

N.A.D.A.[®]

APPRAISAL GUIDES

May 13, 2002

Manufactured Housing Association of Oklahoma
Deanna Fields – Executive Director
6400 S. Shields
Oklahoma City, OK 73149

Dear Ms. Fields:

In response to your recent manufactured home depreciation inquiry:

First, I would like to explain that we have no control over how any subscriber may use our published value guidelines or, how they internally interpret, form opinions, express or communicate their value conclusions to their affected clients or other interested parties.

There are three recognized approaches to appraisal value. They are cost, market, and income. Our publication (first published in 1973) is a nationally recognized cost approach to value for factory built, HUD coded, manufactured and/or modular type construction.

Our cost guide/CD-ROM, National Appraisal System, and appraiser certification courses are approved by HUD FHA Title 1 for the valuation of HUD coded manufactured homes located in either rental/lease communities or on fee land. Our products are also utilized by (ABS) investors, lenders, insurance firms, retailers, appraisers, federal, state, and local government agencies nationally.

With regard to manufactured homes appreciating or depreciating, I reference the N.A.D.A. Manufactured Housing Appraisal Guide page 5A, paragraphs 3 & 5:

“...in most market areas manufactured homes, sited in quality communities or with land, have the ability to, and have in the past, appreciated in terms of original purchase prices. Appreciation and depreciation is dependent on current market conditions.”

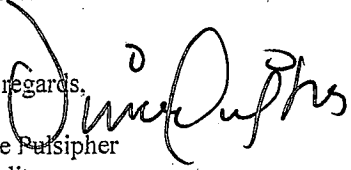
Paragraph 5 states that we “emphasize the importance of a PHYSICAL APPRAISAL REPORT in order to determine its LOCAL MARKET VALUE.”

In addition, when a manufactured home is installed utilizing an approved (HUD) foundation system, it then becomes permanently attached as an improvement to real property allowing the home to be assessed as real estate; a physical appraisal performed by a state licensed or certified real estate appraiser, must be completed combining the cost and market approaches to value, and this assignment should be completed by a knowledgeable appraiser, familiar with this unique type of factory built construction.

Regardless of the type of classification, real estate or personal property, there is the possibility of either appreciation or depreciation, depending on the current local market conditions as measured by a knowledgeable appraiser.

For homes (site-built, modular, or HUD coded), it is the combination of the dwelling structure, location, improvements, and the competitive local market that will determine whether or not that particular subject home will, in value, appreciate or depreciate.

Best regards,


Vince Pulsipher
Sr. Editor

Enc: 2 - N.A.D.A. Depreciation Explanations

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DEPRECIATION

QUESTION: Do HUD Code single family, factory built homes depreciate like vehicles?

The traditional "Drive over the curb" loses value, market perception as reported by the various industry observers...

ANSWER: No.

We would agree that most everything depreciates, including ourselves. It is the amount of depreciation or appreciation we are concerned with, as measured by the appraiser in any local housing market place.

1. Site built home structures depreciate, it is the location (land value) with improvements that, in most cases, will indicate a recognized market appreciation. (HUD coded manufactured home structures attached to land by an approved foundation system, react in a similar manner to this same market influence.)
2. As the majority of new manufactured home structures traditionally have been transported to and installed on rental/lease sites, they will, in most cases, incur costs and could receive market appreciation, almost simultaneously, at the time of retail sale ("over the curb") for the following:

BASED ON A PRINCIPLE OF CONTRIBUTION*

- a. Manufactured home rental/lease community value adjustment (i.e. In Place Location Value – based on location and amenities), lease-hold estate.
- b. Accessories – add-on values due to the manufactured home community rental/lease, move-in requirements and/or purchasers preferences (i.e. awnings, skirting, porches/decks, air conditioning, storage buildings, etc.).
- c. Lot/yard improvement value (i.e. masonry walls, sidewalks, lawns, fences, trees, bushes, paving, concrete work, sprinkler systems, etc.).

* An item of contribution's value is dependent on what it adds to the worth of the structure in the market place; not necessarily what it costs.

DATACOMP™

April 18, 2002

Ms. Deanna Fields
Manufactured Housing Association of Oklahoma
6400 S. Shields Blvd.
Oklahoma City, OK 73149

Dear Ms. Fields,

The following is in response to your question regarding the appraisal characteristics of manufactured homes permanently affixed to real estate. Specifically, you asked whether manufactured homes, by their very nature, depreciate as a separate component from the land to which they are affixed. In a word, no.

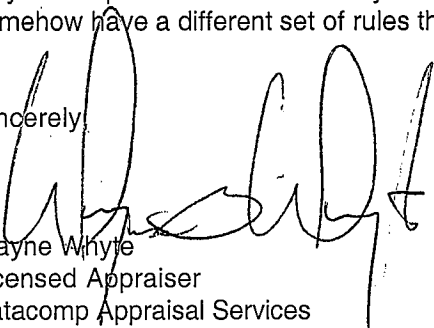
Our experience indicates that manufactured homes placed on real property tend to appreciate or depreciate in a similar fashion to site built construction when general real estate market forces are allowed to work. Forces such as location, setting, neighborhood amenities, as well as general home maintenance, are powerful influences affecting buyers and sellers in a given market. A manufactured home placed on land that effectively conforms to the neighborhood and is properly maintained will, in most cases, mirror what is taking place in the general housing market.

Dynamic and widely varied value influences exist, which make attempts to apply a "flat-line" depreciation model across the board arbitrary and meaningless relative to the true market value of the home. In the appraisal world depreciation is simply defined as a loss in property value resulting from any cause. Causes such as physical deterioration, which results from day to day use of individual components, is most often cited. Physical deterioration can be mitigated, however, by proper maintenance and replacement of the worn items (such as a roof or carpeting) or by more extreme measures such as a complete renovation of a property, effectively reversing the depreciation clock.

One must consider all aspects of depreciation while developing an understanding of how property depreciation applies to real estate markets. While physical depreciation begins to affect all property improvements beginning the day they are constructed, other types of depreciation affect individual properties based on a variety of factors. A home located near a busy intersection or expressway may suffer from external depreciation, while the identical home placed in a quiet subdivision may increase in value more rapidly. Functional depreciation can occur when a home is based on a poor floor plan or a design or style that is not accepted in a given market.

As with site built homes, an appraisal based on local market data provides the most reliable indication of an individual manufactured home's value. The value of a manufactured home permanently affixed to real estate is largely based on the overall market forces, similar to site built construction. Depreciation may or may not be present in the final analysis. It is a fallacy to believe that manufactured homes on real estate somehow have a different set of rules than those present and evident in open real estate markets.

Sincerely,



Wayne Whyte
Licensed Appraiser
Datacomp Appraisal Services