MANUFACTURED HOUSING PARKS:

VALUATION

AND

ASSESSMENT METHODS

A REPORT TO THE 1990 LEGISLATURE

Prepared by the
Minnesota Department of Revenue
February 1990

Pursuant to 1989 Spl Session Laws,
Chap 1, Article 3, Section 32

PREFACE

Article 3, Section 32, Subdivision 3, Chapter 1 of the 1989 Special Session Statutes, requires the Department of Revenue to study the valuation and assessment of manufactured housing parks. The Department of Revenue is to report its findings, recommendations, and proposals for legislation to the chairperson of the House of Representatives Tax Committee and to the chairperson of the Senate Committee on Taxes and Tax Laws by February 12, 1990.

The study is to include:

1. Information on current valuation and assessment methods:

2. evaluation of alternative valuation and assessment methods; and

3. recommendations and proposals for legislation in the 1990 session.

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VALUATION AND ASSESSMENT METHODS

The Department of Revenue contacted each county assessor's office and gathered statewide data regarding manufactured housing parks. The data includes:

1. The approach that is currently being used to value manufactured housing parks.

2. The primary classification used for manufactured housing parks for the 1989 assessment.

3. The number of sales of manufactured housing parks that have sold between January 1, 1985 and January 1, 1990.

4. The total estimated market values before and after the legislation limiting the value to be placed on manufactured housing parks for the 1989 assessment.

   A listing of the data provided by the counties to the Department of Revenue and of the median sales ratios for manufactured housing parks follows:

EXPLANATION OF TERMS USED

MARKET/SALES:

GRM: Gross Rent Multiplier
(Applied GRM multiplied by total annual rents equals the indicated value of the property)
(Derived from the market by dividing the net sale price by the total potential gross annual rent)

GMM: Gross Monthly Multiplier
(Applied GMM multiplied by total monthly rents equals the indicated value of the property)
(Derived from the market by dividing the net sale price by the total potential monthly rent)

Per Pad: Sale Price Per Pad
(Applied sale price per pad, after adjustments, multiplied by the total number of pads equals the indicated value of the property)
(Derived from the market by dividing the net sale price by the number of pads.)

INCOME:

Cap. Rate:	Captilization Rate (Applied by dividing the net operating income by this rate which yields the indicated market value of the property) (May be derived from the market by dividing the net sale price by the net operating income of the sale property or can be "built" from establishing the effective tax rate, the recapture rate, and the discount rate)
Expenses:	The ratio of expenses to income (Derived from sales or estimated from surveys and analysis)
Actual Gross:	Actual amount of gross income that individual property generates
Effective Gross:	Potential gross income less any adjustment for vacancy
Vacancy:	Adjustment given to reflect the percentage of occupancy (Amount subtracted from the potential gross income to arrive at effective gross income) (May be derived from the sales or is estimated from surveys and analysis)

COST:

Local Costs:	Cost schedule used is based on local construction costs in that area.
Region 7 Sched:	Cost schedule used is based on construction costs for Region 7 of the Minnesota Association of Assessing Officers.
Marshall Swift:	Marshall Swift is a national cost manual
Boeckh:	Boeckh is a national cost manual

Cole-Layer-Trumble	Cost Schedule based on local costs created by a National Appraisal Firm for an individual county.

CLASSIFICATION USED:

2b:	Timber
3a:	Commercial
4a:	Residential Non-Homestead (4 or more units)
4b:	Residential Non-Homestead (Less that 4 units)

COUNTY	VALUATION APPROACH USED FOR THE 1989 ASSESSMENT MARKET/ SALES	INCOME	COST	1989 PRIMARY CLASSIFICATION USED	SALES	1989 TOTAL E.M.V. BEFORE LEGISLATION	1989 TOTAL E.M.V. AFTER LEGISLATION	1989 TOTAL VALUE CHANGE DUE TO LEGISLATION
1 AITKIN			LOCAL COSTS	4a	NO	257,200	257,200	0
2 ANOKA	GRM- 4.0	CAP. RATE: 15.5 EXPENSES: 35% OF ACTUAL GROSS VACANCY: 5%		4a	YES-1	45,249,300	37,822,300	(7,427,000)
3 BECKER			REGION 7 SCHED.	4a	NO	1,124,600	1,124,600	0
4 BELTRAMI	GMM-35.0			4a	YES-4			(139,600)
5 BENTON	PER PAD		MARSHALL SWIFT	4a	NO	2,526,900	2,526,900	0
6 BIG STONE			BOECKH	3a	NO	77,600	77,600	0
7 BLUE EARTH	PER PAD			4a	NO	3,416,900	3,416,900	0
8 BROWN	LAND ONLY		LOCAL COSTS	4a	NO	861,200	851,600	(9,600)
9 CARLTON	PER PAD	CAP. RATE: 11.5 EXPENSES: 40% OF EFFECTIVE GROSS VACANCY: 5%	MARSHALL SWIFT	4a	YES-1	459,400	459,400	0
10 CARVER			MARSHALL SWIFT	4a	YES-1	5,591,100	5,591,100	0
11 CASS			LOCAL COSTS	4a	NO	43,200	43,200	0
12 CHIPPEWA	GRM- 3.0	CAP. RATE: 12.0 EXPENSES: 33% OF EFFECTIVE GROSS VACANCY: 30%	MARSHALL SWIFT	4b	NO	367,400	367,400	0
13 CHISAGO	GRM- 4.0-4.5	CAP. RATE: 17.0-17.5 EXPENSES: 50% OF ACTUAL GROSS VACANCY: 0%		4a	YES-4	4,893,100	4,573,000	(320,100)
14 CLAY			MARSHALL SWIFT	4a	YES-4	1,792,600	1,679,100	(113,500)
15 CLEARWATER	GMM-35.0			4a	NO	53,900	50,100	(3,800)
16 COOK			BOECKH	3a 4a 2b	NO	134,800	134,800	0
17 COTTONWOOD	LAND ONLY		LOCAL COSTS	4a	NO	52,800	52,800	0
18 CROW WING	PER PAD			4a	NO	1,801,500	1,798,100	(3,400)

COUNTY	VALUATION APPROACH USED FOR THE 1989 ASSESSMENT			1989 PRIMARY CLASSIFICATION USED	SALES	1989 TOTAL E.M.V. BEFORE LEGISLATION	1989 TOTAL E.M.V. AFTER LEGISLATION	1989 TOTAL VALUE CHANGE DUE TO LEGISLATION
	MARKET/ SALES	INCOME	COST					
19 DAKOTA	GRM 5.0			4a	YES-5	49,431,400	23,380,900	(26,050,500)
20 DODGE	PER PAD			3a	NO	487,000	487,000	0
21 DOUGLAS			REGION 7 SCHED.	4a	YES-1	1,074,500	1,067,500	(7,000)
22 FARIBAULT			MARSHALL SWIFT	4a	NO	126,500	126,500	0
23 FILLMORE	PER PAD			4a	NO	182,600	182,600	0
24 FREEBORN			MARSHALL SWIFT	4a	NO	625,400	625,400	0
25 GOODHUE		CAP. RATE: 15.0 EXPENSES: 35-40% OF EFFECTIVE GROSS VACANCY: ACT. % OCC.	MARSHALL SWIFT	4a	NO	3,660,700	3,660,700	0
26 GRANT			REGION 7 SCHED.	4a	NO	38,000	38,000	0
27 HENNEPIN	GRM- 4.5 PER PAD	WAS USED	WAS USED	4a	YES-2	12,338,300	9,922,500	(2,415,800)
28 HOUSTON	PER PAD			4a	YES-1	439,000	392,500	(46,500)
29 HUBBARD			REGION 7 SCHED.	4a	YES-2	118,100	118,100	0
30 ISANTI	GRM- 3.5			4a	NO	1,681,500	1,366,000	(315,500)
31 ITASCA	PER PAD			4a	YES-2	1,957,500	1,934,400	(23,100)
32 JACKSON	LOT/ACRE			4a	NO	36,500	36,500	0
33 KANABEC	GRM- 3.0			4a	NO	898,500	867,500	(31,000)
34 KANDIYOHI			LOCAL COSTS	4a	NO	1,175,000	1,173,400	(1,600)
35 KITTSON	GMM- 35.0			4a	NO	48,800	48,800	0
36 KOOCHICHING	LAND ONLY		MARSHALL SWIFT	4a	YES-1	240,600	240,600	0
37 LAC QUI PARLE			LOCAL COSTS	4a	NO	40,600	40,600	0
38 LAKE	LAND ONLY			4a	NO	20,600	20,600	0
39 LAKE/WOODS	GMM- 35.0			4a	NO	133,100	133,100	0
40 LeSUEUR			MARSHALL SWIFT	4a	NO	249,000	249,000	0
41 LINCOLN			LOCAL COSTS	4b	NO	11,600	11,600	0
42 LYON			COLE-LAYER-TRUMBLE	4a	YES-1	927,200	737,800	(189,400)
43 McLEOD			LOCAL COSTS	4a	YES-4	1,016,100	1,013,800	(2,300)
44 MAHNOMEN	N.A.	N.A.	N.A.	N.A.	N.A.	0	0	0
45 MARSHALL	GMM- 35.0			4a	NO	117,100	106,600	(10,500)
46 MARTIN			LOCAL COSTS	4a	YES-1	250,200	250,200	0

COUNTY	VALUATION APPROACH USED FOR THE 1989 ASSESSMENT: MARKET/ SALES	INCOME	COST	1989 PRIMARY CLASSIFICATION USED	SALES	1989 TOTAL E.M.V. BEFORE LEGISLATION	1989 TOTAL E.M.V. AFTER LEGISLATION	1989 TOTAL VALUE CHANGE DUE TO LEGISLATION
47 MEEKER			LOCAL COSTS	4a	NO	485,800	485,800	0
48 MILLE LACS	PER PAD		MARSHALL SWIFT	4a	NO	1,164,100	1,038,100	(126,000)
49 MORRISON			LOCAL COSTS	4a	YES-5	804,700	801,300	(3,400)
50 MOWER	PER PAD			4a	NO	814,700	814,700	0
51 MURRAY	PER PAD		LOCAL COSTS	4a	NO	46,800	46,800	0
52 NICOLLET			MARSHALL SWIFT	4a	YES-1	1,384,500	1,384,500	0
53 NOBLES	PER PAD		MARSHALL SWIFT	4a	NO	462,200	429,200	(33,000)
54 NORMAN	GMM- 35.0			4b	NO	73,900	73,900	0
55 OLMSTED	PER PAD		MARSHALL SWIFT	4a	NO	4,670,900	4,670,900	0
56 OTTER TAIL			REGION 7 SCHED.	4a	YES-3	1,042,600	1,042,600	0
57 PENNINGTON	GMM- 35.0			4a	NO	376,700	376,700	0
58 PINE	GRM- 3.5			4a	NO	800,200	727,700	(72,500)
59 PIPESTONE	LAND ONLY		MARSHALL SWIFT	4a	NO	59,500	59,500	0
60 POLK	GMM- 35.0			4a	NO	1,017,300	1,017,300	0
61 POPE			LOCAL COSTS	4a	NO	129,800	129,800	0
62 RAMSEY	GRM- 4.0			4a	NO	24,043,700	17,158,000	(6,885,700)
63 RED LAKE	GMM- 35.0			3a	NO	17,900	17,900	0
64 REDWOOD	PER PAD			4a	YES-1	208,200	207,600	(600)
65 RENVILLE		CAP. RATE: 18.5 EXPENSES: 15% OF EFFECTIVE GROSS VACANCY: 10%		4a	NO	345,800	345,800	0
66 RICE			COLE-LAYER-TRUMBLE	4a	YES-1	2,408,300	2,250,900	(157,400)
67 ROCK	LAND ONLY		MARSHALL SWIFT	3a	NO	61,400	61,400	0
68 ROSEAU	GMM- 35.0			4a	YES-1	1,383,400	1,332,600	(50,800)
69 ST. LOUIS	LAND		LOCAL COSTS	4a	NO			
70 SCOTT			MARSHALL SWIFT	4a	NO	2,194,100	2,146,300	(47,800)
71 SHERBURNE	PER PAD			4a	NO	740,300	719,000	(21,300)
72 SIBLEY			MARSHALL SWIFT	4a	NO	114,800	114,800	0
73 STEARNS	GRM- 3.0		LOCAL COSTS	4a	YES-5	4,455,000	4,455,000	0
74 STEELE	PER PAD			4a	NO	983,900	983,900	0
75 STEVENS			LOCAL COSTS	4a	NO	160,100	156,700	(3,400)
76 SWIFT			LOCAL COSTS	3a	NO	41,500	41,500	0
77 TODD			REGION 7 SCHED.	4a	NO	259,200	259,200	0

	VALUATION APPROACH USED FOR THE 1989 ASSESSMENT			1989		1989 TOTAL	1989 TOTAL	1989 TOTAL
COUNTY	MARKET/ SALES	INCOME	COST	PRIMARY CLASSIFICATION USED	SALES	E.M.V. BEFORE LEGISLATION	E.M.V. AFTER LEGISLATION	VALUE CHANGE DUE TO LEGISLATION
78 TRAVERSE			LOCAL COSTS	4a	YES-1	29,600	29,600	0
79 WABASHA			MARSHALL SWIFT	4a	YES-2	888,600	888,600	0
80 WADENA			REGION 7 SCHED.	3a	NO	280,800	280,800	0
81 WASECA			MARSHALL SWIFT	4a	NO	542,000	534,300	(7,700)
82 WASHINGTON	GRM 4.0			4a	YES-2	11,534,200	5,836,700	(5,697,500)
83 WATONWAN			MARSHALL SWIFT	4a	YES-1	171,300	169,900	(1,400)
84 WILKIN			REGION 7 SCHED.	4a	YES-1	137,400	137,400	0
85 WINONA			MARSHALL SWIFT	4a	NO	2,153,000	2,151,200	(1,800)
86 WRIGHT	GRM- 2.0			4a	YES-5	6,807,900	6,807,900	0
87 YELLOW MEDICINE			LOCAL COSTS	4a	NO	79,400	79,400	0
TOTALS						219,147,200	169,066,300	(50,220,500)

TOTAL AMOUNT OF CHANGE: ($50,220,500)

TOTAL PERCENTAGE OF CHANGE: -22.92%

PLEASE NOTE BELTRAMI COUNTY DID NOT PROVIDE AN AMOUNT FOR THE 1989 E.M.V. BEFORE AND AFTER COLUMNS, BUT DID PROVIDE A 1989 TOTAL AMOUNT OF CHANGE.
ST. LOUIS COUNTY DID NOT PROVIDE AN AMOUNT FOR THE 1989 E.M.V. BEFORE AND AFTER COLUMNS OR A 1989 TOTAL AMOUNT OF CHANGE.

MEDIAN SALES RATIO COMPARISON

	MANUFACTURED HOUSING PARKS
Time Frame:	10-84 through 9-85
Total Number of Sales Statewide:	13*
Median Ratio:	39.09** (All Sales)*** 109.03** (Market Approach Only)**** 38.85** (Cost Approach Only)*****
Time Frame:	10-85 through 9-86
Total Number of Sales Statewide:	10*
Median Ratio:	47.09** (All Sales)*** 68.85** (Market Approach Only)**** 43.11** (Cost Approach Only)*****
Time Frame:	10-86 through 9-87
Total Number of Sales Statewide:	11*
Median Ratio:	55.39** (All Sales)*** 73.50** (Market Approach Only)**** 40.25** (Cost Approach Only)*****

MANUFACTURED
HOUSING PARKS

Time Frame:	10-87 through 9-88
Total Number of Sales Statewide:	16*
Median Ratio:	45.09** (All Sales)*** 57.99** (Market Approach Only)**** 39.96** (Cost Approach Only)*****
Time Frame:	10-88 through 12-89
Total Number of Sales Statewide:	13*
Median Ratio:	48.44** (All Sales)*** 85.38** (Market Approach Only)**** 38.62** (Cost Approach Only)*****

* Number of sales, as reported to the Department of Revenue by the County Assessors.

** Sale prices were not adjusted for time or terms.

*** Median sales ratio for all sales

**** Median sales ratio for sales in which the assessor's market value was based solely on the Market Approach to Value.

***** Median sales ratio for sales in which the assessor's market value was based solely on the Cost Approach to Value.

VALUATION METHODS AND ALTERNATIVES

Minnesota Statutes, Section 273.11, Subdivision 1, states, "... all property shall be valued at its market value."

Market value is defined in The Appraisal of Real Estate, 9th edition, published by the American Institute of Real Estate Appraisers, copyright 1987, as follows:

> Market value is "the most probable price, as of a specified date, in 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 of a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming neither is under undue duress."

In valuing a property, there are three approaches to value that are normally accepted by the appraisal profession. They are the cost approach, the income approach, and the market sales approach.

COST APPROACH TO VALUE, also known as the summation approach, provides a value indicator that is the summation of the estimated land value and the depreciated cost of the building and other improvements. The cost approach to value is based upon the principle of substitution. The principle dictates that an informed buyer will pay no more for a property than the cost of acquiring an acceptable substitute with like utility, assuming that no costly or undue delay will be encountered in making the substitution.

The text, The Appraisal of Real Estate, 9th edition, published by the American Institute of Real Estate Appraisers, copyright 1987, describes the cost approach as five basic steps:

1. Estimate land value as if vacant.
2. Estimate reproduction cost new or replacement cost new of the basic improvements and minor structures.
3. Estimate in dollar amounts the accrued depreciation caused by:
   a. Physical deterioration
   b. Functional deficiencies
   c. Adverse economic influences
4. Deduct depreciation from the improvement's reproduction cost new to arrive at a present depreciated cost estimate.
5. Add the land value to the depreciated cost estimate to arrive at a value indicated by the cost approach.

INCOME APPROACH TO MARKET VALUE, also known as capitalization of net income approach, is a method of estimating market value by converting the future benefits of the property--the net income--into an expression of present value. This approach to value is based upon the appraisal principle of substitution; that is, a property does not have a market value greater than the amount of return which it is capable of producing consistent with anticipated return from investments of similar risk. In other words, if a property is a high risk, low return investment, the knowledgeable investor or purchaser will shun this investment and seek out an investment which has an anticipated return commensurate with its risk. Government bonds are usually regarded as low risk investments with correspondingly low return, while investments in growth common stocks are examples of high risk with the anticipated rate of return also being high. Investments in real estate of the type represented by manufactured housing parks are generally considered moderate to low risk investments.

According to the text, Property Assessment Valuation (published by the International Association of Assessing Officers, copyright 1977, page 204). The basic steps in the income approach are as follows:

1. Estimate potential gross income;
2. Deduct for vacancy and collection loss;
3. Add miscellaneous income;
4. Determine operating expenses;
5. Deduct operating expenses to determine net income before discount, recapture, and taxes;
6. Select the proper capitalization rate;
7. Determine the appropriate capitalization procedure to be used; and
8. Capitalize the net income into an estimate of property value.

MARKET SALES APPROACH, also known as the direct sales comparison approach, is a process of analyzing sales of similar recently sold properties and adjusting factors and features of these sales to the subject property to derive an indication of the most probable sales price of the property being appraised.

The text, The Appraisal of Real Estate, 9th edition, published by the American Institute of Real Estate Appraisers, copyright 1987, page 315, describes five basic steps in applying the market data approach.

1. Research the market to obtain information on sales transactions, listings, and offerings to purchase properties similar to the subject property;
2. Verify the information by confirming that the data obtained are factually accurate and the the transactions reflect arm's length market considerations;
3. Select relevant units of comparison (e.g., dollars per acre, per square foot, or per income multiplier) and develop a comparative analysis for each unit;

4. Compare the subject property and comparable sale properties using the elements of comparison and adjust the sale price of each comparable appropriately or eliminate the sale as a comparable;
5. Reconcile the various value indications produced from the analysis of comparables into a single value indication or a range of values. An imprecise market may indicate a range of values.

This approach makes the appraiser perceive the subject property in the eyes of a typical purchaser. The typical purchaser who acts prudently in their own self interest will pay a price that is usually the result of an extensive shopping process which involves constantly comparing available alternatives. When the purchaser does buy, the choice is the property that represents the best balance between the desired specifications and the purchase price.

ADVANTAGES AND DISADVANTAGES OF USING EACH OF THE THREE APPROACHES

Advantages and disadvantages of using each of the three approaches, from an appraisal perspective, to value manufactured housing parks follows:

COST APPROACH:

This approach utilizes a replacement or reproduction cost new for the improvements. All accrued deterioration and obsolescence are subtracted from that amount and the land value is then added to indicate the actual market value of a property.

ADVANTAGES

1. Availability of national cost manuals.
2. Good foundation for uniformity.
3. Is available when there is limited sale data available

DISADVANTAGES

1. Courts do not place much reliance on this approach to value.
2. The variances in "soft" costs from one community to another.
3. Difficult in accurately determining the amount of accrued depreciation for an individual park.

INCOME APPROACH:

This approach capitalizes the net income of a property into an indication of its market value.

ADVANTAGES

1. Can be derived from market
2. Provides uniform assessment
3. The Minnesota Tax Court indicates this is an appropriate method to value this type of property.
4. A capitalization rate can be "built" when market data is not available to establish an "overall" rate (Net sale price divided by net operating income equals "overall" capitalization rate)

DISADVANTAGES

1. Limited amount of statewide sale data.
2. Due to limited amount of sale data, establishing the appropriate capitalization rate and expense ratio is difficult.
3. Limited amount of income data available to assessors.
4. Limited amount of expense data available to assessors

MARKET SALES APPROACH:

Sales price per pad and a rent multiplier (annual or monthly) are the two methods of this approach that are currently being used by county assessors to value manuafactured housing parks

ADVANTAGES

1. Market derived (reflects actions of marketplace)
2. Provides uniform assessment
3. Easily understood by property owner
4. Simplication of approach for mass appraisal.

DISADVANTAGES

1. Limited amount of available statewide sale data
2. Due to limited amount of sale data, establishing an appropriate multiplier is difficult.
3. Due to limited amount of sale data, establishing per pad adjustments is difficult.

ALTERNATIVES TO CURRENT METHODS

It has been suggested by park owners that the assessment of manufactured housing parks be based solely on the replacement cost of the real estate since the rents received include such services as snow removal, street maintenance, management, etc.

The Department of Revenue does not believe this to be a viable alternative for valuing manufactured housing parks.

The department's position is based on the following factors.

1. Appraisal theory, the appraisal profession and the courts, including the Minnesota Supreme Court, all hold that an appraiser must give consideration to all three approaches to value in estimating the market value of property. The appraiser must consider the three approaches to value, analyze the data contained in each approach, make a determination as to its reliability as a reflection of what is taking place in the real estate market and then make a judgment as to what approach to value leads to the most reliable estimate of value. If an assessor were to use only the cost approach to value in valuing manufactured housing parks, data which is crucial to an estimate of market value would be ignored. The result would be a valuation estimate that does not give consideration to all the factors affecting market value.

2. The facts do not support the argument that the income approach or the market sales approach places a value on intangibles which the park owner provides.

   First, there is no evidence to support the contention that a substantial portion of the sale price paid for a manufactured housing park represents a price paid for intangibles such as business opportunity and goodwill. This business is not separate from the real property. You cannot move the business from one location to another. The business is, in fact, the real property, just as the business of an apartment complex is the real property. There is no goodwill purchased in the sale of a manufactured home park, since the tenants of the manufactured homes cannot easily transfer their business somewhere else.

   Rents charged in the park include the cost of providing certain services but both the income approach and market sales approach to value take this into account in estimating the market value of the real property.

   In the case of the income approach, the portion of the rents paid for certain services is offset by the deduction of the expenditures required to provide the services, leaving a net income to be capitalized into an indication of market value.

In the market sales approach the sale price reflects the buyer and seller's expectation of the net income. Once again the increased rents attributable to the existence of the services is offset by the increased costs to the park owner of providing those services.

Any margin between the portion of the rent attributable to the park owner providing certain services and the cost (including a return on investment) of providing those services must be considered part of the value of the real property since the margin exists only because of the monopolistic nature of the park.

3. Requiring assessors to use one particular method in valuing a category of property would likely result in the owners of other categories of property seeking similar treatment. The Legislature would eventually find itself in the position of having to make a judgment about the proper valuation treatment for each category of property, resulting in a new de facto classification system.

4. Using a single approach to estimating the market value of manufactured home parks would certainly invite a court challenge on the basis of Article X of the State Constitution which provides that "Taxes shall be uniform upon the same class of subjects..."

   The cost approach of the three accepted approaches results in no consideration being given to important factors that are essential to estimating value of all other property. Thus, the value used for taxing manufactured home parks would be different than the value basis used in taxing other properties.

Some assessors have suggested that as an alternative method for estimating the value of manufactured home parks the law should dictate, or the Department of Revenue should promulgate rules, that the assessors statewide use a single gross rent multiplier in arriving at a value for property tax purposes. For example, if the gross rent multiplier were five, in estimating the value of any manufactured housing park in the state an assessor would simply multiply the gross annual rent by a factor of five.

The Department of Revenue is opposed to this proposal on almost same grounds that it is opposed to using only the cost approach in arriving at the value for tax purposes. It results in a valuation estimate that does not take into consideration all the factors affecting market value, it invites a new de facto classification system into an already complicated propety tax system, and it raises constitutional questions.

The alternatives which have been suggested by both the industry and assessors would require that assessors use a single approach to value that ignores the other two accepted approaches. Under current practice, assessors give more weight to one approach than the other two based on the reliability of the information collected. They are not precluded from giving greater weight and relying on a different approach for the best indication of market value. The judgment is left to the assessor who is in the best position to decide on the reliability, appropriateness and relevancy of the information collected. One assessor may rely on a particular approach as the best indication of market value because of the lack of relevant data for the other two approaches, while another assessor in a different location may find that the informaton collected under one of the other two approaches is more plentiful, reliable and relevant. The department believes that current law which requires assessors to give consideration to all three approaches to estimating market value is correct and assessors should be left the discretion to choose the approach which they feel yields the best indication of market value.

There is no indication that manufactured housing parks have been overvalued by the assessors. In fact, the study shown on pages 8 and 9 of this report shows that the assessment of manufactured housing parks falls quite short of the 90 percent of market value criteria applied to all other categories of property. The study indicates that the problem that exists is not with overvaluation but with undervaluation. There does not appear to be a need for a new method of valuing manufactured housing parks, but rather a need to make better use of the three accepted approaches to market value.

PROPERTY TAX CLASSIFICATION

Manufactured housing parks are classified as Class 4a property by the assessors, with few exceptions, Class 4a property is defined in Minnesota Statute 273.13, Subdivision 25 as follows:

> **Class 4. (a)** Class 4a is residential real estate containing four or more units and used or held for use by the owner or by the tenants or lessees of the owner as a residence for rental periods of 30 days or more. Class 4a also includes hospitals licensed under sections 144.50 to 144.56, other than hospitals exempt under section 272.02, and contiguous property used for hospital purposes, without regard to whether the property has been platted or subdivided. Class 4a property has a class rate of 3.6 percent of market value.

There are two other property tax classifications under existing law which could be viewed as appropriate for the assessment of manufactured housing parks. The first of these is the classification that applies to all commercial and industrial property, Class 3, which has a class rate of 3.3 percent of the first $100,000 of market value for taxes payable in 1990, and 5.06 percent of the market value over $100,000.

The argument for classifying the parks as commercial-industrial property is based on the fact that the park ownership is separate from the ownership of the residential units, and therefore the manufactured housing park business is no different from any other business.

The other classification that could apply would be Class 5, which has a class rate of 5.06 percent of market value. Class 5 property includes all other property not otherwise classified.

Due to the fact that the classification law does not explicitly address manufactured housing parks, it could be surmised that the property classification should be Class 5.

The Department held in the past and continues to hold, that the property classification for manufactured housing parks is Class 4a. This position is based on the language of M.S. 273.13, Subd. 25 which says "*Class 4 is residential real estate containing four or more units and used or held for use by the owner or by the tenants or lessees of the owner as a residence for rental periods of 30 days or more ...*"

Manufactured housing parks almost without exception contain 4 or more units. The pads are rented or leased for 30 days or more by the home owners. The only question is whether the pad qualifies as a residence under "*... used or held for use ... as a residence...*". The department has taken the position that the land is being used for residential purposes and it can be interpreted that the land is part of a "residence."

FINDINGS AND RECOMMENDATIONS

Findings

1. There is no evidence to suggest that manufactured housing parks are overvalued.

2. With few exceptions, assessors have been classifying the parks as the law appears to intend and in conformance with the interpretation made by the Department of Revenue.

3. It is essential that assessors be permitted to make estimates of market value utilizing the three accepted approaches to value. In addition, assessors must be given the discretion to place the greatest weight on the approach that is likely to yield the best indication of market value based on the reliability of the data available for use.

4. Alternative methods for valuing manufactured housing parks would invite requests from the owners of other types of property to have the legislature decide on a particular valuation method for their property. The result would be a new de facto classification system added to an already too complicated property tax. The appropriate jurisdiction for a dispute involving valuation methods is the courts rather than the legislature.

5. The year, 1989 saw large increases in the assessor's estimates of market value for manufactured housing parks in Anoka, Dakota, Hennepin, Ramsey and Washington counties because the selling prices of the parks indicated that the assessor's estimates of market value were below an acceptable level of assessment. Of the $50,220,500 increase in valuation that was deferred for one year by the 1989 Legislature, 96.5 percent of that value was in these 5 metropolitan counties. There is no evidence to suggest that manufactured housing parks in the other 82 counties in the state have seen dramatic valuation increases.

6. The Department estimated what the increase in taxes for each renter would have been if the valuation increases for 1989 had not been deferred. The tables which follow show the estimates by county and park assuming a local tax rate of 100 percent.

ANOKA COUNTY MANUFACTURED HOUSING PARK COMPARISONS

NAME OF PARK	# OF PADS	1989 TOT E.M.V. BEFORE VALUE FREEZE	1989 TOT E.M.V. AFTER VALUE FREEZE	1989 TOT VAL CHG DUE TO VALUE FREEZE	EST PER PARK PROP TAX BEFORE VALUE FREEZE	EST PER PARK PROP TAX AFTER VALUE FREEZE	EST PER PARK PROP TAX DIFF	EST PER PAD PROP TAX BEFORE VALUE FREEZE	EST PER PAD PROP TAX AFTER VALUE FREEZE	EST PER PAD PROP TAX DIFF	SALE INFORMATION
BALDWIN LAKE	75	611,900	361,800	(250,100)	$22,028.40	$13,024.80	$9,003.60	$293.71	$173.66	$120.05	
BLAINE MANOR	521	5,051,500	4,544,000	(507,500)	$181,854.00	$163,584.00	$18,270.00	$349.05	$313.98	$35.07	
CASTLE TOWERS	186	1,651,711	1,330,800	(320,911)	$59,461.60	$47,908.80	$11,552.80	$319.69	$257.57	$62.11	
CENTENNIAL SQ	596	5,179,400	4,458,500	(720,900)	$186,458.40	$160,506.00	$25,952.40	$312.85	$269.31	$43.54	
CREEKSIDE	256	2,641,900	1,887,400	(754,500)	$95,108.40	$67,946.40	$27,162.00	$371.52	$265.42	$106.10	
FLAMINGO TERR	282	2,373,400	1,781,100	(592,300)	$85,442.40	$64,119.60	$21,322.80	$302.99	$227.37	$75.61	
FOUR SEASONS	572	6,966,000	5,858,200	(1,107,800)	$250,776.00	$210,895.20	$39,880.80	$438.42	$368.70	$69.72	
FRIDLEY TERR	326	3,876,800	3,087,700	(789,100)	$139,564.80	$111,157.20	$28,407.60	$428.11	$340.97	$87.14	SOLD 12-85 FOR $ 5,275,000 MINUS $ 150,000 PERS. PROP.
HARSTE	31	208,300	199,900	(8,400)	$7,498.80	$7,196.40	$302.40	$241.90	$232.14	$9.75	
HILLTOP	221	1,891,000	1,767,500	(123,500)	$68,076.00	$63,630.00	$4,446.00	$308.04	$287.92	$20.12	
LINWOOD TERR	90	725,800	610,700	(115,100)	$26,128.80	$21,985.20	$4,143.60	$290.32	$244.28	$46.04	
NORTHVIEW VILLA	210	2,116,800	1,763,800	(353,000)	$76,204.80	$63,496.80	$12,708.00	$362.88	$302.37	$60.51	
OAK TERRACE EST	91	764,400	628,400	(136,000)	$27,518.40	$22,622.40	$4,896.00	$302.40	$248.60	$53.80	
PARK ESTATES	56	483,800	420,500	(63,300)	$17,416.80	$15,138.00	$2,278.80	$311.01	$270.32	$40.69	
PARK PLAZA	28	241,900	241,900	0	$8,708.40	$8,708.40	$0.00	$311.01	$311.01	$0.00	
PAUL REVERE	159	1,411,900	1,157,400	(254,500)	$50,828.40	$41,666.40	$9,162.00	$319.68	$262.05	$57.62	
PLEASANTVIEW	115	1,380,000	1,004,300	(375,700)	$49,680.00	$36,154.80	$13,525.20	$432.00	$314.39	$117.61	
RESTWOOD TERR	288	2,419,200	2,273,900	(145,300)	$87,091.20	$81,860.40	$5,230.80	$302.40	$284.24	$18.16	
SANDPIPER BEND	227	2,397,100	1,991,900	(405,200)	$86,295.60	$71,708.40	$14,587.20	$380.16	$315.90	$64.26	
ST. FRANCIS EST	89	449,300	386,200	(63,100)	$16,174.80	$13,903.20	$2,271.60	$181.74	$156.22	$25.52	
SUNNYSIDE	57	259,200	259,200	0	$9,331.20	$9,331.20	$0.00	$163.71	$163.71	$0.00	
VILLAGE GREEN	175	1,554,000	1,285,600	(268,400)	$55,944.00	$46,281.60	$9,662.40	$319.68	$264.47	$55.21	
WOODLYN COURT	40	348,500	336,000	(12,500)	$12,546.00	$12,096.00	$450.00	$313.65	$302.40	$11.25	
ZABELS	31	245,500	185,600	(59,900)	$8,838.00	$6,681.60	$2,156.40	$285.10	$215.54	$69.56	

DAKOTA COUNTY MANUFACTURED HOUSING PARK COMPARISONS

NAME OF PARK	# OF PADS	1989 TOT E.M.V. BEFORE VALUE FREEZE	1989 TOT E.M.V. AFTER VALUE FREEZE	1989 TOT VAL CHG DUE TO VALUE FREEZE	EST PER PARK PROP TAX BEFORE VALUE FREEZE	EST PER PARK PROP TAX AFTER VALUE FREEZE	EST PER PARK PROP TAX DIFF	EST PER PAD PROP TAX BEFORE VALUE FREEZE	EST PER PAD PROP TAX AFTER VALUE FREEZE	EST PER PAD PROP TAX DIFF	SALE INFORMATION
CAMELOT ACRES											
	319	4,306,500	2,405,600	(1,900,900)	$155,034.00	$86,601.60	$68,432.40	$486.00	$271.48	$214.52	SOLD 05-83 FOR $ 2,507,000
CEDAR KNOLLS	459	7,156,000	3,141,600	(4,014,400)	$257,616.00	$113,097.60	$144,518.40	$561.25	$246.40	$314.85	SOLD 12-85 FOR $ 8,000,000
CONNELLY PARK	61	586,500	211,500	(375,000)	$21,114.00	$7,614.00	$13,500.00	$346.13	$124.82	$221.31	
COUNTRY VIEW	373	4,587,900	2,086,500	(2,501,400)	$165,164.40	$75,114.00	$90,050.40	$442.80	$201.38	$241.42	
EATON PARK	108	1,555,000	667,200	(887,800)	$55,980.00	$24,019.20	$31,960.80	$518.33	$222.40	$295.93	SOLD 09-88 FOR $ 1,962,166
EMERALD HILLS	384	5,149,000	2,530,500	(2,618,500)	$185,364.00	$91,098.00	$94,266.00	$482.72	$237.23	$245.48	SOLD -84 FOR $ 3,953,000
FREEDMORE VILL	339	4,802,000	2,086,500	(2,715,500)	$172,872.00	$75,114.00	$97,758.00	$509.95	$221.58	$288.37	SOLD -83 FOR $ 4,000,000
											SOLD 11-86 FOR $ 6,262,500
HASTINGS TERR	57	445,000	236,800	(208,200)	$16,020.00	$8,524.80	$7,495.20	$281.05	$149.56	$131.49	
HEALY PARK	37	444,000	114,900	(329,100)	$15,984.00	$4,136.40	$11,847.60	$432.00	$111.79	$320.21	
NORTH CREEK	164	1,998,000	955,400	(1,042,600)	$71,928.00	$34,394.40	$37,533.60	$438.59	$209.72	$228.86	
QUEEN ANNE CRT	155	2,025,000	822,500	(1,202,500)	$72,900.00	$29,610.00	$43,290.00	$470.32	$191.03	$279.29	
RAMBUSH EST	224	3,619,000	1,504,800	(2,114,200)	$130,284.00	$54,172.80	$76,111.20	$581.63	$241.84	$339.78	
ROSEMNT WOODS	182	2,656,000	1,230,300	(1,425,700)	$95,616.00	$44,290.80	$51,325.20	$525.36	$243.36	$282.01	SOLD 11-87 FOR $ 3,375,000
											MINUS $ 20,000 PERS. PROP.
SKYLINE VILL	358	4,817,000	2,372,000	(2,445,000)	$173,412.00	$85,392.00	$88,020.00	$484.39	$238.53	$245.87	SOLD 02-88 FOR $ 6,160,000
											MINUS $ 15,000 PERS. PROP.
SUNNY ACRES	219	2,434,500	1,319,800	(1,114,700)	$87,642.00	$47,512.80	$40,129.20	$400.19	$216.95	$183.24	
S ST PAUL MH PK	64	700,000	236,200	(463,800)	$25,200.00	$8,503.20	$16,696.80	$393.75	$132.86	$260.89	
THREE RVRS CRT	176	2,150,000	1,458,800	(691,200)	$77,400.00	$52,516.80	$24,883.20	$439.77	$298.39	$141.38	

HENNEPIN COUNTY MANUFACTURED HOUSING PARK COMPARISONS

NAME OF PARK	# OF PADS	1989 TOT E.M.V. BEFORE VALUE FREEZE	1989 TOT E.M.V. AFTER VALUE FREEZE	1989 TOT VAL CHG DUE TO VALUE FREEZE	EST PER PARK PROP TAX BEFORE VALUE FREEZE	EST PER PARK PROP TAX AFTER VALUE FREEZE	EST PER PARK PROP TAX DIFF	EST PER PAD PROP TAX BEFORE VALUE FREEZE	EST PER PAD PROP TAX AFTER VALUE FREEZE	EST PER PAD PROP TAX DIFF	SALE INFORMATION
COLLINS MH PK	166	4,435,300	2,515,700	(1,919,600)	$159,670.80	$90,565.20	$69,105.60	$961.87	$545.57	$416.30	
DAYTON PK PROP	238	1,071,000	952,000	(119,000)	$38,556.00	$34,272.00	$4,284.00	$162.00	$144.00	$18.00	
KRESTWD MH PK	58 *	622,900	591,700	(31,200)	$22,424.40	$21,301.20	$1,123.20	$386.63	$367.26	$19.37	SOLD 10-86 FOR $ 875,000
LOWRY GRVE MNR	125 **	978,200	978,200	0	$35,215.20	$35,215.20	$0.00	$281.72	$281.72	$0.00	
MAPLE HILL EST	189	1,157,700	1,157,700	0	$41,677.20	$41,677.20	$0.00	$220.51	$220.51	$0.00	
MINNETKA HGHLD	28	240,000	210,400	(29,600)	$8,640.00	$7,574.40	$1,065.60	$308.57	$270.51	$38.06	
PINES MH COMM	127	1,036,700	987,400	(49,300)	$37,321.20	$35,546.40	$1,774.80	$293.87	$279.89	$13.97	
PORTLAND MH PK	70 ***	713,000	679,400	(33,600)	$25,668.00	$24,458.40	$1,209.60	$366.69	$349.41	$17.28	
STHGATE MH PK	47 ****	486,400	407,500	(78,900)	$17,510.40	$14,670.00	$2,840.40	$372.56	$312.13	$60.43	
SUNRISE BAY	64	626,900	626,900	0	$22,568.40	$22,568.40	$0.00	$352.63	$352.63	$0.00	SOLD 05-86 FOR $ 700,000
TOWER TERRACE	63	340,200	272,600	(67,600)	$12,247.20	$9,813.60	$2,433.60	$194.40	$155.77	$38.63	
WOODLAWN TERR	63	630,000	543,000	(87,000)	$22,680.00	$19,548.00	$3,132.00	$360.00	$310.29	$49.71	

* TOTAL DOES NOT INCLUDE 6 WINTERIZED CABINS AND 1 HOUSE
** TOTAL DOES NOT INCLUDE 40 SEASONAL SITES
*** TOTAL DOES NOT INCLUDE 1 DOUBLE BUNGALOW AND 1 HOUSE
**** TOTAL DOES NOT INCLUDE 6 SEASONAL SITES AND 1 HOUSE

RAMSEY COUNTY MANUFACTURED HOUSING PARK COMPARISONS

NAME OF PARK	# OF PADS	1989 TOT E.M.V. BEFORE VALUE FREEZE	1989 TOT E.M.V. AFTER VALUE FREEZE	1989 TOT VAL CHG DUE TO VALUE FREEZE	EST PER PARK PROP TAX BEFORE VALUE FREEZE	EST PER PARK PROP TAX AFTER VALUE FREEZE	EST PER PARK PROP TAX DIFF	EST PER PAD PROP TAX BEFORE VALUE FREEZE	EST PER PAD PROP TAX AFTER VALUE FREEZE	EST PER PAD PROP TAX DIFF	SALE INFORMATION
ARDEN MANOR	294	2,410,100	1,927,100	(483,000)	$86,763.60	$69,375.60	$17,388.00	$295.11	$235.97	$59.14	
BEAVER LK EST	254	2,093,800	1,481,000	(612,800)	$75,376.80	$53,316.00	$22,060.80	$296.76	$209.91	$86.85	
BROOKSIDE	214	1,679,900	1,183,300	(496,600)	$60,476.40	$42,598.80	$17,877.60	$282.60	$199.06	$83.54	
COLONIAL VILL	194	1,448,700	1,138,800	(309,900)	$52,153.20	$40,996.80	$11,156.40	$268.83	$211.32	$57.51	
FIVE STAR EST	250	2,264,000	1,606,300	(657,700)	$81,504.00	$57,826.80	$23,677.20	$326.02	$231.31	$94.71	
LAKESIDE	245	1,950,900	1,699,800	(251,100)	$70,232.40	$61,192.80	$9,039.60	$286.66	$249.77	$36.90	
MAPLEWOOD	19	84,500	81,500	(3,000)	$3,042.00	$2,934.00	$108.00	$160.11	$154.42	$5.68	
MOUNDSVIEW	153	1,137,900	935,200	(202,700)	$40,964.40	$33,667.20	$7,297.20	$267.74	$220.05	$47.69	
NORTH STR EST	210	1,843,600	1,182,100	(661,500)	$66,369.60	$42,555.60	$23,814.00	$316.05	$202.65	$113.40	
OAK GROVE	137	852,100	672,600	(179,500)	$30,675.60	$24,213.60	$6,462.00	$223.91	$176.74	$47.17	
ROLLING HILLS	355	2,227,000	1,309,600	(917,400)	$80,172.00	$47,145.60	$33,026.40	$225.84	$132.80	$93.03	
ROSEVILLE	108	795,200	454,000	(341,200)	$28,627.20	$16,344.00	$12,283.20	$265.07	$151.33	$113.73	
ST PAUL TRLOR	45	199,300	160,800	(38,500)	$7,174.80	$5,788.80	$1,386.00	$159.44	$128.64	$30.80	
TERRACE HGTS	189	1,386,400	916,600	(469,800)	$49,910.40	$32,997.60	$16,912.80	$264.08	$174.59	$89.49	
THIRTY-TWENTY	74	431,000	329,700	(101,300)	$15,516.00	$11,869.20	$3,646.80	$209.68	$160.39	$49.28	
TOWN AND CTRY	212	1,209,800	557,200	(652,600)	$43,552.80	$20,059.20	$23,493.60	$205.44	$94.62	$110.82	
TOWNSEDGE TERR	236	2,029,500	1,522,400	(507,100)	$73,062.00	$54,806.40	$18,255.60	$309.58	$232.23	$77.35	

WASHINGTON COUNTY MANUFACTURED HOUSING PARK COMPARISONS

NAME OF PARK	# OF PADS	1989 TOT E.M.V. BEFORE VALUE FREEZE	1989 TOT E.M.V. AFTER VALUE FREEZE	1989 TOT VAL CHG DUE TO VALUE FREEZE	EST PER PARK PROP TAX BEFORE VALUE FREEZE	EST PER PARK PROP TAX AFTER VALUE FREEZE	EST PER PARK PROP TAX DIFF	EST PER PAD PROP TAX BEFORE VALUE FREEZE	EST PER PAD PROP TAX AFTER VALUE FREEZE	EST PER PAD PROP TAX DIFF	SALE INFORMATION
CAESAR TERR	18	138,400	60,400	(78,000)	$4,982.40	$2,174.40	$2,808.00	$276.80	$120.80	$156.00	
CIMARRON PK	504	4,596,600	2,518,100	(2,078,500)	$165,477.60	$90,651.60	$74,826.00	$328.33	$179.86	$148.46	SOLD 06-85 FOR $ 8,050,000 MINUS $ 600,000 PERS. PROP.
LANDFALL	337 **	2,783,900	1,439,700	(1,344,200)	$100,220.40	$51,829.20	$48,391.20	$297.39	$153.80	$143.59	
ST PAUL MH PK	92	644,000	321,500	(322,500)	$23,184.00	$11,574.00	$11,610.00	$252.00	$125.80	$126.20	
TWTY-NINE PINE	152	986,100	441,600	(544,500)	$35,499.60	$15,897.60	$19,602.00	$233.55	$104.59	$128.96	SOLD 01-89 FOR $ 2,356,722.44 MINUS $ 1,919,722 PERS. PROP.
TWIN PINES	132	783,500	305,800	(477,700)	$28,206.00	$11,008.80	$17,197.20	$213.68	$83.40	$130.28	
WHSPRING OAKS	93	942,000	421,000	(521,000)	$33,912.00	$15,156.00	$18,756.00	$364.65	$162.97	$201.68	
WOODLAND PARK	114	659,700	328,600	(331,100)	$23,749.20	$11,829.60	$11,919.60	$208.33	$103.77	$104.56	

** TOTAL DOES NOT INCLUDE 40 SEASONAL SITES

The estimated annual average increase in taxes for a renter in a manufactured housing park in each of the counties is as follows:

Anoka	$56.62
Dakota	$254.91
Hennepin	$70.24
Ramsey	$77.73
Washington	$142.23

7. In addition to the portion of rent that goes for property taxes, the owners of manufactured homes pay a personal property tax on the home. The home is eligible for the benefits of the homestead classification. Typically, the taxes on a homesteaded manufactured home range from $100 to $300.

8. The owners of manufactured homes are eligible for a property tax refund, the same as all other homeowners and renters. The eligible tax is the tax on the manurfactured home and the portion of the rent paid to the park owner which is attributable to property taxes.

9. The total property taxes, a combination of the personal property tax on the home and the portion of rent attributable to property taxes that residents of manufactured housing parks pay, is very comparable to the property taxes that apartment dwellers pay.

RECOMMENDATIONS FOR LEGISLATION

1. The Department recommends that no change be made in the assessment and taxation of manufactured housing parks and the freeze on valuation increases not be continued.

2. The Department recommends that if the Legislature desires the property tax on manufactured housing parks to be reduced, a property tax classification change be considered rather than imposing a freeze on the valuation of the parks.

3. The Department recommends that if the Legislature finds no need for a change in the classification of manufactured housing parks, then a sentence should be added to the definition of Class 4a to include manufactured housing parks.