Property Value Basics

An essential step in purchasing a manufactured home community (MHC) is the appraisal of the property's dollar value. Valuations for MHC properties are very different from the appraisals for single family homes. Appraisals can often be more than 50 pages long and incorporate many data points compiled by professional appraisers. Valuing your manufactured housing community takes place at two different times and for two different purposes. Both steps are complicated and should really be assisted by a professional with valuation experience.

The first time the value is determined is during initial negotiations to determine the purchase price for the community. This stage usually begins with a quick method called an "estimate of value" which is then confirmed by an acquisition and operating pro forma. The estimate of value looks at how much profit is generated by the property and then divides this amount by a capitalization rate or "cap rate" to determine the property value. Cap rates are usually assumed based on the condition of the property and similar cap rates for similar, nearby properties. For example, if a property generates $100,000 in profit annually and the area cap rate is 8%, then the math is 100,000 / 0.08 which equals a property value of $1,250,000. This method relies heavily on subjective cap rates and needs to be better supported by acquisition and operating proformas.

These proformas are basically budgets for purchasing the property and operating it after purchase. Starting with the "estimate of value" the valuator adds up all the costs of buying the MHC and determines how big of a loan the community would need to buy. Using current interest rates, the annual cost to pay back that loan is calculated. This loan payment is added to all the other expenses of running your MHC like maintenance, property management, taxes, and utilities. Finally, once all those expenses are added together, you can determine how much each household would need to pay in the lot fee to cover expenses and the loan payments. That total lot fee is then compared to rent in the area for similar apartments and in other MHCs. Are the amounts similar and within the residents' ability to pay? If the answer is yes, then a value for buying the community is established.

The second time the property value is evaluated is by the professional appraiser. This happens after the residents have signed the purchase and sale agreement. The appraisal is useful for everyone working on the project but absolutely required for the bank, credit union, or other lender making the loan. They need to see that the appraised value matches the purchase price, so they know their loan is well secured. Appraisals combine two methods: income capitalization and market comparisons. The income capitalization method is like the estimate of value described above and really looks at the profit the property can generate. The market comparisons look at other similar properties that have sold recently and evaluate if this purchase price matches those trends.

Property valuation is highly technical and really requires help from someone experienced in commercial real estate. Still, it is important for everyone to know how the process is different from typical home appraisals and how the property needs to be evaluated once informally before negotiating a purchase price and then once more formally during the co-op purchase process.

Washington State Department of Commerce

Keep In Mind

When determining the total cost of purchasing the property, there will be closing costs like developer fees, title company fees, and most importantly funding reserves. These reserves are crucial because they provide the cooperative with funds on day one to begin repairs and plan for infrastructure improvements.

Learn More

Cap Rates are both imperfect tools for determining property values AND are widely used in almost all acquisitions. If you want to dig deeper into the cap rate formula you can check out a detailed article with Investopedia.

ROC Northwest Support

ROC Northwest plays a critical role in determining the property's value. ROC Northwest staff has expert knowledge in creating initial estimates of value, developing budgets to purchase the MHC, and fine tuning the first operating budget. This process requires knowledge about cap rates, interest rates, operating cost budgeting, and market rents.

Seller Corner

The property valuation for selling to your residents is the same as for selling to any buyer. Resident purchases offer full market value and use industry accepted valuation methods. ROC Northwest staff will work with you to review operating history, current rent rolls, and history of infrastructure work so the OPEX and CAPEX assumptions are well grounded. ROC Northwest uses direct income capitalization to assess values and recommends appraisers specialized in MHC sales.

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