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No. 93/35

July 7, 1993

TO COUNTY ASSESSORS:

MANUFACTURED HOMES - SITE VALUE

Site Value

The purpose of this letter is to promote statewide uniformity in the assessment of manufactured homes by clarifying issues involving "site value" or "in-park location value." Sale prices of manufactured homes located on rented or leased land frequently include increments of value attributable to factors other than the manufactured home, e.g., location, associated accessories, buildings, structures, items of personal property. This letter clarifies that it is inappropriate to include site value--that increment of value attributable to the physical site where the manufactured home is located--in the value of a manufactured home that is located on rented or leased land.

Site value for manufactured homes located in manufactured home parks is attributable to factors such as (1) vacancy levels in parks in the surrounding area; (2) vacancy levels in the park in which the subject is located; (3) desirability of the park, as demonstrated by density, amenities (health and recreational), quality of management, and quality of maintenance; (4) location of the space within the park; (5) space size; and (6) rent control. Site value for manufactured homes located on rented or leased land outside manufactured home parks is attributable mainly to location.

The National Automobile Dealers Association (N.A.D.A.) publishes the N.A.D.A. Mobile/Manufactured Housing Appraisal Guide, a value guide for estimating the average retail value of a manufactured home as of the publication date. In its discussion of the impact of site value on the market value of a manufactured home, the guide reads at Part 3, Page 11, January 1992 edition:

"More often than not, [manufactured homes] are never moved from an original rental or lease park delivery site.

"Manufactured homes located in well managed communities can receive market value increases due to this situs location.

"When a well maintained and desirable community fills and vacant lots vanish, the market place will recognize this in-place-location-value (I.P.L.V.). As developers find continued difficulty acquiring and zoning land for new communities, and few if any vacancies exist in an area, these I.P.L.V. increases can be substantial, provided there are not rent control ordinances or federal fair housing act problems."

### Revenue and Taxation Code Requirements

Section 5803(b) of the Revenue and Taxation Code specifically provides that the assessed value of a manufactured home located on rented or leased land is not to include any value attributable to the particular site where the manufactured home is located. Section 5803(b) reads:

"The Legislature finds and declares that, because owners of manufactured homes subject to property taxation on rented or leased land do not own the land on which the manufactured home is located and are subject to having the manufactured home removed upon termination of tenancy, 'full cash value' for purposes of subdivision (a) does not include any value attributable to the particular site where the manufactured home is located on rented or leased land which would make the sale price of the manufactured home at that location different from its price at some other location on rented or leased land. In determining the 'full cash value' of such a manufactured home on rented or leased land, the assessor shall take into consideration, among other relevant factors, sales prices listed in recognized value guides for manufactured homes, including, but not limited to, the Kelly Blue Book Manufactured Housing and Mobilehome Guide and the National Automobile Dealer Association's Mobilehome Manufactured Housing Appraisal Guide."

### Appraisal Record Documentation

Note that Section 5803(b) states that the assessor shall take into consideration sales prices for manufactured homes listed in recognized value guides. Among the general provisions governing construction of the Revenue and Taxation Code is Section 16; this section provides in part that "shall" is mandatory. Therefore, in determining the full cash value of a manufactured home for assessment purposes, consideration must be given to sales prices listed in at least one of the recognized value guides for manufactured homes. To establish that the appraiser has considered sales prices listed in a recognized value guide, we recommend the appraiser document in the appraisal record both the recognized value guide relied upon and the value indicated by that guide.

### Approaches to Value

The value indicator derived from a recognized value guide should be compared with the indicated values derived from other valuation approaches to ensure that the value indicated by the value guide is within the market range. Below we discuss each approach to value, including the method using a recognized value guide.

**Cost Approach:** In the cost approach for manufactured homes, costs are not derived from actual building costs for new manufactured homes; instead, costs are estimated from retail sales. There are two cost approaches for manufactured homes: the "replacement cost" approach and the "replacement cost new less depreciation" approach.

**Replacement Cost Approach:** An estimate of the value of a manufactured home can be determined by locating the indicated value for the identical manufactured home in a recognized value guide such as N.A.D.A. or Kelly Blue Book. These value guides contain an estimated value for most manufactured homes. The values are developed from analyzing the sales of manufactured homes in the United States and adjusting the sale prices for any site value. Since sales data exists for most models, makes, sizes, and ages of manufactured homes, an approximate "replacement cost" for a manufactured home of a specific model, make, size, and age can be determined using a recognized value guide.

**Replacement Cost New Less Depreciation Approach:** This approach estimates the cost of a new manufactured home and then reduces this cost by an estimate of depreciation. A cost estimate may be developed using square foot costs found in Assessors' Handbook Section 531.35 or other commercial cost services such as Marshall Swift. Assessors' Handbook costs and Marshall Swift costs are derived from retail sales of new manufactured homes. This cost estimate is reduced by an estimate of depreciation giving the indicated value of the subject manufactured home. In using this approach, the estimate of depreciation is critical. Estimating depreciation for older manufactured homes can be a difficult, if not impossible, task.

**Comparative Sales Approach:** In this approach the appraiser derives a value indicator by comparing the manufactured home being appraised to similar manufactured homes which have recently sold with appropriate adjustments to the selling prices for any differences. However, the selling prices of comparable manufactured homes located on rented or leased land will likely include an increment attributable to site value. In order to comply with Section 5803(b), the effect of site value upon the sales price must be extracted from each sale before the sale can be used as a comparable. Since site value is inherent in most sales prices, it is difficult to apply the comparative sales approach to manufactured homes located on rented or leased land.

**Income Approach:** In this approach an anticipated income stream is converted into an estimate of value. The income approach is most appropriate for income producing property. A gross rent multiplier can be developed if there is an active rental market for manufactured homes. However, a reliable multiplier may be difficult to develop since many manufactured home parks either prohibit or discourage rentals. In addition, most rents will reflect an increment attributable to location which will need to be extracted.

Clearly, of the approaches to value described above, the replacement cost approach, using an indicator from a recognized value guide plus the value of all manufactured home accessories, buildings and structures (this includes items such as skirting, awnings, cabanas, storage cabinets, porches, flatwork, carports, garages, and landscaping, etc.) best provides the assessor with a value free of site value. Obviously, this approach is also best in ensuring

compliance with the legislative directive to consider the value indicated by a recognized value guide.

### Negative Site Influences

The effect of the site upon the sale price of a manufactured home can be either positive or negative. Section 5803(b) states that the full cash value of a manufactured home excludes any value attributable to the particular site. Thus, the assessor must not include any "add-on" value for positive site influence in the assessment of the manufactured home.

Moreover, in situations where negative site values exist, it is the site, not the manufactured home, that is entitled to a reduction in value. Such negatively impacted sites cannot command the same rental level as comparable sites that do not face the same adverse consequences. As a result, the manufactured home owners pay reduced rents for the negative sites, but they should pay proportional taxes on the manufactured homes, per se, because the homes perform as constructed without any decrease in value.

### Value Guides

We are aware of three manufactured home value guides; their addresses, telephone numbers, and subscription information are listed below:

#### N.A.D.A. Mobile/Manufactured Housing Appraisal Guide

1993 Subscription Price \$90 per year  
Three issues per year: January-April, May-August, and  
September-December

N.A.D.A. Appraisal Guides  
P. O. Box 7800  
Costa Mesa, CA 92628  
(800) 966-6232

#### Kelly Blue Book Manufactured Housing Guide

1993 Subscription Price \$45 per year  
Two issues per year: April-September and October-March

Kelly Blue Book  
P.O. Box 19691  
Irvine, CA 92713  
California (except Southern California) (800) 444-1743  
Southern California (714) 770-7704

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Mobile/Manufactured Home Blue Book

Maclean Hunter Market Reports  
1993 Subscription Price \$100 per year  
Two issues per year: January-June and July-December

Maclean Hunter Market Reports  
29 North Wacker  
Chicago, IL 60606  
(312) 726-2802

If you have any questions concerning the assessment of manufactured homes,  
please contact our Real Property Technical Services Unit at  
(916) 445-4982.

Sincerely,



Verne Walton, Chief  
Assessment Standards Division

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