

VERMONT HOUSING AND CONSERVATION BOARD
SUPPLEMENTARY STANDARDS
FOR MOBILE HOME PARK APPRAISALS

All appraisals of real property and interests in real property prepared for the Vermont Housing and Conservation Board are to be prepared in conformity with Uniform Standard of Professional Appraisal Practice (USPAP) and these supplemental appraisal standards.

Uniform Standards of Professional Appraisal Practice (USPAP)

USPAP is promulgated by the Appraisal Standards Board of the Appraisal Foundation. The complete text of the USPAP including amendments to date is available from the Appraisal Foundation, 1029 Vermont Avenue NW, Suite 900, Washington, DC 20005.

VHCB Supplemental Standards for Mobile Home Park Appraisals

General

Complete self contained reports are required for all mobile home park appraisals.

The appraisal report is to include a market analysis of the competitive mobile home park market. The analysis must discuss current and anticipated supply and demand factors which are relevant to the park being appraised. The market analysis should address the local supply and demand conditions for mobile home sites and the regional supply and demand conditions for mobile home parks. The market analysis identifies market conditions and trends that will affect projected income and expenses, including the extent the trends may affect the value of the property.

The appraisal report must include sufficient supporting documentation with all pertinent information so that the appraiser's logic, reasoning, judgment, and analyses are clear to the reader / reviewer. Of particular relevance is data which supports the estimates of market rents / income, vacancy, operating expenses, and capitalization rates.

Appraisal reports must make clear disclosure and set forth all assumptions and limiting conditions that affect the analysis, opinions, and conclusions of the report. The reports and the analyses must conform with the requirements set forth in USPAP regarding "hypothetical conditions". The report must clearly and accurately disclose any extra ordinary assumption or limiting condition that directly affects the appraisal and indicate its impact on value.

Use of Non Profit Sale Data

Properties acquired by non profit organizations generally do not meet the definitional test of market value, which embodies the concept of "reasonable exposure in a competitive market"¹. VHCB requires that sale data relating to an acquisition by a non profit agency be used only as secondary support and that primary reliance be accorded to private, market based sale data. The limitation of non profit sale data relates to comparable sales which may be considered for the sales comparison methodology and those developed for overall capitalization rates.

Infrastructure Deficiencies

¹ The Dictionary of Real Estate Appraisal, 2nd Edition, American Institute of Real Estate Appraisers, 1989

Mobile home park appraisals must consider the condition and functional character of utility and infrastructure systems. Every effort should be made, by the appraiser, to gather and analyze all available information which is relevant to the park being appraised, including engineering reports and permit related documents.

Comment: Appraisal analyses may require specific assumptions regarding the physical and functional adequacy of the utility systems, including the electrical service(s) and the water and sewage disposal systems. Assumptions relating to these elements may also include specific cost estimates to upgrade any deficiency. Appraisers should clearly set forth all atypical conditions and assumptions which are important to the value estimate in the Assumptions & Limiting Conditions section of the report and the Letter of Transmittal.

The appraisal must consider the age, condition and functional adequacy of /utility and infrastructure systems. The value estimate must reflect any deficiency or repair that is required, to the degree that it is recognized by the market. The character of infrastructure & utility systems must be treated consistently among the valuation approaches utilized in the appraisal.

Comment: "Required repairs" are those which are mandated by public regulation and would be recognized by the market as essential repairs to sustain the operation of the park.

In the Sales Comparison approach, infrastructure inadequacies will be recognized by means of adjustments to the comparable mobile home park sales. Adjustments to the sale properties must be applied in a consistent manner, reflecting the relative effective age, condition, functional character and remaining economic life of the subject's systems. Adjustments must be market based, and will not necessarily reflect the full capital investment of repairs and improvements associated with any particular sale.

In the Income Approach, infrastructure inadequacies may be recognized by one or more methods. Required repairs or replacements, as defined above, must be deducted from the capitalized value estimate. Operating expenses under this scenario should appropriately reflect the condition of the systems, post rehab. Discretionary repair or improvement elements may be reflected in the operating expense budget (repairs & maintenance / replacement reserves) and / or the capitalization rate selection. Similarly, these methods will be utilized to reflect the general condition and age / remaining life of the utility / infrastructure systems.

Comment: For example, consider a 30 year old mobile home park with original utility systems. The septic systems include steel tanks which, although functional at present, may require replacement within a few years. The electrical services are substandard and an upgrade to code is required. In this case, the cost to upgrade the electrical service would be deducted from the capitalized value estimate. In the sales comparison approach, an adjustment would be required to sale properties that do not require electrical upgrade. The condition of the septic systems would be treated by means of a replacement reserve expense in the income approach, and / or a recognition of the higher operating expenses associated with the present condition, i.e. greater repairs and maintenance.

Additionally, elements of this type may be considered in the capitalization process, whereby cap rates would be abstracted from mobile home park sales with similar condition and risk character. In the sales comparison methodology, adjustments would be required to the sales if they are substantially different than the subject with regard to septic systems. The degree of adjustment may be guided by the capitalized amount of the added costs associated with the conditional elements of the system.

Competency

USPAP contains provisions related to competency. The competency provision states that "prior to accepting an assignment ... an appraiser must properly identify the problem to be addressed and have the knowledge and experience to complete the assignment competently ...". In the context of mobile home park appraisals, the appraiser must be familiar with issues relating to park infrastructure and state regulations regarding conveyance restrictions and rental rate limitations. VHCB requires that the appraiser must provide an affirmative statement in the Certification section of the appraisal that they have specific knowledge and experience in the appraisal of mobile home parks and are competent to complete the assignment.

Income Capitalization Approach

The applicability of the income capitalization approach is of primary importance to the appraisal and must be carefully considered by the appraiser. Exclusion of the approach is not permitted without permission of VHCB.

Appraisals must consider market rent rather than contract rent, which may be above or below market levels. Market rent estimates must be based upon a review and analysis of mobile home parks in the competitive market area. In situations where park rents are currently below market, the appraiser must recognize the time required to achieve market rent levels, and reflect any impact on value which results from this situation. Implicit in this requirement is the need to recognize any legal, regulatory, or market driven obstacles which may be evident.

Comment: The current park rents for the area's mobile home parks must be surveyed and presented within the appraisal. The comparable parks must be compared to the subject park relative to elements which may affect rent levels, e.g. inclusion of utilities (water & sewer), rubbish, other services such as plowing, lawn maintenance, etc. Location and general park character /quality, including spacing, are also elements which may affect park rents.

A consistent approach to the development, analysis and application of capitalization rates is imperative. Market derived capitalization rates are essential and should be developed from sales of mobile home parks acquired by private investors. Parks acquired by non profit organizations should not be utilized in developing a capitalization rate.

Comment: The income, vacancy and collection loss, and expense estimates must be treated consistently among the sales and the subject in developing and applying capitalization rates. A complete explanation of the means by which these factors have been considered, in deriving a rate, should be presented within the report. The presentation must clearly include the specific items which are embodied in the derived capitalization rate including items such as management, vacancy estimates, and reserves for replacement. Rates must be applied to the subject with a similar set of assumptions or adjusted to reflect any differences. For example, if management is included as a line item expense for the subject property, then the analysis of sale properties from which rates are developed should also include a charge for this expense item. The discussion should also state how the potential income for any given sale was derived, ensuring that the gross income estimate for the sale property and its net operating income are reflective of market rent levels, or otherwise include an explanation as to what impact the atypical income has on the indicated rate.

The derivation of overall capitalization rates via mathematical formula (e.g. Band of Investment) is not acceptable as the exclusive basis of support for this element. The cap rate must be supported by market based data, i.e. comparable sales.

The value indication from direct capitalization must be adjusted to reflect items such as excess land and required repairs (see Supplemental Standards - Infrastructure Deficiencies). The value estimate should be adjusted for items such as repairs required to sustain the forecasted income and expenses. Also, these elements should be treated consistently in the sales comparison approach.

Operating expenses vary substantially among parks. In an appraisal, the actual history of the subject park may provide the best evidence of operating costs. Operating expense estimates should be supported and stabilized by means of a study of historical costs and comparison to other mobile home parks. Significant deviations in operating expense ratios or individual expense items require explanation.

Comment: A minimum two year expense history of the subject property should be provided. Each expense item should be discussed and supported. The discussion should include a review of each expense item and explanation of how the expense estimates were made. Expense estimates may be compared / estimated through a study of comparable properties as well as by confirmation with relevant sources, i.e. utility companies, etc. The expense forecast must reflect the renovations which are required to produce or sustain the income projection.

Sales Comparison Approach

The exclusive use of, or primary reliance on, comparable sale properties involving non-profit or public agency participants is not acceptable. Sales of parks to private investors represent the best measure of value. Sales of parks to public/non profits need to be considered with caution. While the validity of any single sale may not be discounted out of hand, as a general rule, the non profit acquisitions do not provide an accurate representation of market value.

The analysis of the comparable sales should focus on those sales which are most similar to the park being appraised. Comparability includes elements of time, park size, location, general quality and condition. Comparable sales should be analyzed on a price per site or pad basis. Comparables must be selected from communities with similar prevailing market conditions (i.e., supply and demand characteristics). It is incumbent upon the appraiser to discuss the nature of market conditions associated with the sale properties as they relate to the subject's market.

The sale analysis must consider adjustments to the sales to reflect required rehab. Consideration of rehab costs should differentiate between required and discretionary items. In reflecting rehab costs, as part of the price paid or cost basis, proper consideration must be given to the level of depreciation associated with the infrastructure of the subject and the comparable sales (see Supplemental Standards - Infrastructure Deficiencies).

The impact of seller financing should be considered and a cash equivalent price be established.

Comment: Care must be taken in the use of sale properties involving public agency or non-profit participants. These sales may be impacted by atypical motivating factors. The best evidence of market value is associated with arms-length sales involving private parties / investors. While sales to public / non profit sales may be occasionally utilized, they should not be relied upon as primary evidence of value. Greater weight

will be given to the comparable sale properties involving private investors / market based sales.

Ideally, the sales utilized in the analysis should bracket the final value of the subject property. The selection of sales which bracket the analysis means that both inferior and superior properties, relative to the subject, are to be included in the analysis.

Adjustments to the sale properties must be considered to reflect the differences that have an impact on value. The adjustments must be described to the degree that the reader can follow and understand the logic and reasonableness of the analysis.

Comment: Care must be taken in the adjustment process involving properties requiring substantial renovation or rehabilitation. Adjustments must be made for required rehab costs, unless the sale properties adequately reflect the overall conditional features of the subject property. Adjustments in the sale analysis must be consistently treated in the income analysis of the property. Further, atypical financing circumstances for sale properties must be adequately analyzed, described, and reflected within the adjustment process.

Comparable sale properties employed within the appraisal must be adequately described. The sale descriptive information must be adequate to allow the reader to properly understand and interpret the character of the sale and its relative comparability to the subject property.

Comment: The descriptive information for comparable sales should include, at a minimum, a clear identification of the buyer and seller, date of sale, sale price, financing, conditions of sale and a physical description. Physical deficiencies must be described and their impact on value quantified.