Property Inspections: Building a Capital Improvement Plan

When ROC Northwest helps residents purchase their manufactured home communities as resident owned community (ROC) there are two opposite conversations about the property we hear all the time: “this community needs too much work, we could never fix it” and “we don’t need to budget for repairs, after all if it isn’t broken, why fix it?”

The reality is almost certainly between these two viewpoints. There are likely major infrastructure systems that need repair or replacement as well as other big-ticket items that will need to be worked on in the future. It is also likely that the cooperative can find a way to pay for these repairs and space them out over a number of years. The key is to inspect your property and learn everything you can about the infrastructure and any upcoming major repairs. This enables the cooperative to plan for the future. During the inspection, the engineer to walk the community, take pictures, dig holes looking for pipes or wires, check water meters and vaults, and even send a camera through the sewer line.

One of the first decisions a cooperative may have to make after beginning the purchase process, is hiring an engineering firm. This firm will hire subcontractors and together they will make a key document called the Property Condition Report (PCR). Inside this report there will be a list of major systems at the community, dates when they were installed, their remaining useful life, their current condition, and evidence of any failures in those systems. The report will also include a section called the Capital Improvement Schedule, although sometimes this is a separate document made with input from the appraiser and your lender. The Capital Improvement Schedule shows the costs of expected systems repairs and replacements for at least the next 10 years. By planning 10 years into the future, the cooperative will be able to save enough each year to afford whatever big projects are planned in future years.

This property conditions report is extremely useful for the board of directors in making decisions about what to repair and when. The report is also crucial for the cooperative’s lender and often the appraiser. The lender needs to protect their investment in the cooperative and so they also need to know about the community’s infrastructure and any systems needing repair. Very often the lender can set aside funds for both immediate repairs done in the first year as well as funds for future repairs done in later years. The cooperative, however, doesn’t want to borrow money it will not need, so having a high quality capital improvement schedule ensures both the lender and the cooperative are making the best decisions. Lastly, any lender will want to see an appraiser's report that shows the community is worth the purchase price. Sometimes appraisers will give a dollar value that they call an “as-stabilized” or “subject to repairs” value. Among other things, this can mean that the appraised value assumes the cooperative will repair certain systems. Having a quality property conditions report is essential to having a reliable appraisal.

Keep In Mind

No PCR will find everything, and no Capital Improvement Schedule will predict every needed cost. It is important to make sure your plan builds in room for rising prices and unforeseen costs.

Another point: the cooperative's lender will often require the cooperative to make certain repairs in the Capital Improvement Schedule. The initial schedule should be crafted with care and any changes to the plan in future years need to be supported by evidence and agreed to by your lender.

Learn More

Want to see an example of a Capital Improvement Schedule? Check out this example for a ROC that closed in June 2023. If you study it closely, you can see how the community contributes a set amount every year so that the savings are kept to fund all 10 years of projects.

ROC Northwest Support

ROC Northwest can connect cooperatives to engineering firms experienced in MHC purchases. ROC Northwest staff assist the board in developing a scope of services with the engineer and addressing any findings from the environmental report, site survey, or other property inspections. Finally, ROC Northwest helps convert the capital improvement schedule into a plan with annual funding contributions. We then work with communities during the years after the conversion to enact the repairs in the plan and make any necessary adjustments. ROC Northwest does not usually provide project management of major capital projects but always plays a support role to whichever contractor takes this role.

Seller Corner

The site inspections and their resulting reports are essentially the same as most buyers require. Early in the purchase process, the seller is asked to provide any as-builts and other infrastructure documents they have to speed the process along. In ROC Northwest's experience adverse findings during due diligence have not stopped purchases but they can require additional investigation. ROC Northwest coordinates with the seller on the engineer's site visits and any inspecting that impacts the community. Engineering firms are licensed and bonded and liability for sitework is clearly communicated in the purchase agreement.

Produced in partnership with ROC Northwest.