

Manufactured Home Park Methodology

2022 Assessment Year

ASSESSMENT DEPARTMENT
February 2023

Scope Statement

This document is intended to be an introduction to the valuation process used to determine assessed values for manufactured home park properties in the City of Medicine Hat. For more detail regarding to a specific property, the property owner may contact an assessor with the City of Medicine Hat at 403-529-8114. Alternatively, the property owner can visit the website, www.medicinehat.ca/assessmentforms to complete an *MGA s.299 or 300* request for more information and/or a Letter of Authorization form.

Property assessments in the City of Medicine Hat reflect the market value of the fee simple estate for property as of July 1, 2022 (reflecting the condition and characteristics of the property as of December 31, 2022) as required by the *Municipal Government Act* as enacted by the Government of Alberta.

For this purpose, market value is defined by the *Municipal Government Act*:

1(n) "market value" means the amount that a property, as defined in section 284(1)(r), might be expected to realize if it is sold on the open market by a willing seller to a willing buyer;

Market value, as defined by the Appraisal Institute of Canada and as detailed in the Canadian Uniform Standards of Professional Appraisal Practice as:

The most probable price, as of a specified date, in terms of cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.¹

Market value, is also defined by the International Association of Assessing Officers (IAAO) as:

The most probable price (in terms of money) which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: The buyer and seller are typically motivated. Both parties are well informed or well advised, and acting in what they consider their best interests. A reasonable time is allowed for exposure in the open market. Payment is made in terms of cash or in terms of financial arrangements comparable thereto. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.²

¹ AI Canada, Appraisal Journal. Winter 2020.

² IAAO. *Glossary for Property Appraisal and Assessment*. 2nd Edition. Page 101.

The fee simple ownership is the most complete form of ownership. The Courts and the IAAO define it as:

*Fee simple title indicates ownership that is absolute and subject to no limitation other than eminent domain, police power, escheat, and taxation.*³

The Appraisal Institute of Canada has similar definitions.

Manufactured home park properties in the city are primarily valued using the income approach to value. This valuation approach capitalizes a property's stabilized, market typical, net operating income to come up with an estimate of market value. The valuation formula for properties assessed using the income approach is:

$$\text{Market Value} = \frac{\text{Net Operating Income}}{\text{Overall Capitalization Rate}}$$

³ IAAO. *Glossary for Property Appraisal and Assessment*. 2nd Edition. Page 67.

Mass Appraisal

Primarily, property assessment establishes the base for fair and equitable distribution of the tax burden. The individual assessments determine each property's share of the tax base.

The Alberta assessment and taxation system is based on the laws outlined in the *Municipal Government Act*, RSA 2000, Chapter M-26 [MGA], and all associated regulations, including, for example, *Matters Relating to Assessment and Taxation Regulation*, Alberta Regulation 203/2017 [MRAT].

Valuation procedures have been developed to enable assessors to prepare *market value* assessments, reflecting typical market conditions and bearing equitable relationships between similar properties. These procedures are encompassed in the practice of *mass appraisal*. The *Municipal Government Act* directs assessors to apply the valuation standards in a fair and equitable manner; the *Matters Relating to Assessment and Taxation Regulation* states that property assessments are to be prepared using *mass appraisal* to predict accurate and equitable market values.

A property assessment is:

- An estimate of the property's market value on July 1, of the assessment year;
- Prepared using mass appraisal;
- An estimate of the value of the fee simple estate in the property;
- A reflection of the property's condition on December 31, of the assessment year;
- Prepared assuming typical market conditions, reasonable market exposure, a willing and knowledgeable seller to a willing and knowledgeable buyer.

Mass appraisal requires:

- Properties be stratified into groups of comparable properties;
- Common property data be identified and analyzed for the properties in each group.
- A uniform valuation method utilizing typical market information determined for each group will be applied to the characteristics of each property.
- Statistical testing is performed to confirm quality control.

Manufactured Home Communities

Manufactured home communities are developed areas of land intended for the purpose of placing organized groupings of manufactured homes. In these communities, owners of manufactured homes are permitted to place their home on a designated 'pad' in exchange for rental payments.

Manufactured home communities range from small, older properties with limited facilities to large, modern, well-planned sites that often have sophisticated neighborhoods. Some are very similar in appearance to conventional planned-unit developments with low density use, large yards, underground utilities, greenbelts, and high-quality manufactured homes.

Income Approach to Value

Mobile Home Parks generate rental income considered by investors as part of their decision-making process in purchasing a property and the price they are willing to pay for the property. A typical income stream generated by a property is utilized to calculate the market value of a mobile home park via the income approach given market conditions such as vacancy and expenses; capturing the value of the property based on its typical income generating potential.

Income Approach Method

The direct capitalization method is the valuation technique most commonly used by appraisal practitioners across Canada for valuing income-producing properties. Direct capitalization converts or capitalizes the expected level of current net earnings into an estimate of market value using a capitalization rate. In its most basic form, the direct capitalization method is an elementary mathematical ratio involving the estimation of current net operating income (NOI), which is then "capitalized" to produce an estimate of current market value.

Potential Gross Income (PGI) - Typical rent is multiplied by the area(s) assessed, with the sum of all these amounts equaling the potential gross operating income.

Vacancy Allowance (Vac) – Typical percentage of unoccupied space for the property type.

Effective Gross Income (EGI) – The typical vacancy allowance deducted from the potential gross income.

Expense Ratio – Typical costs necessary to maintain the property’s income stream. May include advertising, property taxes, property insurance, and management fees.

Non-Recoverable Allowance – Typical deduction from effective gross income for expenses incurred solely by the property owner.

Reserves for Replacement – Also called structural allowance. Typical amount set aside by the property for the replacement of capital items.

Net Operating Income (NOI) – The balance remaining after subtracting all expenses from effective gross income.

Capitalization Rate – The overall capitalization rate should capture the return on and return of the investment. The indicated capitalization rate for sold properties is established using the following formula:

$$\text{Overall Capitalization Rate} = \frac{\text{Net Operating Income}}{\text{Adjusted Sale Price}}$$

Capitalization rates are a tool used in appraisal theory to convert income into an expression of value. According to appraisal theory, overall capitalization rates fundamentally reflect the following factors:

- The degree of perceived risk
- Market expectations regarding future inflation
- The prospective rates of return for alternative investments
- The rates of return earned by comparable properties in the past
- The prevailing tax laws

Rental Income Quality

The City of Medicine Hat Assessment Department categorizes mobile home parks on their ability to produce an income stream for the property owner. The income stream may be affected by the location and physical characteristics of the mobile home park.

Location

Proximity to consumer amenities, public services, and public transit while maintaining a reasonable distance from busy roadways or commercial/industrial activities tend to produce better income streams. These properties are often positioned in transitional or fringe locations. Also, properties allowing for ease of vehicular ingress and egress are of higher quality than properties that are not due to their ability to command a better income stream.

Physical Characteristics

Along with the income stream, these characteristics assist in determining the quality of a particular property.

- **Community Design** – The functionality of the community layout and design will influence the quality of the property. Communities with ease of internal movement, typical or above average green space areas, ancillary storage, or parking areas, etc. tend to command a better income stream and be a better quality.
- **Visual Appeal** – Visually appealing properties demonstrate care and attention to the property catching the attention of prospective residents and assists in retaining existing residents. Wider pad sites, paved parking pads and nicely developed landscaping often command a better income stream.
- **Condition/Maintenance** – Communal improvements such as roadways, shared buildings, fences, green spaces, etc. are well maintained often commanding a better income stream.

Assessed Valuation Rate Ranges

Rental Site Rates

Market rental rates per site range from \$450 to \$850 depending on the quality of the investment. The typical income stream commanded by the investment is determined by analyzing rents reported by manufactured home community owners and in real estate listings.

Vacancy Rates

Vacancy rates and collection losses were established by analyzing and amalgamating information received from the Request for Information form sent to manufactured home community owners. Vacancy rates range from 1% – 4.5% depending on the quality of the investment.

Expense Rates

Expense rates were established by analyzing and amalgamating information received from the Request for Information sent to manufactured home community owners. Typical rates range from 30% to 45% depending on the quality of the investment.

Capitalization Rates

Capitalization rates range from 7.00% to 8.25% depending on the quality of the investment.