any one park (or one space in a park) may be only 10 to 14 days. Privately owned individual parks may allow extended occupancy, and the RV owner may have nine months to move.



A thorough discussion of the improvements in the subject mobile home or RV park is needed to support the selection and analysis of comparable properties. Because some readers of the appraisal report may not be familiar with the factors and elements that influence a park's value, the appraiser must explain how the subject improvements relate to design standards and compare to competitive properties in the market. Photographs and maps are useful supplements to the appraiser's narrative description.

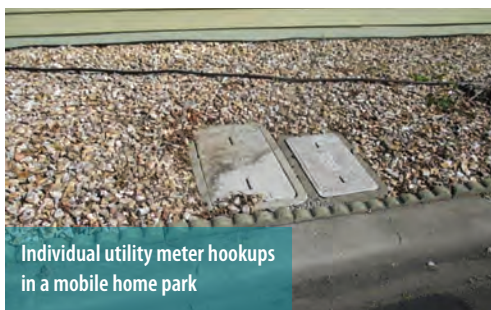
General Design Criteria

The appraiser must consider the acceptability of the particular style or type of park in the area in which it is located. Poorly designed mobile home and RV parks are at a disadvantage in any area. A number of nationwide directories are available to help assess a park's comparability rating in the market.

While marketability is the true test of a park's acceptance, all parks must meet certain minimum standards. Federal, state, and local standards establish construction criteria for manufactured housing and specifications of park design (such as site layout, road circulation, space density, recreational facilities, and buildings). Local fire safety, environmental, health, and sanitation requirements must also be met.

Since park design criteria have changed over time, older parks are unlikely to meet all government standards. Moreover, they are unlikely to meet current social standards, especially since manufactured homes have evolved in design and style over the years. It is important for the appraiser to become familiar with applicable design standards because design has a significant influence on value.

Regulations for the establishment of mobile home parks, RV parks, and campgrounds ensure a safe and attractive residential environment. In ad-



Individual utility meter hookups in a mobile home park



Individual utility meters in a mobile home park



A storage area in a mobile home park

dition to development regulations, park rules vary but are generally imposed for the protection and safety of guests and tenants and to limit liability to the owner.

Most parks do not accept RVs or mobile homes that are in less than average-to-good condition. Parks also usually restrict the number of guests or tenants who can occupy a single space as well as the number of vehicles allowed per site (for example, each site is limited to two vehicles).

Some parks provide extra parking and storage areas, usually for an additional fee. Pets are also typically restricted to two per site, with some establishments prohibiting certain types of dogs. All parks have speed limits (e.g., 15 mph) on their interior roads.

The basic improvements found in most mobile home and RV parks are a rental office, interior roads, drainage, laundry, and individual rental spaces that have utilities, including sanitary facilities. Nearly all RV parks also have restroom facilities with showers and a registration area. Other common improvements may include stores and recreational facilities.

Park Improvements

Sanitary Facilities

Well-designed, clean restrooms are critical to the overall success of a park. In any lodging facility, restrooms and shower areas must be clean and have good lighting. Standards typically require new parks to have a minimum of one men's and one women's toilet for the first 25 sites in the park. For each additional 25 sites without sewer connections, another pair of toilets is required. If individual enclosed showers are provided, the appraiser should review building codes for requirements concerning the minimum size of the shower and dressing areas and the finishing of floor and wall surfaces.

For parks that are not equipped with individual sewer connections, standards call for one disposal ("dump" or "comfort") station for each 100 sites. The station should be easily accessible from the service road and

provide unobstructed entry and exit for RVs. All spaces that do not have sewer hookups should be no more than 400 feet from a comfort station.

As with many types of RVs, mobile homes have their own bathrooms that include a bath or shower. Nevertheless, most recreational buildings in mobile home parks have communal restrooms, and many also provide showers next to a pool area.

Registration

A registration booth or office is required for park guests and tenants. An RV park registration area may be an entrance booth or gate. The entrance booths commonly found in public parks are usually small structures with minimal interior improvements. Sometimes RV park guests register at a counter located in the office or store. Sufficient room for RV parking should be available so that occupants can register without making it difficult for others to gain access to the store. In mobile home parks, an office is required for the manager. The RV park manager may live on-site in a mobile home or in a site-built home or apartment.

First impressions are important for any residential development. The entrance to the park should be reasonably well landscaped and accessible, with adequate signage. The appraiser should pay careful attention to the ease of entry and exit as well as clearance and roadway width. This is especially important for larger motor homes.

Roads

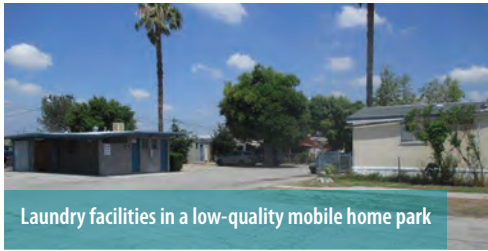
Every park needs interior roads to access individual sites. Roads are commonly dirt, gravel, or asphalt and should be easily traversable and well drained. Some owners with larger RVs or vehicles avoid parks with roads that are difficult to maneuver. The best-quality parks have roads that are professionally constructed of asphalt or concrete and are at least 12 feet wide. Road standards vary depending on state and local regulations, but mobile home parks typically require wider widths, especially if parking is allowed along the curb.

Parking requirements for new parks also vary depending on location. Mobile home parking standards generally call for one covered and one uncovered parking space per dwelling unit, which may be tandem spaces. One guest or visitor space is needed for every four mobile homes. For RV parks, the guest parking allowance is generally one additional space for every 10 RV spaces or campsites. A minimum of two tandem parking spaces is typically provided for registering parties.

Laundry Facilities

Laundry rooms are found in most mobile home and RV parks. The design and construction of the laundry facilities and all other building improvements must conform to applicable building codes. The appraiser should identify the ownership of all washers and dryers. If the park owner retains an





Laundry facilities in a low-quality mobile home park



Laundry facilities in the community center of an RV park

outside laundry service, the fee arrangement and any service contract should be analyzed. If the laundry machines are owned by the park, their value should be determined but separated as items of personal property as required by the Uniform Standards of Professional Appraisal Practice (USPAP).



An RV park store in New Mexico

Park Store

Park stores are vital when nearby shopping facilities are limited. Stores that are properly located and operated can be profitable, while stores in the wrong location can lose money. A store's size, design, and merchandise offered vary depending on the type and location of the park.

Recreational Facilities

The amount and type of recreational facilities provided in a park depend on the park type. As a rule, four- and five-star mobile home parks and destination RV parks have the most amenities. Many parks have swimming pools and spas with adjoining restrooms and showers. Some recreation halls include kitchens. Boat marinas or docks for river or lake fishing are typically found in parks that are located on waterways. Family-oriented parks have game rooms equipped with video games. The appraiser should recognize that some park halls are rented to local residents for special occasions, such as retirement parties and weddings.



Pool and shower facilities in a four-star mobile home park



Lounge area in the recreation building of a four-star mobile home park

Federal regulations that went into effect in 2011 require RV parks and campgrounds to install handicapped lift systems for pools. The appraiser should address the ADA compliance of the subject facility in his or her report.

Other Improvements

Other improvements found in RV parks include a caretaker's or manager's unit, snack bars or restaurants, propane stations, pay telephones, fencing, and landscaping. The appraiser should find out how the manager is paid and make an adjustment to the park's income if the manager (or assistant) is occupying one of the rental sites. Normally, the manager receives "free" rent as part of his or her total compensation package, but some complexes may be managed from off-site.



The interior of a community center in an RV park

Park Ratings

To understand how the design of the subject property compares to the competition, each comparable facility must be investigated and rated in relation to the subject park. The RV industry standard is the *Good Sam RV Travel Guide and Campground Directory*, available in print and as an online directory at www.woodalls.com. The 2014 print version of this directory offers 13,500 listings for campgrounds and RV parks (2,100 of which are Good Sam Club members). This directory rates parks using the 10/10/10 rating system. As noted previously, ratings are opinions based on field inspections and questionnaires completed by members. RV parks are rated for the completeness of the facilities, the cleanliness and physical characteristics of restrooms and showers, and visual appeal.

For a park to receive Good Sam's highest rating, it must be in good to excellent condition, have complete facilities, and be visually appealing. A top-rated park provides full hookups for at least 50% of its sites. Such parks have nicely paved roads, clean restrooms with good lighting, and well-equipped laundry rooms. They must also have at least two major recreational facilities plus a pool and a store that stocks a good variety of food items and supplies. In addition, a top-rated park must have good aesthetics—i.e., attractive landscaping in harmony with the natural environment.

Personal Property and Non-Realty Items

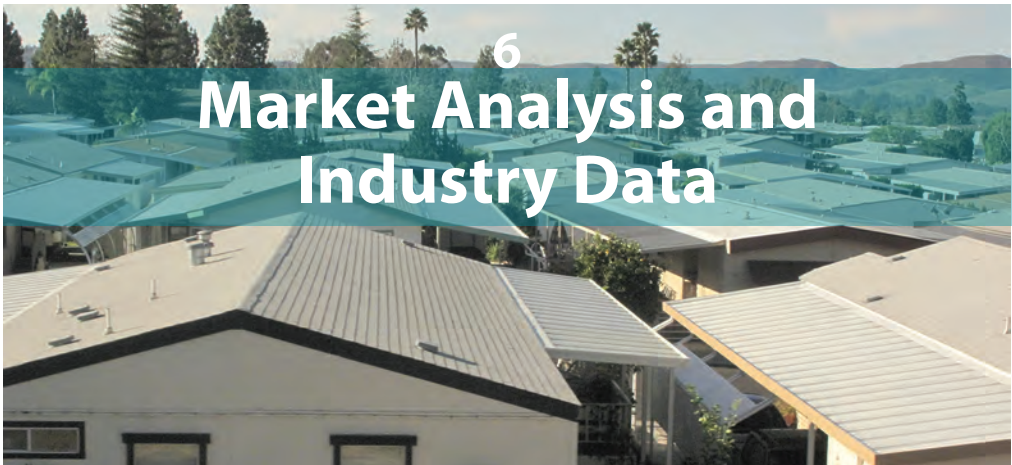
Mobile home and RV parks include personal property items that must be addressed in the appraisal report. The appraiser must recognize the portion of the income stream being generated by the personal property. In

most cases, the mobile homes and RVs are not owned by the park. Rather, they belong to the guests or tenant occupants. In mobile home park valuations, the appraiser should find out how many, if any, of the units are owned by the park.

In rental parks subject to rent control, it is not uncommon to find at least a few mobile home units owned by the park. By owning the units, the park owner has more control over rent increases. Current appraisal standards require that non-realty items be addressed separately, so the appraiser should make an inventory of park-owned units and discuss their impact on the real property value in the appraisal report. RV parks typically require more business management than mobile home parks. Some smaller mobile home parks may have little or no significant non-realty items, as the park is run with little management expertise.

Non-realty value usually represents a small percentage of a park's total value, especially for mobile home parks. Common personal property items include the pool equipment and furniture, laundry and vending machines, recreation hall furniture, and office equipment.

Furniture and equipment depreciates rapidly. An office computer, for example, may lose half of its value after only 12 months. In some cases, the assessed value of the property, which provides a division of property components, can be used as a starting point for the estimation of personal property. Information from a multiple listing service (MLS) can be used to help determine the value of any mobile homes that may require valuation. MLS listings of mobile homes in some areas include the underlying land; as such, it is necessary to make an allocation of improvements. Therefore, it is best to select comparable units from rental parks in which the space is leased or rented and only the unit (personal property) is for sale or sold. Further discussion of non-realty items is presented in Chapter 10.



6 Market Analysis and Industry Data

How do trends in the sales and ownership of mobile homes and RVs relate to the valuation of a specific mobile home or RV park? National trends affect the supply and demand for park sites, which in turn affect park value. Market analysis is the study of the supply and demand in a specific area for a specific type of property, and it is essential to determining highest and best use. In valuing a mobile home or RV park, market analysis is required to estimate the park's income and expense characteristics and the likely absorption of space in existing, new, or proposed parks.

One key to market analysis is defining the segment of mobile home and RV owners who will most likely make up the property's client base. Demographic characteristics and locational traits help determine an operation's feasibility. With regard to a proposed park, the clientele is established before the type and size of the facility can be identified and planned.

The Evolution of Two Markets

The History and Future of Mobile Homes

The modern mobile home originated at the start of the automobile era as a comfortable "trailer toy" for the wealthy. During World War II, the trailer was transformed into permanent, inexpensive housing when the government acquired hundreds of thousands of no-frill units to meet wartime housing demands.

After the war ended, America found itself with surplus war-related production in the form of eight-foot-wide mobile homes. Because they were low-cost and built for relocation, these units were ideal for the demands of military life. The government built numerous trailer parks to site the tens of thousands of available mobile units.

The military niche market later expanded to include newly married couples and other population segments looking for mobility and affordability. By 1947, approximately two years after the war ended, the mobile home retail market had grown to approximately \$149 million, generated from the sale of 60,000 units.

Manufacturer surveys conducted in the 1950s and 1960s indicated that mobility was not the primary motivation for purchasing mobile homes, as owners were moving less frequently. Instead, mobile home buyers were attracted by the affordability of mobile homes, with the initial cost of mobile home units being significantly less than the price of basic, conventional site-built houses. Attracted by low prices and increasing quality, newly married couples and people over 50 became two of the largest market segments for mobile homes. By 1972, industry revenues reached \$4 billion, as 575,940 mobile home units were shipped.

One negative consequence of industry growth was the decreasing number of spaces available for new mobile homes. For example, 400,000 new units were shipped in 1970, but there were only 118,000 new mobile home park sites available. The lack of spaces in some areas prompted rent control ordinances in later years as park site rental prices rapidly increased.

The number of mobile home units shipped in 1973-1975 plunged from that of previous years due to a recession. Because mobile homes when purchased new or alone are personal property, the unit depreciates in value. (Conventional housing depreciates too, but the value of the underlying land can increase and offset this loss.) In this era, many conventional bank lenders rejected mobile home loans. Later, the federal government eased mobile home financing through federally chartered credit unions and the Veterans Administration, and purchasing mobile homes became simpler.

According to the US Census Bureau, mobile homes were the fastest-growing type of housing during the 1980s. Shipments rose each year during this decade, until recessionary conditions hit in 1989. By the mid-1990s, there were 7.3 million manufactured homes in America, housing approximately 7% of the population. More than one-half of these units were sited in mobile home or manufactured housing parks.

By the end of the 1990s, nearly 23% of the nation's new single-family dwellings were manufactured homes. The 2000 US Census indicated a total of nearly 8.8 million mobile home housing units, which is approximately 7.6% of the nation's housing stock or inventory.

By the 2000s, the industry image of cheap, factory-built homes in low-quality "trailer parks" had changed. Although manufactured and mobile home units may come on a chassis with removable wheels, many are now indistinguishable from site-built structures.

According to the Manufactured Housing Survey (www.census.gov/programs-surveys/mhs.html), sponsored by the Department of Housing and Urban Development and collected by the US Census Bureau, the average

sale price of a manufactured home in April 2014 was \$65,200, just under \$44.00 per square foot. In comparison, the average price of a site-built structure adjusted for land was \$93.70 per square foot.

As manufacturers continue to build mobile and manufactured homes that rival site-built designs, this type of housing will increase in popularity, primarily due to affordability. Manufactured housing parks, however, face legal, physical, and economic challenges. As a result, they will be built at a much slower rate. Nevertheless, history suggests that more higher-quality communities will be developed to accommodate the growing demand for modern, sophisticated manufactured housing units.

The History and Future of Recreational Vehicles

The popularity of recreational vehicles is demonstrated by the increasing retail value of RV units shipped over the past 40 years. Since the 1970s there has been a tremendous increase in the number of motorized homes produced and an equally impressive increase in the aggregate retail value of shipments. While the reasons for this industry growth are numerous, the primary factors are RV users' perceptions that RV travel is a great value and RV ownership supports a balanced and healthy lifestyle.

Analysts can track periods of increasing and decreasing sales activity to discern trends in the RV industry. For example, the increase in RV sales was impressive throughout most of the 1980s, with industry shipments and retail values reaching all-time highs in 1988 before falling off during the recession of 1989-1991. Motor homes continued to be the most popular type of RV into the early 2000s. Shipments reached a peak in 2007, approximately one year before the collapse of the stock market and the beginning of a worsening economy and high gasoline prices.

As reported in a demographic profile conducted by the University of Michigan, recreational vehicle ownership reached 8.9 million households in 2011, with 21% of all US consumers wanting to purchase an RV at some point in the future.¹

RV ownership hit a new record in 2014, with slightly more than nine million American households owning an RV. This reflects a 64% increase in RV ownership since 1980. The Recreation Vehicle Industry Association (RVIA) estimated that approximately 356,000 RV units were shipped in 2014, which would mark the fifth consecutive annual increase in RV shipments since the official end of the national recession.² This number is anticipated to increase again in 2016, as manufacturers continue to right-size units to provide an optimal mix of price, size, and amenities. Manufacturers are also producing lightweight towables and providing green technology in RVs to fit consumers who are budget and environmentally conscious.

1. Richard T. Curtin, *The RV Consumer in 2011* (Ann Arbor, MI: University of Michigan, 2011), 1-2, <https://data.sca.isr.umich.edu/fetchdoc.php?docid=49063>.

2. Recreation Vehicle Industry Association, www.rvia.org.



The monitoring of RV shipments and the spending habits of RV owners are important insofar as RV sales remain a leading economic indicator in the United States. RV sales are among the first indicators to decline during an economic downturn, while an increase in RV sales is one of the first signs of an economic recovery. For example, RV shipments were significantly lower in 2008 than in 2007, as the nation entered one of the worst economic downturns in over 50 years. RV shipments started to recover in 2010 and have increased each year since then.

In a survey reported by the RVIA, owners reported that family bonds were improved by RV travel, as living in the same RV unit provides families with the chance to share space, spend quality time, and eat healthy meals together.³

The RVIA cites a recent vacation cost comparison study conducted by PKF Consulting USA, which shows that RV travel is 23%-59% less expensive than other types of vacations.⁴ This study considered the costs of ownership such as maintenance, fuel, and RV park fees. Even when gasoline prices increase, a high percentage of RV owners believe that their trips cost less than other forms of travel.

Other key factors behind the growth of the RV industry include financial and lifestyle choices. For most buyers, loan interest for RV purchases is an IRS tax deduction as a second home mortgage. According to the RVIA, users of RVs spend more time enjoying RV parks and campgrounds and less time on the road, saving on fuel expenses. RV owners also indicate that owning an RV makes it easier to take weekend trips or mini-vacations that fit into busy family schedules. This trend is important to RV parks that cater to short stays and should be noted by the RV park appraiser in determining potential or continuing income stability.

There is reason to expect continued growth in the RV industry. As indicated earlier, RV ownership has experienced record growth, with more than 9 million American households owning an RV in 2016. Population and demographic trends suggest continued growth in the near future, as more baby boomers enter the age range in which RV ownership is highest. This demographic bubble is an important consideration in the valuation of park and campground properties and a good reason demand should continue into the foreseeable future.

Sources of Information

To gather information for market analysis, the appraiser should consider the following sources:

- Legal regulations for the establishment of mobile home parks, RV parks, and campgrounds

3. *RV Perceptions and Purchase Motivators: A Communications Planning Study* (Reston, VA: Go RVing, Inc., 2010), 6, www.rvia.org/UniPop.cfm?v=2&OID=21&CC=1984.

4. RVIA, "Travelers Save When They Go RVing, Study Reveals," www.rvia.org/?ESID=vcosts.

- Legal restrictions on the conversion, closure, or cessation of use of mobile home parks
- Manufactured housing regulations
- Chamber of commerce and/or demographic service companies
- Professional organizations and associations
- Online and published directories (such as Woodall's/Good Sam)
- Park consultants and real estate professionals
- Park owners and managers

Whatever the park size, the best source of information for both RV and mobile home parks is primary data directly obtained through face-to-face or telephone conversations with park owners and managers. Real estate information companies such as LoopNet and CoStar sell listing and sales data, but not expense and statistical market information that is used to help determine the highest and best use or the feasibility of a new park. In the case of larger parks, the appraiser can turn to investor relations information found on the websites of publicly traded manufactured housing companies. Mobile home and RV communities operated by real estate investment trusts such as Sun Communities (www.suncommunities.com) publish both purchase acquisitions and same-community occupancy, revenues, and other financial information. Through information obtained from annual reports and US Securities and Exchange Commission (SEC) forms such as Form 10-K, the appraiser can identify recent acquisitions, market cycles, and average occupancy and growth rates for specific regions. Detailed line item expenses for both mobile home and RV parks are more difficult to obtain, as there are no published expense guides. The appraiser needs to obtain expense information from individual park properties, typically through supervisory management.

When defining the scope of work of an appraisal, the appraiser must outline his or her research into the physical and economic market factors that could affect the property. The appraiser should also explain the type and extent of analysis applied to arrive at the opinions or conclusions presented.

Under professional standards, the appraiser is required to identify the person or persons who have helped prepare analyses, conclusions, and opinions relating to the valuation in the certification section of the report. If a park consultant is used, this individual should be identified.

Trailer park associations usually maintain historical occupancy data and general rental records. These associations can also direct the appraiser to broker specialists and park consultants. A good source of information on legislative and regulatory issues (state and federal) as well as current industry events is the National Association of RV Parks and Campgrounds (www.arvg.org).

As mentioned previously, Woodall's publishes an RV park directory for Good Sam member parks. This directory shows ratings that can help the appraiser locate and identify competitive facilities.



Demographic Characteristics

Location is critical to an RV park's success. The location of the parcel, its size, and its zoning largely determine the type of park to be developed. Important locational traits that should be explored in detail include:

- The population base in a 150- to 250-mile radius
- Income characteristics of the population base
- Supply and demand factors
- Recreational attractions
- The availability of land for future competition
- Governmental and social attitudes

The size, affluence, and demographics of the population base within a three- to four-hour drive (approximately 150 to 250 miles) are key to a park's success. These characteristics are especially important to RV parks. Travel studies indicate that RV owners travel an average of approximately 6,000 miles and spend a little more than three weeks per year on the road. A large percentage of this time is spent on extended weekend trips, so RV owners are traveling relatively close to home. Parks within a four-hour drive are commonly targeted, especially by organized RV groups and clubs, since driving time is not considered recreation time.

Proximity to major employment centers and climate often dictate the park property type. In an area where low-cost housing is needed, a parcel of land suitable for development but away from freeway access would likely be improved with an extended-stay or mobile home park, as opposed to an overnight or "en route" RV facility.

It is not unusual to find overnight RV parks and sometimes combination RV/mobile home parks within a mile of freeways and highways in warm desert areas. Land in these areas is relatively inexpensive, and the warm climate is suitable for camping, temporary living, and even permanent year-round living.

Most people purchase mobile homes because of their affordability. Still, site rental or ownership must be considered, along with unsecured property taxes, insurance, maintenance, and repair costs.

RV ownership is not inexpensive, either. Standard recreational vehicles range in price from \$10,000 to well over \$100,000, and the top-of-the-line motorized units can easily cost \$200,000. Insurance, fuel, and maintenance expenses also add to the cost of ownership.

Studies by the RV industry indicate that the average RV owner has an annual household income of \$62,000 and typically spends more than \$125 per day on related goods and services, including park accommodations. The median age of an RV owner is 48. Good Sam Club owners are typically married and retired, with an average age of 60 and an annual income of \$71,000.

Clientele of Mobile Home and RV Parks

The appraiser should identify the various types of customers (who may be referred to as “clients,” “guests,” “tenants,” or “residents”) who create the optimum demand for the park. Locational features and use allowances tend to determine the segmentation of market demand for an individual park.

A somewhat affluent area where the population is shifting to retirement age may experience a demand for quality senior parks to serve tenants who want to live in mobile home communities. In this case, tenants with sufficient savings and retirement income may want to purchase their own mobile home park spaces (or sites) instead of paying rent. In a case like this, the highest and best use may be the conversion of rental parks to condominium parks or the development of new, high-quality condominium park communities.

Rental mobile home parks include family, adult-only, and senior parks. Customers at these parks are extended-stay or permanent “tenants” or “residents,” as mobile home parks usually rent or lease their spaces to mobile home owners.

In contrast, the term “customer” or “clientele” is used to refer to those who stay overnight in RV parks. The basic “clientele” categories for RV parks are summarized as follows.

Conventional Campers

Conventional campers are typically most active on weekends and stay relatively close to home. Conventional campers tend to be families with children who can travel extensively only during school breaks and summer vacations.

Clubs and Organizations

Social clubs and national organizations with local chapters can provide a park with significant ongoing revenue. Clubs typically alternate between two, three, or four parks within a certain radius every other month. The Good Sam Club provides members with 10% space rental discounts as well as discounts on merchandise and insurance.

Residents

As explained previously, some individuals use RV units for inexpensive permanent or semipermanent (extended-stay) housing. Some residents maintain an RV or mobile home as a vacation or summer home, while others may reside in an RV park year-round.

Snowbirds

Many retired or semiretired RV users migrate each winter from their homes in cold, northern climates to warmer, southern states such as Arizona, Texas, and Florida. Snowbirds can represent a significant portion of park occupancy during certain periods of the year.



Other Locational Characteristics

Climate has a major influence on how a proposed park site is developed. The amount of annual rainfall or snowfall and wind conditions have a direct effect on park type. A site that is seasonably subject to severe weather may be unsuitable for year-round occupancy. Sites that are susceptible to high winds are often avoided altogether.

Although less important for a mobile home park, recreational attractions play an important role in the siting of an RV park. The more successful RV parks tend to be a short distance from at least one major attraction. RV parks tend to be located near oceans, lakes, rivers, amusement parks, and desert areas.

Of course, a desirable location may be meaningless if the surrounding area is already overbuilt or government restrictions make park construction impossible. Analysis of the local competition is critical to the highest and best use of the site. The site use may be legally permissible and physically possible, but an RV or mobile home park should not be developed if the use is not financially feasible. The appraiser should spend considerable time analyzing existing and potential future competition as well as local and regional government and social attitudes towards development.

Conclusion

The key to proper market analysis is understanding the potential client or tenant base as it relates to the location and population base in a particular area. Locational features such as distance to population centers and attractions, climate, and demographics determine the type of clientele the park will attract. Simply put, location and demographic factors are crucial to the quality and quantity of income a mobile home or RV park can generate.



The cost approach is based on the assumption that a prospective purchaser would pay no more for a property than the cost to construct another property of equal utility within a reasonable period of time. To apply this approach, the appraiser values the site as though vacant, adds the direct and indirect replacement costs of the improvements (including overhead and profit to the contractor as well as the developer), and deducts an estimated amount for depreciation. The depreciated cost of personal property, such as furniture and equipment, is also estimated.

In valuing mobile home and RV parks, application of the cost approach is problematic because of the difficulties many appraisers have in finding comparable land sales and estimating physical, functional, and external depreciation. When land sales are available for comparison, the sales used should correspond to the most profitable and legal use of the subject site as though vacant. It is not uncommon for a park's highest and best use as though vacant to be different from its highest and best use as improved. In some larger markets, it is more feasible to build office space, research and development space, or some other form of multifamily housing than a mobile home park. In fact, the supply of mobile home parks in many areas has dwindled as owners realize that the highest and best use has changed to a more profitable use. Still, the cost approach is applicable to the valuation of mobile home and RV parks and relevant in the determination of highest and best use and feasibility.

Land Valuation

The market value of land is normally estimated using the sales comparison approach. Recent sales and, to a lesser extent, listings of properties similar to the subject site in terms of use and location are identified. The appraiser then adjusts the sale price of each comparable for differences between the

comparable and the subject. The customary unit of comparison is price per allowable (legal) space and/or price per square foot of land area.

Site value is based on the highest and best use of the land. The land sales used for comparison should correspond to the most profitable and legal use of the subject property.

Since mobile home and RV parks represent only a small percentage of commercial and multifamily residential development, however, land zoned or designated in a general plan for this use is limited. In some areas, namely those with high-tech development, the land under mobile home parks is much more valuable for use as research and development parks. When this is the case, alternative land valuation methods such as allocation, extraction, and residual techniques are used. One method commonly used when land sales are unavailable is subdivision development analysis. This method assumes hypothetically that the property is developed to an appropriate highest and best use. The estimated cost of development is then deducted from the potential market value as improved. This and other alternative methods are described in the Appraisal Institute textbook, *The Appraisal of Real Estate*.

Improvement Cost

After land value is estimated, the appraiser's next step is to estimate the value of the improvements in terms of cost. Cost does not necessarily equal value, especially for older improvements, so the appraiser must estimate and deduct depreciation. Replacement cost data can be obtained from recently developed parks, construction cost manuals, contractor estimates, or historical costs or bids for developing the subject improvements. It is best to use actual cost figures when the park improvements are still relatively new (say, less than 15 years old).

Construction cost manuals such as those published by Marshall and Swift are helpful, but the appraiser must adjust for differences in location. Better sources of data may be companies specializing in cost estimating or contractors experienced in the construction of manufactured home and RV communities.

The replacement cost estimate should include indirect and direct costs. Indirect costs, or "soft costs," cover expenses such as construction interest, initial marketing expenses, loan fees, title costs, appraisal fees, and other items not included in the general construction contract.

It is not uncommon for some parks to take several months or even years to reach stabilized occupancy. As a result, it is not surprising to find a relatively high percentage of indirect to direct costs as compared to more conventional forms of real estate development.

Entrepreneurial Profit or Incentive

An estimate of the profit anticipated by an entrepreneur and the overhead involved in completing the project must be included in the improvement

cost estimate. The entrepreneur (who may or may not be considered a “developer”) selects the site, develops plans in conjunction with an architect, secures financing, and may supervise the entire project.

The entrepreneurial incentive is estimated based on the time and effort expended and the risk incurred to bring the project into operation. Any development of real estate carries risk, especially when construction financing is difficult to obtain. Risk is mitigated somewhat when governmental approvals are secured, but these approvals can take several months or even years to obtain. Because of this added risk and potential delays, development of a mobile home park or RV park typically requires a higher rate of return to entice an entrepreneur to invest time and energy into such a project.

In addition to entrepreneurial incentive, the appraiser may need to estimate a developer’s fee and add that estimate to the cost new as a direct cost if an individual other than the original entrepreneur is responsible for the management of the development process. The separate contributions of the developer and the entrepreneur should be accounted for individually. A contractor’s anticipated profit (often including fees due to subcontractors) is generally considered a portion of the project’s overhead and is therefore often already reflected in the direct costs rather than in the reward anticipated by the entrepreneur.¹

Depreciation

All three forms of depreciation—physical deterioration, functional obsolescence, and external obsolescence—apply to mobile home and RV parks. Like all improved properties, these parks have deteriorating structural components. Normal wear and tear, decay, and construction defects fall under the category of physical deterioration. Estimating deterioration is difficult. The economic age-life method, in which the effective or observed age of the improvements is divided by the economic life, can be used to estimate the physical deterioration of some structural components.

In theory, economic life can be estimated by extracting a rate from properties sold in the market or through analysis of similar properties. These methods are rarely practical in the appraisal of manufactured home communities and RV parks. Instead, the appraiser will likely have to use his or her own judgment to estimate an age-life relationship that is logical in the marketplace. For this reason, the cost approach is often considered an inappropriate method for estimating the value of older parks with significant amounts of depreciation.

Functional obsolescence is a loss in value due to defects in design, functional deficiencies, or superadequacies. Parks are also affected by functional

1. For more discussion on the distinctions between the economic rewards anticipated by the entrepreneur, the developer, and the contractors, see *The Appraisal of Real Estate*, 14th ed. (Chicago: Appraisal Institute, 2013), 574.

inutility, or the impairment of the property’s functional utility due to its failure to meet market tastes and standards. This type of depreciation is present in parks with inadequate road widths, improper vehicle clearance, and an overabundance of single-wide spaces. Some items of obsolescence are curable, while others are incurable. For example, a curable item may be insufficient electrical service to a site, which can be upgraded. An incurable element would be a narrow interior road that cannot be widened. In contrast, physical deterioration caused by deferred maintenance is typically curable.

External obsolescence is a loss in value caused by negative factors outside the property. This type of depreciation is usually incurable and includes economic and environmental factors. For example, an RV park suffers external obsolescence when traffic is diverted away from it by a new freeway. Similarly, a mobile home park can suffer external or economic obsolescence when the largest employer in town shuts down.

Examples

Table 2 is a cost approach summary of a hypothetical, 100-space rental mobile home park located in a small, semirural city 45 miles from a major metropolitan area. The park was built in 1979 and features all double-wide spaces with public utilities. The park rating falls between the three- and four-star categories. It has an attractive entrance, paved roads, and an all-purpose room, but only average landscaping and no swimming pool or spa. The park has been very well maintained with no deferred maintenance and an estimated effective age of only 15 years.

Based on comparable properties of similarly zoned raw acreage in the area, the land value is estimated at \$240,000 per acre. It is estimated that the off-site costs required to finish the site (such as frontage improvements, utility extensions, etc.) total \$900,000. Based on information obtained from Marshall and Swift and two cost comparables within a 50-mile radius of the subject park, the site/space construction costs (for interior roads, drainage, underground utilities, etc.) is estimated at \$18,900 per space.

The manager’s residence is a good-quality manufactured home built in 2005 that has been anchored to a concrete slab foundation with a carport. The only site-built structure is an average-quality all-purpose room attached to a laundry room and rental office. This building is of wood frame, and the all-purpose room is 3,550 square feet. Other site improvements include perimeter security fencing and gates, entrance signage, and landscaping.

Housing demand in the area is strong, and it is anticipated that it would take less than 24 months to build and fully lease the park. There are no park-owned units. The contributory value from personal property includes park-owned laundry machines, furniture and kitchen equipment in the all-purpose room, and tools and machines used in maintenance.

Table 3 illustrates a cost approach summary for a hypothetical 100-space RV park.

Table 2 Cost Approach Summary for a Mobile Home Park

Improvement costs	
*Site/space construction (100 spaces × \$18,980 /space)	\$1,898,000
Manager's residence (1,440 sq. ft. × \$80.00)	115,200
All-purpose building/laundry/office (3,550 sq. ft. × \$85.00)	301,750
Other site improvements (landscaping, etc.)	250,000
Off-site improvements	900,000
Total improvement costs	\$3,464,950
Indirect development costs	
Architect and engineering fees	\$135,920
Government permits/approvals/fees	483,690
Construction interest	245,700
Loan fees	277,600
Insurance, taxes, appraisal, soils, environmental, title, and legal costs	200,000
Marketing and promotional costs	125,000
Total indirect costs (42.36% of direct costs)	\$1,467,910
Subtotal	\$4,932,860
Entrepreneurial incentive (22.3% of direct + indirect)	\$1,100,000
Less depreciation from all sources	
Physical (25%)	\$1,508,215
Functional (0%)	0
External (0%)	0
Total depreciation from all sources	(1,508,215)
Depreciated cost new	\$4,524,645
Contributory value personal property (FF&E, no park-owned units)	30,000
Land value (10 acres @ \$240,000/acre (rounded))	\$2,400,000
Cost approach conclusion	\$6,954,645
Rounded	\$6,950,000

* The site/space construction expense includes the following:

- The direct costs or "hard costs" of roads, utility lines, grading, etc.
- Items not included in the cost per space (e.g., fencing, landscaping, playground)
- The cost of curbs and gutters
- Interest over a 12-month construction period @ a prime interest rate plus 3%, 60% utilization, and 60% loan-to-value
- Permanent and construction loans based on a 60% loan-to-value ratio
- The expense of brochures, a website, signs, ads, and promotional events

Table 3 **Cost Approach Summary for an RV Park**

Improvement costs	
Site/space construction (100 spaces × \$10,000/space (rounded))	\$1,000,000
Restroom/shower facilities (3,600 sq. ft. @ \$65/sq. ft.)	234,000
Manager's residence (1,400 sq. ft. @ \$80/sq. ft.)	112,000
Recreation building/laundry (2,000 sq. ft. @ \$85/sq. ft.)	170,000
Office/registration (500 sq. ft. @ \$90/sq. ft.)	45,000
Site improvements	200,000
Off-site improvements (roadway interchange improvements)	449,000
Total improvement costs	\$2,210,000
Indirect development costs	
Architect and engineering fees	\$125,000
Government permits/approvals/fees	255,000
Construction interest	135,000
Loan fees	40,000
Insurance, taxes, appraisal, soils, environmental, title, and legal costs	100,000
Marketing and promotion costs	235,000
Total indirect costs (40.27% of direct costs)	\$890,000
Entrepreneurial incentive (38.71% of direct + indirect)	\$1,200,000
Subtotal	\$4,300,000
Less depreciation from all sources	
Physical (35% of \$4,300,000)	(1,505,000)
Functional (20% of \$4,300,000)	(860,000)
External (10% of \$4,300,000)	(430,000)
Personal property (FF&E) if new	140,000
Less depreciation on personal property (10 yrs./20 yrs. = 50%) (average effective age/total economic life)	(70,000)
Land value (5 acres @ \$175,000/acre)	875,000
Cost approach conclusion	\$2,450,000



To apply the sales comparison approach, the appraiser compares the subject property to similar properties that have recently been sold or are offered for sale. The comparable properties are analyzed to identify how they differ from the subject property in terms of property rights transferred, financing, conditions of sale, market conditions, location, and physical characteristics. The sale or listing prices of the comparable properties are then adjusted to form a value range for the subject property.

Park buyers typically do not rely solely on direct sales comparison to reach a final purchase decision. The number of adjustments required and the scarcity of truly comparable, recent sales usually reduces the applicability of the sales comparison approach. If accurate comparable sales information is available, direct sales comparison can provide reliable support for a value indication derived through the income capitalization approach.

The key to applying the sales comparison approach is to select only market sales that have been thoroughly confirmed. Unqualified sales and outliers should be screened out. Complete information on arm's-length transactions is needed for an accurate valuation. Sales between related parties, whether family members or interrelated corporations, are generally unacceptable for comparison purposes.

Direct sales comparison can be a powerful valuation tool when good sales information is available. In the appraisal of single-unit tract homes, for example, comparison is often easy due to the large number of transactions and the high comparability of the properties.

Unfortunately, directly comparable mobile home and RV park sales are usually rare or nonexistent. The appraiser often has to widen the geographical search area to find any properties that are acceptable for comparison. Property data companies such as CoStar can be helpful, but the details of transactions should be personally verified by the appraiser. Even

when full documentation is obtained, the appraiser generally finds that the number and amount of adjustments required diminish the overall accuracy of the approach.

Units of Comparison

Price per Space

Sales of mobile home and RV parks are often compared in terms of price per space. This unit of comparison is most applicable when the subject property and comparable properties are similar. Since few parks in a given area are likely to be sold at a given time, the probability of finding sufficient comparable sales with density and site characteristics similar to the subject property is remote. A group of sales in a particular region may be statistically analyzed using the average gross income or net income per space as a common denominator. Analyzing an adequate number of sales in this way helps indicate a potential value range for the property being appraised. Such a method cannot be given much weight, however, without knowing whether the future income potentials of the comparable sales and the subject property are similar. One or more of the sale properties may match the subject fairly closely in terms of income per space for a single year, but these cash flows may be expected to change in subsequent years. Therefore, statistical averaging can supplement the appraiser's overall knowledge but cannot be relied on to produce a supportable value indication.

Mobile home parks usually sell at significantly higher prices per space than similarly located RV parks. This difference stems from a multitude of factors, but the main difference is that mobile home park income is viewed as less risky or more secure. An exception may occur if the RV park resembles a mobile home park, such as in the case of extended-stay facilities. Some properties have started out as overnight RV parks and transformed into extended-stay parks as the area required more permanent housing. Before making an investment into either a mobile home or RV park, the buyer will try to estimate the rate of return. The riskier the investment, the greater the return sought. Although there are exceptions, mobile home parks are generally perceived to be less risky investments, so the required return is generally lower. Given the inverse relationship between investment return and sale price, the price per space will be higher for a mobile home park assuming that the revenue per space is similar.

Gross Income Multiplier (*GIM*)

The gross income multiplier (*GIM*) technique is generally perceived by real estate professionals to be a more accurate means for measuring market value than price per space. Variants of the *GIM* applied by appraisers include the projected gross income multiplier (*PGIM*) and the effective gross income multiplier (*EGIM*). Gross income multipliers are used to compare the income-producing characteristics of properties, so they are really income capitalization

techniques rather than sales comparison techniques. Nevertheless, *GIM* techniques are discussed here because they rely on the availability of comparable sales and are often considered units of comparison by market participants.

The *GIM* is calculated by dividing the sale price of a property by its gross annual income. This method helps equalize differences in property characteristics, such as age and size. Analysts and investors tend to favor the application of a *GIM* because it is easy to compute and explain. The fee simple title to an RV park usually sells for three to six times its *GIM*, depending on its upside or downside rental potential and other factors.

The *GIMs* for mobile home parks vary within a typical range of four to twelve. Most properties without rent control have *GIMs* in the range of five to eight at the time of this writing. Again, the parks with stabilized and consistent income streams sell at the higher end of the range. Properties with artificially low rents, such as those subject to rent control ordinances, may sell at the high end or even above the range due to low risk and the excellent upside of the income stream.

The advantage of the income multiplier is that it is easy to use. For example, consider a park property with a sale price of \$1,500,000 and an annual stabilized gross income of \$250,000 that has sold for approximately five times its gross income. This scenario indicates at first glance that this property may share the characteristics of both a mobile home park and an RV park.

A typical RV park will sell at three to six times its gross income, while non-rent-controlled mobile home parks generally indicate multipliers of five to eight. The stability and upside potential of the income help determine the multiplier. It is not unusual to find mobile home parks governed by rent stabilization ordinances that sell for multipliers in the six to twelve range, as actual rental income is very stable with rents often well below market potential. Multipliers for overnight RV parks are generally lower (three to five) than multipliers for the more stable extended-stay or residency RV parks (four to six). Therefore, an income multiplier of five may apply to an extended-stay RV park, as this multiplier is toward the higher end of the range for RV parks in general. Or the property may be a combination park, featuring mobile home and RV sections within a larger community that may even include campgrounds. Alternatively, the *GIM* may have simply been distorted because the revenue was stabilized below (or above) market levels.

A park with experienced, well-trained management is more likely to operate at market levels than one managed by an inexperienced operator. Thus, although the *GIM* is fairly easy to apply, the appraiser must analyze the park's actual income in relation to its market potential in order to estimate a specific *GIM*.

The appraiser should be careful in analyzing pocket-to-pocket sales and foreclosures. A pocket-to-pocket sale is usually a family or partnership transfer, while foreclosures are often the result of inadequate management.



In either case, the sale price may have been based on market value, but the appraiser will need to confirm that. More often than not, pocket-to-pocket sales and foreclosures are transacted at below-market prices. It is not uncommon for some park owners to get in over their heads and sell under duress, especially when the investment is undercapitalized and management is poor.

Equally suspect are sales transacted at premium prices. A price that is higher than common transaction prices in the area could be due to very favorable financing, or the price could be inflated so that the buyer can obtain a higher bank loan. If the price is inflated and this is not disclosed to the bank, the buyer could be fraudulently obtaining a loan for 90% to 100% of the property's value when a 60% to 70% loan-to-value ratio is standard. Alternatively, the buyer might have a different, higher use in mind for the property. This would suggest that the transaction is primarily a sale of the land, with the park as an interim use. In any case, the appraiser must thoroughly investigate the circumstances of all comparable sales and confirm the details rather than simply relying on information obtained from others. Using prices from sales that are not arm's-length can skew the *GIM* above a reasonable range.

Since the *GIM* is based on gross income rather than net income, the appraiser must compare the expense levels of the comparable properties and the subject property. The *GIM* technique works best when expense operating ratios are reasonably consistent. As a result, a *GIM* should not be used to compare a pure mobile home park with a 35%-50% expense level to an RV park, which typically has an expense level of 45%-65%.

Effective Gross Income Multiplier (*EGIM*)

The effective gross income multiplier (*EGIM*) is a variation of the *GIM*. Instead of using gross income at 100% occupancy in the calculation, this method uses the effective gross or collected income. For properties in markets where there is little to no vacancy, the *GIM* should be used. The *EGIM* is applied to sale properties that have vacancy issues or varying vacancies.

The *EGIM* method does not provide an advantage over the *GIM* for mobile home parks in rent-controlled areas where there is little or no vacancy and collection loss. However, the *EGIM* is helpful in locations where park vacancy and/or collection issues create a significant difference between potential gross income and effective gross income. For example, *EGIM* and *GIM* calculations for a park sale with occupancy levels of 85% (or 15% vacancy and collection loss) follow:

Sale Price	\$3,000,000
Potential Gross Income	\$300,000
Effective Gross Income	\$255,000
Gross Income Multiplier	10.00
Effective Gross Income Multiplier	11.76

The appraiser should be consistent in applying the methodology. For example, an *EGIM* of 11.76 should not be applied to the subject's potential gross income (*PGI*) stream, as this would lead to overvaluation. The appraiser can show both the *EGIM* and *GIM* methods in the appraisal report, but the methods may produce nearly identical results for some property types.

Gross Profit Multiplier (*GPM*)

The gross profit multiplier (*GPM*) is another refinement of the *GIM* that is applied to sales of parks with large amounts of store sales or other ancillary income. This refinement is more commonly used in the sales analysis of RV parks with stores than in the sales analysis of mobile home parks.

The *GPM* is derived by dividing the gross profit (rather than the gross income, which is used in calculating the *GIM*) into the sale price of the property. Gross profit is defined as total revenue minus the cost of the goods sold. Although the *GPM* is preferred over the *GIM* when a park has substantial fuel or merchandise sales, insufficient information or erratic sales patterns may produce a skewed *GPM*. Thus, the *GPM* is most useful as a value indicator when accurate sales records are available. Note that the *GPM* is applied to the price of the property operation and will result in a value indication for the going concern rather than the market value of the real property interests only.

The *GPM* technique might be applied to a park with a large store and significant gasoline sales. The cost of the store goods and gasoline sold would be deducted from the gross sales revenues to arrive at the gross profit. A gross profit multiplier based on comparable sales could then be applied to the subject park's gross profit to arrive at an indicated going concern value. *GPMs*, which vary by region, commonly range from 3.0 to 6.0.

For example, consider a 100-site, overnight-stay park of average quality with limited extended-stay guests and a gross income (including store sales) of \$376,900. The cost of goods sold is \$46,670, so the park's gross profit is \$330,230 (\$376,900 – \$46,670). Thus, the gross income per site per year is \$3,769, and the gross profit per site is \$3,302 (rounded). The sale price is \$1,500,000. Based on these income figures, an appraiser could calculate the following unit-of-comparison value indicators:

Price per Space	$\$1,500,000/100 \text{ sites} =$	\$15,000
Gross Income Multiplier	$\$1,500,000/\$376,900 =$	3.98
Gross Profit Multiplier	$\$1,500,000/\$330,230 =$	4.54

Without knowing the park type, these units of comparison tend to indicate that the property is an RV park, as the indicators are near the middle of typical ranges for RV parks. The price per space is also within the range found for RV parks.

Consider the following units of comparison derived for a property of the same size and a sale price of \$4,000,000:



Price per Space	$\$4,000,000/100 \text{ spaces} =$	\$40,000
Gross Income Multiplier	$\$4,000,000/\$460,000 =$	8.70

These units of comparison suggest that the property is a mobile home park or possibly an RV park with a high annual extended-stay occupancy. The price per space is significantly higher than that of a typical overnight RV park, and the *GIM* of 8.70 is within the range often found for mobile home park properties. Finally, there are no store sales, indicating that this park property is very likely a mobile home park.

Usually, the *GPM* method is not used in pure mobile home park appraisals because few sales of mobile homes parks with stores can usually be found. However, the *GPM* may be applied to combination RV and mobile home parks.

Average Space Rental (Monthly Rental Factor)

The average space rental method is yet another variation of the *GIM* approach. The average space rental of the comparables is compared to the subject's estimated or actual average space rental using a space price/rent ratio. The space price/rent ratio for a 100-space mobile home park is calculated below by dividing the average space rent of \$616.10 per month into the sale price per space.

Sale Price	\$6,500,000
Number of Spaces	100
Sale Price per Space	\$65,000
Average Monthly Rent per Space	\$616.10
Space Price/Rent Ratio	105.50

The ratio derived from the comparable sales is then applied to the subject property's average rent. Again, while this is a variation of the *GIM* method, only rental income rather than all income is considered. The monthly rental factor can be a good unit of comparison to apply, especially for rents adjusted annually by the Consumer Price Index.

Net Operating Income per Space

The net operating income (*NOI*) per space unit of comparison is a gauge that can help the appraiser determine the appropriate range in which the subject's price per space value may fall. There is a direct correlation between *NOI* per space and the price paid per space. The park with the highest *NOI* per space generally has the highest price per space. Conversely, the lowest price per space is usually the result of the lowest income per space. The following table summarizes six sales. These sales are compared to the subject's *NOI* per space of \$4,262 per year.

Comparable Sale	1	2	3	4	5	6	Subject Property
NOI/Space	\$4,200	\$4,301	\$3,999	\$4,405	\$4,076	\$3,950	\$4,262
Price/Space	\$64,010	\$65,200	\$63,995	\$68,425	\$62,350	\$63,850	?

The subject's price per space should fall below the price of Sale 4 at \$68,025, since this sale has a higher *NOI* per space than the subject. On the other hand, the subject property's *NOI* per space is higher than those of Sales 3, 5, and 6, indicating that the estimated price per space is likely to be above \$63,850. Furthermore, this analysis indicates that the estimated price per space should fall close to those of Sales 1 and 2, at \$64,010 to \$65,200 per space, since these sales have the *NOI* per space most similar to the subject.

The problem with this analysis is that the *NOI* does not always reflect the future upside potential, as it is the income pro forma at the time of sale. When appraising a park under rent control, for example, the appraiser should try to obtain sales of parks under similar rent control ordinances.

Different rent control ordinances allow for different increases, especially when a site becomes vacant or a home changes ownership. In addition, the pro forma income does not fully reflect the long-term risk or the intensity of management. Consequently, the *NOI* per space indicator is only helpful in approximating where the subject price per space should fall. It is often difficult to pinpoint a specific value with this analysis. For this reason, a range of potential space values can be used (such as \$64,000 to \$65,000 per space).

Presenting Sales Information in the Appraisal Report

It is important that sales information in an appraisal report be presented in a way that guides the reader to the stated conclusion. The best method of presentation is a narrative explanation. In appraising a single manufactured home, the appraiser can use the Fannie Mae 1004C/Freddie Mac 70B Form. There are no standardized forms for valuing manufactured housing communities, however.

Tables 4 and 5 show summaries of mobile home and RV park transactions in tabular form. This format allows the reader of the report to evaluate important unit-of-comparison value indicators side by side. Of course, the sales summary table should be accompanied by narrative descriptions of all the comparable sales and individual sale sheets listing important details such as the grantee and grantor, the deed document number, the source(s) used for data verification, the marketing time, the initial listing price, and buyer comments. A sample hypothetical comparable listing sheet for a mobile home park is shown in Figure 1. If the sample group is large enough, statistical analysis may be presented to help support the

Table 4

Mobile Home Park Sales Summary (Hypothetical)

	Sale 1	Sale 2	Sale 3	Sale 4	Sale 5	Sale 6	Subject Property	Average of Sales
Park Name	Mobile Home Estates	Eastlake MH Park	Whispering Oaks MH Park	Tropics MH Park	Chateau Dunes MH Park	Rustic Pines RV & MH Park	Winding Trails MH Park	—
Location	SW Hwy., Prefab City	Lake Blvd., North River City	Hwy. 50, Mammoth City	Hwy. 60, Warner City	Hwy. 80 Double-wide City	Bannon City	Peak City	—
Rating	3-star	2-star	3-star	4-star	1-star	3-star	3-star	3-star
Density Sp./Acre	8.3	11.67	8.93	8.64	13.71	—	9.75	11.3
No. of Sites	100	18	121	214	122	128 (64 RV + 64 MH)	100	117
Acres	12.05	1.54	13.55	24.76	8.9	7.3	10.36	10.35
Year Built	1968	1972	1977	1978	1959	1986	1979-80	—
Sale Price	\$4,980K	\$635K	\$3,950K	\$13,525K	\$3,700K	\$2,635K	—	\$3,737,500
Sale Date	01/2015	02/2015	11/2013	07/2014	10/2012	02/2015	—	—
Gross Income/Site	\$6,500	\$4,021	\$4,663	\$7,450	\$4,411	\$3,630	\$4,954	\$4,330
Sale Price/Space	\$49,800	\$35,278	\$32,644	\$63,201	\$30,328	\$20,586	—	\$31,944
GIM	7.66	8.77	7.0	8.48	6.9	6.0	—	7.38
Cap Rate	7.00%	7.85%	8.6%	6.35%	8.80%	9.0%	—	8.44%
Comments	- Avg. appeal - 98% occ. - 10% single-wides - Laundry - Rec hall - Pool - Rent control (no vacancy control) - All cash to seller	- Avg. appeal - 100% occ. - Laundry room only - No rent control - All cash to seller	- Avg. appeal - 98% occ. - Laundry - Rec hall - Pool - No rent control - All cash to seller	- Senior (55+) - Good appeal - 100% occupied - Laundry - All-purpose bldg. - Pool - Rent control - All cash to seller	- Family park - Fair appeal - 85% occ. - 45% single-wide - Laundry - Rec hall - No rent control - All cash to seller	- Combo overnight RV + MH park - Avg. quality & cond. - Stablzd. inc. @ 90% occ. - Rec hall - Pool - Small store - 64 full hookups - All sewer	- Avg. appeal - 15% single-wides - Laundry - Rec hall - Pool - No rent control	

Note. No adjustments are required for property rights transferred, financing, and conditions of sale. All hypothetical sales are rental parks sold fee simple with no unusual conditions. Actual and market incomes are the same or similar (no rent control).

overall valuation conclusion derived. Photographs and maps should also be included in the presentation.

Considerable time is needed to analyze and compare the sales data to the subject property. A sales adjustment grid may be called for. Depending on the quality and quantity of sales data available, the adjustments required may be considered to be too subjective for the property being appraised. In any event, an adjustment grid should be seen as a clarification of the adjustment process rather than as a scientific method. The market value of mobile home and RV parks cannot be determined by a set of precise calculations.

Table 5 **RV Park Sales Summary (Hypothetical)**

	Sale 1	Sale 2	Sale 3	Sale 4	Sale 5	Sale 6	Subject Property	Average of Sales
Park Name	Happy Trails RV Park	Coachland RV Resort	Whispering Pines RV Camp	Fifth Wheeler Travel Park	Snowbird RV Park	Rustic Pines RV & MH Park	Travel Court RV Park	—
Location	Hwy. 50, Camp City	Hwy. 80, Thompson Town	Hwy. 40, Castle Cliff Town	Hwy. 7, Big Rock City	Hwy. 8, Warner City	Bannon City	—	—
Type	Overnight/dest.	Overnight	Overnight	Overnight/dest.	Overnight/dest.	Combo overnight RV & MH park	Overnight /dest.	—
No. of Sites	75	82	50	105	148	128 (64 RV + 64 MH)	100	98
Acres	5.0	3.4	5.25	13.42	15.11	7.3	5.40	8.247
Year Built	1978	1968	1979	1979-80	1992	1986	1977-78	Median park age: 1979
Sale Price	\$882K	\$940K	\$460K	\$1,510K	\$2,100K	\$2,635K	—	\$1,421,167
Sale Date	01/2013	12/2014	11/2013	03/2016	10/2012	02/2015	—	—
Gross Inc./ Site	\$3,480	\$3,370	\$2,267	\$3,840	N/A	\$3,630	\$3,677	\$3,317
Sale Price/ Site	\$11,760	\$11,463	\$9,200	\$14,381	\$14,189	\$20,586	—	\$14,501
GIM/GPM	3.38/4.14	3.40/3.90	4.06/N/A	3.74/4.25	N/A/N/A	6.0/6.47	—	4.12/4.69
Comments	- 75% seller-financed @ 9.5% - No points - Avg. quality - Store - Rec hall - Year-round - 75 full hookups	- 80% seller-financed @ 9.75% - No points - Avg. quality & condition - Store - Rec hall - Year-round - 82 full hookups - 2 tent sites - Stblzd. income - 10.5% cap rate	- All cash to seller - Avg. quality and condition - 40 full hookups, 10 partial - 15 pull-through sites - Stabilized income - 11.5% cap rate	- 72% seller-financed @ 10% - No points - Above avg. condition & quality - Store - Rec hall - Pool - Year-round - 105 full hookups - Stblzd. income - 11.0% cap rate	- Income and financing not disclosed - Avg. quality - Store - Pool - 135 full hookups, 13 partial	- Avg. quality & condition - Stablzd. inc. @ 90% - Rec hall - Pool - Small store - 64 full hookups - All sewer - 9.0% cap rate	- Avg. quality - Store - Rec hall - Shuffle-board - Year-round - 100 full hookups, 1 partial	

Note. No adjustments required for property rights transferred, financing, and conditions of sale. All hypothetical sales sold fee simple. Actual and market incomes are the same or similar.

Once all information sources have been exhausted, the appraiser should be prepared to explain in the report which sources were used and how much reliance was placed on each. If the data are weak, this should be clearly stated in the report. When no data at all are available, the sales comparison approach may have to be omitted. However, as the next section shows, there is a way to value these properties without comparable data.

Figure 1 **Comparable Listing Sheet for a Mobile Home Park**

TaxID/APN	93550 3006-008-007		
Sales Data			
Sale Date	11/08/12		
Sale Status	Closed		
Grantor			
Grantee			
Document Number	2014680		
Property Rights	Leased Fee		
Financing	Conventional		
Conditions of Sale	Typical		
Sale Price	\$575,000		
Price per Sq. Ft. (Land)	\$6.70		
Price per Space	\$19,167		
Property Description			
Year Built	1948	Number of Spaces	30
Rating	1-Star	Density (sp./ac.)	15.22
Condition	Fair-Average	Land Sq. Ft.	85,813
Construction Class	Fair	Land Acres	1.97
		Rent Control	No

Appraising Park Properties Without the Use of Comparable Sales

Appraising limited or special-purpose commercial and residential properties such as RV parks and some types of mobile home parks can be difficult. As previously mentioned, one commonly encountered difficulty is the lack of good comparable sales data. In many appraisal situations, sales data within the subject's geographical area will not be found.

As the appraiser widens the search area, the comparability of the sales data tends to decrease due to changes in land prices and rents. If the disparities are not great, location adjustments may be considered. The buyer of a large mobile home community, for example, would certainly not limit his or her search to the immediate region. In these cases, the appraiser must replicate what the typical investor would consider and examine sales data in other regions.

For small to medium-sized properties, there may simply be no comparable data in the subject area or nearby regions to adequately derive a value range by the sales comparison approach. Without the support of comparable sales and the derivation of capitalization rates from these sales, valuation can be very challenging.

When there are no sales, units of comparison cannot be directly obtained. No comparable price per space or *GIM* can be estimated, and there may be no capitalization rate data to be obtained in the area searched. One solution to this problem is to analyze sales of alternative investments of going concerns (real estate + furniture, fixtures, and equipment + business enterprise value) that could be considered similar. This is an unorthodox methodology that should be applied only when comparable sales data is unavailable. The appraiser's reasoning should be explained thoroughly in the appraisal report.

To estimate an appropriate rate of return when direct sales data do not exist, the risk and return of alternative going concern properties can be analyzed. If direct sales are simply not available, the appraiser can estimate a prospective range of value by analyzing the security of income in sales of alternative property types. The goal is to obtain and analyze the sale or sales of investments with the amount of risk and reward most similar to the risk and reward reflected in the subject property.

In the valuation of an overnight RV park with erratic annual income that is located along a major arterial, the appraiser first needs to consider if it is legally and financially feasible to convert the property to a more stable use such as a residency park (or to a higher and better use). Properties that are impossible to convert are restricted to a single special purpose. Assuming similar size and risk factors, sales from restaurants and car washes, if located in a nearby area, may provide good approximations of capitalization rates since their underlying land values are likely to be more similar to the subject property's than a sale of an RV park located hundreds of miles away.

One potential problem with using data from other special-use properties is that the going concern may not have yet stabilized or the business may be failing. These operations may be similar to the subject property in terms of going concern risk, but care must be exercised when selecting such alternative investment sales for analysis. Chapter 10 explains that the appraiser may need to separate going concern value from real estate value for some appraisal assignments.

The Adjustment Process

An adjustment grid is sometimes used to organize and compare data on the sale properties to data on the subject property. Adjustments can be shown on an array grid or explained in a narrative format. In any case, finding matched pair RV or mobile home park sales that can be used to precisely quantify adjustments is unlikely.

It should be clear to the reader of the appraisal report that the adjustment grid is a guide rather than a scientific method in estimating market value. The grid is used to help explain and illustrate the adjustment process. Buyers and sellers of these property types do not typically use an adjustment procedure.

The calculations shown in the adjustment grid are often based on the reasoning or experience of the analyst. For most appraisals of RV parks, direct sales are few, so a detailed adjustment grid may not be appropriate. Mobile home park appraisals are more likely to include an adjustment grid, since mobile home parks tend to be more “homogeneous” than RV parks. In either case, market adjustments are seldom derived from an analysis of two nearly identical parks with only a single difference.

The analyst can apply either quantitative or qualitative methodologies. Quantitative adjustments are applied to comparable sale prices as dollar amounts and/or percentages. A sequence must be followed in making transactional adjustments. The first adjustment is for property rights conveyed. Most park properties are owned in fee simple (or leased fee), so this characteristic often does not require adjustment. An adjustment may be required when a mobile home park property is under rent control and “in-space” value is lost to the park owner.

The second adjustment converts the transaction price into its cash equivalent or modifies it to match typical market financing terms. It is not unusual for some types of RV parks to sell with seller financing. One method of making a financing adjustment is to compare “typical” or market-arranged purchase money loans with actual seller-carried loan terms. If the market value definition being used specifies “all cash” (all cash to the seller) and the comparable sale has favorable seller-carry terms, then an adjustment is required.

Next, any unusual conditions or motivations on the part of either the buyer or the seller in the transaction require adjustment. For example, if a park property that would typically take four to six months to market and sell has sold in one week, a plausible explanation may be that the seller required a quick sale because of financial problems. In such a scenario, an upward adjustment to the sale price is required. Another atypical condition may be that the park property sold from father to son, and the sale was therefore not an arm’s-length transaction.

The fourth adjustment is for market conditions. The appraiser is required to determine which, if any, sale properties require adjustment for changes in market conditions between the date of sale and the effective date of the appraisal. Most RV and mobile home park transactions do not close on the date of the “meeting of the minds.” The transaction is contingent upon one or more events, such as an inspection and the procurement of financing. Unless the escrow period is unusually long, the date of title transfer is the sale date used in the appraisal. If market conditions change significantly over an extended escrow period, then the appraiser should explain this in the appraisal and use the date when the price was established between the buyer and seller, assuming it did not change in escrow.

The next set of adjustments can be made in any order. These include, but may not be limited to, the following:

- Location

- Size
- Quality and appeal
- Condition/effective age
- Density

Since no two parks are exactly alike, it is difficult to “pinpoint” adjustment differences. One method that provides rationale is to adjust the comparable sales’ *NOI* per space to the subject in terms of quality. Since park sales often vary widely in terms of location and even type, *NOI* per space tends to equalize these differences. Caution should be used when applying this method, however, as *NOI* per space does not always account for park size, and space income may be below market potential due to rent control.

This technique is often criticized because it effectively converts the analysis to an income basis. Therefore, it may undermine the goal of obtaining an independent sales comparison analysis, as it can repeat and extend any deficiencies in the estimation of net operating income.



The income capitalization approach is based on the premise that the current value of real estate is derived from the anticipation of future benefits. The future benefits of an income-producing property are reflected in its net income before depreciation, which is derived from a forecast of income and expenses. Future benefits are converted into an indication of present value through the capitalization process.

The income capitalization approach is applied to a property with a going concern, such as an overnight or destination RV park, in four basic steps:

1. Estimate potential stabilized gross income (revenue).
2. Estimate gross profit by deducting the cost of goods sold.
3. Estimate and deduct stabilized operating expenses to obtain net operating income (NOI) and/or cash flow.
4. Capitalize income using an appropriate income capitalization procedure.

Properties with no going concern or an inconsequential amount of going concern value (such as most mobile home parks) may not require Step 2, as these properties typically only generate space rental and miscellaneous income from laundry and late fees. In some cases, however, mobile home parks do generate income from the reselling of utility service.

As mentioned earlier in the text, park properties, especially RV parks, can include much furniture, fixtures, and equipment (FF&E) and goodwill. The income to these assets can be estimated and capitalized separately. Some appraisers capitalize income from the whole going concern in a single step. If this method is used, different capitalization rates would apply to parks with different proportions of rental income, store sales, gasoline sales, and other income. The segregation of real estate from non-realty value will be discussed in more depth in Chapter 10.

Of the three traditional approaches to value, the income capitalization approach is the most applicable to the valuation of parks because it most closely follows the actions and expectations of investors and owner-operators. Although this approach is usually the most reliable valuation method, it has certain inadequacies. As with other approaches, this approach is most accurate when reliable information is available. Developing and supporting an appropriate capitalization rate for the subject property is the toughest task. Verifying true expense information can also prove difficult. For these reasons, some appraisers focus on the gross income multiplier method, for which only gross income figures are needed.

The appraiser should consider different capitalization techniques. The one most commonly applied is direct capitalization based on a single overall rate derived from market sales. The reliability of the rate derived depends on the quantity and quality of sales information, so a dearth of good park sales weakens not only the sales comparison approach but also the income capitalization approach. The use of alternative capitalization methods to analyze alternative investments, however, can improve the applicability and accuracy of the income capitalization approach in many cases.

Required Information

Before the income capitalization approach can be applied, certain financial information must be obtained from the property owner. The following documents are relevant to the appraiser's analysis:

- Income and expense statements, tax returns, and the rent roll
- Utility bills, insurance policies, and property tax statements
- Financial history (including occupancy records and capital improvements made)
- A list detailing non-cash benefits
- A list detailing park-owned units (if any)
- Income and expense pro forma
- Leases, service contracts, payroll, and other operational records

Income and Expense Statements

For existing mobile home and RV parks, the appraiser should analyze at least two to three years of operating history provided by the owner. When scrutinizing tax returns, appraisers should be aware that the owner may have underreported the park's income and overreported expenses. Alternatively, when it comes time to refinance or sell the park, the income reported may be artificially inflated and the expenses reduced. Income may be overstated in an attempt to launder money or to obtain a greater amount of financing. In any event, if the appraiser finds the figures to be suspect, adjustments should be made to reflect the park's true income.

The type of rent roll varies from park to park. In general, the rent roll should tell the appraiser the following information about each space:

- Name of tenant, occupant, or guest
- Periodic rental amount
- Occupancy date and expiration date
- Utilities paid in addition to rent (or reimbursement)
- Delinquent rent
- Date of next rental increase

To protect the privacy of park tenants, it might be advisable not to mention any tenants by name in the appraisal report.

Any given month's annualized rents may or may not equal the income line on the operating statement; however, the figures should be close unless the majority of income is seasonal. If monthly income is consistently collected in approximately the same amount throughout the year, then there may be a problem if the operating statement shows significantly different numbers.

In some cases, one method of verifying or auditing the rent roll is through signed statements from the tenants, or *estoppels*. In an appraisal for a lender, the bank or financial institution may require tenants to fill out statements verifying what they pay in rent as well as the terms of the lease agreement. The appraiser can use these documents to match income and expense statements provided by the owner or management.

The date of the next expected rent increase is important for spaces that are leased or controlled by rent stabilization. For parks governed by rent control, the appraiser needs to know how increases are computed. Ordinances typically specify that the Consumer Price Index be used as a basis for rent adjustments. Equally important is how rent is applied to spaces that become vacant. Rent ordinances with vacancy control are deemed more restrictive than ones that allow the space to be rented at market levels once a unit is removed from the site.

Utility Bills, Insurance Policies, and Property Tax Statements

Utilities can be paid directly by tenants, reimbursed to the owner, or included in the rent. The appraiser should try to get copies of utility invoices or statements to match these up with the expenses on the operating statement.

Copies of all utility bills for at least 12 months are quite helpful, as they provide support for the appraiser's stabilized estimates. If the owner or manager does not have those bills, the appraiser can get permission to go online at the utility company website. Most utility companies keep online records for at least 12 months.

The amount of insurance premiums varies depending on several factors, including special stipulations. Premiums vary based not only on physical



factors but also on competition among insurance companies. In some cases, the park owner may have an umbrella rate, which includes items that are not part of the appraisal. The appraiser should talk to the insurance agent to gauge the appropriate allocation to the real estate and look at the claim history of the park. Too many claims may be a reason why the park has a higher-than-normal insurance rate. The claim history could also explain some disadvantages of the property that may not be readily transparent to the appraiser.

Property taxes are a matter of public record, but analyzing taxes can be helpful in case the property was temporarily reassessed or there was an error. Many states reassess properties at the time of closing. The appraiser must be careful not to put in actual taxes if the property is reassessed upon sale because market value should reflect an “arm’s-length” transfer of the property or a transfer at an agreed-upon market price.

Financial History

A financial profit and loss statement that measures a park’s financial performance over a specified time period should always be obtained by the appraiser. This type of report shows each individual month’s profits and losses. The profit and loss statement may be in the form of an operating and expense statement for some properties. For a proposed park, a projected revenue and expense statement or pro forma financial statement should be reviewed. Financial performance is reflected in a summary of how the business incurs its revenues and expenses through both operating and non-operating activities.

The financial history tracks the income, expenses, occupancy, and capital improvements of the park. The appraiser should attempt to obtain at least a three-year history and include only revenues and expenses that pertain directly to stabilized operations. Non-operating items shown in the statement reflect revenue and expense data for activities that are not tied directly to a park’s regular procedures. For example, if a park owner sold some old trailers inherited from past tenants, this information would appear in the non-operating items section of the financial statement and would not be part of the stabilized revenue stream that is used to estimate *NOI*.

Capital improvements and historical maintenance records help determine not only the effective age of the park, but also the reserves for the replacement of the improvements (for both the subject property and the comparables). If the roads were repaved, the utility lines upgraded, and all buildings painted and re-roofed recently, the reserve requirement needed to replace improvement components is a much smaller percentage of income than that needed for a park requiring these upgrades in the next few years.

The maintenance of a park is critical to its success. Poor maintenance practices result in more risk. Maintenance records, the appraiser’s own observations, and discussions with the park manager, owner, and tenants can

indicate the level of service as well as the overall management quality. It is usually an assumption of the appraised value, sometimes an extraordinary assumption, that the management is professional and competent.

Non-Cash Benefits

The appraiser also must explore any non-cash benefits applicable to the park operation. In smaller parks, it is not uncommon for the owner to live in the park and employ family members at generous salaries. Since generous salaries and non-cash benefits are atypical and not inherent in the management of the real property asset, such expenses should not be included in an income pro forma statement. They should instead be normalized.

Pro Formas

A pro forma is an estimate or projection of the park's operations in the form of a future financial statement prepared by the owner or by management. Pro forma financial statements can help the appraiser identify proposed changes, economic trends, and even future plans for the property. Appraisers should be aware that a park's pro forma financial statement may be overly optimistic. Pro forma figures should be clearly labeled as such, and the reason for any significant deviation from reported past figures and the appraiser's projected figures should be clearly explained.

A picture of the park owner's personal financial condition is not required in mobile home and RV park appraisals, but it can be helpful. The financial statements of the owning entity can provide insight into the current quality and condition of the park and how the park may be operated in the future. An undercapitalized owner, for example, may not be able to institute new profit centers that would increase the park's profitability. Similarly, occupancy and rental rates may suffer if funds are insufficient to provide adequate advertising and promotions.

Other Information

To complete the income capitalization approach analysis, the appraiser should ask for other documents that may have an impact on income. Such items include laundry and/or vending equipment service contracts, storage agreements, resident and ground leases, tenant rental agreements, labor and management arrangements, franchise agreements, and any other financial agreement or contract. Other documents that the appraiser should review may include mobile home residency and RV park occupancy laws, rent control ordinances, resale agreements, lot rental acts, and park conversion laws. Park rules and regulations should also be examined.

While they are not always available, it is helpful to look at all contracts involving landscapers, pool maintenance, entertainment, laundry, pest control, storage, and media services (television and internet).



Estimating Gross Revenue

Mobile home parks may have more than one profit center, but they usually have fewer profit centers than RV parks. RV park revenue is potentially generated by several profit centers. The main revenue stream for both rental park types is space rent or leases. In a resident-owned park—i.e., a cooperative or condominium—the main source of initial income is lot or site sales. Membership fees and dues are the main source of income for membership RV parks.

Non-realty income sources for both mobile home and RV parks include revenues from store sales, recreation hall rentals, and laundry income. In some cases, non-realty income may be achieved through added utility surcharges and charges for extra persons and pets. For RV parks, other income may also be derived from arcades, dump station fees, cabin rentals, sports activities, restaurants or snack shops, and entertainment venues.

Space Rentals

Space rentals usually make up most of a rental park's total income. Of course, this would not necessarily be true of membership or resident-owned parks, such as cooperatives or condominiums.

Mobile Home Parks

Mobile home park living is unlike other types of tenancies. Mobile home owners are usually both owners and tenants. They own their own homes in most cases but are subject to the rental agreement (or lease) with the park for the space on which the unit sits.

Revenue generated from rental spaces within mobile home parks typically comes in at the beginning of the month, as spaces are paid for by the tenant on a monthly basis. As with any other form of residential real estate, the market rental amount varies depending on numerous factors but is mainly based on location and overall appeal. The average monthly space rent in a US mobile home park ranges from \$200 to \$400, but may extend to over \$1,000 per month in some areas. The average monthly rate, broken down into an average daily space rent, is not that much different than the average daily space rate for RV parks. However, the difference is that the RV income is perceived as being less stable. This is true even though the average daily space rate accounts for the strength of occupancy.

The actual monthly space rental amount may be entirely different than the potential market rate. It is not unusual for space rentals to increase, for example, when a rent-controlled park sells. It is also not uncommon to find the “in space” value of the mobile home quite high, even when the space is rented for an amount substantially below monthly market space rents.

The appraiser has to determine what, if any, utilities are included in the monthly space rent. The space rental rates in older mobile home parks include all basic utilities, as older parks are often master metered. More recently developed properties are submetered for utilities. In either case, the

appraiser should determine what is typical in the market through a survey of competitive rental properties.

RV Parks

Rental rates and occupancy levels at RV parks tend to vary more than they do at mobile home parks. Because of these fluctuations, it is important that the appraiser analyze sufficient information to discern trends. Three years or more of operating history is preferred.

The typical daily quoted rate, or “rack rate,” for an RV space in the United States ranges from \$20 to \$65, and is considerably less if paid on a monthly basis. Monthly occupants are typically charged for electric service in addition to the base rate, and electricity is generally only included in the daily rack rates for guests staying a few days or weeks. Monthly rental rates in park properties are not unlike rents in a rental apartment complex where electric service is paid by the tenant. Daily or weekly occupants are like guests in a lodging facility who are not charged separately for electricity.

The rates at any given RV park are based on a number of factors, including location, type of utility hookup, amenities, and overall quality and condition. Club members get discounts on space rental rates and merchandise at affiliated member parks. Some parks charge extra for pets and additional persons.

To determine the stabilized space rental income of an existing park, the appraiser usually averages income figures for the current year and past years, unless a different trend is indicated. It is unwise to simply multiply the quoted daily rate by the number of sites occupied. To do so would lead to overestimation of rental revenue. A park’s average daily space rental rate in a given year will fall below the quoted rack rate due to discounts for extended stays and club memberships. The average daily site rate (ADSR) factors account for periods when the site is not rented. For example, a site with a rack rate of \$30 per day may have an average daily site rate, after considering unoccupied days and various discounts, of only \$12-\$16 per day. A sample ADSR calculation is shown below.

Gross Site Potential	\$580,350
Occupancy Rate	50%
Net Site Revenue	\$290,175
Number of days	365
Net Site Revenue per Day	\$795.00
Number of Paid Sites Occupied	53
Average Daily Rate per Occupied Site	\$15.00

Store Income

Sales at park stores vary depending on a number of factors. A store’s profitability is often attributable to location. Stores in parks that are already located near supermarkets or convenience stores generally do not fare as

well as those without any nearby competition. Store sales as a percentage of total income vary from operation to operation, so it is difficult to provide rules of thumb. However, more RV parks than mobile home parks have stores.

The trend has been for RV travelers to take trips close to home and stay in a single park for two to four days. These travelers usually bring their own groceries. In addition to forgotten supplies (such as paper products), these guests may only purchase snack items such as ice cream or beer and wine at the park store. Generally, the prices charged at park stores are competitive with prices at local convenience stores.

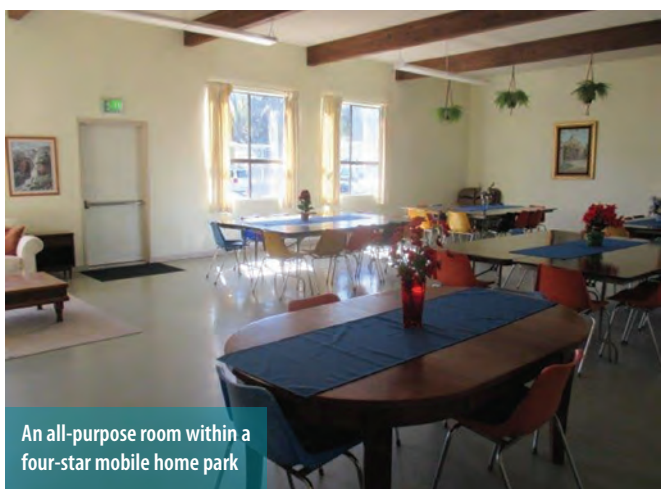
In some rural parks and campgrounds where usual stays are longer, sales of groceries and other items carried by the store are an essential part of overall park operations. In others, store sales are not a separate profit center, but they help to support operations. Since store sales are typically included in the *NOI* to be capitalized, the appraiser has to determine this income's long-term durability. In any case, after the costs of goods are deducted, store income is secondary to space rental revenue.

Recreation Hall Income

Multipurpose recreation (rec) halls or clubhouses can be a separate source of incidental income for both mobile home parks and RV parks. In addition to serving park tenants, recreation halls are sometimes rented to local groups for meetings, weddings, and anniversaries. In some cities, recreation halls are in short supply. Recreation halls are an important part of RV parks because most RVers are social people who often travel in groups or clubs. The size of the multipurpose room should be in keeping with the occupancy of the

park and the clientele the owner hopes to attract.

To help assess market dynamics, the appraiser can contact the local chamber of commerce to determine the supply of and demand for recreation halls in the area. The appraiser can then survey the competition to gauge the frequency and rate of bookings. Halls are typically rented for a flat fee or at a fixed rate per person.



An all-purpose room within a four-star mobile home park

Laundry Income

The appraiser should indicate in the appraisal report whether the laundry equipment is owned or rented. If the equipment is rented, it is necessary to know how the proceeds are divided between the park owner and the service company. The amount of laundry income per space also varies depending on the type and size of the park. In general, laundry income is less than 2% of total revenue.

Laundry operations may result in significant “leakage,” as the equipment operator or manager may pocket some of the proceeds and the cost of providing electricity and water may be greater than the collected income. This problem is easily fixed with card-operated machines. These machines deliver the laundry income electronically and do not take coins or cash.

Other Income

Both mobile home parks and RV parks may have several profit centers. Like other property types within the hospitality industry, RV parks may have a number of potential profit centers, unlike a pure mobile home rental park, which may only have space rental, laundry income, and any reimbursed expense. Retained deposits and interest typically generate little income.

Revenue may also be generated from other sources such as cell towers and storage, but this is generally a small percentage of the income generated from the spaces or sites in the park. If other income is anticipated to continue and be received annually, then it can be capitalized at the same rate as the primary net income. Alternatively, if other income is not projected to continue into perpetuity or has a different level of risk, then the appraiser needs to value it separately from the main income stream.

Some RV parks generate income from cabin or lodge rentals (park models), and some even have apartments or motel-type units. Income sources specific to RV parks include sanitary dump stations, propane gas service, and park models. Resort-type parks generate income by selling services and activities for an extra fee. At parks without restaurants or stores, other income commonly makes up less than 5% of total revenue.

Estimating Stabilized Occupancy

Past performance is not a guarantee of future success. However, future trends are more predictable for certain properties with sufficient operating history on which to base an opinion. A 100% occupied mobile home park operating in a rent-controlled market, for example, is very likely to continue to remain fully occupied, with higher rents 10 to 15 years in the future. Such a park will sell at a lower capitalization rate than a newly developed RV park, since the risk is lower. On the other hand, income may decrease for some properties due to shifting consumer preferences, environmental conditions, or management styles. For this reason, reviewing three to five



years of operating history is quite helpful, although the analyst cannot always assume that what happened in the past will occur in the future.

Occupancy figures vary from region to region and from park to park. Annual and monthly occupancy statistics published by trailer park associations, state tourism boards, and city housing departments can help determine whether a park is operating at an acceptable level. A survey of park managers and owners by the appraiser is the best source of current occupancy information. The appraiser should ask about past occupancy rates and the rates used in pro forma financial statements. It should be noted that natural disasters such as fires and earthquakes can skew occupancy figures, and the current level may not accurately represent the whole occupancy story.

If the subject property is an existing park with no anticipated future changes in supply and demand relationships and consumer preferences, the best support for stabilized occupancy is historical data. For example, a 20-year-old park with an average occupancy of 80% over the past eight years is likely to have a stabilized occupancy of 80%, since that length of time includes years of recession as well as growth. This stabilized occupancy rate assumes competent management and should be supported by the figures in the appraiser's occupancy survey.

Cost of Goods Sold

Once stabilized occupancy is estimated and total income or revenue is derived, the next step in the income capitalization approach is to calculate the cost of goods sold. At RV parks, groceries are the best-selling items, followed by merchandise, fuel, and entertainment. The cost of goods sold in a pure rental mobile home park is not significant, as there is unlikely to be an on-site store. The cost of goods sold in an RV park typically equals 10% to 15% of gross revenue. This category does not include related operational costs, such as labor, maintenance, and the utility expense for refrigeration. These costs are analyzed separately.

Gross Profit

Gross profit is the figure that results when the cost of goods is deducted from total income or revenue. For parks that do not sell goods (e.g., most mobile home parks), gross profit is the same as total gross revenue.

Operational Expenses

The success of a park depends on the services provided as well as the physical and geographical characteristics of the property. Operating expenses and the cost of goods sold vary from park to park, but generally approximate 35%-50% of the effective gross income (*EGI*) for mobile home parks and 40% to 65% of *EGI* for RV parks.

While the number of basic expense categories is similar, RV park expenses as a percentage of collected income are typically higher than mobile

home park expenses, primarily because RV parks have a higher amount of turnover and typically lower occupancy levels. The main expense category differences are in the cost of goods sold, utilities, management, supplies, and promotion. Organizational intensity is higher in an RV park, thereby resulting in labor and office expenses that are higher than the costs associated with mobile home park management. RV park expense ratios are similar to those of a hostelry property, while the properties most similar to mobile home parks are apartments.

Expenses can be broken down into units of comparison—per site or space per year or per average occupied site per year. A park's expenses as a percentage of revenue depend on its income level. A year-round RV park that generates more than \$500,000 in collected income, for example, will have higher total expenses but a lower *ratio* than a similar park that generates less than \$100,000 per year. Most expenses as a percentage of gross income decrease as business increases due to economies of scale. The chief exception is payroll, which increases because it typically takes more labor to operate a park properly at higher occupancies.

For most parks, utilities such as water and sewer service represent large expense categories. Since spaces are typically separately metered in mobile home parks, utility expenses are not typically as large percentage-wise for these parks as they are for RV parks. Still, water and trash removal can be significant mobile home park expense categories unless they are reimbursed by the landlord. Maintenance and repair are large operational expense categories for both types of parks.

Operating expenses do not include the depreciation written off, interest on loans, or the personal expenses of the owner or manager. It is not uncommon to find the owner's personal expenses combined with the expenses of the park. Expenses that are not necessary to the operation of the park must be excluded. Categories that the appraiser should scrutinize include entertainment/travel, insurance, payroll/salaries, equipment rentals, and automobile use.

Like income, expenses vary from year to year. It is important to analyze three to five years of expenses for the subject property and two or three directly comparable properties. Expenses incurred on a consistent, yearly basis should be separated from one-time or occasional expenses and from the owner's personal expenses. More information available to the appraiser means a better ability to identify trends and estimate stabilized expenses.

Park owners are inclined to treat capital outlays as expenses of property ownership, not as capital improvements that add to or help maintain value. Capital outlays are sometimes incorrectly expensed under "repairs and maintenance" as they occur. Since the replacement of capital improvements directly affects cash flow, a reserve allowance should be included as a line item expense in the appraiser's reconstructed operating statement. The analyst should make sure that expenses are not overstated when capital replacement items are included in ordinary expense line items.



For the most part, estimating expenses for mobile home communities is straightforward. Expense information is gathered from the owner, bookkeeper, or management company and compared to market information to uncover inconsistencies.

Market expense information is limited to individual properties. As with apartments, no nationally recognized expense manuals for mobile homes or RVs are published. Information can be obtained through specialists (such as brokers, developers, management, and appraisal companies). Care should be exercised because averaged expense categories may include seasonal data. In addition, it is the analyst's responsibility to adjust for any locational differences. Occasionally, an analyst can obtain comparable expense information from nearby parks, but competing owners and managers rarely share this important data. Even if the comparable park has the same tax and utility rates and is located nearby, the analyst will still need to adjust for differences in the park improvements.

Expense Categories

Mobile home and RV park communities tend to have more expense categories than more conventional forms of real estate, such as retail and industrial properties. Park properties with similar levels of amenities, such as those with a pool and spa but no store or entertainment venues, have a comparable number of (and types of) expense categories. RV parks with stores or profit centers created by recreational facilities have more expense classifications than mobile home parks, as they align closer to service-oriented hostelry properties.

Analysis of payroll expenses requires investigation of the number of park employees and the benefits offered. If the owner's family members are drawing salaries, it should be determined whether their pay is commensurate with the work being done. Additional employees and/or higher-paid employees may also be needed to upgrade park services.

The appraiser can identify and break down every expense item or group expense category for ease of analysis. The following section briefly describes the main park expense categories as a group and how they relate in terms of size and as a percentage of collected income.

Utilities

The number of expenses in the utilities category is dependent on the services provided and is very site-specific. The appraiser has to determine what utilities, if any, are commonly included in the rent. It is not unusual for mobile home park tenants to pay all utilities either directly to the company or to the owner as a reimbursable pass-through. It is also possible that the owner will include water, sewer service, and trash removal in the rent.

Water and sewer service is typically the largest utility expense for mobile home parks. It is also an expenses category for RV parks, but most recreational vehicles today are self-contained, so sewer hookups are no longer common.

Sewer rates are connected to water usage. Parks with a high percentage of multisectional mobile homes are generally higher-quality and have more landscaping and recreational amenities, such as pools. All-age parks typically have more people per space (i.e., families) than senior parks.

The appraiser must correctly handle these expense items by adding back reimbursement income (less collection loss) when applicable. Because utility expense reimbursement is not uncommon in mobile home parks, the range of such expenses in relation to total collectable income is wide (e.g., 5%-20%, depending on metering and lease structure).

Obviously, an RV park or campground that offers only basic utility services will incur much less expense than one with full hookups. RV park daily rental rates are typically based on *full hookups* (water, electricity, sanitary sewer, cable TV) or *partial hookups* (electricity only). Monthly tenants typically pay their own utilities either directly or through reimbursement to the park owner. As a rule of thumb, utility costs equal 10%-20% of collected gross revenue. Unless they are fully reimbursed to the park owner, utility costs increase with occupancy. However, some utility expenses (e.g., the cost of heating the park pool) do not change with occupancy.

Insurance

Extended-coverage policies that include fire and liability insurance usually cost 1%-4% of revenue, depending on the location, type and characteristics of the park, special stipulations, replacement cost estimate, and policy deductible. Insurance companies define a mobile home park as an area with no less than five mobile homes with people habituating on an annual basis. Seasonal usage and camping fall under the definition of an RV park.

The criteria that determine the specifics of the insurance policy include the following:

- The number of years the current owner and management team have been in place
- The number of homes, both occupied and unoccupied, in the park
- Annual revenue
- On-site or off-site management
- Water supply sources
- Aboveground or underground utilities
- Entertainment and building facilities (e.g., pool, lake, playground, clubhouse, laundry)
- Flood zone status
- Total area of the park in acres

In most states, the insurance company has the option to insure against property destruction inflicted by criminal activities or natural causes, such as tornadoes.

In a few cases, the mobile home park owner may have tenants pay a pro rata share of the liability insurance cost. The appraiser should inquire as to whether the insurance includes personal health and dental coverage for the owner and his or her family, as this is a personal expense rather than a property expense. Earthquake coverage is available in some areas but is generally not carried by park owners because the added premium is high. The appraiser should try to obtain a copy of the park insurance policy to determine if the insurable replacement cost is reasonable and in line with current costs.

In addition to analyzing insurance as a percentage of revenue, the appraiser can estimate the insurance cost per space or per occupied space. Depending on the various factors mentioned above, general liability and fire insurance can range from a low of approximately \$30 to a high of \$150 per total space (not including coverage for floods, natural disasters, and employment practices or any discount for an umbrella policy).

Repair and Maintenance

Maintenance and repairs are necessary to maintain park operations. Depending on how these expenses are classified, the category may include contract labor for weekly gardeners and pool maintenance companies. The wages and salaries of maintenance employees can also be included in this category, although they are usually expensed separately under the payroll category.

When separate categories are used for the pool and gardening (landscaping), the repair and maintenance category covers the routine repair and general maintenance of common areas and pads. In rare cases, it may also include an elevator. Capital improvements should not be included. Some expense statements may list supplies in this category, while others may include service contracts (such as for landscaping).

Since mobile home and RV parks are crisscrossed by sewer laterals, piping maintenance is important. Improper tree positioning and poor tree upkeep create additional expense. In general, repairs and maintenance may run anywhere from 3%-8% of revenue, not including labor costs. Supplies usually represent 1.5%-3% of revenue. This category typically includes fewer expenses for mobile home parks than RV parks, because RV parks have more improvements.

Payroll and Employee Benefits

Salaries and wages for on-site employees make up most of the payroll category. This category also includes employee taxes, insurance, and benefits. Typically, 7% to 15% of revenue goes to salaries and employee benefits.

The number of employees is a function of park size, seasonality, and services. Destination RV parks located in popular summer vacation spots often employ three times as many people from May to September as they do during the winter months.

In general, RV parks that produce higher revenues incur higher personnel expenses as a percentage of income. Such parks have an image to

maintain and require top-notch employees and management. On the other hand, payroll may be a minor expense for smaller mobile home parks with minimal or no recreational facilities. Expenses in this category do not include off-site management.

Advertising and Promotion

Various forms of marketing and advertising are used for promotional purposes. Parks are advertised through online websites, print directories, trade publications, and brochures. RV parks are typically listed in campground directories. Radio, television, and billboards are sometimes used, but these media are too expensive for most operators. Promotional devices include package deals and merchandising items.

Overall, parks tend to spend less than 3% of revenue on advertising and promotion. Established mobile home parks have either minimal or no expense. Membership RV parks spend up to 20 times more than other RV parks on advertising and promotion because they employ marketing companies that must pay on-site salespeople and telemarketers. In such cases, the allocated share for the individual subject property must be determined.

Office and Related Expenses

Office expenses are typically minor, often amounting to less than 2% of revenue. Ongoing expenses include copying charges, postage, telephone, fax, Internet, and office and computer supplies.

Administration and Management

Professional management and related administration are typically needed in mobile home and RV parks. Overnight and destination RV parks require the most management.

Operating statements sometimes refer to the management expense as “salaries for officers.” In other statements, there may be no mention of management cost or an owner’s salary. Essentially, this category covers off-site supervisory management. While the owner of a smaller park may perform all or most management functions personally, a salary or fee must be deducted since the owner’s time and effort is of value. A general rule of thumb for management fees is 3%-6% of collected revenue. This is in addition to on-site management, which is paid for under payroll expenses.

Other Expenses

Expenses in the “other” category, with the exception of royalties, generally make up less than 3% of revenue. This “other” category consists of the following:

- Bank and credit card charges
- Subscriptions and dues to trade associations
- Owner training and continuing education for employees

- Security, legal, automobile, entertainment, and travel expenses

Pest control may also be included under this category or under the maintenance classification if it is a continuous contracted expense. Permits and license fees can also be expensed in this category or grouped in a separate category. The appraiser should be careful not to include one-time or non-recurring expenses in the operating expenses.

Mobile home parks collect rents in the form of checks, money orders, cashier checks, direct deposits, wire transfers, and even cash, but generally do not accept payments by credit card. In contrast, it is not unusual for RV parks to take payment through Visa or Mastercard. RV parks also provide small discounts for memberships. As such, RV parks have higher bank-related expenses and discounts.

Table 6 presents a three-year operating expense history for a 100-space rental mobile home park. Actual expenses from 2012 through 2014 are used in conjunction with expense comparables for the pro forma 2015 estimate.

Table 7 shows a sample operating expense statement for an overnight 100-space RV park. The expenses shown are based on a three-year average.

Table 6

Sample Historical Itemized Expenses for a 100-Space, Four-Star Mobile Home Park with No Park-Owned Units

Expense Item	2015 – Pro Forma	2014- Actual	2013- Actual	2012- Actual
Property taxes	\$39,000	\$28,801	\$28,454	\$27,734
Water/sewer	\$74,500	\$74,747	\$75,936	\$78,796
Other utilities	\$10,800	\$9,599	\$10,921	\$10,351
Dump/trash	\$14,178	\$18,904	\$17,920	\$17,352
Park insurance	\$7,400	\$7,400	\$7,700	\$8,100
*Maint./repair	\$25,000	\$68,881	\$29,255	\$27,771
Pool service/supplies	\$3,500	\$4,052	\$4,412	\$3,246
Gardening	\$18,485	\$34,313	\$32,870	\$26,660
Fees/permits	\$6,985	\$6,983	\$8,860	\$7,837
Payroll/employee benefits	\$54,440	\$51,293	\$60,156	\$54,234
Supplies	\$6,115	\$6,819	\$6,514	\$6,570
Advert./marketing	\$1,200	\$1,200	\$3,210	\$3,210
Admin./off-site mgmt.	\$35,500	\$24,900	\$24,650	\$23,435
Office/related	\$7,100	\$9,789	\$5,575	\$4,162
Legal/professional	\$5,000	\$5,528	\$11,149	\$4,407
Reserves	\$10,000	N/A	N/A	N/A
Ground lease	N/A	N/A	N/A	N/A
Total	\$319,203			
	(\$3,192/space)	\$(/space)	\$(/space)	\$(/space)
% Collected income	40%	39%	37%	42%

* No capital expenditures

Table 7 **Sample Operating Expense Statement for a 100-Space Overnight and Extended-Stay RV Park with a Store**

Annual Expenses		Percentage of Gross Annual Income
Cost of goods sold		
Store	\$32,007	
Snack bar	4,484	
Fuel/dump	2,895	
Entertainment	0	
Marina	0	
Wi-Fi/Internet	2,800	
Vending/games	1,054	
Vehicle repair parts/supplies/other	<u>3,430</u>	
Total cost of goods sold	\$46,670	13%
Operating Expenses		Percentage of Gross Profit
Taxes		
Local	0	
Real & personal property	\$14,300	
Sales	<u>5,020</u>	
Total taxes	\$19,320	5.9%
License/permits	\$1,010	0.3%
Rent stabilization fees	N/A	
Insurance	\$9,850	3.0%
Utilities		
Cable TV	0	
Gas/electric	\$31,860	
Water/sewer	4,308	
Trash/dump removal	<u>5,107</u>	
Total utilities	\$41,275	12.5%
Payroll and employee benefits		
Manager's salary	\$17,520	
Assistant manager's salary	8,000	
Payroll taxes and benefits	6,380	
Bonus/overtime	1,200	
Other	<u>600</u>	
Total payroll and employee benefits	\$33,700	10.2%
Accounting/legal		
Bookkeeping	\$3,390	
Filing fees	960	
Professional/consulting services	<u>1,400</u>	
Total accounting/legal	\$5,750	1.7%

Table 7

Sample Operating Expense Statement for a 100-Space Overnight and Extended-Stay RV Park with a Store (continued)

Operating Expenses (continued)		Percentage of Gross Profit
Advertising and promotion		
Yellow Pages	\$600	
Signs/billboards/brochures	2,750	
Website	4,800	
Directories/promotion	2,500	
Television/radio	<u>0</u>	
Total advertising and promotion	\$10,650	3.3%
Office expenses		
Computer/printer/copy	\$710	
Travel	158	
Publications/subscriptions	523	
Office supplies/postage	1,438	
Office/phones	<u>4,220</u>	
Total office expenses	\$7,049	2.1%
Bad checks/refunds	\$1,150	0.3%
Bank/credit card charges	\$3,950	1.2%
Professional management services	\$16,800	5.2%
Recurring repairs/maintenance*		
Buildings	\$7,985	
Spaces	1,450	
Computer repair	290	
Equipment repair	310	
Landscaping	4,120	
Pool	2,700	
Other	<u>290</u>	
Total recurring repairs/maintenance	\$17,145	5.2%
Non-office supplies	\$8,920	2.7%
Royalties/franchise fees	0	
Travel/entertainment	0	
Automobile	\$1,340	0.3%
Cost of goods sold (from above)	<u></u>	\$46,670
Total Operating Expenses	\$177,909	

* Includes reserves for replacement

The Capitalization Process

After NOI is estimated, an appropriate capitalization method is selected. Of the various techniques available, direct capitalization is typically used. This method has the advantage of simplicity and employs a single rate known as the *capitalization (cap) rate* or *overall capitalization rate*.

The capitalization rate reflects the relationship between the projected annual NOI and the sale price of the park or estimate of value. It is calculated by dividing the sale price by the NOI of the property. When the property is purchased in an all-cash transaction (which is not usually the case for park properties and particularly for RV parks) and there is no subsequent change in value or income, the capitalization rate is also the rate of return on the total property investment in Year 1.

Capitalization rates derived from comparable properties are used to estimate the appropriate capitalization rate for a park property. Whenever possible, capitalization rates should be compared to the rates derived from the same type of park. Mobile home park capitalization rates should not be directly used to value an RV park and, conversely, RV park capitalization rates should not be applied to the NOI of a mobile home park. Capitalization rates are greatly influenced by the perception of risk, and parks of different types carry different risks.

Stable properties with upside income potential tend to sell at lower capitalization rates than properties with less stability and limited future upside potential. Having said this, it is acceptable to mismatch capitalization rate types when it becomes necessary to create a logical range of value in the absence of directly comparable data. In other words, when better data is not available, the appraiser may use information from dissimilar parks in an attempt to bracket an appropriate rate or value.

Several factors should be taken into account when selecting an appropriate capitalization rate for a park property, including:

- The number of competitive parks in the area
- The amount of available land zoned for the development of future parks
- The upside (or downside) potential of future cash flow
- Existing or planned government restrictions on the existing use or on rent increases
- Deferred maintenance and the remaining economic life of the improvements
- Marketability and liquidity
- The availability and type of financing

The availability of financing cannot be underestimated. During the recession in 2008-2010, it was not uncommon for real estate to have two widely different values with varying capitalization rates: one value assum-

ing seller financing and the other assuming the seller cashing out, which usually involved institutional financing. The value disparity was a result of banks being unwilling to lend except to their strongest and best customers and only after an unusual amount of scrutiny. To avoid having to deal with financial lending institutions, buyers were willing to pay large premiums (lower capitalization rates) for seller-financed transactions.

Today, the availability of bank financing for park properties is generally moderate to good for certain types of parks (such as good-quality mobile home parks with high occupancy levels in prime areas). Financing is limited for lower-end RV parks with spotty occupancy and below-average appeal. The appraiser should expect to find that harder-to-finance park properties sell at higher capitalization rates.

One new source of financing for mobile home parks is crowdfunding—i.e., the practice of funding a project or venture by raising small amounts of money from a large number of people, typically via the Internet. Crowdfunding has the potential to increase entrepreneurship by expanding the pool of investors from whom funds can be raised beyond the traditional circle of owners, relatives, and venture capitalists. In the United States, crowdfunding is restricted by regulations on who is allowed to fund a new business and how much they are allowed to contribute.

When several sales are analyzed, it is common to find a wide range of capitalization rates. Although there are exceptions, the capitalization rate range for a mobile home park is less than the range for an RV park. It is not unusual in today's market to find mobile home park capitalization rates ranging from 5%-10%, with rates as low as 4.5%-5% for parks in prime areas with artificially low rents and limited or no future competition. However, prime park properties rarely sell in the open market, as these operations tend to be handed down to family members.

RV park sales also show a wide range of capitalization rates, depending on the various previously discussed factors. A less management-intensive park, such as a residency park, typically sells toward the lower end of the typical 8%-14% range. The appraiser should not only segregate the various comparable park sales by type, but also by their investment risk and potential. A very management-intensive park in a region with a significant supply of land zoned for RV parks, for example, will sell at a rate that reflects its limited potential for appreciation.

A knowledgeable buyer would realize that, over a typical 10-year holding period, such a property could be worth the same or even less than its value today. Similarly, membership parks with stabilized occupancy and no new memberships to sell may be sold at low prices because their appreciation potential is limited to annual increases in membership dues. The potential buyer's rate of return must be high enough to justify the burden of park management and the risk of error inherent in projecting cash flows. On the other hand, the potential income to such a property should be easy

to forecast, and the stability of occupancy is attractive to investors. Stable properties are easier to market and resell.

Band of Investment

The band-of-investment technique is commonly used to help determine the appropriate capitalization rate when the appraiser recognizes how mortgage terms and equity requirements affect the value of property. In valuing a park property, the method can be performed as a simplified mortgage-equity analysis when no adjustments are needed for investment factors, such as equity buildup and possible changes in value and income over a defined holding period.

Interest rates in commercial markets may vary significantly, depending on which multiunit lenders are active and which property types they are trying to add to their loan portfolios in order to achieve an optimum mix. After estimating the typical market interest rate and deciding what reasonable investors would expect as a percentage return on equity, the appraiser blends these components using a band-of-investment technique. The weighted average is the capitalization rate.

As shown in Tables 8 and 9, mortgage interest rates are lower for mobile home parks, as the number of potential lenders for these properties is significantly greater than it is for RV parks. Investors expect higher returns on investments that carry more risk; therefore, the equity dividend rate for an RV park is also considerably higher. The blending of higher debt and equity requirements produces a weighted-average capitalization rate for the riskier RV park that is three percentage points higher than the rate for the mobile home park.

Table 8 shows typical loan and equity return requirements for a mobile home park. The analysis indicates a capitalization rate of approximately 6%.

The higher mortgage and equity requirements for an RV park, as depicted in Table 9, result in a capitalization rate that is 50% higher than the rate indicated for the mobile home park.

Table 8		Sample Band of Investment for a Mobile Home Park			
Mortgage Interest Rate			5.00%		
Mortgage Term			30 years		
Mortgage Ratio (M)			70.0%		
Mortgage Constant (R_M)			0.06442		
Equity Dividend Rate (R_E)			5.00%		
Mortgage (LTV) Ratio (M)		Mortgage Constant (R_M)		Mortgage Component	
70.0%	×	0.06442	=	0.04509	
1 – Mortgage Ratio ($1 - M$)		Equity Dividend Rate (R_E)		Equity Component	
30.0%	×	5.00%	=	0.01500	
Mortgage Component		Equity Component		Overall Rate (R_o)	
0.04509	+	0.01500	=	0.06009	
		Rounded	=	6.01%	

Table 9 Sample Band of Investment for an RV Park

Mortgage Interest Rate			7.00%	
Mortgage Term			25 years	
Mortgage Ratio (M)			70.0%	
Mortgage Constant (R_M)			0.08481	
Equity Dividend Rate (R_E)			10.50%	
Mortgage (LTV) Ratio (M)		Mortgage Constant (R_M)		Mortgage Component
70.0%	×	0.08481	=	0.05937
1 – Mortgage Ratio (1 – M)		Equity Dividend Rate (R_E)		Equity Component
30.0%	×	10.50%	=	0.03150
Mortgage Component		Equity Component		Overall Rate (R_o)
0.05937	+	0.03150	=	0.09087
		Rounded	=	9.09%

The band-of-investment conclusion should be reconciled with the capitalization rates directly derived from the comparable sales or listings. A large disparity between the two may indicate that the equity dividend rate and/or the loan-to-value ratio were incorrectly applied or that the expenses of the sales were not properly estimated. It is not unusual for replacement reserves or supervisory management fees to be left out of the *NOI* reported by the parties to the sale.

Cash-on-Cash Rate Method

The cash-on-cash rate, also known as the *equity dividend rate* or *equity capitalization rate*, is a single year's cash flow to the equity position before income taxes, expressed as a percentage of the equity investment. It is a variant of the band-of-investment technique and is used to convert cash flow (equity dividend) into an equity value indication. Cash flow or equity dividend equals *NOI* after the deduction of debt service.

Consider a park property that sold for \$2,500,000, with a \$1,750,000 loan and \$750,000 in equity. The loan carries 5% interest amortized monthly over 30 years; therefore, the annual payment is \$112,733. The *NOI* is \$150,000, indicating a capitalization rate of 6%. The debt coverage ratio is 1.33 (\$150,000 / \$112,733). The property's annual cash flow is the net operating income less the debt service, or \$37,267. The cash-on-cash calculation is as follows:

$$\begin{aligned}\text{Cash-on-Cash Rate} &= \frac{\text{Cash Flow (NOI after Debt Service)}}{\text{Equity}} \\ &= \frac{\$150,000 - \$112,733}{\$750,000} = 4.97\%\end{aligned}$$

In this example, the Year 1 rate of return to equity before taxes reflected by the amount and terms of the sale is 4.97%. At first glance, this rate is more typical of a mobile home park. The lower capitalization rate and

interest rates are characteristic of a park property with stable cash flow. The RV park investor usually requires a higher return to compensate for the greater risk that the income stream may not be stable.

The cash-on-cash rate can be convincing when adequate information is available, but direct capitalization is usually the preferred method. As discussed in the previous section, RV park sales often involve some sort of seller financing, and the details of this financing are not always available. While mobile home park sales may be more transparent, detailed loan terms are often difficult to obtain.

The appraiser should not confuse the cash-on-cash rate with the equity yield rate, which is the equity investor's internal rate of return over the holding period.

Other Capitalization Procedures

Other, indirect capitalization methods may be used in the appraisal of mobile home and RV parks, although they are less commonly understood and applied than direct capitalization. Other procedures applicable in park valuation are discounted cash flow (DCF) analysis and mortgage-equity analysis.

Since the mid-1980s, DCF analysis has become a popular tool for valuing the following types of properties:

- Large, multitenant-leased properties
- Properties for which revenues vary over time
- Properties whose revenues vary due to the sale of spaces, additions or deletions of spaces, renovations, and other events

This indirect capitalization procedure presumes that the value of a property is equivalent to the present value of its before-tax cash flows over an assumed investment holding period, plus proceeds from the sale of the property at the end of the holding period (reversion), typically discounted at a single discount rate.

The discount rate applied accounts for the time value of money as well as the perceived risk or reward of receiving that money. The reversion is the estimated property value at the end of the holding period, usually less the cost of sale (e.g., commission), discounted back to the present.

A “going-out” rate capitalizes the last year's projected net income. The going-out rate is often 25-100 basis points higher than the “going-in” capitalization rate to account for risk, assuming that the underlying land value does not significantly change. This is not always the case. If the underlying land value is significant, especially at the estimated time of reversion, the rate will decrease as the property ages. In the appraisal of a park with below-market rental income tied to a local rent control ordinance, however, there is nothing to suggest that risk levels will change over the holding period. This is especially true in areas where developable land is limited or nonexistent.



The basic DCF formula is as follows:

$$DCF = \frac{CF_1}{(1+r)^1} + \frac{CF_2}{(1+r)^2} + \dots + \frac{CF_n}{(1+r)^n}$$

CF = cash flow
 r = discount rate

DCF analysis can be a useful tool, but the disadvantages of this technique usually outweigh the advantages. The primary advantage of DCF analysis is that it identifies the variability in annual cash flows, especially for a start-up operation. The primary disadvantage of DCF analysis is that it is not often used by park investors. As a result, limited data is available on applicable yield and going-out capitalization rates, annual expense and income projections, and even holding period projections from comparable sales.

DCF analysis works best in a market value appraisal of a property with large rollovers from leases, resulting in significant shifts in rental income. It also works well in estimating investment value—i.e., the value to a specific investor based on certain yield requirements—since it can help identify the attractiveness of an investment.

Conclusion

After the appraiser selects the appropriate capitalization rate from the methods discussed above, the concluded rate(s) are directly applied to the income. The appraiser should conclude the income capitalization approach by presenting a reconstructed operating statement and/or summary in the appraisal report. Table 10 presents a sample income capitalization approach summary for a mobile home park, while Table 11 presents a sample income capitalization approach summary for an RV park.

Table 10 **Sample Income Capitalization Approach Summary for a Mobile Home Park**

Potential gross income		
Space lease income (\$61,610.33/mo. × 12 mos.)		\$739,324
Direct expense recoveries (trash/sewer)		42,360
Other income		3,000
Total potential gross income		\$784,684
Less vacancy & collection loss (5.0%)		39,234
Effective gross income		\$745,450
Less expenses		
Taxes/assessments	\$39,000	
Insurance (including flood)	7,400	
Park utilities (water, sewer, electric, trash)	99,478	
Fees/permits	6,985	
Maintenance/repair (including gardener/pool)	46,985	
Payroll/employee benefits	54,440	
Advertising/marketing	1,200	
Supplies	6,115	
Administration/off-site management	35,500	
Office/related	7,100	
Legal/professional/other	5,000	
Reserves (\$100/space)	10,000	
Total expenses (42.82%)		(319,203)
Net operating income		\$426,247
Divided by capitalization rate		6.50%
Value Indicated by the Income Capitalization Approach		\$6,557,646
Rounded		\$6,550,000

Table 11

Sample Income Capitalization Approach Summary for an Overnight/Extended-Stay RV Park

		Percentage of Gross Annual Income
Income		
Space rental (registration + deposits)	\$302,000	80.1%
Goods sold from store operations	50,000	13.3
Recreation hall rental	9,800	2.6
Laundry (park-owned machines)	7,500	2.0
Other (Wi-Fi, vending, v. repair, dump)	7,600	2.0
Total gross income	\$376,900	
Cost of goods sold	(46,670)	
Gross profit	\$330,230	
Stabilized Operating Expenses		
		Percentage of Gross Profit
Taxes/license	\$20,330	6.2%
Insurance	9,850	3.0
Utilities	41,275	12.5
Payroll and employee benefits	33,700	10.2
Accounting/legal	5,750	1.7
Advertising/promotional	10,650	3.3
Office expenses	7,049	2.1
Repair/maintenance	17,145	5.2
Professional management services	16,800	5.1
Non-office supplies	8,920	2.7
Bad checks/refunds	1,150	0.3
Bank/credit card charges	3,950	1.2
Franchise fees/royalties	0	N/A
Travel/entertainment	0	N/A
Automobile	1,340	0.4
Replacement reserves	9,500	2.9
Total operating expenses	187,409	56.8% (49.7% GAI)
Net operating income (NOI)	\$142,821	
Overall capitalization rate (applied to NOI)	0.095	
Value Indicated by Overall Rate Method	\$1,503,379	
Rounded	\$1,500,000	



Purpose

Mobile home and RV parks are usually bought and sold as investments on the basis of their income potential. Parks generally include some non-realty assets, which often must be identified separately. Depending on the intended use and user of the assignment, separate allocation of such items may be needed. However, separating non-realty components from the real estate is not usually a part of the sales contract when a park is sold.

Non-realty components of parks include personal property and intangibles. *Personal property* is defined as movable items of property that are not permanently affixed to, or part of, the real estate. Intangible items are non-physical assets such as goodwill, trademarks, franchises, patents, and contracts. In most cases, nearly all of the value in a mobile home park and most of the value in an RV park is represented by the real estate.

The bulk of non-realty value present in mobile home parks is attributed to personal property (e.g., park-owned units, FF&E), while intangible assets such as goodwill play a larger role in RV parks.

In most cases it is unclear how much, if any, market value is attributed to non-realty items. There is no universally accepted approach to segregating these values.

The Valuation of Personal Property and Park-Owned Units

Unlike transient lodging facilities such as motels, personal property is not typically an integral part of mobile home and RV parks. A motel would have to close its doors without furniture, but in most cases RV and mobile home parks could still rent spaces or sites without furniture, fixtures, and equipment (FF&E).

Unless there are several park-owned units involved in the valuation, personal property items typically contribute a small part to overall value. Once put into operation, most forms of personal property depreciate very rapidly.

Personal property items commonly found in park properties include pool and clubhouse furniture, maintenance tools and supplies, and office desks, chairs, and computers. Additional items may include billiard tables, merchandise, machinery, housekeeping and leisure items, and even complete mobile homes.

It is not uncommon for the mobile home park owner to possess one or more manufactured unit. The owners may have taken over these units through foreclosure or, less frequently, through desertion or quitclaim. Manufactured units are sometimes brought in to serve as administrative offices, laundry areas, or registration booths. For a mobile home park, the units are often leased together with the space. In parks with empty lots, many owners buy either previously owned or new models to fill the space. This not only improves the park's appearance but can provide an option for the tenant to buy the unit. Another advantage is that the park-owned unit captures any "in-space" value.

A disadvantage of the park owner holding units is that mobile home tenants tend to have less appeal than mobile home owners. Because mobile homes are legally classified as chattel, they are bought and sold like used cars. Lenders' underwriting guidelines typically establish that only a specific percentage of units in the mobile home park can be park-owned.

The appraisal report should identify the value of individual units that are not considered real property. If the unit has been permanently affixed to a foundation, it becomes real estate. In this case, the unit is not unlike other real estate improvements (such as a recreation building) that contribute to the overall park value. However, in most situations the unit is not attached, and the appraiser must identify and segregate its value as personal property.

A commonly used appraisal format for the valuation of a single manufactured home is the seven-page, HUD-approved Fannie Mae Form 1004C/Freddie Mac Form 70B (March 2005). This form is essentially a variation of the Uniform Residential Appraisal Report used for single-unit dwellings. This report is commonly used by lenders when the unit is permanently attached to a foundation—in other words, when the unit is real estate.

The value of a manufactured home is commonly estimated using the cost and sales comparison approaches. The sales comparison approach is the preferred method when unit sales (and meaningful listings) are available. This approach calls for an adjustment process involving three or more comparable properties, typically three closed sales, and one or two current listings. Data from the multiple listing service (MLS) and other cost and value services can be employed in addition to information obtained by contacting brokers and agents.

An appraiser can obtain cost figures directly from the model's manufacturer or use location-adjusted detailed retail "value" (cost) reports from the National Automobile Dealers Association (NADA). When using the NADA "value," the appraiser must adjust for any "land-lease community" value and the contributory worth of the foundation to complete the valuation process. The land-lease community adjustment is the same as the "in space" value created by the unit's location within the park.

To value RVs and vehicles as personal property, appraisers can turn to the NADA website (www.nadaguides.com). Alternatively, items of personal property and real estate can be valued using the Marshall and Swift *Residential Cost Handbook*. It should be noted that these are general guides that provide reasonable ranges of value. The appraiser should still search for comparable sales and listings, including any prior sale of the subject property itself.

Allocation of Personal Property in a Mobile Home Park—Sales Comparison Approach

The sales of mobile home parks sometimes include park-owned units. This is more often the case with parks under rent control, parks with units acquired through foreclosure, and parks owned by the developer. Park-owned units are not often anchored to foundations; therefore, they remain personal property.

After verifying a comparable park's sale price, the appraiser should ask how many park-owned units, if any, were included in the sale price and if any other non-realty components were involved. If there were non-realty components and an allocation could not be verified, the appraiser should gather as much information as possible and make a value allocation. Pertinent information includes the number of units, the model type and year built (e.g., 1990 Fleetwood double-wide), the units' general condition, and any rental information. In determining an overall capitalization rate applied only to the real property, the appraiser must adjust the rental income generated from the park-owned units.

The example that follows relates to a market sale of a 101-space mobile home park with nine park-owned units. After adjustment for the nine park-owned units, the sale indicates an overall capitalization rate of 5.55% on the real property. The personal property value, or estimated value of the nine units, is \$200,000. The difference in NOI attributed to the park units is \$25,000, which indicates a capitalization rate of 12.5% on the personal property value ($\$25,000 / \$200,000$). There is no intangible value, as any business enterprise value has been accounted for in the off-site (and on-site) management expense, which is included in the NOI.



Total Sale Price	\$8,900,000
Non-Realty Allocation	
Tangible Personal Property	\$200,000
Intangible Value	0
Real Property Sale Price	\$8,700,000
Net Operating Income without Park Units	\$483,018
Overall Capitalization Rate	5.55% (Real Property)
Net Operating Income with Nine Park Units	\$508,018
Overall Capitalization Rate	5.71%
Capitalization Rate Personal Property	12.5%

Allocation of Personal Property in a Mobile Home Park— Income Capitalization Approach

Developers do not typically build park properties to lease them to another operator. Instead, rental parks are developed so that owners of manufactured units lease or rent individual spaces within the park. In new parks, the owner may buy some units to begin the process and/or sell mobile home units, but the idea is to rent or lease the individual spaces.

Investors primarily look at total cash flow without attributing income to specific components. Since revenue is generated from the total assets of the business, the income capitalization approach is the most frequently used method to value the real property component of a going concern. Information is the key to accurate valuation, and the appraiser usually has access to more detailed information on the subject property's revenue streams than details on the comparable properties. As explained earlier, income allocation methods can be considered controversial, but all require the appraiser to start with the revenue generated by the total assets and then remove the income attributable to the non-realty components.

In the above example of the nine park-owned units within a 101-space mobile home park, the income attributed to these units must be allocated. If these units are averaging a net income of \$630 per month each, then the appraiser must determine how much of this total is attributed to the park (land and site improvements) and how much is attributed to the personal property or the mobile home. The appraiser can allocate the remainder by determining the value of one of these variables and applying the appropriate capitalization rate.

In the example, the appraiser determines that the value or price of each mobile home (without the benefit of being located within a park) averages \$22,222. The capitalization rate attributed to the personal property is determined to be 12.5%, which is typically several basis points higher than the overall capitalization rate generated by the total property. This indicates a monthly net income allocated to the personal property of \$231.48 ($\$22,222 \times 0.125 / 12$ months). The monthly per-space allocation of the remainder, or the real property, is calculated at \$398.52 as follows:

Total Monthly Park-Owned Unit Net Income	\$630.00
Less: Net Income Allocated to Personal Property	— 231.48
Remainder, Allocated to Real Property	\$398.52

As a cross-check, the gross monthly market space rental should be compared to the net income real property allocation. In the above example, the park space or site rental should be approximately \$595 per month based on vacancy and expenses of approximately 33% ($\$398.52 / 0.67$). Alternatively, the allocation can be made with gross rental income and multipliers instead of net income and capitalization rates.

Allocation of Personal Property in an RV Park— Cost Approach

The cost approach is most relevant for a new or recently completed park, as physical depreciation on the personal property is negligible. The strength of the cost approach is that it is usually straightforward. While the expertise of a personal property or equipment appraiser may be necessary in some cases, the appraiser can make a list of non-realty items or obtain one from management or the owner's accountant. The primary drawback of the cost approach is that costs are not necessarily equal to market value. Another weakness is that few investors rely on it as a true measure of value.

Table 12 shows the typical costs associated with the personal property (FF&E) found in an independently operated, 75-space overnight RV park with an on-site store, restrooms/showers, and a recreational building.

Table 12	Furniture, Fixtures, and Equipment: RV Park Store, Restrooms, and Recreation Center (Cost New)
1.	Microwave Oven \$2,400
2.	Sandwich Unit Maker/Toaster System \$7,600
3.	Video System \$18,000
4.	Computer System \$9,000
5.	Refrigerator/Freezer System \$35,000
6.	Countertop Containment \$23,000
7.	Signage \$11,000
8.	Chairs/Tables \$8,000
9.	Wall Fixtures/Graphics/Design \$6,800
10.	Pool Table/Ping-Pong Table \$5,000
11.	Safe \$5,500
12.	Inventory/Supplies \$18,700
13.	Miscellaneous Equipment \$15,000
	Total \$165,000

These are in-place costs, meaning that the item is installed within the park. To make comparisons easier, the appraiser may break the FF&E into units of comparison, such as price per space. In the example above, the price per space new is \$2,200 (\$165,000 / 75). FF&E typically depreciates quickly, thus the personal property in a mature park is less than the cost new. Table 13 shows the depreciated costs of the same personal property for a park that has been in operation for four years. The age/life depreciation method is applied.

Table 13 **Summary of Depreciated Personal Property (Park Store, Restrooms, and Recreation Center)**

Item	Cost	Units	Total		Actual	Effective	Economic	Depreciated	
			Cost		Age	Age	Life	Depreciation	Value
Microwave ovens	\$1,200	2	\$2,400	Each	4	4	10	40%	\$1,440
Sandwich unit maker/toaster system	\$3,750	2	\$7,600	Each	2	4	10	40%	\$4,560
Video system	\$18,000	1	\$18,000	Each	4	2	15	13%	\$15,600
Computer system	\$4,500	2	\$9,000	Each	4	4	8	50%	\$4,500
Refrigerator/freezer system	\$35,000	1	\$35,000	Package	4	4	15	27%	\$25,667
Countertop containment	\$23,000	1	\$23,000	Package	4	4	15	27%	\$16,867
Signage	\$11,000	1	\$11,000	Package	4	4	10	40%	\$6,600
Chairs/tables	\$8,000	1	\$8,000	Package	4	4	15	27%	\$5,867
Wall fixtures/ graphics/design	\$6,800	1	\$6,800	Package	4	4	10	40%	\$4,080
Pool table/ping-pong table	\$2,500	2	\$5,000	Each	2	2	15	13%	\$4,333
Safe	\$5,500	1	\$5,500	Each	4	4	20	20%	\$4,400
Inventory/supplies	\$18,700	1	\$18,700	Package	1	1	2	50%	\$9,350
Misc. equipment	\$15,000	1	\$15,000	Package	3	2	10	20%	\$12,000
Total			\$165,000						\$120,637
									Rounded to \$120,000

Intangibles

Mobile home and RV parks often have a combination of real estate and non-realty assets. Allocating business value from such properties is controversial. However, because sales are reported and expressed as a total price and not divided into their various components, it is not always clear how much, if any, market value is attributable to non-realty items. This is especially the case for mobile home parks in which the owner has no ownership interest in the mobile or manufactured homes.

Intangible assets are inherent in the operation of RV parks and some mobile home parks. Separate allocation of intangibles may be required for some appraisal assignments. The question for appraisers is how the intangibles should be measured. The challenge of accounting for the value of non-realty assets is complicated, and the appropriate method for valuing or allocating intangible assets has been highly controversial. Real property

appraisers have become deeply divided over this issue in recent years. It is important to understand the various alternative methodologies advocated by real property appraisers regarding how intangible assets should be accounted for in the valuation process. The Appraisal Institute course *Fundamentals of Separating Real Property, Personal Property, and Intangible Business Assets* presents methodologies that can be applied to allocate the value of intangibles. The 14th edition of *The Appraisal of Real Estate* also includes a chapter on this topic.

Conclusion

Although they are often confused by the general public, mobile home parks and RV parks are different types of investment properties. These differences are often revealed in the parks' non-realty assets. Both park types typically have some form of non-realty assets. Sale prices are reported by total asset value, and appraisers must sometimes allocate the value of the realty and non-realty components. RV parks typically have more non-realty components in the form of personal property and intangibles. On the other hand, although mobile home parks are not often thought of as businesses with a substantial real property component, it is not unusual for mobile home parks to sell with at least some mobile home units. These units fall under the category of personal property unless they are permanently affixed to a foundation. There is no universally accepted method for allocating intangibles, and different methods of allocation may provide different results. Therefore, the appraiser should cross-check for reasonableness.



Glossary

absolute net lease. A lease in which the tenant pays all expenses including structural maintenance, building reserves, and management; often a long-term lease to a credit tenant.

ADA. Americans with Disabilities Act.

amortization. 1. The process of retiring a debt or recovering a capital investment, typically through scheduled, systematic repayment of the principal; a program of periodic contributions to a sinking fund or debt retirement fund. 2. The gradual reduction of an amount over time, such as tax depreciation of intangible items.

anchoring system. A combination of ties, anchoring equipment, and ground anchors that will, when properly installed, resist overturning and lateral movements of manufactured (mobile) homes from wind forces. Anchoring systems are installed when required by local or state law, rule, or regulation. When anchoring is required, the operator is responsible for the proper installation of anchoring systems.

ANSI. American National Standards Institute (www.ansi.org).

as is market value. The estimate of the market value of real property in its current physical condition, use, and zoning as of the appraisal date. (Federal Deposit Insurance Corporation, *Interagency Appraisal and Evaluation Guidelines* (www.fdic.gov, last updated April 20, 2014).) Note that the use of the “as is” phrase is specific to appraisal regulations pursuant to FIREEA applying to appraisals prepared for regulated lenders in the United States. The concept of an “as is” value is not included in the Standards of Valuation Practice of the Appraisal Institute, Uniform Standards of Professional Appraisal Practice, or International Valuation Standards.

average daily rate (ADR). The average rental rate for a park over an entire year broken down on a daily basis.

average daily space rate (ADSR). The average rental rate per space over an entire year broken down on a daily basis.

base rent. The minimum rent stipulated in a lease.

building rentable area. In general, the sum of all floor area rentable areas. Floor rentable area is the result of subtracting from the gross measured area of a floor the major vertical penetrations on that same floor. It is generally fixed for the life of the building and is rarely affected by changes in corridor size or configuration.

campground. A parcel or tract of land with one or more overnight sites that provide temporary quarters for camping units and/or recreational vehicles.

campground standards. Regulations, requirements, and minimum standards for recreational camping areas and campgrounds.

camping trailer. A portable unit mounted on wheels that unfolds into a tent.

campsite. An area within a campground occupied by a camping party.

capital improvement. An item that is intended to increase or extend the income and/or life of a property—e.g., new or improved roads, a recreation hall, a pool, etc. A capital improvement should not be treated as an annual expense.

capitalization rate (R). A ratio of one year's net operating income provided by an asset to the value of the asset; used to convert income into value in the application of the income capitalization approach.

cash flow before taxes. Cash produced from operations, specifically net operating income less debt service. May be modified after taxes.

cash-on-cash rate. The ratio of annual equity income to the equity investment; also called *equity capitalization rate*, *cash flow rate*, or *equity dividend rate*.

condominium park. A type of resident-owned park in which spaces are owned by individual entities. A form of ownership in which each owner possesses the exclusive right to use and occupy an allotted space or site plus an undivided interest in common areas.

contributory value. 1. A type of value that reflects the amount a property or component of a property contributes to the value of another asset or to the property as a whole. 2. The change in the value of a property as a whole, whether positive or negative, resulting from the addition or deletion of a property component.

conversion. Changing the use of a mobile home park to a purpose other than the rental, or the offering for rent, of two or more mobile homes used for human habitation. Such a conversion may affect the entire mobile home park or a portion thereof. A conversion may include, but is not limited to, a change of any existing mobile home park or any portion of a park to ownership as a condominium, stock cooperative, planned unit development, or any other form of ownership in which spaces within the mobile home park are to be sold. Conversion can also refer to the cessation of use of all or a portion of the park as a mobile home park, whether immediately or on a gradual basis, or the closure of the park. Conversion does not include the mere purchase of the park by its existing residents.

cooperative (co-op). A type of resident-owned community that provides homeowners with control over the sites or spaces under their homes. Homeowners own a share in the co-op, which owns the community for the benefit of the shareholders. Co-ops can purchase the community without requiring homeowners to either get a loan to buy their own lot or move (or sell) their home if they cannot. Co-ops operate on the one-member/one vote rule, with decision-making by majority or super-majority on major issues. There are two major types of co-ops: market rate and limited-equity. Market rate co-ops are communities financed by a combination of funds obtained through the sale of member shares and bank financing. Often, only a handful of homeowners can afford to buy shares, so they become the owners while the other homeowners continue to rent their spaces. Members are free to put their shares on the open market when they sell their homes. Limited-equity co-ops are designed to keep shares affordable to all homeowners with low fixed share values. The co-op itself borrows a greater amount of the purchase money with the help of non-profit and government lenders. The goal is to attract the greatest number of members.

cooperative ownership. A form of property ownership in which each unit owner holds stock in a cooperative apartment building or housing corporation. Stockholders receive a proprietary lease on a specific apartment and are obligated to pay a monthly maintenance charge that represents the proportionate share of operating expenses and debt service on any underlying mortgage, which is paid by the corporation. This proportionate share is based on the proportion of the total stock owned.

cost approach. A set of procedures through which a value indication is derived for the fee simple estate by estimating the current cost to construct a reproduction of (or replacement for) the existing structure, including an entrepreneurial incentive or profit; deducting depreciation from the total cost; and adding the estimated land value. Adjustments may then be made to the indicated value of the fee simple estate in the subject property to reflect the value of the property interest being appraised.

cost of goods. The wholesale cost of goods for resale (e.g., groceries and supplies).

crowdfunding. 1. The practice of funding a project or venture by raising many small amounts of money from a large number of people, typically via the Internet. Crowdfunding has the potential to increase entrepreneurship by expanding the pool of investors from whom funds can be raised beyond the traditional circle of owners, relatives, and venture capitalists. In the United States, crowdfunding is restricted by regulations on who is allowed to fund a new business and how much they are allowed to contribute. 2. A form of real property financing that aggregates and funnels money from individual investors to a project developer, soliciting investors to pool money online to purchase individual properties. This process opens up investment in commercial real estate to many more individuals than a traditional real estate syndication, but it is subject to SEC regulations.

debt coverage ratio (DCR). The ratio of net operating income to annual debt service ($DCR = NOI/I_M$), which measures the relative ability of a property to meet its debt service out of net operating income; also called *debt service coverage ratio (DSCR)*. A larger *DCR* typically indicates a greater ability for a property to withstand a reduction of income, providing an improved safety margin for a lender.

defaulting tenant. A tenant who fails to pay for his or her occupancy in a park or fails to comply with reasonable written rules and regulations of the park, which are given to the person upon registration or during the term of his or her occupancy in the park.

depreciation. In appraisal, a loss in property value from any cause; the difference between the cost of an improvement on the effective date of the appraisal and the market value of the improvement on the same date. Recreational vehicle and mobile home parks can be affected by physical deterioration, functional obsolescence, and external obsolescence.

destination park. A type of recreational vehicle park that provides extensive amenities and services and is itself an attraction rather than merely a stopover en route to another destination. Destination parks are usually, but not always, located in tourist areas.

direct capitalization. A method used to convert an estimate of a single year's income expectancy into an indication of value in one direct step, either by dividing the net income estimate by an appropriate capitalization rate or by multiplying the income estimate by an appropriate factor. Direct capitalization employs capitalization rates and multipliers extracted or developed from market data. Only one year's income is used. Yield and value changes are implied, but not explicitly identified.

direct costs. Expenditures for the labor and materials used in the construction of improvements; also called *hard costs*. *See also* **indirect costs**.

discounted cash flow (DCF) analysis. The procedure in which a discount rate is applied to a set of projected income streams and a reversion. The analyst specifies the quantity, variability, timing, and duration of the income streams and the quantity and timing of the reversion, and discounts each to its present value at a specified yield rate.

double-wide home. A manufactured or mobile home 20 feet (6.1 m) or more wide and 90 feet (27 m) or less long that is towed to a site in two separate units, which are then joined together.

double-wide space. A park space designed to accommodate a double-wide home. New standards typically require a minimum space area of 3,400 square feet (50-ft. width) and a maximum space coverage of 65%.

easement. The right to use another's land for a stated purpose.

effective gross income (EGI). The anticipated income from all operations of the real estate after an allowance is made for vacancy and collection losses and an addition is made for any other income.

effective gross income multiplier (EGIM). The ratio between the sale price (or value) of a property and its effective gross income.

effective rent. Total base rent, or minimum rent stipulated in a lease, over the specified lease term minus rent concessions; the rent that is effectively paid by a tenant net of financial concessions provided by a landlord. Usually expressed as a dollar amount per square foot. In some parts of the country, rents are quoted in dollars per square foot per month, while others use dollars per square foot per year.

en route park. *See* **overnight park**.

excess land. Land that is not needed to serve or support the existing use. The highest and best use of the excess land may or may not be the same as the highest and best use of the improved parcel. Excess land has the potential to be sold separately and is valued separately. Sometimes known as *expansion land*. *See also* **surplus land**.

exposure time. 1. The time a property remains on the market. 2. [The] estimated length of time that the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of the appraisal.

Comment: Exposure time is a retrospective opinion based on an analysis of past events assuming a competitive and open market. (*Uniform Standards of Professional Appraisal Practice*, 2016-2017 ed. (Washington, DC: Appraisal Foundation, 2016.) See also **marketing time**.

extended-stay park. A type of recreational vehicle park in which occupants stay for extended periods of time, such as for a season or an entire year. Also called a *residency park*.

face rate. The quoted rental rate, exclusive of discounts. The face rate is also referred to as the *rack rate*.

factory-built house (FBH). 1. A residential structure manufactured wholly or partially off site, in sections or building components which are assembled at the installation site to form part or most of a completed unit. Factory-built housing reduces many of the costs associated with the construction of single-unit and multi-unit residences, dormitories, hotels, and motels by making use of mass-production techniques in a controlled automated factory. Depending on the definition, factory-built housing units may or may not include recreational vehicles and commercial modular units. 2. A mobile home, manufactured home, or modular home that is fully finished (painted or papered walls and ceilings) or nearly fully finished in a factory. The term *factory-built house* does not apply to “kit” or “panelized” homes that are only partially fabricated in a factory. Generally, if the interior walls are finished (i.e., painted or papered) when the unit leaves the factory, then the home is considered “factory-built.” Multistory homes, where the upper level is finished after the house is set on the foundation, are still considered factory-built if the main level is finished in the factory.

family park. A mobile home park that is open to families and people of all ages. Sometimes referred to as an *all-age community*. In contrast, age-restricted parks are typically available to people 55 years old and older.

FF&E. Furniture, fixtures, and equipment.

fifth-wheel trailer. A mounted, self-contained recreational unit that is similar to a travel trailer and designed to be pulled by a vehicle.

five-star park. The highest-rated park in the former Woodall’s Publishing rating system of mobile home parks. This type of park is a luxury park that is improved to its highest potential.

four-star park. The second-highest rated park in the former Woodall's Publishing rating system of mobile home parks. In addition to what is found in one- to three-star parks, four-star parks have good landscaping, paved streets, concealed tanks, spaces that can accommodate double- and triple-wide homes, uncrowded spaces, underground utilities (if required by code), and a clubhouse with a swimming pool or recreational facilities.

going-concern value. An outdated label for the market value of all the tangible and intangible assets of an established and operating business with an indefinite life, as if sold in aggregate; more accurately termed the *market value of the going concern* or *market value of the total assets of the business*.

Good Sam. An international organization of recreational vehicle owners (www.goodsam.com). Good Sam is the largest organization of recreational vehicle owners in the world. It is focused on making recreational vehicle living safer and more enjoyable and on saving members money through club-endorsed benefits and services.

goodwill. 1. Unidentifiable intangible assets. 2. The amount by which the acquisition price exceeds the fair value of identified assets. 3. That intangible asset arising as a result of name, reputation, customer loyalty, location, products, and similar factors not separately identified. (*International Glossary of Business Valuation Terms*¹) 4. That intangible asset arising as a result of elements such as name, reputation, customer loyalty, location, products, and related factors not separately identified and quantified. (*ASA Business Valuation Standards* (Reston, VA: American Society of Appraisers, 2009).)

goodwill value. The value attributable to the elements of intangible assets above the identifiable tangible and intangible assets employed in a business. (*ASA Business Valuation Standards* (Reston, VA: American Society of Appraisers, 2009).)

gross profit. Gross revenue or income minus the cost of goods sold.

gross profit multiplier (GPM). A unit-of-comparison value indicator derived by dividing the sale price of a property by the gross profit it produces. The GPM is similar to the GIM and is applied in recreational vehicle park valuations in which there are substantial store sales; the GIM and variations of it, such as the GRM, are more commonly used in the valuation of mobile home parks.

1. American Institute of Certified Public Accountants, American Society of Appraisers, Canadian Institute of Chartered Business Valuators, The Institute of Business Appraisers, National Association of Certified Valuation Analysts

gross rent multiplier (GRM). The relationship or ratio between the sale price or value of a property and its periodic gross rental income.

gross retail sellout. The sum of the appraised values of the individual units in a park or subdivision, assuming that all units were available for retail sale as of the date of the appraisal. The sum of the retail sales includes an allowance for space (site) premiums, if applicable, but excludes all allowances for carrying costs.

ground lease. 1. A land lease that is usually long-term (more than 10 years). Some recreational vehicle and mobile home parks have ground lease arrangements under which the lessee owns the park improvements. Typically, improvements revert to the ground lessor at the end of the lease term. To circumvent rent control in some jurisdictions, the park owner will lease spaces (ground) to the owners of mobile homes on terms exceeding 12 months (typically two to five years). 2. A lease that grants the right to use and occupy land. Improvements made by the ground lessee typically revert to the ground lessor at the end of the lease term.

group site. A site or area within a recreational vehicle park set aside for groups.

guest. A person who is lawfully occupying a recreational vehicle located in a park but is not an occupant, tenant, or resident.

HCD. The California Department of Housing and Community Development (www.hcd.ca.gov). The HCD sets manufactured housing park standards and codes for the state of California.

home. A mobile or manufactured home in a mobile home or recreational vehicle park.

homeowner. The registered owner or owners of a mobile home or recreational vehicle, who has a tenancy in a mobile home or recreational vehicle park under a rental or lease agreement.

hypothetical condition. 1. A condition that is presumed to be true when it is known to be false. (SVP) 2. A condition, directly related to a specific assignment, which is contrary to what is known by the appraiser to exist on the effective date of the assignment results, but is used for the purpose of analysis. Comment: Hypothetical conditions are contrary to known facts about physical, legal, or economic characteristics of the subject property; or about conditions external to the property, such as market conditions or trends; or about the integrity of data used in an analysis. (*Uniform Standards of Professional Appraisal Practice*, 2016-2017 ed. (Washington, DC: Appraisal Foundation, 2016).)

income capitalization approach. Specific appraisal techniques applied to develop a value indication for a property based on its earning capability and calculated by the capitalization of property income.

indirect costs. Expenditures or allowances for items other than labor and materials that are necessary for construction, but are not typically part of the construction contract. Indirect costs may include administrative costs, professional fees, financing costs and the interest paid on construction loans, taxes and the builder's or developer's all-risk insurance during construction, and marketing, sales, and lease-up costs incurred to achieve occupancy or sale. Also called *soft costs*. *See also* **direct costs**.

in-space value. The value of a mobile home in its current condition and park location, without regard to the possibility of park closure. Once moved from the park, the home loses this value (unless it is relocated to a space within a similar park). Also referred to as *in-place value* or *in-park value*.

internal rate of return (IRR). The annualized yield rate or rate of return on capital that is generated within an investment or portfolio over a period of ownership. Alternatively, the indicated return on capital associated with a projected or pro forma income stream. Generally speaking, the higher a project's internal rate of return, the more desirable it is to undertake the project.

investment value. The value of a property to a particular investor or class of investors based on the investor's specific requirements. Investment value may be different from market value because it depends on a set of investment criteria that are not necessarily typical of the market.

loan-to-value ratio (M). The ratio between a mortgage loan and the value of the property pledged as security, usually expressed as a percentage; also called *loan ratio* or *LTV*.

management fee. The amount charged by a management firm to manage property for an owner. In income and expense analysis, a management fee is typically treated as a variable operating expense, usually expressed as a percentage of effective gross income.

manufactured home. 1. A structure that is transportable in one or more sections with or without a permanent foundation and contains plumbing, heating, air conditioning, and electrical systems. 2. A factory-built house manufactured under the Federal Manufactured Home Construction and Safety Standards Act, commonly known as the *HUD Code*. *See also* **mobile home**.

marketing time. An opinion of the amount of time it might take to sell a real or personal property interest at the concluded market value level during the period immediately after the effective date of an appraisal. Marketing time differs from exposure time, which is always presumed to precede the effective date of an appraisal.

membership park. A type of recreational vehicle park that is only available for use by members for a certain amount of time. These parks have maximum-stay requirements, and memberships can be sold in a resale market with a transfer fee. Membership parks typically have affiliations with other membership parks, allowing the member to travel from park to park.

mobile home. 1. A factory-built “manufactured” structure designed for human habitation. Today the term is used interchangeably with *manufactured home*. Mobile homes are eight feet or more wide and 32 feet or more long. They are transportable in one or more sections, built on a permanent chassis, and designed to be used as a dwelling with or without a permanent foundation when connected to the required utilities. A mobile home includes plumbing, heating, air conditioning, and electrical systems. 2. A factory-built house on a permanent chassis constructed prior to the enactment of the HUD Code on June 15, 1976. *See also* **manufactured home**.

mobile home park. 1. An area of land where two or more mobile home sites are rented, or held out for rent, to accommodate mobile homes and/or manufactured homes used for human habitation. A permit to operate the park is required from the appropriate permit-issuing agency or official. 2. Any site with facilities suitable for parking two or more mobile homes somewhat permanently.

mobile home park accessory building. A building or structure that is an addition to or supplements the facilities provided in a mobile home park. It is not a self-contained, separate, and habitable building or structure.

mobile home park owner. The owner, lessor, or sublessor of a mobile home park who receives or is entitled to receive rent for the use or occupancy of any mobile home space and reports to the Internal Revenue Service any income received or loss of income resulting from such ownership and claims any expenses, credits, or deductions because of such ownership.

mobile home park rent control. A legal regulation that specifies the maximum rental payment for the use of the individual spaces in a mobile home park property.

mobile home park rent control ordinance. An ordinance or rent stabilization order designed to protect mobile home tenants from excessive rent increases, while at the same time allowing landlords a reasonable rate of return on their investments. Exempted park properties are typically those properties issued a first certificate of occupancy or a permit to operate after a certain date, government-owned properties, and affordable housing units. Mobile home park rent control ordinances vary in different municipalities and may or may not have vacancy control.

mobile home residency law (MRL). Rules and legal regulations establishing the rights and responsibilities of homeowners and park management. These include but are not limited to the following:

- Management must give a homeowner written notice of any increase in his or her rent at least 90 days before the date of increase.
- No rental or sales agreement may contain a provision by which a purchaser or a homeowner waives any of his or her rights under the MRL.
- Management may not terminate or refuse to renew a homeowner's tenancy except for one or more of the authorized reasons set forth in the MRL.

motor home. A self-powered vehicular unit designed to provide living quarters, usually for recreation, camping, and/or travel. These units are permanently attached to a self-propelled motor vehicle chassis.

NADA. The National Automotive Dealers Association (www.nada.com), which was founded in 1917 to represent the interest of new car and truck dealers to the public, the media, Congress, and vehicle manufacturers.

National Manufactured Home Communities Group (NMHCG). The manufactured housing division of the brokerage company Marcus and Millichap, which provides market information for mobile home and manufactured housing parks and recreational vehicle resorts, including reports and advisory services (www.marcusmillichap.com/properties/product-speciality-divisions/national-manufactured-housing-communities-group).

net operating income (NOI or I_o). The actual or anticipated net income that remains after all operating expenses are deducted from effective gross income but before mortgage debt service and book depreciation are deducted. Note: This definition mirrors the convention used in corporate finance and business valuation for EBITDA (earnings before interest, taxes, depreciation, and amortization).

one-star park. The lowest-rated park in the former Woodall's Publishing rating system of mobile home parks. One-star parks typically have dirt and/or gravel roads, a high percentage of single-wide homes and spaces, minimal landscaping, and no recreational facilities.

operating expenses. The periodic expenditures necessary to maintain the real estate and continue production of the effective gross income, assuming prudent and competent management. One-time expenses, income taxes, amortization, and book depreciation are not included in operating expenses.

overnight park. A type of recreational vehicle park mainly patronized by travelers en route to other destinations. Also known as an *en route park*.

park density. The number of spaces or sites per acre within a park. State density laws vary, and recreational vehicle parks are typically allowed a higher density than mobile home parks.

park model recreational vehicle (PMRV). As defined by the RVIA, a unique trailer-type RV that is designed to provide temporary accommodation for recreation, camping, or seasonal use. PMRVs are built on a single chassis, mounted on wheels, and have a gross trailer area not exceeding 400 square feet in the set-up mode. They are certified by their manufacturers as complying with the ANSI A119.5 standard for recreational park trailers. (Recreational Vehicle Industry Association, "Park Model RVs (aka Recreational Park Trailers): Definition and Use," www.rvia.org/UniPop.cfm?v=2&OID=3465&CC=7616.)

park-owned unit. A home or unit owned by the owner of the rental park. It is not uncommon for the park owner to own one or more units in the park.

park rating. A numerical or star rating assigned to a mobile home or recreational vehicle park. For a mobile home park, a one-star (worst) to 5-star (best) system rates the overall appeal of the park rather than the investment quality. Recreational vehicle parks are rated on a 1- to 10-point scale, based on factors such as appeal, attractions, and cleanliness.

park store. A convenience or grocery store on park property typically designed to serve park occupants. Stores are usually found in recreational vehicle parks rather than mobile home parks.

permit-issuing official. The health commissioner or health officer of a city (or county) with a population of 50,000 or more.

personal property. 1. The interests, benefits, and rights inherent in the ownership of tangible objects that are considered by the public as being personal; also called *tangible personal property*. 2. Identifiable tangible objects that are considered by the general public as being “personal”—for example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all tangible property that is not classified as real estate. (Uniform Standards of Professional Appraisal Practice, 2016-2017 ed. (Washington, DC: Appraisal Foundation, 2016).)

per-space value. A unit of comparison commonly employed in the appraisal of recreational vehicle and mobile home parks. Mobile home park spaces commonly sell at higher per-space values than recreational vehicle park spaces.

potable watering station. A facility or station that provides drinking water to users of a recreational vehicle park. The supply of potable water must meet the criteria of the Safe Drinking Water Act of 1974 and federal drinking water regulations.

potential gross income multiplier (PGIM). The ratio between the sale price (or value) of a property and its annual potential gross income. ($PGIM = V/PGI$)

profit center. A facility or area in or attached to a park that has the potential for making a profit. The park store, game room, and laundry facility are all profit centers.

pull-through site. A preferred type of site in a recreational vehicle park designed to accommodate longer recreational vehicles. These sites are located between two roadways, so the driver can pull the recreational vehicle directly into the space.

rate of return. The ratio of income or yield to the original investment, can be annual (e.g., the ratio of the current annual net income generated from the operation of an enterprise to the capital investment) or for some other defined period (e.g., the yield to maturity of the investment). *See also* **capitalization rate (R)**.

reconstructed operating statement. A statement prepared by an appraiser or other analyst to reflect the potential future performance of a property, considering its historical income and expenses. In preparing reconstructed operating statements, appraisers may consult accountants’ financial statements, comparable properties, auditors’ statements, or historical data provided by the ownership entity.

recreational vehicle (RV). A vehicle-type unit designed primarily for travel and recreational use. It may be self-powered or towed by another vehicle. *See also* fifth-wheel trailer, motor home, park model recreational vehicle (PMRV), tent trailer, travel trailer, and truck camper.

recreational vehicle (RV) club. A social group or organization made up of RV owners. These clubs are generally local chapters of nationwide organizations, such as Good Sam.

recreational vehicle (RV) park. A campsite facility with parking for recreational vehicles and individual hookups for water, electricity, and other utilities. Communal bath houses and laundries are also typically available. High-amenity camps include more extensive hookups such as telephone, cable, and Internet, as well as a communal pool and planned events and child activity programs. Also called *trailer camp*.

recreational vehicle (RV) park occupancy law. Legal rights, regulations, and agreements of RV park tenants, occupants, and guests as well as park owners, enforceable through legal action in courts.

recreational vehicle (RV) park tenant. An owner or operator of an RV who has occupied a space or site in a park for more than 30 consecutive days.

recreation hall. A common park building or other structure, usually enclosed, that is used for a variety of recreational and special purposes such as dances, games (bingo), and meetings.

rental park. A park that generates income primarily through lease rentals of spaces or sites. Most rental parks have a low percentage of park-owned units with individual spaces rented by homeowners. The basic structural amenities are a rental office or booth, recreation building, and laundry room. Recreational vehicle rental parks also have showers and restrooms as basic amenities.

rental rate. The monetary rate charged to park occupants on a daily, weekly, monthly, or yearly basis. Rates vary depending on park quality and location, season, utility hookups and reimbursements, lease terms, etc. Rates may be subject to discounts.

rent control. A legal regulation that specifies the maximum rental payment for the use of property.

replacement allowance. An allowance that provides for the periodic replacement of building components that wear out more rapidly than the building itself and must be replaced during the building's economic life; sometimes referred to as *reserves*, *replacement reserves*, or *reserves for replacement*.

resident-owned park. A park community in which the spaces or sites and improvements are owned by the homeowners as either a subdivision, a condominium, or a cooperative (co-op). In subdivisions and condominiums, homeowners own their individual lot or space and have common ownership of community facilities. In a co-op, homeowners own a share in the co-op, which owns the community for the benefit of its shareholders. Approximately 2% of manufactured home communities in the United States are resident-owned parks.

RVIA. Recreation Vehicle Industry Association (www.rvia.org). A national trade association representing recreational vehicle manufacturers and their component parts suppliers. The RVIA is a clearinghouse of industry facts and information and works to educate the public about the benefits of RVing.

sales comparison approach. The process of deriving a value indication for the subject property by comparing sales of similar properties to the property being appraised, identifying appropriate units of comparison, and making adjustments to the sale prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison. The sales comparison approach may be used to value improved properties, vacant land, or land being considered as though vacant when an adequate supply of comparable sales is available.

sanitary disposal station. A facility where recreational vehicle users can dispose of the waste in their holding tanks (i.e., a dump station) through a septic leach field system or sewer. For some parks, the dump station can be a profit center.

seasonal park. A type of recreational vehicle park that is only open during certain seasons or times of the year.

senior park. A mobile home park designed exclusively for adults ages 55 and older. These communities offer amenities for people within this age bracket. Sometimes referred to as an *age-restricted park* or a *retirement park*.

single-wide home. The smallest mobile or manufactured home having a width of 18 feet (5.5 m) or less and a length of 90 feet (27 m) or less. The unit is towed to the site or space as a single unit.

single-wide space. The smallest mobile home park space designed to accommodate a single-wide home. New standards typically require a minimum space area of 2,400 square feet (40 feet × 60 feet) and a maximum space coverage of 65%.

snowbirds. Retired or semi-retired recreational vehicle owners who migrate to warmer climates during the winter months. Snowbirds are sometimes referred to as *winter Texans*.

special-purpose property. A property with a unique physical design, special construction materials, or a layout that particularly adapts its utility to the use for which it was built; also called a *special-design property*.

stabilized occupancy. 1. The occupancy of a property that would be expected at a particular point in time, considering its relative competitive strength and supply and demand conditions at the time, and presuming it is priced at market rent and has had reasonable market exposure. A property is at stabilized occupancy when it is capturing its appropriate share of market demand. 2. An expression of the average or typical occupancy that would be expected for a property over a specified projection period or over its economic life.

sublease. An agreement in which the lessee in a prior lease conveys the right of use and occupancy of a property to another, the sublessee, for a specific period of time, which may or may not be coterminous with the underlying lease term.

submeter. *See* utility submeter.

surplus land. Land that is not currently needed to support the existing use but cannot be separated from the property and sold off for another use. Surplus land does not have an independent highest and best use and may or may not contribute value to the improved parcel. *See also* **excess land**.

tent site. A site within a recreational vehicle park or campground that is set aside for tent camping.

tent trailer. A type of portable recreational unit that is mounted on wheels and folds out into a tent.

three-star park. The mid-range rating for a mobile home park in the former Woodall's Publishing rating system. A three-star park must have what one- and two-star parks have plus an attractive entrance, paved or hard streets, and some spaces for larger mobile homes.

towables. Manufactured units, such as trailers, capable of being towed by another vehicle.

trailer park. An area in which parking space for house trailers is rented, usually providing utilities and services. Also called a *trailer camp*. The term is often associated with a lower-quality mobile home or recreational vehicle park.

trailer toy. Prior to the development of traveler motels, a trailer used by wealthy individuals and families to rest alongside the roadway on trips and vacations.

transient occupancy tax. A tax levied with transitory occupancy of less than 30 days.

travel trailer. A type of recreational unit that is mounted on wheels and towed by another vehicle. Special highway movement permits are not required, and the travel trailer can be unhooked and left at a site for extended periods of time.

triple-wide home. A large manufactured or mobile home that is towed to the site or space in multiple units, which are then joined together.

triple-wide space. A space designed to accommodate a triple-wide home. New standards typically require a minimum space area of 4,400 square feet (60 feet in width) and a maximum space coverage of 65%.

truck camper. A type of portable recreational unit that is mounted or loaded on a pickup truck.

two-star park. The second-lowest-rated park in the former Woodall's Publishing rating system of mobile home parks. In addition to what a one-star park offers, a two-star park has fair to average landscaping, neat storage, a well-equipped laundry facility (or nearby laundromat), 220-volt electrical connections, a playground (if children are permitted), and streets in good condition that are dust-free and made of gravel and crushed rock.

URAR form. The Uniform Residential Appraisal Report (Fannie Mae Form 1004/Freddie Mac Form 70 (March 2005)), a form commonly used by appraisers to appraise a single-unit residence. A variation of this form used for manufactured homes is the HUD-approved Manufactured Home Appraisal Report (Fannie Mae Form 1004C/Freddie Mac Form 70B (March 2005)).

use permit. A permit allowing a specific use of real property. Such permits may limit the use to a specific period of time.

utility submeter. A system that allows a landlord, property management firm, condominium association, homeowners association, or other multi-tenant property such as a mobile home park to bill tenants for individually measured utility usage.

value in place. In appraisal, the amount a purchaser would pay for an item (e.g., equipment, fixtures) in place; determined by the use the item contributes to the whole.

year-round park. A recreational vehicle park that is open year-round.

Bibliography

Books, Articles, and Other Resources

The Appraisal of Real Estate. 14th ed. Chicago: Appraisal Institute, 2013.

Curtin, Richard T. *The RV Consumer in 2011*. Ann Arbor, MI: University of Michigan, 2011. <https://data.sca.isr.umich.edu/fetchdoc.php?docid=49063>.

Effinger, Anthony, and Katherine Burton. "The Next Mobile Frontier: Trailer Parks Lure White-Collar Types Seeking Double-Wide Profits." *The Washington Post* (May 10, 2014).

Fedro, John. "Three Types of Mobile Home Parks and How Each Tends to Work with Investors." *Bigger Pockets* (November 17, 2014). www.biggerpockets.com/renewsblog/2012/07/10.

Golden State Manufactured-home Owners League (GSMOL). *California Jurisdictions with Mobile Home Park Rent Stabilization Ordinances*. March 2015. www.slomap.org/CA%20Jurisdictions%20Rent-Stabilization.pdf.

Good Sam RV Travel Guide and Campground Directory. Available in print and as an online directory at www.woodalls.com.

Hess, Darrell E. *Getting Your Banker to Say "Yes" to Your Request*. Lake Junaluska, NC: Darrell Hess & Associates. www.campgroundsforsale.com/EducationalMaterials/LoanBook.htm.

Hogan, Timothy, and Stephen Happel. "1993-1994 Winter Residents Important to AZ Economy." *Arizona Business* 41, no. 7 (July 1994).

Kurhi, Eric. "Palo Alto: Supervisors Put \$8 Million in Pot to Save Mobile Home Park." *San Jose Mercury News* (January 28, 2015).

Lake County, California, Zoning Article 43, Sec. 21-43: Regulations for Establishment of Mobile Home Parks, Recreational Vehicle Parks and Campgrounds and Conversion, Closure or Cessation of Use of Mobile Home Parks (Ord. No. 2836, September 20, 2007). www.co.lake.ca.us/Assets/CDD/ZoningOrd/Zoning+Article+43.pdf.

Margonelli, Lisa. "How the Trailer Park Could Save Us All." *Pacific Standard Magazine* (April 22, 2013).

NFPA 1194-2014: *Standards for Recreational Vehicle Parks and Campgrounds*, 2014 ed. National Fire Protection Association and American National Standards Institute, 2014. <http://webstore.ansi.org/RecordDetail.aspx?sku=NFPA+1194-2014>.

Nulsen, Robert H. *Construction, Management and Investment Potential of Mobile Home and Recreational Vehicle Parks*. Beverly Hills, CA: Trail-R-Club of America, 1970.

Reynolds, Dave. "Why Invest in Mobile Home Parks and Other Types of Parks?" Mobile Home Park Store.com (July 18, 2007).

Rivlin, Gary. "The Cold, Hard Lessons of Mobile Home U." *The New York Times* (March 13, 2014).

Rolfe, Frank. "Why Investors Like Warren Buffett are Bullish on Mobile Home Parks." *National Real Estate Investor* (April 15, 2011).

_____. "Why Mobile Home Parks Are Wowing Wall Street" *NuWire Investor* (November 4, 2014).

Shuey, William, and Rachel Blake. "Another Way to Invest in Mobile Home Parks." *Rooflines* (*Shelterforce* magazine blog published by the National Housing Institute) (April 24, 2014).

United States Census Bureau. *Historical Census of Housing Tables*. Last revised October 31, 2011. www.census.gov/hhes/www/housing/census/historic/units.html.

_____. *Manufactured Housing Survey*. www.census.gov/programs-surveys/mhs.html.

Yousuf, Hibah. "Most Mobile Homes are in the South—Census." *CNN Money* (September 23, 2009).

Organizations

California Association of RV Parks and Campgrounds: www.cvalarvc.org

California Department of Housing and Community Development:
www.hcd.ca.gov

National Association of RV Parks and Campgrounds: www.arvg.org

National Automotive Dealers Association: www.nada.com

National Manufactured Home Communities Group (NMHCG):
[www.marcusmillichap.com/properties/product-speciality-divisions/
national-manufactured-housing-communities-group](http://www.marcusmillichap.com/properties/product-speciality-divisions/national-manufactured-housing-communities-group)

Recreational Vehicle Industry Association (RVIA): www.rvia.org

