Washington State Department of Commerce

Limited Equity: How it's different

Over time, property values of manufactured home communities usually go up. As a result, community owners often make a profit when they sell the community. Whoever buys the community must be able to afford this higher sales price. One way buyers make it affordable is to raise rents. This creates a cycle where communities sell for higher prices which results in higher rents and the process repeats.

Resident Owned Communities (ROCs) use a limited-equity model to break this cycle, keep rent increases low, and prevent the community from being resold. A typical manufactured home community with an investor owner allows the owner to sell the community and take all the gain from a higher sales price, limited-equity ownership means that no owner gets to take this profit. With this profit motive removed, the community has no reason to sell. Instead, the most valuable option is to keep the community open, providing housing to residents. This also means that members of a ROC cannot sell their community to get a big payout. When a resident joins a ROC, they contribute a few hundred dollars in equity. When they leave, they get all this equity back but no gains or profits on that equity, even if the community's property values have gone up.

One place where residents can profit from rising property values is in their homes. Because the underlying land value is limited, long-term rents at ROCs become more affordable compared to conventional manufactured home communities. When you sell your home in a manufactured home community, any buyer will look at two things: what is the space rent, and will this community stay open? Because the rents are probably lower and the community has no reason to ever close, that buyer may be willing to pay more for the home. This process where the underlying land value is limited but individual homes go up in value is why it's called limited equity - the equity increase is limited to the individual homes.

Rising prices and unlimited equity growth has been a complicated part of homeownership. Selling a home for higher prices can build wealth for the owner but it also makes ownership harder for buyers. By splitting the value through limited equity, homeowners can build wealth in their homes while land prices remain lower for future residents and the ROC has no reason to ever sell or close.

Washington State Department of Commerce

Keep In Mind

ROCs prioritize keeping rents affordable and preventing communities from being closed. If you are looking at buying into a cooperative primarily to make profits from rising property values, ROCs and other limited equity models are not that investment. However, if you are looking for housing stability and affordability, ROCs are a great option.

Learn More

If you want to take a deeper dive into the differences between market-rate and limited-equity ownership check out ROC USA's description.

ROC Northwest Support

ROC Northwest helps residents understand the limited equity model and what it means for them as cooperative members and homeowners. ROC Northwest helps each cooperative build the limited equity model into their governing documents and works with mission-aligned lenders who specifically work with these types of cooperatives that focus on long-term preservation and affordability.

Seller Corner

When selling to the residents, owners still get the full market value of their community, including any gain from rising property values. The limits to equity begin once the cooperative takes title to the property, not before. Sellers can expect these limited equity provisions to ensure the cooperative doesn't sell to investors in the future. Sellers also know the cooperative will tie its rents to its actual expenses rather than an effort to maximize profits for future investors. For sellers concerned about how real estate investment firms may impact their community in the future, resident ownership offers greater certainty.

ROC Northwest

Produced in partnership with ROC Northwest.