

Economics of the Park Homes Industry



**OFFICE OF THE
DEPUTY PRIME MINISTER**



Llywodraeth Cynulliad Cymru
Welsh Assembly Government

housing



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DEPUTY PRIME MINISTER**

Economics of the Park Homes Industry

October 2002

Berkeley Hanover Consulting, Davis Langdon Consultancy
and the University of Birmingham
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TECHNICAL APPENDICES

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Preface

Berkeley Hanover Consulting (BHC), in association with Davis Langdon Consultancy and the University of Birmingham, were commissioned to undertake the study of the Economics of the Park Homes Industry by the Office of the Deputy Prime Minister (ODPM – formerly the Department for Transport, London & the Regions) and the Welsh Assembly Government (WAG) in January 2001.

The core consultancy team comprised Paul Cockle, Sue Harvey, Jim Meikle, Pat Niner, Martin Shenfield and Paul Thomas. A technical team comprising Tatevik Ayvazyan, Damir Hadziosmanovic and Rahul Nag of BHC supported the core team.

The consultants are particularly indebted for the continued support and guidance during a very complex study provided by the Client's nominated Steering Group chaired by Tom Ocroft of ODPM and supported by his colleagues, in particular Michael Davis and Sarah Fielder, and Mike Harmer (WAG).

The consultancy team met representatives of the two organisations representing park operators (the British Holiday and Home Parks Association and the National Park Homes Council) and the three organisations representing park residents (the British Park Home Residents Association, the Independent Park Home Advisory Service and the National Association of Park Homes Residents) at a very early stage in the study. Representatives of all these organisations provided continued support during the course of the study, in particular by encouraging their respective members to co-operate with site visits and surveys.

Many other organisations – too numerous to mention – were contacted during the study. The consultants would wish to acknowledge their general willingness to discuss the industry. In particular, the research would not have been possible without the co-operation of many individual park operators and park residents who gave considerable amounts of time to meeting the study team during site visits and who took the time to complete very extensive questionnaires.

Comments and information have been received from many organisations, companies and individuals during the course of this project. The primary intention of the research has been to provide a completely independent view of the industry. The analysis and conclusions solely represent the views of the consultancy team and do not necessarily reflect the opinions of the ODPM and WAG or any third parties involved in the research.

Executive summary

- 1 Berkeley Hanover Consulting (BHC), in association with Davis Langdon Consultancy and the University of Birmingham, were commissioned to undertake the study of the Economics of the Park Homes Industry by the Office of the Deputy Prime Minister (ODPM)¹ and the Welsh Assembly Government in January 2001.
- 2 The specific remit was:
 - to provide a comprehensive and independent examination of the economics of the industry, including rates of return, the range of income sources available to park owners and expenditures incurred; and
 - consequently to produce a series of alternative options for remunerating park owners, including variations in the levels, and method of calculation, of the commission and pitch fees.

Making recommendations about which, if any, option should be adopted was specifically excluded from the remit. The research forms part of the Government's response to the Report of the Park Homes Working Party (2000), which recommended that a study of the economics of the industry be carried out.

- 3 Core elements of this study have been large scale postal surveys of home park operators and residents. These were the largest such surveys ever undertaken of this industry. They provided unique and up to date information upon which to base the analysis. All figures about park residents and operators used in this summary are taken from the surveys unless otherwise stated.

What is a park home?

- 4 'Park home' is the currently accepted name for a residential mobile home, installed on a site or 'home park'. The character of this tenure is unique and is currently governed by the Mobile Homes Act 1983. The Act guarantees certain rights for both the park owner and the resident, including security of tenure for the resident, with only limited specified grounds upon which the agreement between the resident and park owner can be terminated.

¹ Then known as the Department of the Environment, Transport and the Regions.

What payments are made?

- 5 Except where the park home is rented, the home unit belongs to the resident but the operator owns the land upon which it sits. The home park operator and resident enter an agreement, which confers certain tenure rights, while placing certain obligations upon the operator. Residents make an upfront payment to move onto the park and enter into an agreement with the operator. By doing so they also agree to a mechanism that involves further payments. The resident pays pitch fees to the operator on a regular basis, often monthly. Residents also agree, in the event of selling the home and re-assigning the rights of tenure to a third party, to pay the operator a percentage of the sale value, which cannot exceed 10%. This is known as a commission payment. Residents will normally pay the operator sums in relation to their consumption of water, sewage and gas. While this study has examined in detail the initial sales payment, pitch fees and commission payments; it has not addressed utility payments.

Residents' concerns about the current payments

- 6 Residents' concerns about these payments as expressed through residents' associations and the technical press are: (i) the absence of clarity – “what are they for?”; (ii) that they encourage operators to harass residents; and (iii) that they are excessive. All three complaints coalesce around commission payments. Operators on the whole support the status quo.

Home parks and their residents

- 7 The study identified 1,683 parks in England and Wales, and held information on them in a database. However, there are grounds to believe that the actual number of home parks approaches (or even slightly exceeds) 2,000. A major proportion is located in southern England (57%), while the Midlands account for 21% and the North 17%. Wales has 5% of the identified stock.
- 8 For some 14% of the parks it was not possible to identify size; although they are likely to be small. The rest were divided into roughly equal proportions to give the following categorisation based on pitch numbers: small (3–20), medium (21–50) and large (51+).
- 9 The study estimates that there are some 69,000 households currently residing in park homes in England and Wales, representing a population of approximately 114,000 adults and 2,400 children. The social profile of park home households is quite distinct. Sixty-eight percent are elderly (48% elderly couples), compared with 33% of households in the UK. Only 4% of park home households have children living with them compared to 29% in the population. The dominance of the elderly has increased significantly since 1990 when it stood at 55%.

What is the financial position of the residents?

- 10 Not too surprisingly, given the age structure, 64% of park home households have incomes below £800 per month, compared to 30% in the population. A further 34% of residents have monthly incomes between £800–£2,000. This compares with average monthly pitch fees in the region of £80–£85.
- 11 While 45% of residents' households have less than £1,500 of savings, compared to 58% in the population, the elderly residents' households have 40% in this savings range compared to 30% in the population. About 40% of the residents' elderly households have savings in the range £1,500–£10,000. Thus residents are generally not income rich and a good proportion has no savings at all, though there is a significant number with very modest savings.
- 12 Some 83% of today's residents owned their own homes prior to moving onto a park home, which compares with 73% in 1990, a significant increase in a period when the share of the total population owning their own home barely changed at all (67% to 69%).² Of those residents arriving on a park since 1995 who were previously owner-occupiers, some 94% were able to purchase their park home outright.
- 13 Though equity release from a bricks and mortar home is far from being the sole reason for choosing to live in a park home, it represents the dominant financial consideration for the significant number with low income prospects.

How satisfied are residents?

- 14 The proportion of residents satisfied or very satisfied with life on their park is 76%. This can be broadly compared with 94% for owner occupation; 81% for social renting and 82% for private renting.³ Eighteen per cent of park home residents are dissatisfied or very dissatisfied. Those who have been resident a long while (over 20 years) are much more likely to be dissatisfied or very dissatisfied, as are family households.
- 15 This study casts little new light on the scale of harassment, which has been the subject of other reports. Of residents surveyed across a representative set of parks, 93% said that they had had no personal experience of undue operator pressure either to leave the park, which might have generated a commission, or to sell to the operators, which could possibly afford a re-development opportunity.
- 16 When asked whether they were aware of others on their park ever experiencing undue pressure to leave, 71% replied 'never'. To the question on whether others on their park had experienced undue pressure to sell to the operator, only 57% replied 'never'.
- 17 Whilst views will vary on what constitutes undue pressure, and the inherent difficulty of interpreting pressures reported at second hand, it remains the case that 7% feel that they have directly experienced undue pressures. Indeed, the 7% level may understate the perceived pressure, because some residents who had been under pressure previously and left the park because of it, could not – by definition – participate in the survey.

² The comparison for data is Mobile Homes Survey, Pat Niner with Alan Hedges, 1992.

³ The comparison data for satisfaction comes from the Survey of English Housing 2000.

Transactions and transparency

- 18 New residents pay for a mobile home and the right to site it on a home park as set out in the agreement. Over the two years, 1999–2000, the average price paid for sited new and second hand homes was £62,000 and £25,000 respectively. The average value for a new single unit was £34,500 and £13,500 for a second-hand unit. In the transactions involving the purchase of new units, the operator effectively acts as the residents' agent in dealings with the manufacturer. Discounts off list prices are negotiated within a wide range but 27% is a representative figure. The operator then quotes a sited price to the new resident.
- 19 This arrangement has the potential to confuse. If nothing else, it may breed suspicion that the resident is being disadvantaged and blurs the distinction between the cost of the mobile home and the cost of the rights secured under the agreement. Such doubts are further enhanced by the effective inability of prospective residents to buy directly from manufacturers. To improve the transparency of this transaction, one option would be for operators to charge residents a sum towards the use of the land and facilities, and residents be able to contract separately, if they wish, with mobile home manufacturers.
- 20 Residents will in addition regularly pay pitch fees. Pitch fees on a given site vary according to whether they relate to single or twin pitches. They can also vary according to the attractiveness of the pitch location and the date of the agreement between operator and resident. A park may, therefore, have a spread of pitch fees. However, the study revealed an average annual fee for single homes of £960 and for twins of £1,050. The Standard Agreement states that annual increases in pitch fees should be mindful of inflation, but leaves open the possibility to make greater or lesser increases in relevant circumstances. Some 30% of parks made increases below the rate of inflation. A further 40% increased broadly in line with inflation whilst the remaining 30% rose above inflation. It is noticeable that the increases in excess of inflation are generally greater than the decrease below inflation, suggesting an upward drift in pitch fees in real terms.
- 21 When residents sell their home and re-assign their agreement to a third party, they are obliged to pay a commission to the operator. The average value of a home upon assignment was £25,500 for a single and £43,500 for a twin. The survey showed that in almost all cases the commission rate is 10%, and that commission payments average £2,550 on singles and £4,350 on twins.

Economic interpretation of payments

- 22 While little attempt is made in agreements or in the voluntary Park Home Charter to make clear what the three separate payments represent; in the view of this study they are conjoint payments for the use of the land and facilities of the park. These – particularly the land – are the assets of the operator whose use is being procured by residents. From an economic point of view, the payment is not simply for the use of the land but also to retain the land in that use. Some residents (83% of whom were previously owner occupiers) might perceive that the substantial payment made at the start of an agreement is a complete payment for those rights of use. But by signing the agreements they have also consented to pitch fee and commission payments.

- 23 Residents may also believe that pitch fees exclusively cover site maintenance and repairs and are no more than a service charge. But the study has found no requirement that it should be so. Indeed it has found that the regular annual contribution to a 'sinking fund' – to maintain the fabric of the park the average life cycle of a park – would on average approximate half the pitch fee (there are also other administrative and fixed costs to cover). The difference between these costs and the pitch fees is a payment for the use of the land and facilities.
- 24 The maximum permitted and almost exclusively used commission rate of 10% is a further source of confusion. This is essentially an arbitrary number – it was 15% prior to the Mobile Homes Act of 1983 – and there appears little original economic rationale for applying this to the value of the park home on its sale. It has also been argued that because sales to third parties arise on an irregular and unpredictable basis, they cannot be considered as part of a structured payment system for park homes. The study rejects this argument. It confirms a previous finding that the annual rate at which commission payments arise is on average 6% of the pitch stock. From a business perspective it is not necessary to identify which park home will go on the market, merely that in the long run a certain proportion will.
- 25 Though this study concludes that greater transparency would be a direct benefit to both residents and operators, it does not regard the triple payment structure as inherently unfair. There are two reasons for this conclusion.
- 26 Firstly, when signing a new agreement, prospective residents have certain knowledge of the capital sum being asked, of the current pitch fee being paid and the obligation to pay a commission. Prospective residents are under no coercion to sign. There are other operators (ownership concentration is still slight), other parks and other combinations of housing and financial products that they could choose. As long as the necessary information is fully available and not misleading, the prospective resident is assenting to a tri-partite stream of payments – a commitment they think at the time is worth making in return for the home and the agreement.
- 27 Secondly, given the financial circumstances of residents described above, the payment system seems to have qualities that not only suit those circumstances but at one level define the character of the product being bought. For those with some capital but low future income prospects, to secure a home with an initial outlay that releases equity, that requires regular payments (constrained if not limited by inflation) which take a modest proportion of income, and that might require a further capital payment at the end of their residency, but which is financed from the sale seems to be an apt product. Radically altering the payment system could change the character of the product itself.

Transactions and negotiating strengths

- 28 The purchase of a home and new agreement is undertaken without coercion and in the presence of choice. Once residents are on the park their options in relation to other transactions are heavily circumscribed. The renegotiations of pitch fee increases, normally annual, can in the event of dispute go to arbitration and to court which can be costly and time consuming. Cheaper and more efficient conflict resolution mechanism would be one option of redressing any imbalance in the negotiating positions of residents and operators.

- 29 While the Express Terms of the Standard Agreement state pitch fee reviews should have regard to the movement in the RPI and practice seems to generally follow this (see above), there is no requirement to do this. It is not uncommon for above-inflation increases to be levied to cover peaks in maintenance and repair expenditure. This study did not assess the physical condition of parks; but repair expenditure may well vary considerably from year to year as the major elements of a home park reach the end of their useful lives and require repair and renovation. To allow for this variability in expenditure, an operator can set aside amounts in the troughs to pay for the peaks or costs are met concurrently with negotiations over the incidence to be borne by the resident. An alternative is for costs to be paid as they arise from a sinking fund, which would serve the interests of equity and efficiency. The use of a 'sinking fund' is one option for better matching revenues from pitch fees and repair costs over time. It would aid transparency and could ensure costs of major repairs are not disproportionately borne by residents. Many leasehold blocks of flats operate sinking funds along these lines. While it would not entirely remove the problems of costs peaking unpredictably it would provide a better basis for discussions and negotiations.
- 30 Commission payments and pitch re-development opportunities create a financial incentive for unscrupulous operators to "churn" their residents. The operator can withhold approval, though not unreasonably, of a third person taking on the home and the agreement of a current resident. This can be used to force residents to sell their homes and agreements back to the operator on favourable terms. While this right of the operator, in theory, might be used to protect other residents from an "unsuitable" resident, the presence of park rules and the agreement to abide by those rules, seems protection enough. The operator could legitimately argue that an "unsuitable" prospective resident might default on payments. However, even if this could be assessed in advance, the matter might be managed better by a good conduct bond that could be forfeit.
- 31 The age of a mobile unit might eventually reduce the value of the sited home to near zero either because it is of a style and taste for which there is no market and/or because it becomes dilapidated. The detrimental clause in agreements allows homes to be removed from parks because their condition detracts from the value of other homes on the park. This is another source of pressure on residents. One option for addressing this would be for the National Caravan Council to establish approved workshops to undertake re-conditioning and refurbishing of park homes along the lines established for other caravans.

'Excessive' profits

- 32 Whether operators' profits are 'excessive' or not can be judged from several viewpoints. The first is whether it arises from the abuse of market power. Given the widespread ownership of home parks and the alternatives to park home living, it is difficult to sustain the view that the entry decision is not taking place in conditions of free competition. The evidence of exploitation of the pitch fee review process is weak. Though the increases may drift above inflation (repair and maintenance costs tend to do this too) it is difficult to infer, from the study's evidence that there is general abuse of price rises for a largely captive market. The collection of information on pitch fees over a number of years would shed more light. Evidence of perceived undue pressures on residents to leave or sell has already been given. However, the annual rate of acquisition of homes and pitches by operators taking account of those not replaced is 1.9% for singles and 0.6% for twins. This is not suggestive of a wide scale abuse generating high profits.

- 33 From the arguments in the preceding paragraphs, there is little evidence to support the argument that operators possess market power that would allow them to make excessive profits.
- 34 Evidence of excessive profits might also be assessed by the market for the purchase of home parks and how the profits from owning them compare to other types of property. There are difficulties here. If there were high profits then new parks would be rapidly developed unless regulatory restrictions prevented the increase of supply induced by the high profits. Operators in questionnaires and discussions and valuers in interview have made it clear that it is very difficult to receive planning permission for a new site. They point to the low number of new sites being developed in recent years.
- 35 Of course high profits could attract acquisitions of existing sites. It would appear that there is an active market in home parks with around 80 transactions a year in the recent past. This suggests a rate of park turnover of 3–4% p.a. over last 5 years. Valuers used to work on the assumption that yields (net income/purchase price of park) were in the region of 12–15% but with the recent values being achieved in the market place they may have fallen as low as 10% and there was a suggestion of yields as low as 8%. These lower yields appear to have diminished the rate of acquisition. The current yields are not too dissimilar from yields on other property types. This evidence also does not support any suggestion that park operators are earning excessive profits.
- 36 A third way of assessing whether profits are excessive or not is by identifying profits actually earned by operators. The survey asked operators directly what profits they earned in their last financial year and this was reported to be an average £48,000, with wide differences between small and large parks. As a cross check, questions were also asked about revenue and cost elements. These gave an estimated average profit of £34,000. Personal interviews with operators carried out for the study established that a large number of operators would have difficulty identifying representative costs consistently. This is likely to explain the difference.
- 37 The profit figures are based on 1999–2000. Since then, sales values of park homes are likely to have increased, following the trend of increases in values of bricks and mortar homes. Other things being equal, this is likely to mean higher profits for operators. But this reflects the cyclical nature of operators' profits. Basing conclusions about profitability from a year at the top or bottom of the cycle is likely to be misleading. In retrospect, 1999–2000 appears to be a year around the middle of the cycle and so should provide a reasonably neutral point from which to assess profitability.
- 38 As a further cross check, the study sought to model representative costs faced by operators. While representative costs were identified for many categories it was not possible to identify all the costs associated with sales of sited homes – in particular the cost of buying out existing residents. The calculations show that average net income for a residential park (excluding sales net income) is about £20,000. Small parks on this basis appeared to make a £5,000 loss but wages costs imputed to owners if removed would have yielded a positive net income to the owners. Though the study has not been able to corroborate all elements in its net income calculation, the direct profit figures reported do not appear to be a material underestimate.

- 39 Calculation of returns on capital, even had it been possible to derive, did not promise an illuminating measure since the value of land in its current use would go unreflected. Capital returns based on historic costs of infrastructure again would have revealed little. The most illuminating measure is the yields reported above. Neither the yield, nor the average level of profit, nor the competitive structure of the market, supports the proposition of excess profits.

Conclusions on the economics of the industry

- 40 The study's main findings about the economics of the industry are:
- The payment mechanisms are not transparent but the tri-partite payments are primarily for the use of the land and facilities and for keeping land in that use;
 - While certain features of the payment mechanism do provide an incentive to pressurise residents to leave or sell their home, this structure also characterises the product that is demanded by the current resident profile;
 - Removing the commission might partially reduce this problem but to do so without compensation (higher pitch fees) does not appear justified on the evidence from this study about the profits of operators;
 - To remove the commission with compensating pitch fee increases may bear heavily on many residents but in changing the system of payments the type of people demanding park homes would alter in sympathy over the long term.

Changing commission payments

- 41 As required in the study remit, a number of options for changing the payment mechanism were assessed. Since the evidence for excessive profits is sparse, the analysis calculated the compensating increases required in pitch fees. If the commission rate were abolished entirely, there would be a corresponding rise of 22% in the average pitch fee. A commission rate of 2.5% would result in an average 17% rise in pitch fees. A commission rate of 5% would result in an 11% rise in the average pitch fee, and a commission rate 7.5% would result in a 6% rise in pitch fees.
- 42 The analysis also calculated the effects of a sliding rate of commission based on the length of residence on the park, and altering the base upon which the commission is levied. The table over sets out the options considered and the results of the modelling.

	Resident	Operator
Lower Commission Rate and Higher Pitch Fees		
Advantages	<ul style="list-style-type: none"> ● Lower amount of commission is paid when selling the home ● More incentive for people to buy mobile homes and try park homes lifestyle ● Less pressure from operators on residents to leave the park 	<ul style="list-style-type: none"> ● Constant stream of revenue in form of higher pitch fees ● Possibly higher sales volume, as a result of more people buying homes
Disadvantages	<ul style="list-style-type: none"> ● Higher pitch fees to compensate the loss of assignment revenue to operator 	<ul style="list-style-type: none"> ● Problematic to implement for existing residents
Implications for the market	<ul style="list-style-type: none"> ● Increase of land value would be included in the pitch fees ● Marginalization of residents who cannot afford higher pitch fees ● Park home living might be perceived by residents as less financially attractive option because of higher pitch fees 	
Abolition of Commission and Higher Pitch Fees		
Advantages	<ul style="list-style-type: none"> ● Enhanced mobility to sell the home and leave whenever they wish ● No pressure from the operator to leave the park 	<ul style="list-style-type: none"> ● Constant guaranteed revenue in form of higher pitch fee
Disadvantages	<ul style="list-style-type: none"> ● Considerably higher pitch fees (29% for a small, 32 % for a medium, 20% for a large and 22% for an average park) 	<ul style="list-style-type: none"> ● Operator, as the land owner and developer, does not receive capital sum ● Difficult to implement for existing residents
Implications for the market	<ul style="list-style-type: none"> ● The commission would no longer be a financial impediment to the mobility of residents ● Increase of land value would be included in the pitch fees ● The operators' income would depend on only two main sources (pitch fees and sales) ● Marginalization of residents who cannot afford higher pitch fees ● Park home living might be perceived by residents as a less financially attractive option because of higher pitch fees 	
Sliding Commission Rate (related to the length of stay)		
Advantages	<ul style="list-style-type: none"> ● A fairer system for people who sell their homes after short period of time of the previous sale ● Incentive for more people to try park home lifestyle 	<ul style="list-style-type: none"> ● Would not have major impact on operators' income, since very few residents are likely to sell their homes during first years ● Possibly higher sales volumes
Disadvantages		<ul style="list-style-type: none"> ● Would be very difficult to implement higher pitch fees to compensate any loss of income ● Problematic to apply this system to existing residents
Implications for the market	<ul style="list-style-type: none"> ● Probably some small loss of assignment revenue for the operator (1%–3%) ● Linking commission rate to the length of stay undermines the fact that it is directly related to the land value 	
Altered Base (applying commission either to the land component reflected in the value of the home or to the increase in the value of the land component)		
Advantages	<ul style="list-style-type: none"> ● Lower amount of commission paid upon sale of the home (if commission remains 10%) 	<ul style="list-style-type: none"> ● A just system for the operator, which would include the land values
Disadvantages	<ul style="list-style-type: none"> ● If the home is old-fashioned, though in good state, resident may receive a low offer ● Higher pitch fees (if commission remains 10%) 	
Implications for the market	<ul style="list-style-type: none"> ● Commission would fairly reflect land value and the likely life of the unit ● Difficult to implement for the sale of second-hand homes 	

Further findings

- 43 As well as the changes to the payment mechanism discussed above, a number of other options were identified in the course of the study that would help improve the transparency of the approach to charging and redress imbalances in the negotiating strengths of operators and residents.
- Transparency could be better served by operators quoting a capital sum for siting a unit independently and acquiring an agreement so that residents could, if they wish, contract with a mobile home manufacturer independently;
 - A possible option for addressing the issue of the removal of the homes would be for the National Caravan Council to establish standards for approved workshops to carry out refurbishments;
 - Transparency and confidence would be further served by the creation and operation of a sinking fund for the repair and maintenance of the park;
 - The establishment of formally recognised residents' associations on parks would provide an appropriate means for the successful introduction and facilitation of a number of the measures suggested in this report.

CHAPTER 1

Introduction

Appointment

- 1.1 Berkeley Hanover Consulting, in association with the Davis Langdon Consultancy, (the Consultants) were appointed to undertake the study of the Economics of the Parks Homes Industry from the Office of the Deputy Prime Minister (ODPM) and the Welsh Assembly Government (the Client) in January 2001. Pat Niner of the University of Birmingham acted as an adviser to the Consultants.
- 1.2 The need for this research was identified in the Report of the Park Homes Working Party,¹ which recommended that an independent and comprehensive study of the economics of the Park Homes Industry should be undertaken with particular reference to the consequences of alternative pricing regimes. This research forms part of the Government's response to the Report of the Park Homes Working Party.

Purpose of the Research

WHAT IS A HOME PARK?

- 1.3 'Park home' is the currently accepted name for a residential mobile home, installed on a site or 'home park'. We will be using these definitions throughout the report, ensuring that the language used is consistent with the majority of definitions in the related current literature on the subject.
- 1.4 Home parks are legally viewed as a development from caravan sites and this remains the only legal designation for them. This is despite the fact that the mobile homes ('caravans') are in many instances similar in appearance to 'bricks and mortar' bungalows and tend to attract a very different type of resident with different motivations, compared with caravan dwellers.
- 1.5 In theory, the home park provides prospective residents with pitches – the concrete base upon which mobile homes can be sited together with surrounding open space for private gardens, car parking etc. Following manufacture, a mobile home is transported to a home park and connected to the utilities. The park owner or operator provides and is responsible for the site infrastructure. In practice, most park homes are bought directly from a home park operator or purchased on assignment from an existing tenant (see Chapter 2). The

¹ Page 44, Report of the Park Homes Working Party, DETR, July 2000.

ability of a potential resident to directly acquire a mobile home from the manufacturer and site it upon an available pitch at the home park of choice remains virtually non-existent without the active participation of the park operator.

- 1.6 In our definition of a home park for the purposes of this research, we agreed with the Client to set a minimum size of park with respect to the number of pitches it contains. We, therefore, did not consider the numerous one and two pitch ‘parks’ around the country.
- 1.7 Mobile homes are factory made units mounted on jacks on a concrete base, which renders them technically mobile, as they are not built into the ground.
- 1.8 The vast majority of park homes are owned by their occupiers, but are stationed on a home park, which belongs to a park owner. In effect, the land has to be rented from the park operator. The occupier or resident normally pays a ‘pitch fee’ to the park owner. This pitch fee covers the rent and other services the operator provides. Utilities are usually billed separately, either directly by the utility company, or through the park operator. In the case of assignment, the park owner has a legal right to receive up to 10% commission from the sale of the home.
- 1.9 The character of this tenure is unique and is currently governed by the Mobile Homes Act 1983. The Act guarantees certain rights for both the park owner and the resident, including security of tenure for the resident, with only limited specified grounds upon which the agreement between the resident and park owner can be terminated.

Context

- 1.10 The park home market, like all property markets, trades certain property rights for a price. Where there is clarity regarding the nature of those rights and both sellers and purchasers can enter into buying and selling arrangements at reasonable cost and in a competitive environment, the market will probably provide a mutually acceptable outcome. Negotiating over terms of those property rights can then work so that both parties are satisfied with the outcome – ‘fair exchange is no robbery’.

Current Principal Transactions

- 1.11 There are four major financial transactions between current or prospective residents and an operator:
 - i. The incoming resident makes a capital payment to secure the ownership of the park home (new or second hand). At the same time, an agreement is entered into between the site owner and the resident giving the latter the right to occupy the site;
 - ii. Outgoing residents sell their sited mobile home and reassign the Agreement to an incoming resident for a one-off capital sum and then pay the operator a commission (usually 10%) on the sale to the site owner;

- iii. Outgoing resident sells the sited mobile home for a one-off capital sum to the operator terminating their agreement; and
- iv. Incumbent resident pays regular pitch fees to the park operator.

History of Public Investigation

1.12 Nearly all markets work more efficiently for all parties if there is adequate information to allow comparisons to be made. So besides custom and usage there is normally a framework of civil and criminal law designed to bolster the market. The park homes market is no exception to this. Main legislative documents relating to the park homes are:

- *Caravan Sites and Control of Development Act 1960*
- *The Caravan Sites Act 1968*
- *The Mobile Homes Act 1983*

Notwithstanding voluntary and legal practices, various reports have demonstrated there is not the desirable clarity regarding either property rights or broad acceptance over the conditions under which they can be bargained. The following are the reports in the last ten years on park homes:

- *Mobile Homes Survey, Niner, DoE, 1992*
- *Evaluating the Park Home Owners' Charter, DoE, 1996*
- *Harassment and Unlawful Eviction of Private Rented Sector Tenants and Park Home Residents, Marsh, Niner et al DETR, 2000*
- *Local Authority Licensing of Park Home Estates, Niner, DETR, 2000*
- *Report of the Park Homes Working Party, DETR, 2000*

Economic Concerns

1.13 It is clear from these reports (and subsequently from our own research) that owners and residents do not share each other's perspectives on the market in which they are involved and that there is not a broad climate of mutual confidence. The Working Party recommended that an independent study should be commissioned in order to establish whether in fact there is fair exchange, though it and other reports have identified examples under which fair exchange is not happening. They felt there was a need for a description of the actual economics of the park homes market and an economic consideration of the consequences of alternative pricing regimes.

- 1.14 The park home market, like any property market, trades certain property rights for a price. Where there is clarity regarding the nature of those rights, and a comprehensive legal contract can be entered upon, the market should provide a beneficial outcome to all sides.
- 1.15 In order for this exchange to be performed effectively, the market needs to provide all participants with sufficient information to make the optimal decisions.

Other concerns

- 1.16 It is evident that the majority of residents living on home parks enjoy a satisfactory way of life of their own choosing. It is also clear that a number of residents claim to experience problems. Many of these problems are relatively minor and differ very little from ‘every day’ problems experienced between suppliers of a service and customers in other forms of transactions. However, others appear to represent very serious claims of actions that would appear to be illegal and unacceptable to both those inside and outside the industry. Typical sources of conflict claimed by residents include instances of park operators placing undue pressure on home owners to leave; park operators seeking excessive profit when the resident is selling the home; park operators spending less than necessary on park safety maintenance; and the sale of a park with good relations between the residents and operator to an undesirable owner. Operators claim that a number of residents are ignorant of their rights and responsibilities, despite major attempts to provide them with the relevant information.
- 1.17 Certainly there must be great concern if any current regulations inherently provide an inducement to unscrupulous park operators to place undue pressure upon residents to perform actions against their best interests.

Remit

- 1.18 In the context of the above, the basic remit for this research has been twofold:
- to provide a comprehensive and independent examination of the economics of the park homes industry; and
 - to evaluate alternative options for remunerating park owners in comparison with current practice.

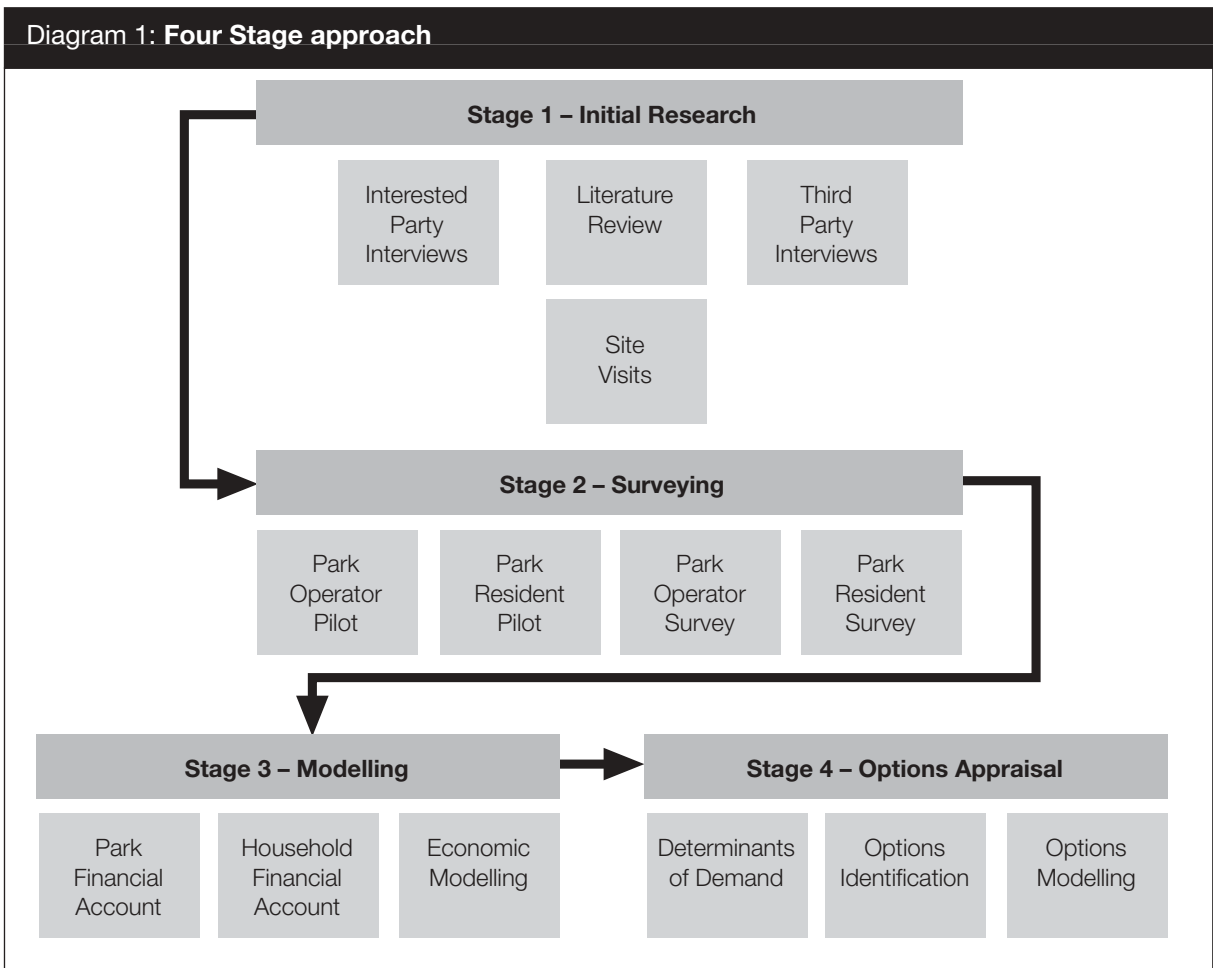
Making recommendations about which, if any, option should be adopted was specifically excluded from the remit.

Stages of Research

- 1.19 The study has been broadly undertaken in four distinct stages (see diagram overleaf) and the key components are briefly described below. Stage 1 encompassed the initial research into the industry. This included meetings with representatives of both operators of home

parcs and residents in addition to discussions with many organisations involved in the industry. All the key members of the study team were involved in a series of site visits all over England and Wales, which afforded the opportunity to meet individual operators and residents ‘on site’. An extensive literature search and data-gathering exercise was also undertaken and resulted in a compilation of a comprehensive database of parks in England and Wales.

- 1.20 The core of Stage 2 was the major surveys of park operators and park residents. To test the questionnaires, pilot surveys of some 50 park operators and 540 residents were initially undertaken in May 2001. A database of a large sample of park residents was compiled during this stage of the work. The main surveys encompassed a postal survey to some 1,450 park operators and 5,000 park residents and took place in July and August 2001.
- 1.21 Stage 3 involved the ‘cleaning’ of the extensive data received from the surveys and the subsequent analysis. The outputs of this analysis allowed the Consultants to formulate and test a series of key economic transactions that take place between the various players in the industry. Finally, in Stage 4, the outputs of the analysis allowed the key economic transactions between key players in the industry, principally residents and operators, to be formulated and tested.



Structure of the Report

1.22 The report is structured into seven chapters as described below.

Chapter 2: Approach and border context

1.23 The approach and methodology is described as encompassing a literature research and review, fieldwork, data collection including extensive surveys, analysis and report writing.

Chapter 3: Attributes of home parks

1.24 This chapter describes the stock of the home parks, analysing their distribution by several attributes, such as location, size, membership to operator associations etc.

Chapter 4: Supply of home parks

1.25 This chapter explains the operations of the home parks. It analyses the costs and revenues of different transactions, such as sale or assignment. An assessment of the capital value of parks is undertaken.

1.26 Chapter 4 also addresses the issue of whether there are excessive profits being made in the industry.

Chapter 5: Demand for park homes

1.27 In the survey of the residents, the socio-economic characteristics of residents on home parks are identified together with the key reasons that prompt the move to home park living. It is important to identify the motivation for buying a park home in order to understand the alternatives that could influence the levels of charges and fees that could be charged.

Chapter 6: Key economic transactions

1.28 This chapter discusses the key economic transactions between park home operators and residents that define the park homes' market. It explains four major financial transactions between current or prospective residents and an operator, their bargaining strengths and relevant regulations.

Chapter 7: Charging options

1.29 Having analysed the key transactions taking place in the industry, the core issue of whether there might be something unbalanced and/or unfair with the transaction relationship is assessed. Alternative options are addressed together with an examination of the impact of these potential alternatives.

Appendices

1.30 In order to maintain a report of manageable proportions, a considerable amount of the background research and details of our approach has been detailed in a series of appendices. Copies of these appendices are available on request from ODPM.

CHAPTER 2

Approach and broader context

- 2.1 Chapter 1 briefly illustrates the four key phases of the research. This chapter describes the study's approach and methodology in detail. It is important to realise that the outputs of the research undertaken in Stage 1 informed the scope and approach applied to the surveys in Stage 2 and the later analytical work. The need to verify information became more evident as the research progressed. Furthermore, as the research indicated the highly significant nature of the interactions between the key parties in the park homes industry, it became necessary to take account of these transactional relationships in our evolving approach to the research.
- 2.2 It is in this context that it important for the reader to be aware of the extent that some key findings have informed the approach during the study. As a result, whilst this chapter does focus to an extent upon the mechanism of the approach, it also includes such key findings that have required the consultants to modify their approach to the overall study. In order to provide that perspective, the principal transactions between residents and operators were summarised in Chapter 1 – a comprehensive description of these transactions is provided in Chapter 6.

Initial Deskwork and Fieldwork

- 2.3 The initial research on the park homes industry was undertaken using the internet and the existing literature. Extensive use was made of the work previously undertaken by Pat Niner¹ and a collection of articles analysing the past and current circumstances in the park homes industry was consulted. A large number of pamphlets and magazines were also consulted, many of them providing the views of residents and operators and their representatives.
- 2.4 Following this initial trawl, research commenced upon collecting and assembling data and information on the industry in an accessible format. Central to this task was the establishment of a comprehensive database of parks. This is described fully below.
- 2.5 The BH&HPA (British Holiday and Home Park Association) and the NCC (National Caravan Council) helpfully provided details of their respective memberships. Furthermore, the study is indebted to the NAPHR (National Association of Park Homes Residents) for providing substantial information on parks throughout England and Wales, which was also incorporated into our database.

¹ Pat Niner acted as an adviser to the Consultants throughout the course of the research. Extensive use for comparative purposes was particularly made of the study she previously undertook for ODPM – The Mobile Homes Survey 1992.

Site Visits

- 2.6 A programme of site visits to home parks was undertaken during the early stages of the research. The main purpose of this task was to obtain detailed qualitative information that would inform the formulation of the questionnaires for the later postal surveys as well as to obtain a first hand experience of the industry. Seventy-three operators were approached and agreement was obtained to undertake site visits to 19 parks in February/March 2001 in order to interview both operators and residents (a total of 34 residents were seen) of the various parks. The operators were informed that the visit would include interviews with residents as well as themselves. On arrival, one operator refused the interviews with residents to take place.
- 2.7 Amongst the 73 operators approached, 40 were members of the BH&HPA and/or the NCC; whilst the remaining 33 were not members of any operators' association – 2 were local authority owned sites. There was a clear difference between the willingness of members and non-members to be interviewed, with members being significantly more co-operative with the research. Indeed, 16 members agreed to be interviewed (though only 14 were eventually actually seen) – a 40% response rate. This compares with just 3 out of 31 non-member privately owned parks agreeing to site visits.
- 2.8 As a consequence of this differential response our interview sample is heavily based towards member operators. The following table shows the attributes of the home parks visited by the Consultants:

Table 2.1: Visited Sites	
Number of pitches:	
Large (>50 pitches)	5
Medium (21–50 pitches)	8
Small (3–20 pitches)	6
Membership:	
BH&HPA*	14
NCC*	2
Non-member – private	3
Non-member – local authority	2
Type:	
Residential	16
Mixed	3
Geographical Distribution:	
Midlands	3
North	2
South East	8
South West	4
Wales	2

* some joint members

- 2.9 Brief summaries of responses from the operators and residents interviewed during these site visits are presented below. It must be stressed that the survey was limited in size and therefore caution should be exercised when drawing conclusions for the whole industry based on this review. In addition to these interviews, the consultants conducted meetings and telephone interviews with several of the mobile home manufacturers and other third parties of interest.

RESIDENT INTERVIEWS

- 2.10 Thirty-four residents were interviewed – largely following an introduction from the park operator. These interviews afforded an opportunity for the consultants to gain first-hand knowledge about park home lifestyle. Most residents did not profess to have problems with their homes or the park. For most residents this was the first park they moved into – with the current unit also being their first mobile home.
- 2.11 The vast majority of people did not consider an alternative to Home Park living before moving. A number of reasons for choosing a park home were given – security and the peaceful environment; the need to release maximum capital; cheaper and easier maintenance, and layout and the ‘feel’ of the units were mentioned. The main problems residents named with their respective parks included the lack of accessible public transportation; the lack of space between homes; and the excessive distance from shops.
- 2.12 As in some cases the operators personally introduced us to each resident, it would have been naïve to have expected any seriously disgruntled residents to have been included in our sample of residents.

OPERATOR INTERVIEWS

- 2.13 Nineteen interviews were conducted with park operators. The smallest park had 19 pitches, the largest 251. Two sites were owned by local authorities, of which one was evenly split between owner occupiers and social housing residents, the other being exclusively for social housing.
- 2.14 There appeared to be a clear demand to switch to double units as opposed to single units, and most operators are responding to this. According to several operators, park homes had previously been used as starter homes, but now with extensive mortgage services available for bricks and mortar housing and housing association development, this is no longer the case. The parks are as a consequence increasingly targeting retired people seeking this particular lifestyle, coupled with the benefit of releasing equity from bricks and mortar housing.
- 2.15 It was claimed that a significant element of a park’s income is derived from commissions and sales, which tend to be periodical and lumpy.

Third Party Interviews

- 2.16 Below, a short description is provided of the coverage of interviews undertaken with a number of third party organisations and companies that are associated with the park homes industry. The interviews were undertaken in order to gather additional information about range of issues that are relevant to the economics of the industry. Third parties largely divide into mobile home manufacturers, financial services, legal and other professional services and miscellaneous services. The approaches to manufacturers are discussed in greater in order to make clear that whilst prospective residents may interface with manufacturers for viewing and customisation purposes there are effectively no transactional relationships between these two major parties in the industry.

MANUFACTURER INTERVIEWS

- 2.17 Telephone interviews were initially conducted with four mobile home manufacturers: one small company, two medium ones, and one large one. A visit was made to the Park Homes Show at Newbury racecourse in May 2001 at which interviews were conducted with five manufacturers – two of whom had previously been interviewed by phone. Subsequently, a number of follow-up telephone interviews were made with most of the main manufacturers in England and Wales to discuss refurbishment options.
- 2.18 There was a clear distinction between the size of a company and the type of homes manufactured: (i) the small manufacturers tend to make custom-made homes; (ii) the medium ones offer both standard and custom-made ranges; and (iii) the large manufacturers tend to make mainly standard homes, but introduce an individual touch by minor alterations.
- 2.19 There are several options for delivery and siting of a new unit to a park: the transportation can either be undertaken by the manufacturer, the park operator or a specialist delivery company that can be employed to undertake delivery and/or siting.
- 2.20 All the manufacturers claimed that the life cycle of their mobile homes had been considerably extended in recent years due to the application of more weather resistant materials and better construction methods. In effect, a new unit would have an effective life of at least 30/40 years – indeed some manufacturers claim an indefinite life on their products given appropriate maintenance.
- 2.21 Most of the manufacturers stated that they did not undertake refurbishment and they were only responsible for rectifying ‘defects under warranty’. The market for refurbishment and major repairs is dominated by specialist refurbishment contractors.
- 2.22 The current total market for new units appears to be some 2,000 p.a., with the majority (probably 70% plus) of demand being generated in the South of England. The manufacturers were concerned that the availability of new plots (as opposed to redeveloped pitches) was being considerably constrained by planning constraints.
- 2.23 Exclusivity of supply and discounts offered by manufacturer to park operator were subject areas affected by commercial sensitivities. Nevertheless, it is evident that some of the larger operators have exclusivity agreements with some of the larger manufacturers. It would appear that most park operators would receive a minimum of 25% discount from the manufacturers’ list prices of mobile homes (the prices that would be seen by potential residents) plus a 2.5% prepayment discount. This discount may even reach 35/39% in certain instances.
- 2.24 Whilst a manufacturer would in theory have no qualms about selling a unit directly to a potential resident, all the manufacturers claimed that over 90/95% of their output was bought by park operators. The manufacturers are very well aware that the discounts are not being ‘passed on’ in the selling price to the residents. Overall, they believe that the economic power in the purchase chain resides with the operators – particularly with the larger ones. Thus, the opportunities for residents to buy directly for subsequent siting on a park are virtually non-existent.

OTHER INTERVIEWS

- 2.25 In addition to the site visits interviews, the consultants had continued interaction with several representative bodies in the industry – in particular, the BH&HPA, the NCC and the NAPHR. We are grateful for their assistance.²
- 2.26 Contacts were also made with several third party representatives, including those of financial services, valuers, retirement homes, regulatory bodies governing utilities and the utility companies.
- 2.27 Meetings have taken place with the main firms specialising in valuation of home parks.
- 2.28 Interviews were also conducted with the following representatives of financial services for park homes, in order to explore the issues of equity release, financing and insurance:
- Council of Mortgage Lenders (trade body: equity release)
 - Norwich Union (equity release)
 - Safe Home Income Plan (trade body: equity release)
 - Capital Bank (loan finance)
 - Lifesure/MCI (insurance broker)
 - GE Life (equity release)
 - Royscot Larch (loan finance)
 - Aegis (insurance broker).

Data Collection

HOME PARK DATABASE

- 2.29 An essential part of the work was to collect and design an accurate and extensive database of home parks in England and Wales. As was stated previously there are widely differing opinions within the industry about the number of parks in operation, depending in part upon the exact definition of a home park.
- 2.30 In order to assemble a comprehensive database of parks in England and Wales, two main data sources were utilised – (i) directories and (ii) data provided by the operator and resident associations.

² The list of interviewed third parties is provided in the Appendices (see note on contents page).

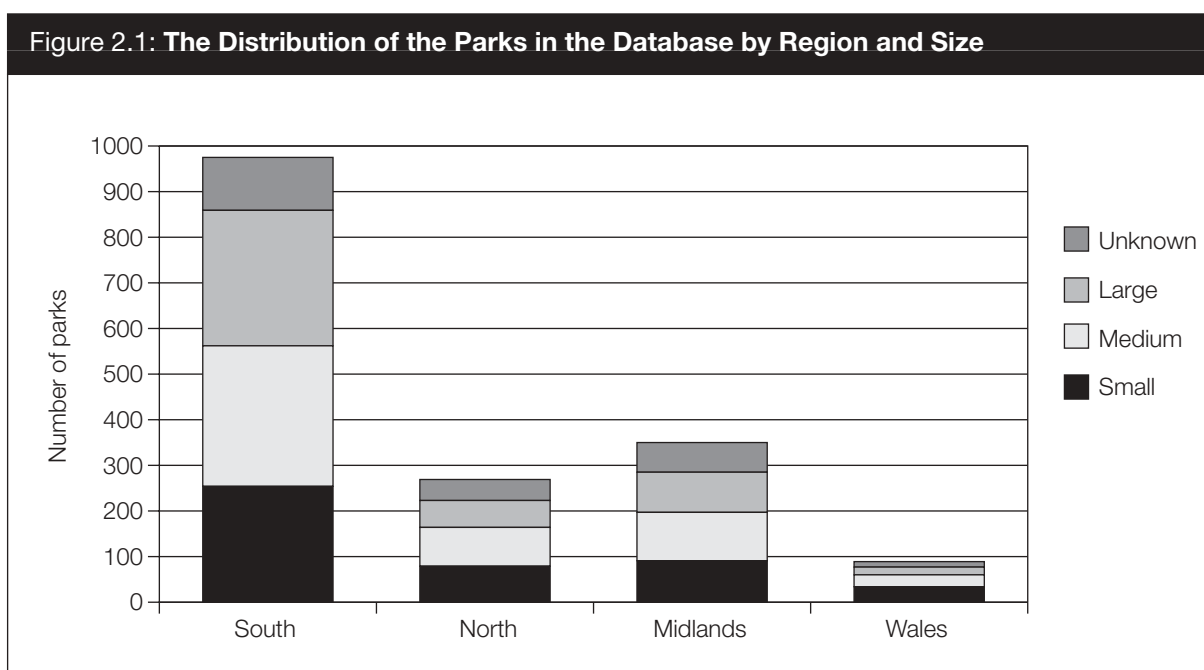
2.31 The following directories were used:

- Residential Parks Guide (*A Park Home & Holiday Caravan* Publication) 2000 and 2001.
- Caravan Sites 2000 and 2001 (*A Caravan Magazine* Publication).
- Residential Home Park Directory (British Holiday & Home Parks Association) 1999.

2.32 As stated above, considerable data on parks was made available by the BH&HPA, the NCC and the NAPHR.

2.33 Information on location by county for all parks was included in the database, whilst for the majority details of the exact address, including the postcode, is available.

2.34 The figure below provides a clear indication of the concentration of parks in the south of England. Further details on the geographical distribution of parks are provided in Chapter 3 (see table 3.3).



Note: Large (>50 pitches), medium (21–50), small (3–20) and unknown (number of pitches unknown)

QUESTIONNAIRE SURVEYS

2.35 As noted in Chapter 1, Phase 2 of the research comprised a major surveying exercise of all the operators in our database and some 5,000 residents. It should be noted that this is the most extensive survey of park home residents and operators ever undertaken.

PILOT SURVEY

2.36 The purpose of the pilot was to test the questionnaires – length, wording, difficulties with answering certain questions, response rates etc. Pilot surveys were undertaken for both operators and the residents.

Operators

- 2.37 Out of the 26 questionnaires sent to member parks, responses were received from six operators. Only one response was received from 24 non-member parks. The seven completed operators' questionnaires represented a 14% response rate.
- 2.38 The parks for the pilot were selected randomly from the database. Since the ratio of member and non-member parks in the database is approximately 53%/47%; these proportions were applied in the pilot survey.

Residents

- 2.39 Questionnaires were sent to the residents of 16 randomly selected parks from the 50 surveyed, containing a total sample of 540 residents. Completed replies were received from 73 residents – a 13.5% response rate.
- 2.40 The addresses of the residents were acquired from the electoral register. When the Royal Mail was consulted prior to the commencement this survey, assurances were received that every home park has a unique postcode. However, the subsequent analysis has proved that this is not the case. This presented the research with a significant problem.
- 2.41 It became apparent that it was impossible to ascertain in advance whether an individual was actually a home park resident. This explained why a certain proportion of the questionnaires were actually sent to people who were not Home Park residents, despite the assurances of the Royal Mail.
- 2.42 The Royal Mail has an online 'postcode finder' database and this was utilised to double-check the search results. This device provides only delivery points, without names of residents. The database supported the finding that home park postcodes are not unique. It is likely that the possibility of an error is higher for smaller parks, which are less likely to have a unique postcode.
- 2.43 Another difficulty encountered whilst identifying resident addresses for smaller parks is the fact that the park owner's or manager's home or office is occasionally the only delivery point for all the residents of the park. Therefore, the whole park appears on the Royal Mail database as one delivery point.

Main Survey

- 2.44 For the operators' main survey it was intended that a questionnaire should be sent to all the parks in England and Wales on our database. After further research and data cleaning, the database contained a total of 1,683 parks.
- 2.45 The sampling framework for the residents' main survey was largely based upon the response rates to the pilot survey. The limit for the main survey sample was established as 5,000. The aim was to send out to as many parks as required within the 5,000 total limit so as to produce a representative coverage of responses by park size.

Operators

- 2.46 A major park operator approached the consultants in early August. Given the substantial number of parks under the operator's ownership, they wished to discuss ways of reducing the time required to fill the questionnaires. Furthermore some information was aggregated across all their parks. A number of principles were applied to disaggregate the data by park. A meeting was arranged at their Head Office with the Finance Director, where it was agreed that they would complete questionnaires for 10 parks selected jointly.
- 2.47 The two operators' associations were informed of the questionnaire and were each sent copies. It is understood that both organisations received phone calls from members and that they actively encouraged their members to complete the questionnaire.
- 2.48 Since full addresses were not available for a number of parks in the database, the questionnaire was sent to 1,439 parks with known addresses. 157 valid forms were returned, thus an 11% response rate was achieved for operators without any follow-up process. Compared with other surveys, this response rate can be considered a relatively sound base for analysis.
- 2.49 A small number of phone calls from operators (11) were received as an initial response to the survey questionnaire. There was no particular pattern to these responses. Some 20 blank questionnaires were returned by post – with notes to the effect that 13 (65%) are not in fact residential home parks.

Residents

- 2.50 Based upon the average responses of the pilot survey, a calculation was made of how many questionnaires would need to be sent to each park of a given size to ensure an 80% chance of at least one response. Questionnaires were sent to 4,997 residents of 773 parks in England and Wales, based upon the sampling framework. For medium and large parks, the number of questionnaires to be circulated in a park was less than the number of the pitches. However, this presented a problem when considering small parks and those of unknown size.
- 2.51 The problem encountered in the pilot with respect to non-unique park postcodes carried through to the main survey. Thus a number of questionnaires were being sent knowing that a number of them would arrive at individuals who are not home park residents.
- 2.52 During the survey, numerous phone calls (152) were received from the residents – all of which were logged.
- 2.53 The majority of calls (73%) were received calls from people who did not live on a home park. The reason for this apparent mistake was, as mentioned above, the fact that park homes do not have a unique postcode, therefore whilst extracting residents' addresses based upon home park post codes, a number were selected who did not live on a home park. All callers were asked whether there is a home park close to their residence that might have the same postcode as they do. The overwhelming majority confirmed that they live very close to a home park and share the same postcode.
- 2.54 Following the pilot survey and an editorial in the Park Home and Holiday Caravan Magazine, the news about the main survey spread amongst residents. A number of residents phoned and asked whether it was possible to send them a copy of the questionnaire. Some were asking for questionnaires not only for themselves, but also for their neighbours and, on

one occasion, for the whole park. An agreed stance was that it was not possible to send additional questionnaires, as this would result in a bias and negate the random sampling framework. However, the residents were encouraged to write on relevant topics and a number of letters were received at a later date.

- 2.55 There were a few complaints from residents who believed that the questionnaire was intrusive – particularly concerning financial matters.
- 2.56 634 completed questionnaires were received – a crude response rate of 12.7%. This can be considered a quite reasonable response rate, given the length of the questionnaire and difficulties in identifying the addresses of residents. Most importantly, the responses provided us with sufficient data for conducting our analysis.

Analysis

- 2.57 Once the surveys were complete a series of analytical exercises were undertaken. The key elements of these are listed below:

- Descriptive analysis (including clustering)
- Home park revenue relationships
- Home park cost relationships
- Household budgetary relationships
- Imputing missing observations
- Determinants of new park home values
- Determinants of second hand park home values.

These are discussed in the following chapters.

CHAPTER 3

Attributes of home parks

- 3.1 This chapter discusses the stock of home parks and their respective park homes. It analyses their distribution by several attributes and describes park clusters. The types of parks are analysed by their geographical distribution, membership to operators' associations, ownership, park facilities, age etc. These analyses are based upon the surveys, literature review, face-to-face interviews, meetings and discussions with the official bodies and discussions with relevant third parties.

Stock

- 3.2 This section details the current physical stock of parks and homes analysed according to a variety of attributes. A detailed coverage of capital assets is provided in the separate appendices to this report (see note on contents page).

Number of Parks and Homes

HOME PARKS

- 3.3 The opinions about the number of home parks in England and Wales vary greatly. Chapter 2 describes how the database was constructed. Some 1,700 parks have been identified and information on them is held in the database. However, there are grounds to believe that the actual number of home parks approaches or even exceeds 2,000. It has not been possible to identify a number of small, non-member parks. For the purpose of grossing-up survey sample values to market totals, the database total of 1,683 was applied. Furthermore the size and geographical distribution of parks within our database have been used to calculate weights to correct for under or over-reporting in the surveys. It has been concluded that the under identification of smaller parks does not materially affect either the estimates of market totals or the weightings.

GEOGRAPHICAL DISTRIBUTION

- 3.4 The most important pattern in the geographical distribution of home parks in England is the notable concentration in Southern coastal areas. As can be seen from the following table, Hampshire has the highest number of the parks – 102 (approximately 6% of the parks in England). Three coastal counties, Hampshire, Cornwall and Devon, represent over 16% of all the home parks in England.

- 3.5 Other than above-mentioned, it is difficult to identify any other pattern in geographical distribution of the parks. Perhaps, low concentration of home parks in urban areas, such as Greater London or Greater Manchester should be noted.

Table 3.1: Geographical distribution of identified home parks in England			
County/Unitary Authority¹	Number of home parks	County/Unitary Authority	Number of home parks
Hampshire	102	Cumbria	31
Cornwall	81	Worcestershire	31
Devon	79	Suffolk	30
Lancashire	74	Derbyshire	25
Gloucestershire	65	Warwickshire	24
Lincolnshire	65	Buckinghamshire	21
Kent	63	Herefordshire	20
Surrey	60	Shropshire	20
Cheshire	57	South Yorkshire	19
Somerset	52	East Sussex	17
Dorset	48	Leicestershire	17
Cambridgeshire	46	Yorkshire	15
Berkshire	43	Northamptonshire	9
Oxfordshire	41	West Yorkshire	8
Nottinghamshire	40	Durham	7
Essex	39	Northumberland	6
North Yorkshire	39	Isle of Wight	5
West Midlands	37	Middlesex	5
Wiltshire	37	Cleveland	4
Staffordshire	36	East Yorkshire	3
Hertfordshire	34	Merseyside	3
Bedfordshire	33	Greater London	2
Norfolk	33	Humberside	2
West Sussex	33	Greater Manchester	1
Avon	32		
		England	1,594

- 3.6 According to the database, there are 89 parks in Wales, which represents about 5% of the total number of the parks in the database. The geographical distribution in Wales is heavily concentrated in Powys (about 20% of all parks in Wales), Pembrokeshire and Carmarthenshire. Almost half of the Welsh home parks are concentrated in these three counties.
- 3.7 Similar to the English counties, Welsh southern coastal areas (Vale of Glamorgan, Newport, Swansea) also have relatively high concentration of home parks. Table 3.2 presents the distribution of the parks by the local authorities in Wales.

¹ In some cases we were not able to identify the county.

Table 3.2: Geographical distribution of identified home parks in Wales

Powys	17
Pembrokeshire	13
Carmarthenshire	11
Ceredigion	7
Vale of Glamorgan	6
Newport	5
Swansea	5
Conwy	4
Gwynedd	4
Flintshire	3
Bridgend	2
Merthyr Tydfil	2
Monmouthshire	2
Neath Port Talbot	2
Wrexham	2
Cardiff	1
Isle of Anglesey	1
Rhondda Cynon Taff	1
Torfaen	1
Wales	89

- 3.8 It is not possible to deduce whether the unidentified home parks are geographically distributed in the same patterns as those in our database.

DISTRIBUTION BY SIZE

- 3.9 Along with the location, the size of a home park is one of the most important attributes for the analyses of the industry. The size of a park is defined as the number of residential pitches. For our analysis, we introduced three size categories – small (from 3–20 pitches), medium (21–50 pitches) and large (51 and above). However, for a significant number of parks (239), information about the number of pitches was unavailable. This category is called ‘unknown’, however we generally believe them to be small parks. The large parks have a wide distribution and in a few cases approach 300 pitches.
- 3.10 Table 3.3 shows the distribution of homes parks according to region and size. Almost 60% of all parks in the database are located in the South, followed by Midlands (350) and North (269).

Table 3.3: Home park distribution according to region and size

	South	North	Midlands	Wales	Total
Small	255	79	91	34	459
Medium	307	85	106	26	524
Large	297	59	88	17	461
Unknown	116	46	65	12	239
Total	975	269	350	89	1,683

- 3.11 Table 3.4 adds another attribute to the analysis of home parks distribution – membership to operators’ associations and demonstrates the proportional distribution of the home parks by size, location and membership.

Table 3.4: Distribution of the parks by size, membership and location²

	Member				Non-member				Total
	South	North	Midlands	Wales	South	North	Midlands	Wales	
Small	9%	3%	2%	1%	6%	2%	3%	1%	27%
Medium	12%	3%	3%	1%	6%	2%	3%	1%	31%
Large	13%	3%	4%	0%	4%	1%	2%	0%	27%
Unknown	0%	0%	0%	0%	7%	3%	4%	1%	14%
Total	34%	9%	9%	2%	23%	8%	12%	3%	100%

- 3.12 As the table above demonstrates, the largest category is large/member/South parks, followed by medium/member/South category. Of the 7 parks with 300 pitches and over, all are in the South, and 4 are part of the same group. In England, only the Midlands has a higher proportion of non-members, however, the majority of large parks in Midlands are again members.
- 3.13 The distribution of the parks in Wales by size/region/membership is relatively even, with small non-members being the largest category.
- 3.14 As mentioned earlier, two trade associations exist for park operators – British Holiday and Home Park Association (BH&HPA), and National Caravan Council (NCC).
- 3.15 From the database of 1,683 parks, 874 are solely BH&HPA members, whilst 32 are solely NCC members. A further 98 parks are members of both associations (hence the total BH&HPA number is 972 (58%) and NCC is 130 (8%)). 777 (46%) of the parks in the database are not members of any association.
- 3.16 Once again it has to be stated that the database is probably skewed towards member parks, simply because the study has benefited from the co-operation of the home park associations of BH&HPA and NCC in cataloguing all their members. Furthermore, the non-member parks tend to be small and, hence, all the more difficult to identify and locate. Consequently, while the database has captured most – if not all – of the existing member parks, there is evidently some gaps in the coverage of non-member parks. Thus given the under-representation of non-member parks, it would appear that just over half the parks in England and Wales are not affiliated to either of the operators’ organisations. However, in terms of pitches it is likely that member parks account for well over 50% of all pitches.

LAND TAKE

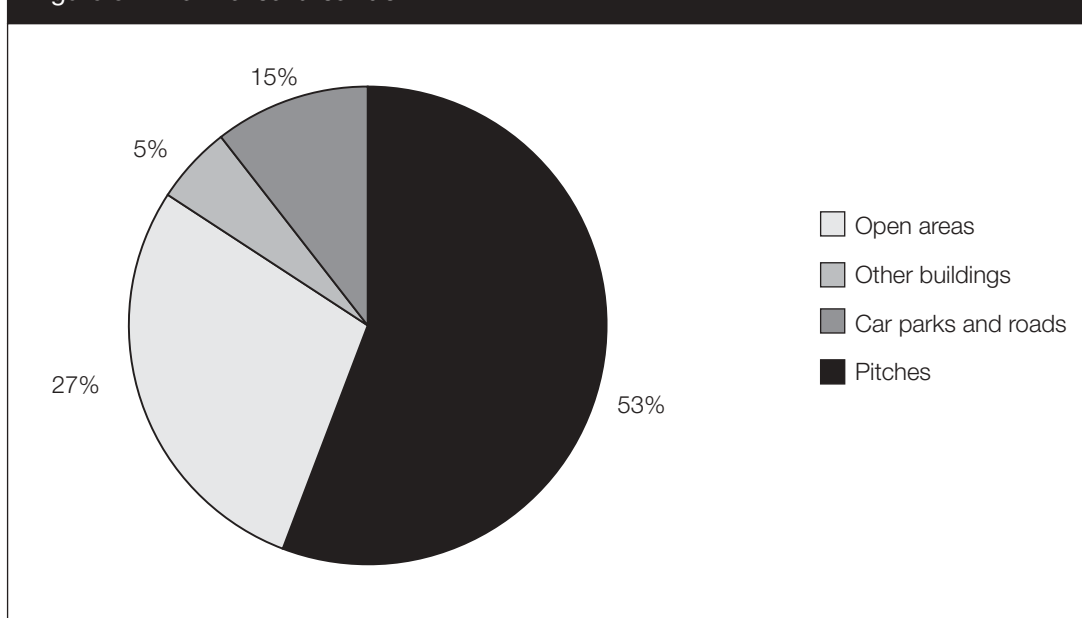
- 3.17 From the main survey 157 operator responses were received. Using the survey results, the total acreage of the parks that park operators reported is shown below. 127 valid responses were received for this particular question, with answers ranging from 1 to 150 acres. Table 3.5 summarises the frequencies.

² The numbers might not add up because of rounding.

Table 3.5: Approximate total acreage of the park

Acres	Number of parks	Valid Percent of responses
1-5	72	56.9
6-10	26	20.4
11-25	20	15.4
26-50	4	3.2
51+	5	4.1
Total valid	127	100.0
Missing	30	
Total	157	

- 3.18 There are doubts about the accuracy of some of the data provided. Nevertheless, they do provide a clear indication of the large variations in park size. The mean of the sample is 10.6 acres, with a large variation. The mode in the sample is 3 acres, with 22 parks reporting it as their approximate size. The implication of this analysis is that home parks account for some 18,000 acres in England and Wales. Planning authorities, in making provision for home parks, need to weigh densities against other forms of housing, particularly in areas that are under housing pressure. If the average gross area taken by home parks is 10.6 acres and the average number of pitches per park is 46/47 (see below) then the density is roughly 4/5 dwellings per acre or approximately 10 people per acre.
- 3.19 Pitches by no means occupy all of the park area. Figure 3.1 below takes the aggregates of the responses. Caution should be exercised when reviewing these results, as slightly different response rates was achieved for each of the four categories listed; nevertheless, the order of magnitude is clear, with pitches taking up the majority of the park.

Figure 3.1: Park area breakdown

The pitches can be both residential and non-residential. What is immediately noticeable from the survey is the large variation in responses. They arise as a consequence of the many different types of parks covered in our survey.

Types of the parks

- 3.20 In the survey 78% of the sample was entirely residential while 22% was mixed. Of the mixed parks, 16% had more residential pitches than non-residential. Thus the vast proportion of park home living takes place on exclusively residential home parks and, where there is mixed use, it most commonly arises on parks that are largely non-residential.

Stock of Pitches

DATABASE ESTIMATES

- 3.21 The total number of residential pitches totals 68,566 for those parks, in the database, which have information about number of residential pitches. Although the database certainly does not contain all the parks in England and Wales, those that are missed are most likely the smaller parks. In addition there is evidence that the 239 parks in the database for which information is unavailable tend also to have small numbers of pitches.
- 3.22 The average number of pitches for those parks that data is available is 47. Based upon the assumption that parks with no information on pitches are smaller, it is estimated that the total number of pitches represented by home parks in our database is probably in the range 74,000–78,000. Based on this figure, the total pitches in England and Wales would be in the range 85,000–90,000 (again assuming that unidentified sites are smaller than those in the database).
- 3.23 The smallest park size recorded is 3 pitches, the largest 393 pitches. The table below shows the numbers of pitches according to region and park size. The last row presents the percentages of the total for each region.

	Midlands	North	Wales	South	Total
Small	997	860	358	2,958	5,173
Medium	3,617	2,793	801	10,222	17,433
Large	8,247	5,160	1,719	30,834	45,960
Total	12,861	8,813	2,878	44,014	68,566
Percentage	18.8%	12.9%	4.2%	64.2%	100.0%

- 3.24 As can be seen from the table, it is estimated that some 64% of pitches are based in the South. Wales on the other hand contains just 4% of the total population of pitches.
- 3.25 Although the large parks account 27% of the actual number of parks (see table 3.7), they account for 67% of the pitches in the database.

SURVEY ESTIMATES

- 3.26 Estimates of total pitch numbers based upon the operator survey were also undertaken. According to the survey results, the average number of residential pitches for each home park size category is the following:

Large	Medium	Small	All
104	35	13	46

- 3.27 By multiplying the average number of pitches in each size category by respective number of parks in the database, it is possible to calculate the total number of pitches for small, medium and large parks.³ Table 3.8 summarises these estimates:

	Number of parks	Number of pitches	Percentage of parks	Percentage of pitches
Small	698	9,074	41%	12%
Medium	524	18,340	31%	24%
Large	461	47,944	28%	64%
All	1683	75,358	100%	100%

The estimates based on survey results (around 75,000) correspond to our earlier estimates of pitch numbers based on the database.

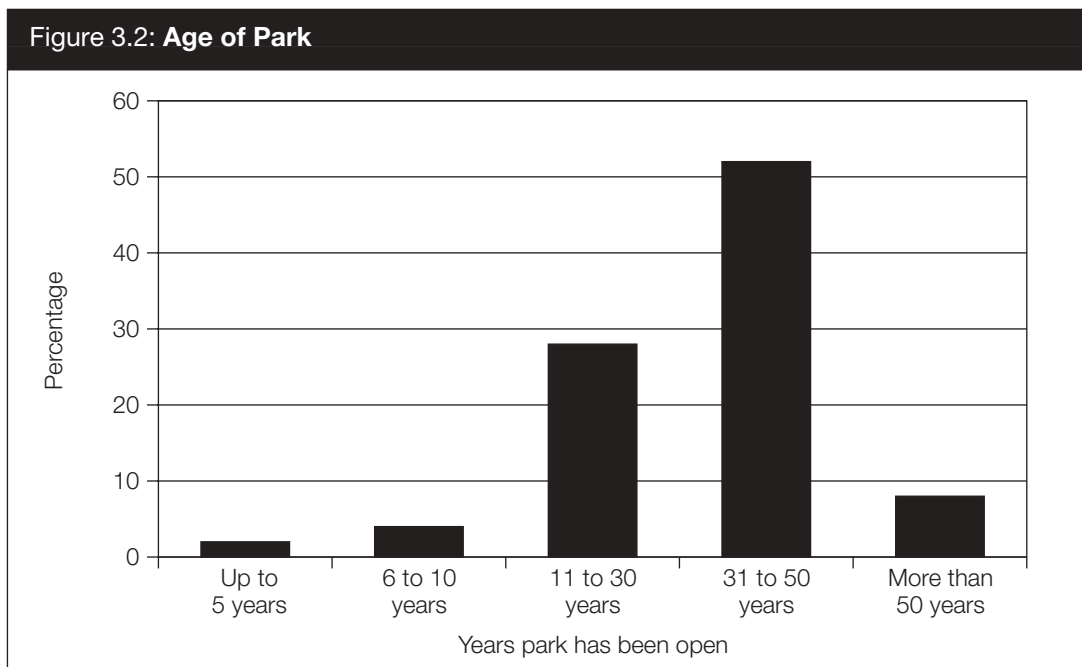
Facilities

- 3.28 Some 10% of operators did not answer questions on park amenities, whilst 14% stated they had none of the facilities the questionnaire identified, ie bar, store, laundrette, children's play area, swimming pool, communal garden and open recreational space.
- 3.29 According to the survey, some 25% of the parks have open recreational space – the most common facility that the parks have. It is followed by communal gardens – 20%. Despite most park homes catering basically for the elderly and retired, some 15% of all parks have a children's play area (indoor or outdoor). However, this finding might include mixed holiday/residential parks responses, which are more likely to have children's play areas. Among non-recreational facilities, a laundrette is the most common amenity with 13% of the responding parks having such a facility.
- 3.30 According to the operators, there is limited demand amongst residents for any additional facilities, such as a shop or clubhouse, so consequently operators do not find it worthwhile to institute any such facilities. Interviews on parks where such facilities existed also suggested that they were the occasional source of disagreements either between residents or between operators and residents.

³ It is assumed that all 'unknown' parks are small.

Age of Parks

- 3.31 The average age of the residential parks, based upon the operator survey, is 33 years. The average age of large parks is 38, for medium parks is 35 and for small/unknown is 27 years. The member parks are on average older (34 years) than non-member parks (28 years).



- 3.32 There is some regional variation, with parks in the South averaging an age of 36.5. Parks in Midlands averaged 30 years, North 26 years, whilst the average age in Wales was just 17 years. It has to be noted that we had a very small sample for Wales and this result may not be robust.
- 3.33 Though, on average, parks may have been created over 30 years ago, it is quite common for a park to be developed in phases. Thus there would probably have been a sustained growth in pitch numbers because of the development of parks and pitches on parks.
- 3.34 The survey indicates that 9 parks were built in the last 5 years, which scaled to the population implies 96 parks altogether. Dividing by 5 indicates that an average of 19.2 parks per annum have been added over the last 5 years, which represents an approximate annual growth rate of 1.1%. This result does not correspond with anecdotal evidence provided from the interviews with the industry and their advisers. Indeed, the number of completely new parks developed in recent years appears very small.
- 3.35 The age of the park, once allowing for phased development, has an important bearing on the distribution of operators' income – this is discussed further in Chapter 4.
- 3.36 The average length of stay by residents according to operators is around 11 years; however, when asked about the length of stay of their last three assignments the average was between 8–9 years. The latter figure might reflect assignments that had occurred some time ago. According to the residents survey it is 6 years, but this is based on the average length of stay of the previous owners of our respondents' park homes. However, existing residents had on

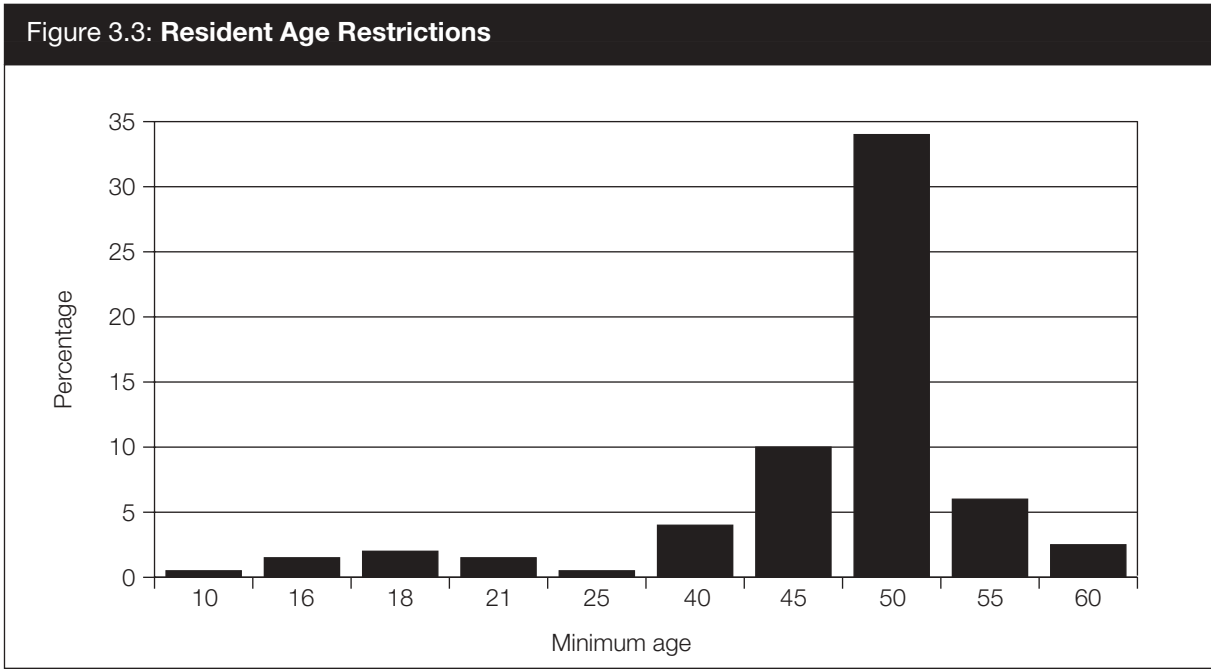
average already stayed 10 years. It is possible that average lengths of stay are therefore increasing over time, which would be consistent with trends towards earlier retirement and perhaps greater longevity.

- 3.37 When the number of actual assignments is assessed, it is noticeable that assignment rates (single + twin assignments/stock of pitches) are an average 4% over the two-year period. This would imply a complete park turnover over 25 years! This divergence between the actual assignment rate and the declared average length of stay reflects the fact that there is still a significant bunching effect of commissions across the park stock. Thus with an average park life of 35 years there has been some scope for the commission cycle on each park's pitch to have begun to be desynchronised, but this not so old that they have become evenly distributed on any given park. It would appear that 11 years probably does reflect the average length of stay but some residents will be terminating their agreements and it is possible that such a figure is not incompatible with an average length of stay for those re-assigning being in the range of 8–9 years.
- 3.38 The life of a park home unit is discussed in detail later but will vary not only with the period in which it was constructed (recently manufactured homes are technically superior than older homes) but also the maintenance it receives. In principle, units could survive indefinitely with sufficient refurbishment and it is more likely that fashion will dictate the effective economic life of a home than 'wear and tear'. Nevertheless, 45 years has been viewed as representing the working life of current homes, though older ones may well be shorter. Thus with an average park life of 35 years, the industry may well be entering a period of pronounced re-development.

Resident Age Restrictions

- 3.39 The survey asked whether operators set any age restrictions.⁴ Out of 153 operators who answered this question, 65% stated that a minimum age is set. Figure 3.3 illustrates the minimum age imposed by the parks that do implement age restriction.
- 3.40 According to the data gathered from the survey, the most common age limit is set 50. Fewer parks have an age limit higher than 50 and none of the parks has an age limit higher than 60. After 50, most common age limit set is 45–100% of the parks surveyed require that their residents are at least 45 years old. Several parks do not allow residents with children younger than 10 and several others have minimum age of 16, 18 or 25.

⁴ Whilst this is not specifically a physical attribute of a park, this section is included here as the importance of age restrictions is becoming a defining characteristic of the industry.



3.41 Virtually all privately owned parks seek to exclude young families and a vast majority rule out the young altogether. However, as will be argued later, the characteristics of the park home product are calculated to specifically appeal to the more elderly. Those rules therefore make certain that this is so.

Ownership of Parks

LEGAL STATUS

3.42 The main survey of home park operators enquired about the legal status of their park. Table 3.9 lists the frequencies and percentages of each response.

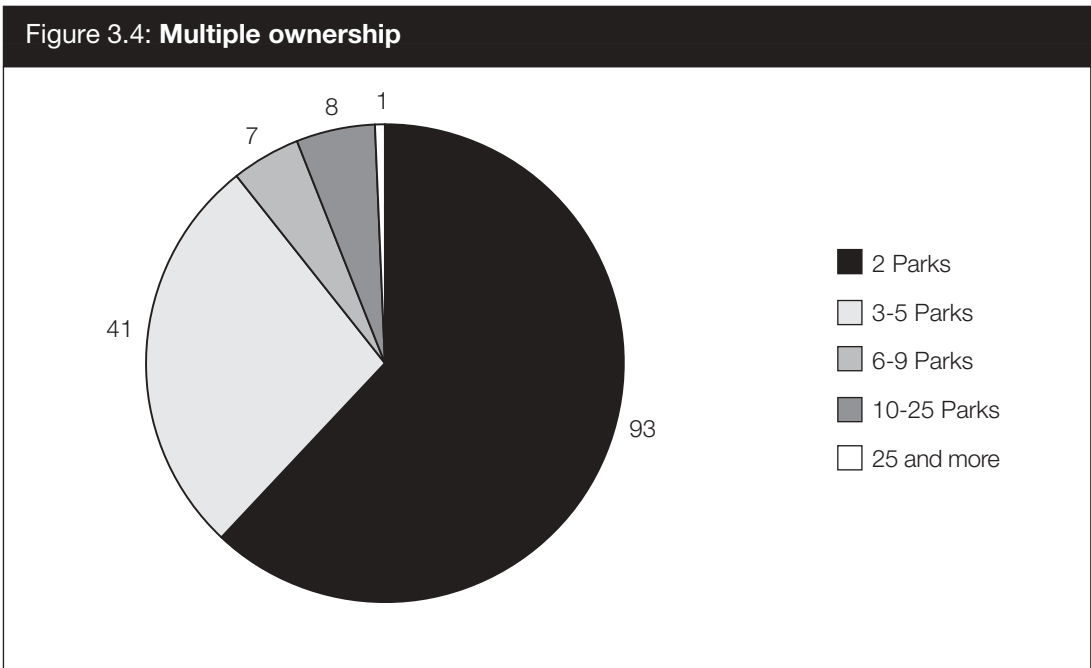
3.43 The questionnaire asked the current owner about the legal status of the vendor at the time of sale of the park. Table 3.9 lists the responses. Though the response rate was low, one can still extract some useful information for the purpose of comparing the past with the present.

Table 3.9: Ownership 'status' of home parks		
Answer	Number of parks	Valid Percent
Sole trader	21	14.7
Private partnership	65	45.2
Private limited company	57	39.5
Public limited company	1	0.5
Total Valid	144	100.0
Missing	13	
Total	157	

- 3.44 Clearly the vast majority of these operators are either private partnerships or private limited companies. Interviews and anecdotal information suggests that many of the companies are family businesses.

MULTIPLE OWNERSHIP

- 3.45 Out of 1,683 parks in the database, 538 are in multiple ownership, i.e. where one person or company is the owner of two or more parks. There is also a large number of parks which are family-run businesses or have single ownership. The Park Homes Magazine recently mentioned a case of a park, which is now owned by residents.
- 3.46 Out of the 1,140 parks that are not under multiple ownership, information about the ownership characteristics of 267 parks was not available.
- 3.47 There are several well-known companies in the industry, which own multiple parks. They include:
- Berkeley Leisure Group
 - Haulfryn Homes
 - RS Hill
 - Kingsmead
 - Charles Simpson Organisation
 - Tingdene
 - West Country Homes
 - Barrs Parks
 - Glevum Park Homes
 - John Romans Park Homes
 - Allens Caravan Estates etc.
- 3.48 These companies currently account for over 140 parks – about 9% of all residential parks in England and Wales on the database. Certainly, the multiple park owners tend to own larger than average parks.
- 3.49 According to the database, there are 150 multiple owners. Figure 3.4 shows the number of multiple owners with the respective number of parks under their control. For example, 93 owners operate 2 parks, whilst only one owner operates more than 25 parks. Only about 10% of multiple owners have more than 6 parks.



There are two major conclusions to draw from this ownership profile. Firstly, there is very little ownership concentration at the national level that would appear to inhibit market competition. It is probable that this is also true at the county level. Secondly, most of the undertakings are very small and this limits the weight of regulatory obligation that can be imposed effectively in practice. Any regulation should be proportionate to the problems identified. In considering regulation, costs and bureaucracy should be kept to a minimum consistent with tackling the problems identified, and the impact of any regulation on businesses, including small businesses, should be considered. These points are considered further in considering options for reforms in Chapter 7.

Home Park Acquisitions

- 3.50 This section provides some preliminary facts about the changing nature of the ownership of the industry. Other reports have noted that changes in ownership have frequently been associated with residents’ dissatisfaction with the outcome. Below the analysis measures the scale of acquisitions in the last 5 years.

CHANGE OF OWNERSHIP IN LAST 5 YEARS

- 3.51 Out of the 634 total resident responses, the question: “Has the ownership of this park changed during the last five years” was answered with valid information by 620 respondees and the breakdown is show in table 3.10.

Table 3.10: Changes of Ownership during the last five years?

	Answer	Frequency	Valid Percent
Valid	Yes, there has been a change of ownership	217	35.0
	No, there has been no change of ownership	403	65.0
	Total	620	100.0
No answer		13	
Total		634	

- 3.52 The information received from the operators' survey provides a different perspective. The operators were asked if the park was acquired in the last five years. Out of 130 valid answers, 17% of operators said that they acquired the park in the last 5 years.
- 3.53 The residents' survey contains multiple replies for the same park and this introduces a bias into the analysis. But if an average of these two sets of responses is taken, it would appear that some 25% of parks have changed hands in the last 5 years – suggesting that that approximately 5% of parks change hands each year. Even taking the operators figure, there appears to be at least a 3.5% pa turnover of ownership. This would make it a quite active asset market.

Table 3.11: When was the park acquired?

	Answer	Number of parks	Valid Percent
Valid	Yes, acquired in last five years	26	20.4
	No, acquired more than five years ago	103	79.6
	Total	130	100.0
No answer		27	
Total		157	

- 3.54 The current owner was asked the legal status of the vendor at the time of sale of the park. Table 3.12 list the responses. Though the response rate was low, one can still extract some useful information for the purposes of comparing the past with the present. It would appear that a significant number of sole traders are leaving the industry. Whereas around 48% of acquisitions were from sole traders, this group constitutes only 10% of current ownership.

Table 3.12: 'Status' of the vendor at the time of the sale

		Frequency	Valid Percent
Valid	Sole trader	28	48.4
	Private partnership	18	31.0
	Private limited company	8	13.2
	Public limited company	4	7.3
	Total	58	100.0
No answer		99	
Total		157	

- 3.55 The above figures suggest a quite active market in home parks, with the sole traders tending to disappear. The advantages of multiple ownership are discussed later. Although data is unavailable on ownership trends, anecdotal information confirms a growing concentration in the industry from very low levels. Indeed, it is also clear that supply is still highly diverse in its ownership.

CHAPTER 4

Supply of home parks

Introduction

- 4.1 This chapter reviews the operations of home parks. Whilst the study is dependent upon the survey information for much information, efforts have been made to verify sensitive financial data wherever possible. There is no evidence to suggest that the survey returns from operators were systematically misrepresented. The information provided by operators appears broadly accurate and where individual operators did not wish to divulge information they left those questions unanswered in the returned questionnaire form.
- 4.2 Though the operators survey asked directly what revenues, costs and profits had been, a large number of detailed questions were also asked to infer these aggregates to check the consistency of replies. This chapter addresses revenue, costs and net income (profit) in turn, first providing the results of the direct question and then how a check was independently built from other survey information. The checks also provide in their own right important insights into home park operations.
- 4.3 Chapter 3 shows that there are a large number of sole traders operating small parks. They do not require detailed management accounts to conduct their businesses, not least because in most years the vast majority have a positive cash flow. Many of the smaller parks interviewed appear to focus on managing their cash flow, making little distinction between current and capital items. At the other end of the spectrum were the larger companies owning several parks that were able to consolidate certain activities across parks and as a consequence were sometimes hard pressed to allocate costs on a park by park basis.¹ This meant that the study could not rely on a consistent set of accounts being available from operators and that constructing accounts using data from the survey was also unlikely to be possible.
- 4.4 The most suitable framework is one that informs us about the behaviour and performance of the operation. The breakdown of revenue and cost items provides a great deal of information about the character of the business. Thus this chapter provides information on assignment rates, sales rates, average commission and sales values, levels of pitch fees and increases in relation to inflation. It also examines levels of cost required to sustain the fabric of parks using a cost model developed by DLC.
- 4.5 Results from the survey present a snapshot of operators' costs and revenues for 1999–2000. Snapshots carried out for other years may well produce different results. This is in part due to the cyclical nature of the value of park homes which is a driver for commission revenues

¹ Examination of larger companies published accounts showed that comparisons here would also be difficult and in any event would not have provided a comprehensive basis for the study.

as well as sales and development revenues and costs. Given the reported large increase in bricks and mortar house prices since 1999–2000 and anecdotal evidence of similar increases in the value of park homes, there is a case that 1999–2000 represents a point close to the middle of the residential property value cycle. This should provide a more neutral basis for estimating profitability than a year at the top or bottom of the cycle.

Gross Revenues: Direct Evidence From Surveys

4.6 The main sources of income for park operators operating as park operators are generated from:

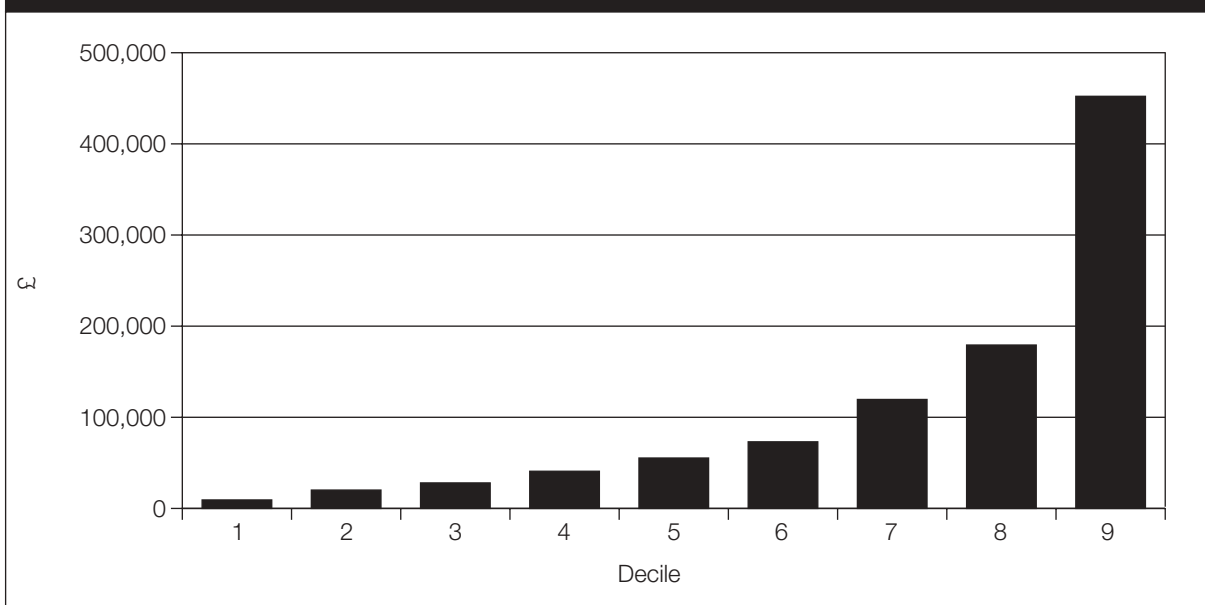
- Pitch Fees
- Re-assignment commissions
- Gross sales of homes
- Renting, where applicable.

There are lesser sources of income such as resale of old units and these are discussed below.

4.7 As demonstrated earlier a significant number of parks providing pitches for full time residential occupation also provide pitches for holiday and touring purposes. Thus total park revenues can include sources of revenues from such non-residential activities.

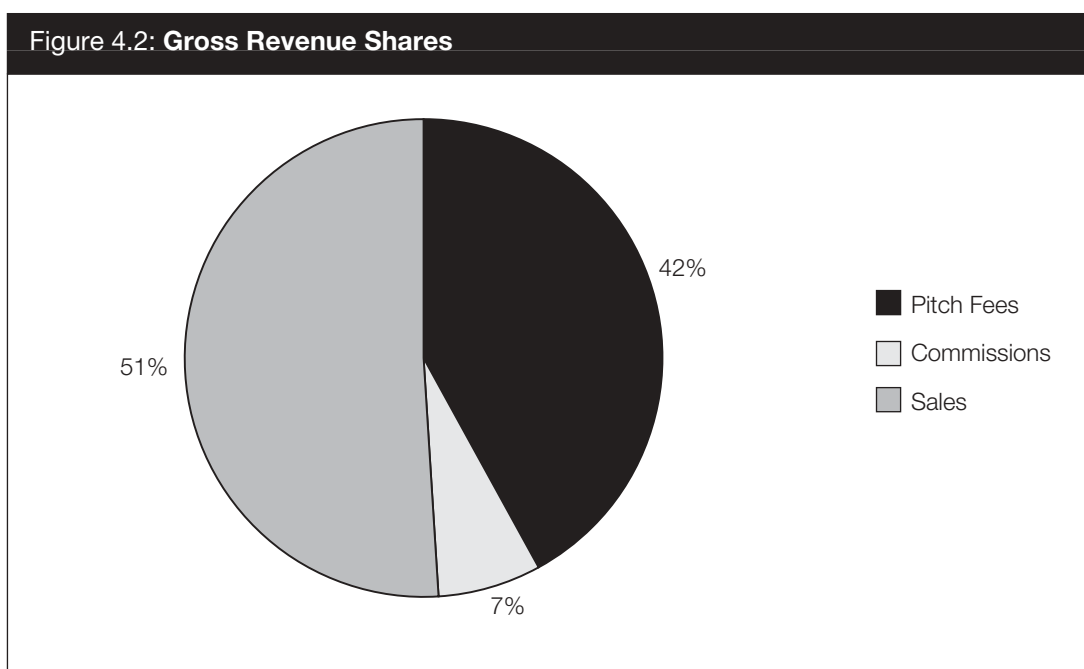
4.8 Figure 4.1 illustrates the responses that all park operators provided to the question of ‘*what were the total revenues from the park homes in the last financial year*’.

Figure 4.1: Revenues from all sources per park in the last financial year



4.9 The reported average of the 88 parks responding to this question was £155,000. However, as Figure 4.1 demonstrates there is a very wide distribution with much of this is due to the size of parks. The figure shows the distribution of revenue in ascending order by the lowest 10%, the next to lowest 10% and so on. These 10% categories are termed deciles. Thus at the lower end, 10% of parks earn from £0 to £9,300 per annum but the top 10% earn above £450,000. Approximately three-quarters of parks earn less than the reported average – demonstrating the dominance of high earning parks. As noted above some of these will have substantial earnings from holiday and touring operations. Stripping out all parks that have any non-residential pitches reduces the average to £130,000 with the lowest 10% earning up to £13,000 and the top 10% above £400,000. Thus the substantial variation still remains.

4.10 Each park was asked to provide separate assessments of the principal revenue components shown in figure 4.2. Expressed as share of their total, the largest element is gross revenue from sales (i.e. creating new homes/agreements). This often involves buying out a resident, perhaps also purchasing a new mobile home unit and building or re-building the bases upon which the homes stand. So the net figure will be considerably lower.

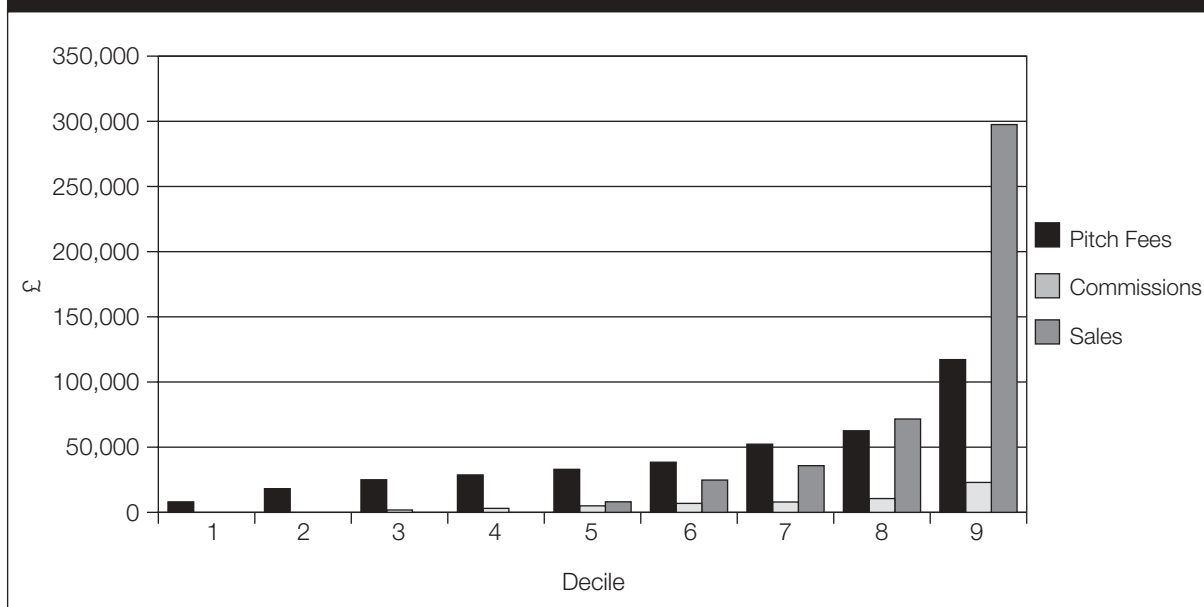


4.11 Pitch fees are the next largest item, followed a good way behind by commission payments. These shares are not materially altered if all parks are included in the calculation.

4.12 As with the total, there is considerable variation in the distribution of these gross incomes across parks. Figure 4.3 shows that pitch fees vary around an average of £59,000 per year with the bottom 10% of parks earning up to £8,000 and the top 10% earning above £117,000. The distribution of commissions around an average of £9,800 shows that up to 20% receive no commission payments at all while the top 10% obtain over £23,000. The fact that a significant proportion does not receive any assignment income is not too surprising since there is a low probability of any pitch being re-assigned in any given year. The same phenomenon is observed with sales where the probability is even lower. The average reported income for all parks per year is £82,000 with up to 40% receiving no sales revenue

and the top 10% receiving over £297,000. Whilst the number of gross sales at the top end could arise from the natural cessation or purchase of the assignment by the operator, they could also derive from new pitches being added to an existing park.

Figure 4.3: **Income Distribution – All Residential Parks – by Type**



4.13 The reasons for the variation in revenue are developed in later sections but quite clearly the size of a park will be a major influence. The variation itself is nevertheless important since any proposals that alter the operation of the market need to take account of the consequences not only of the average performance measures but also their range.

4.14 Other – though lesser – sources of income for park operators can originate from any of the following:

- Rents on rented homes
- Commission on loans or insurance
- Estate agency fees/commission
- Supply of services, e.g. electricity
- Resale of old units replaced by new units.

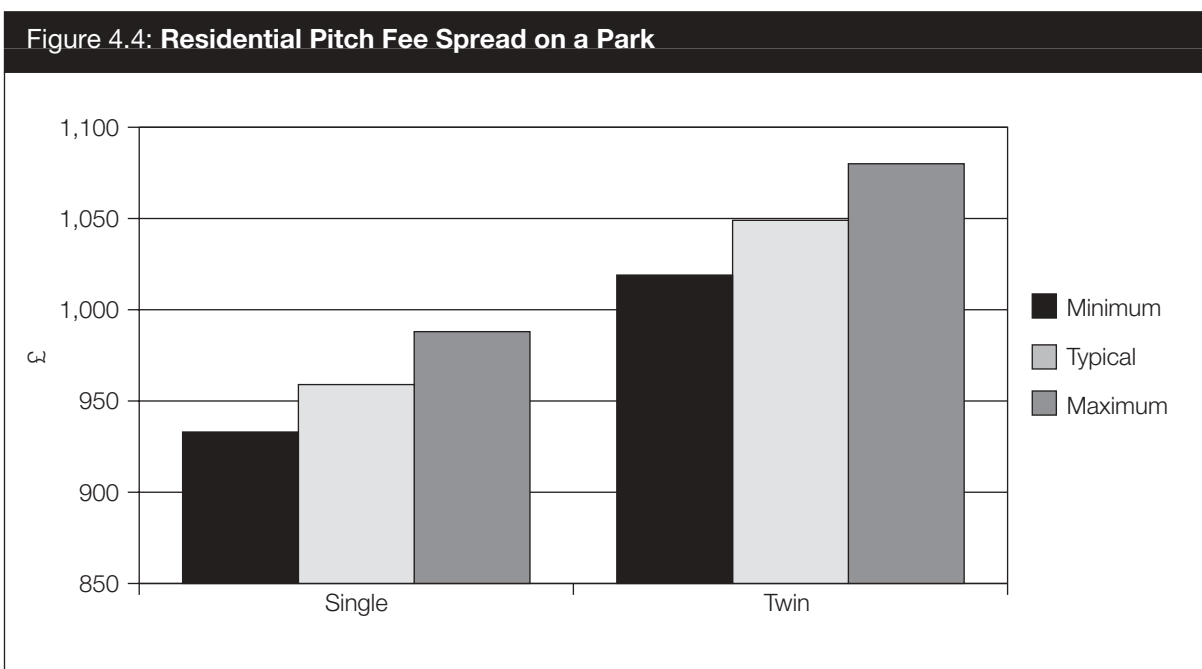
These items, which make a relatively small contribution to net revenue, have not been separately analysed. The item of greatest interest that has been omitted is the net revenue derived from the supply of certain utilities. The number of questions needed to even estimate the broad scale of net revenues in this area was so great that their inclusion would have prejudiced the response rate to the survey.

Gross Revenues: Indirect Evidence From Surveys

4.15 In this section, the various components of revenues are examined to identify the implications for total pitch fees, re-assignment commissions and sales.

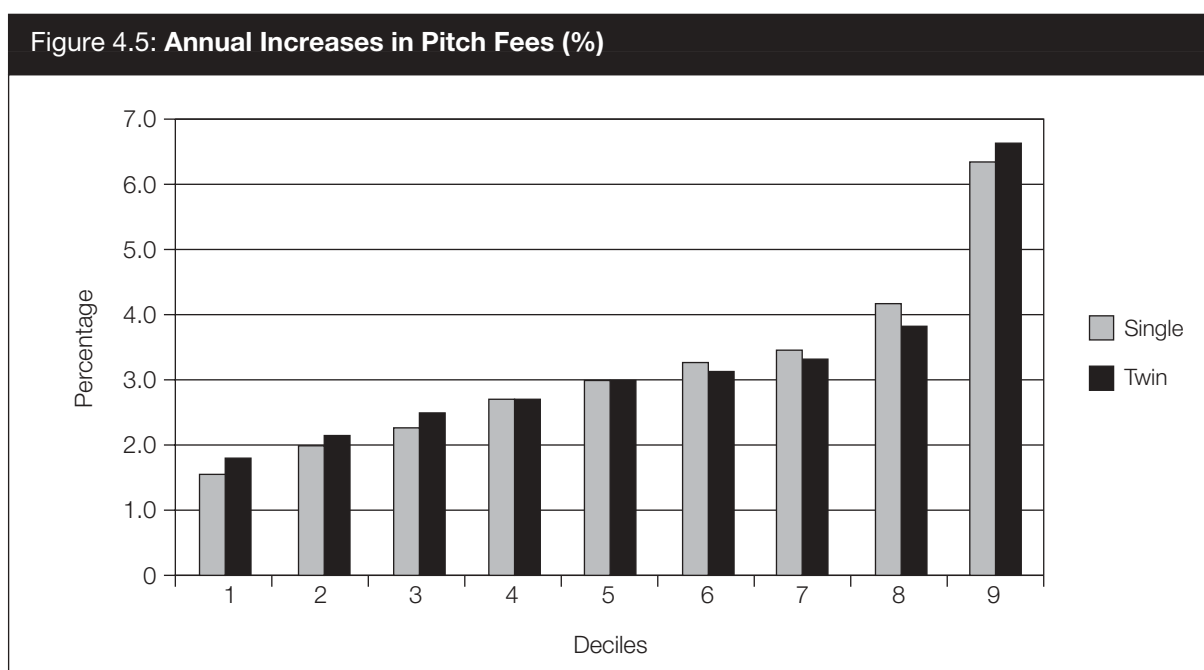
PITCH FEES

- 4.16 Pitch fees on a given site vary according to whether they relate to single or twin pitches. However, they can also vary according to the attractiveness of the pitch location and the date of the agreement between operator and resident. The terms of the agreement may often include reference to the method by which the pitch fee is to be increased, usually annually, in negotiation between the operator and the resident. Thus upon the termination of one agreement there is no obligation for the operator to offer the new resident the same pitch fee. Indeed, there is evidence that pitch fees for new agreements are above pitch fees for existing agreements on similar pitches. This may be evidence of market demand exerting upward pressure on pitch fees and/or the impact of park running costs exceeding inflation.
- 4.17 On the same park fees for the same type of pitch, single or twin, may vary though any parks charge the same rate (see figure 4.4). On average, the spread of pitch fees on a park between the minimum and the maximum is about £60 per annum or roughly £5 per month. On average the typical twin is about 9% more than the single. The typical twin is not necessarily the average – this was established from the site visits and is apparently a difficult number for operators to assess; however a mean value was imputed for singles at £960 and for twins at £1,050.²



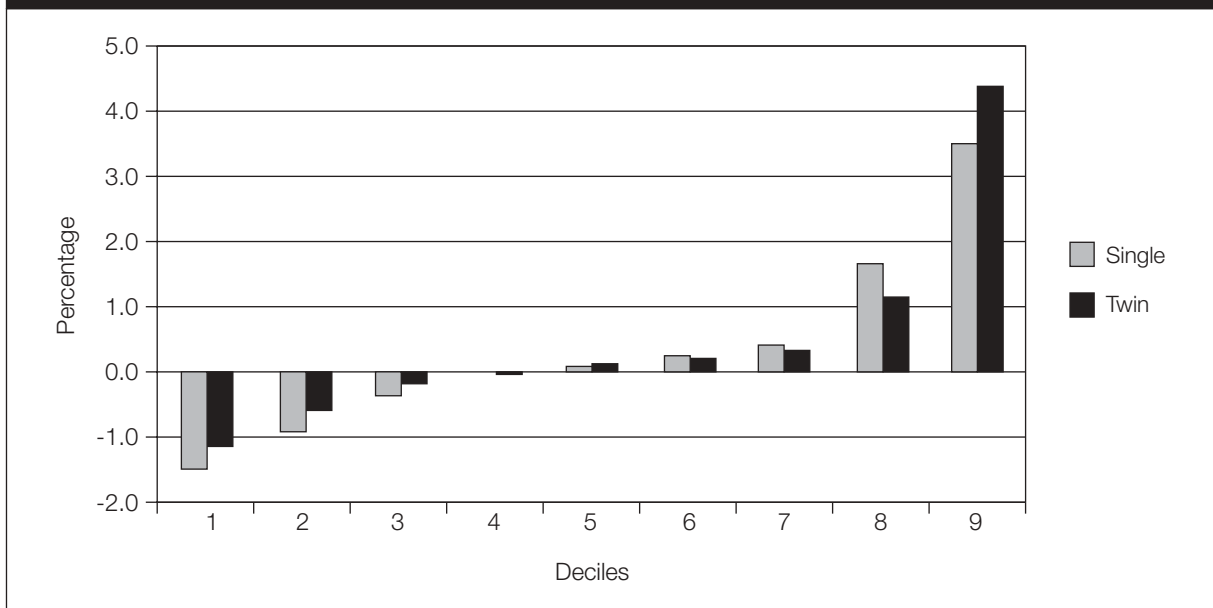
² Mean=(Max+Min+4*Typical)/6

- 4.18 Using the residential pitch fee and pitch numbers to impute average pitch revenues per park yields £60,700 per annum. This accords relatively closely to the total reported by operators of £59,000 (see above).
- 4.19 The total market revenue from pitch fees is estimated to be in the region of £72.9 million with large parks accounting for 69%, medium sized parks for 24% and small parks for 6%. Twin pitches account for approximately two-thirds of the total market revenue.
- 4.20 Figure 4.5 shows the distribution of annual pitch fee increases reported by operators.



- 4.21 The Standard Agreement discusses annual reviews of pitch fees being mindful of inflation but leaving open the possibility to make greater or lesser increases in relevant circumstances. The survey was concluded in August 2001 and the vast majority of parks had already reviewed their pitch fees in 2001 (85%), whilst 9% had last reviewed in 2000. However a small percentage, 4%, had last made their review in 1999 and 2% in 1996. Since the reviews can only take account of inflation in the last year, increases between August 2000 and 2001 were examined in order to make comparisons vis-à-vis inflation. Figure 4.6 maps the reported increases in single and twin pitch fees over that period.
- 4.22 Ten percent of this group of parks made increases of less than 2% whilst at the other end of the range 10% made increases in excess of 6.5%. How this compares with inflation requires making certain assumptions – particularly because of the monthly variation in inflation over the period. The survey asked when the increase took affect in order that an allowance could be made for the period of notice given by the operator and the lag in the reported retail price index. If it is assumed that the operator uses the RPI that is lagged 3 months upon the date the increase becomes effective, it is possible to compare pitch fee increases with inflation at the time.

Figure 4.6: Pitch Fee Increases in Excess of Inflation



- 4.23 Some 30% of parks made increases below the rate of inflation. A further 40% increased broadly in line with inflation whilst the remaining 30% rose above inflation suggesting an increase in total pitch fees above the rate of inflation. It is noticeable that the increases in excess of inflation are generally greater than the increase below inflation, imparting an upward drift to pitch fees in aggregate. Since the rate at which agreements revert to the operator is in the region of 1–2% of the pitch stock, re-setting pitch fees on new agreements cannot entirely explain the proportion of increases in excess of inflation.
- 4.24 What light does this shed upon the allegation made against operators that where an above inflation increase is justified on an exceptional costs basis, they are rarely unwound and become consolidated into next year's review? Clearly one year's figures cannot provide great insight but certain facts are confirmed. Firstly, it is clear that there are above inflation increases but there are also increases below inflation. As far as single pitches are concerned 8% of parks actually reduced their fees, whereas twin pitch fees were reduced on only 2% of parks. It is not possible to tell from the survey whether those that report pitch fee increases below inflation were unwinding previous rises that went above inflation. That is they reduced a full inflation increase to reflect that the need for one-off extra expenditure was over. Secondly, the fact that there are below inflation increases is consistent with a gradual "unwinding" if it is persistent. Were there no below inflation increases it would imply that no "unwinding", however gradual, was taking place. Thirdly, the overall upward bias in increases implies, if the pattern is representative from one year to the next that generally there is an upward bias in pitch fee increases relative to inflation. At this stage it is not possible to know whether the below inflation increases for 2002 will be correspondingly smaller or larger than the above inflation increases of 2001. Though the findings are not conclusive they are, nevertheless, suggestive of an upward drift in pitch fees relative to inflation.

Re-assignment Commission Incomes

4.25 When residents decide to sell their home to a third party, the prospective purchaser needs to be approved by the operator, whose permission may not be withheld unreasonably. After a sale, the operator has the right to claim a payment from the resident of not more than 10% of the sale value. This is known as commission income, though unlike an estate agent's commission no service, such as finding a buyer, is provided. Though the operator has discretion to charge less than 10%, the site visits and interviews suggested that this was a very rare event and so the question of the actual commission rate was not pursued in the survey, assuming that 10% is always applied.

4.26 The annual commission income received by an operator is determined by:

- the value of the sale;
- the incidence of sales (number per year per pitch on the park);
- the commission rate.

The first two items are discussed below in greater detail. Appendix 8.11 presents more detailed discussion of the determinants of the sales value of park homes (see note on contents page).

Values of homes on re-assignment

4.27 Since the incidence of re-assignments is low, the average value of homes on re-assignment was assessed from the survey over two years – 1999 and 2000. The average value of the sales was derived from reported commission revenues assuming a 10% commission. This suggested that the average value of a home upon re-assignment was £25,500 for a single and £43,500 for a twin. However, there was substantial variation in the average sales value depending on the size of parks. Medium sized parks seemed to generate higher sales values than either large or small parks – both for singles and twins. The reason for this is unclear. Taken across the market as a whole – allowing for the size of parks and the mix of twins and singles – the average value of a park home on assignment is £35,000.

Rate of re-assignments

4.28 A recent study by Humberts for the BH & HPA and NPHC concluded: “a park owner may reasonably expect approximately 6% of owner occupied pitches to change hands each year.”³ The Residents' Associations made it clear to us that they felt that the sample base was too narrow. The analysis confirms the rate put forward by Humberts.

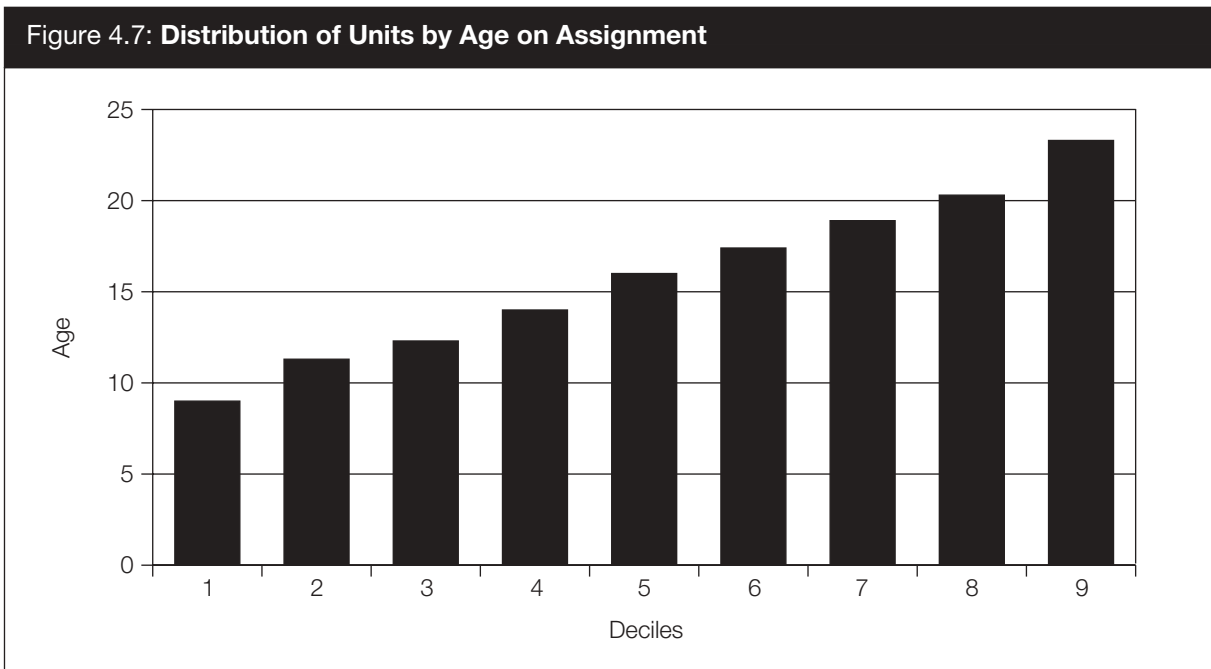
4.29 Again, as the incidence was known to be low, the survey gathered data for 1999 and 2000. The data was analysed separately for singles and twins and also by size of park. Taken across all parks the re-assignment rate is 6% with singles turning over marginally faster than twins.

4.30 The rate of re-assignment can also be inferred from the average length of tenure and the working life of a mobile home unit. For example, assume that the working life of a unit is 40 years and the average period of tenure is 10 years. On this basis, there will be re-assignments at 10, 20 and 30 years. In the 40th year the site reverts to the operator for

³ Humberts Leisure, November 1999, *Economic Analysis of Assignment Commission*, para. 7.1

re-development. Over the life of the unit there is a 3 in 40 chance of re-assignment or 7.5%. However a 10-year tenure would imply a 10% turnover rate. To estimate the re-assignment rate, allowance has to be made for the last occupation in the lifetime of a unit that will result in a new agreement and not a re-assignment. In this example only 3 out of 4 turnovers will result in re-assignment so the re-assignment rate is 7.5% on average.

- 4.31 Operators were asked what they thought the average length of assignment was – to which the average response was 11.7 years. Again assuming a 40-year life that would imply a crude turnover rate of 8.5%. Making an adjustment to this for, say, 3 out of 4 turnovers being assignments, brings the implied assignment rate to 6.4%. This is very close to the reported incidence of re-assignments on average. While this line of argument based on length of tenures is not a further confirmation of the 6% finding, it does illustrate how and on what basis there could be consistency.
- 4.32 Operators were also asked about the length of tenure of their last three assignments. The average rate was 8.2 years. This suggests a 12.2% turnover rate. However, with a 40-year unit life this effectively allows 4 out of 5 turnovers being assignments bringing the implied re-assignment rate to 9.8%. It is possible that tenure periods are shortening and that operators’ rules of thumb may have been slow to adjust. On the basis of tenure reports the re-assignment rate could fall between 6–10%; however, the direct measure from the survey supports a figure closer to the 6% end of the range.
- 4.33 For their last three assignments, operators were requested to provide the age of the unit. Only 10% of these assignments are on units beyond 23 years. Ten per cent of re-assignments arise on units no older than 9 years.



- 4.34 Using the average length of tenure as a guide to the likely re-assignment rate requires making certain assumptions about the longevity of the mobile home unit. In principle – and with a willingness to spend promptly on maintenance and repairs – the modern mobile home (manufactured to BS3632 standards) would have an almost indefinite life. However, the cost and practicality of this (for example, the availability of replacement items) on the

one hand and the “style” of the unit on the other may make its economic life a good deal shorter than its technological achievable life. Furthermore, mobile units bought, say, 20 years ago do not have the durability of modern park homes. This too needs to be weighted in assessing average re-assignment rates from average lengths of tenure.

4.35 Though it seems likely that the average economic life of a park home will increase as the homes built to improved standards account for an increasing proportion of the stock, it does also depend on the willingness and ability of home-owners to maintain their home. In this regard the following is noteworthy. Operators potentially profit far more from a re-development and a new agreement than they do from re-assignment commissions. In the long run, the shorter-lived unit provides greater revenue opportunities. It is understood from the interviews with manufacturers of mobile home units that most do not engage in re-furbishment work. Indeed, it was suggested to us that this was partially due to operator pressures. There are other specialist firms that provide these services. It is also noted that whereas Touring Caravans and Motor homes, which are also covered by BS3632, have NCC Approved Workshops these provisions have not been extended to mobile homes. This is despite quite frequent reference in the technical press to ‘cowboy’ refurbishers. Efficient use of economic resources requires homeowners to make a reasonable judgement on the merits of refurbishing their property but this is difficult without a system of refurbishment standards.

Re-assignment commission revenues

4.36 Given the sales value of a park home on re-assignment, the rate of re-assignment and the 10% commission rate it is estimated that on average a park earned £11,800 per year in commissions in 1999–2000. However, the variation is considerable. Because of the low incidence of re-assignments, the size of the survey and the response rate this answer was reassessed by multiplying average values of the following components for large, medium and small parks:

- number of pitches available for occupation per park in 1999–2000 (imputed from 2001 figures based on changes in 2000 and 1999);
- percentage of assignments that generated commission (89%, since some will be re-assigned to, for example, spouses without a commission being levied);
- assignment sales values (1999–2000).

4.37 This disaggregated approach afforded an insight into the components but inevitably yields a somewhat different answer to the direct question on commission revenues for 1999–2000 that yielded an average of £13,200. It is noted that the same question for 2001 and reported earlier yielded an average value of £9,800. Variations from one year to the next can be expected but having sought different methods of estimating the average commission income per park for the recent period, it would seem that £11,500 is a reasonable level.

4.38 The spread of commission income per park varies with size. An estimate for large parks, consistent with the £11,800 average estimate for all parks, is £22,100 per year. Similar figures of medium and small parks are respectively £11,300 and £2,000.

4.39 The total market annual commission revenue is estimated to be £11.7 million in 1999–2000.

Sales and Re-Development Income

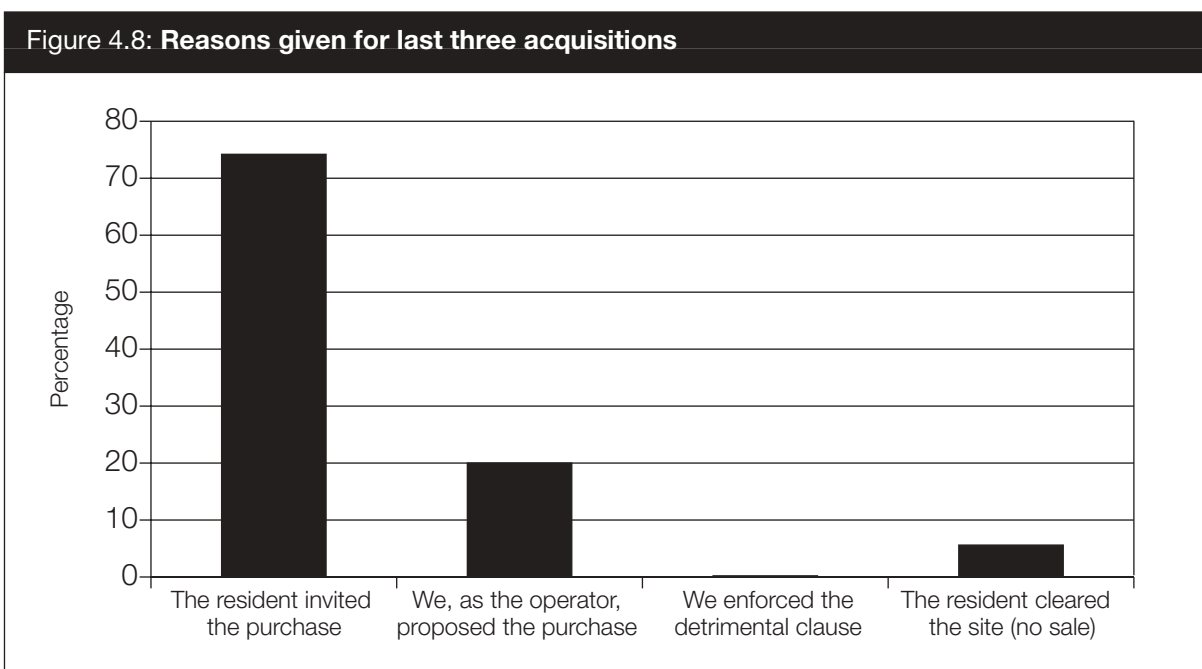
4.40 The final major source of gross revenue is from the creation of a new agreement by virtue of a sale. This can arise in several ways. An operating park creates a new agreement by either adding an entirely new pitch with a park home on it or from the sale of a vacant existing pitch with a park home on it. An existing pitch may revert to an operator through termination of a contract by the resident quitting the site, as a result of enforcing the detrimental clause on a park home or other breach of the terms of the agreement, or by purchasing the park home and the agreement. The gross revenue is the sale price of the sited home. Operators will also incur costs in this process, for example for the purchase of existing and/or new homes. The net revenue, or income, earned is the difference between the gross revenues and costs. The following paragraphs first discuss the different ways in which park operators can earn sales and redevelopment income, including the gross revenue and cost components for each. This is followed by estimates of gross revenues and an assessment of the costs that operators incur to achieve those revenues. Finally, some conclusions on net revenue are considered.

Sources of sales and redevelopment income

4.41 As mentioned in para. 4.40, there are two broad ways for an operator to earn income from sales and redevelopment: adding a new pitch and home to the park and selling this to a new resident; or acquiring existing pitches and homes from residents leaving the park and selling them to a new resident.

4.42 For new pitches, net revenue will be the difference between the sales price of the home on the new pitch, the cost of its purchase and siting, as well as the cost of creating the pitch.

4.43 The position for acquired pitches is more complex. The circumstances under which park homes revert to operators are summarised in figure 4.8. This is based upon replies about their last three acquisitions.



4.44 According to this evidence virtually all terminations of agreement have been secured by purchase. Barely 6% are as a result of either the detrimental clause being invoked or residents quitting the site. In 74% of cases, the resident invited the sale whereas in 20% the operator proposed it. Of course if, as is claimed by some, operators exert undue pressure, the distinction between being invited and offering to buy becomes meaningless.

4.45 There are 3 ways in which operators can generate net revenue from acquiring existing pitches:

(i) *Acquiring an existing home and agreement and reselling it with a new agreement.*

In this case, the net revenue depends on how the operator acquired the pitch and whether it was re-developed by replacing the concrete base. In the instance where the operator buys a park home and simply resells it, the net revenue depends on the purchase price, the sale price with a new agreement and the cost of any works done to the home or the pitch. In these circumstances, there ought to be scant chance of a profit if the market is working well. If the market value of a resident's park home is £50,000, re-assigning it would net the resident £45,000 and the operator £5,000 in commission. Selling it to the operator for say £46,000 improves the resident's position by £1,000 but the operator is down £1,000 on such an arrangement as the home can only be sold at £50,000.

(ii) *Acquiring an existing home and agreement, replacing it with a new or second hand home and then reselling with a new agreement.*

In this instance, the operator will incur the same costs as in (i) above, as well as the additional cost of the new unit. Thus the net revenue on an acquired pitch is measured by the sale price (plus the new agreement) less the cost of buying the existing unit (including the old agreement) and less the cost of the new unit. If the pitch base is in poor condition the operator may also need to repair or replace this.

(iii) *Acquiring an existing home and agreement, refurbishing it and then reselling with a new agreement.*

Here, the operator will face similar costs to (i) above, with the addition of refurbishment costs.

One way operators can improve their situation in such circumstances is to force a sale at a lower than market price. This is theoretically possible since operators would have to approve the new resident for a re-assignment, giving them the apparent right of veto. Although this permission cannot be unreasonably withheld, unreasonable behaviour would have to be demonstrated in court – which not only brings the risk of legal expenses but also the near certainty of losing the prospective buyer. On the other hand, someone desperate to sell for personal reasons might still accede to pressure or voluntarily sell to the operator at below market price in order to secure a capital sum sooner rather than later. Certainly, operators claim that often relatives of ill or deceased residents willingly sell to them in order to expedite the disposal of a home, without the need to put it on the market.

4.46 Other sales income potential arises from an operator buying a home and upgrading the unit for a later sale at a level in excess of the purchase price plus upgrading costs.

SALES AND REDEVELOPMENT TOTAL GROSS REVENUES

4.47 Total revenues from sales are redevelopment depend on a number of factors:

- the number of new pitches created;
- the number of existing pitches acquired (allowing for any that may be scrapped, for example, substituting twins for singles or responding to spacing regulations);
- the sales price of the homes made available on the above pitches.

The evidence for each of these is now considered.

New Pitch Creation

4.48 According to the survey approximately 1,350 new pitches added annually by 1,683 parks, which implies 2.3% pitch creation rate. Generally, there are more twin pitches being created (2.51% pa) than singles (0.41%). Small parks appear to have the highest pitch creation rates – 2.7% for twins and 0.44% for singles. These increases will generate sales revenue.

Rate of Acquisition of Existing Pitches

4.49 To estimate net acquisition rates from the survey, the number of lost pitches need to be deducted from the number of pitches acquired. The average annual acquisition rate (purchase or by default), adjusted for losses, for singles over the period is 1.9%, while for twins the rate is 0.64%. The differential between the two rates implies that operators are probably more active in seeking singles for conversion into twins, which was also the conclusion of the interviews. There are considerable variations in acquisition rates. The large parks are least active in acquiring though this may be the result of them having a greater percentage of twin units. Medium and small parks have highest acquisitions rates for single pitches (3.26% and 2.68% respectively).

Total annual sales arising from redevelopment

4.50 Manufacturers' sales figures suggest that about 2,000 homes were produced annually in 1999 and 2000. New homes can be sited both on new or acquired pitches. Assuming all new pitches have new units sited on them this accounts for about 1,350 new units. With acquired pitches, there could be two possibilities – either an existing home is kept,⁴ or is replaced with a new unit. The study has assumed that each time the hard-standing is replaced a second-hand unit is replaced with a new home. Based on the responses to the question 'how many hard-standings were replaced', it is estimated that new units are sited on about 54% of acquired pitches. This implies that a further 600 new mobile homes are bought to replace old second-hand ones. Thus, in total 1,950 new mobile homes are being bought for both new and acquired pitches, which corresponds very closely to the manufacturers' figure.⁵

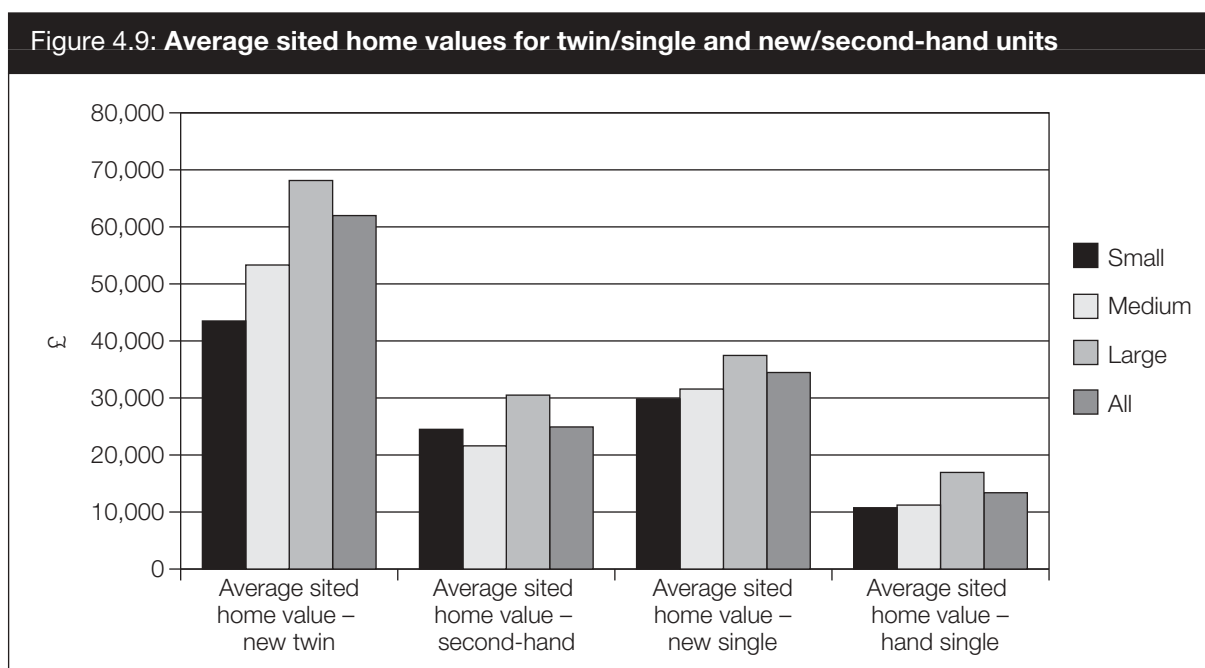
Average Sales Value

4.51 The gross revenue a park earns depends not only upon the sales rate but the average value of each sale. Over the two years, 1999–2000, the average sited values for new and second-hand twin units are £62,000 and £25,000 respectively. Average value for a new single unit

⁴ The unit need not be kept on the same pitch. Owners may place it on another pitch on the park or move it to another park in their ownership.

⁵ It is understood that a very small number of homes are exported.

is £34,500 and £13,500 for a second-hand unit. Figure 4.9 represents the typical sited home values for single and twin units.



Total gross revenue from redevelopment

4.52 From the information above, the estimated average sales and redevelopment revenue per park is £68,000. This was derived by multiplication of the average sales rate, pitches and average unit sales values. Of course, these averages embrace parks that would receive in some years no income at all from sales. The imputed figure of average park gross sales revenue for 1999–2000 compares very closely with an average reported directly by operators for their last financial year of £67,000. Using the estimated figure of £68,000 estimated total sales and redevelopment revenues for all operators totalled £114 million per year over 1999–2000. Some 60% of this market revenue goes to large parks, and a quarter to medium parks.

Cost of park home sales

4.53 As discussed in paragraphs 4.40 and 4.41 above, the cost of sales and redevelopment have a number of components. The main cost elements are:

- developing a new pitch base;
- works to hardstanding;
- purchase of new or second hand mobile home units;
- purchase of existing park homes and agreements;
- refurbishment costs.

Costs will vary across the three ways in which sales and redevelopment opportunities arise from acquiring pitches, as well as between these and the creation of new pitches. The cost elements are discussed below.

- 4.54 According to estimates by DLC, the cost of developing a new pitch base or hardstanding is about £6,700 for a twin and £4,700 for a single. On average, these estimates are very close to the new pitch development cost quoted by the operators in the survey.
- 4.55 Two sources of information were used to estimate the cost of new units bought by the operators – (i) the survey and (ii) a database of list prices of mobile home units produced by all manufacturers in the country. After adjusting the list prices by the discount that operators are likely to receive – 27%⁶ has been taken – from the manufacturers and adding transportation/delivery costs, the analysis indicates an average cost of new units similar to that provided by operators. The cost of new single unit is £22,000, thus bringing total new pitch development cost to £27,000 (including a hardstanding). For a new twin unit operators pay £35,700 on average and their total cost for a twin pitch development is £42,500.
- 4.56 Where an operator acquires a pitch with a home that is in a poor condition and decides to replace the hardstanding, the cost will be slightly higher than building from new (£7,700 for a twin pitch and £5,200 for a single). The analysis assumes that if the hardstanding on an acquired pitch is replaced, then a new unit is bought to replace the old unit.
- 4.57 The fourth cost component in para. 4.53 is the purchase price paid by the operator for the rights of the agreement and unit. Thus the overall cost of redeveloping an existing pitch base and replacing the old unit with a new unit will be significantly higher than the cost of a new pitch development. The operator will normally decide to replace a second-hand unit with a new one if the existing unit is in poor condition provided that the resulting revenue exceeds the redevelopment costs.

Conclusion on Sales and Redevelopment Net Revenue

- 4.58 From the information above, for a new pitch development on an existing site the average **net** revenue for a single is £7,500 (£34,500–£27,000 see above paras 4.51 and 4.55) and £19,500 for a twin (£62,000–£42,500). These average values will vary widely across the country. Unfortunately the information gathered from the survey was not detailed enough to fully calculate the costs of redevelopment of acquired sites. However, redeveloping an acquired site is likely to involve greater costs than for new pitches, particularly where existing units and agreements have to be purchased which seems likely in the overwhelming majority of cases. Average net revenue from redevelopment of acquired sites is therefore likely to be less than the estimates above for new pitches. But the precise amount depends on a number of factors, for example whether the hard standing is replaced and whether a new or second hand unit is needed.

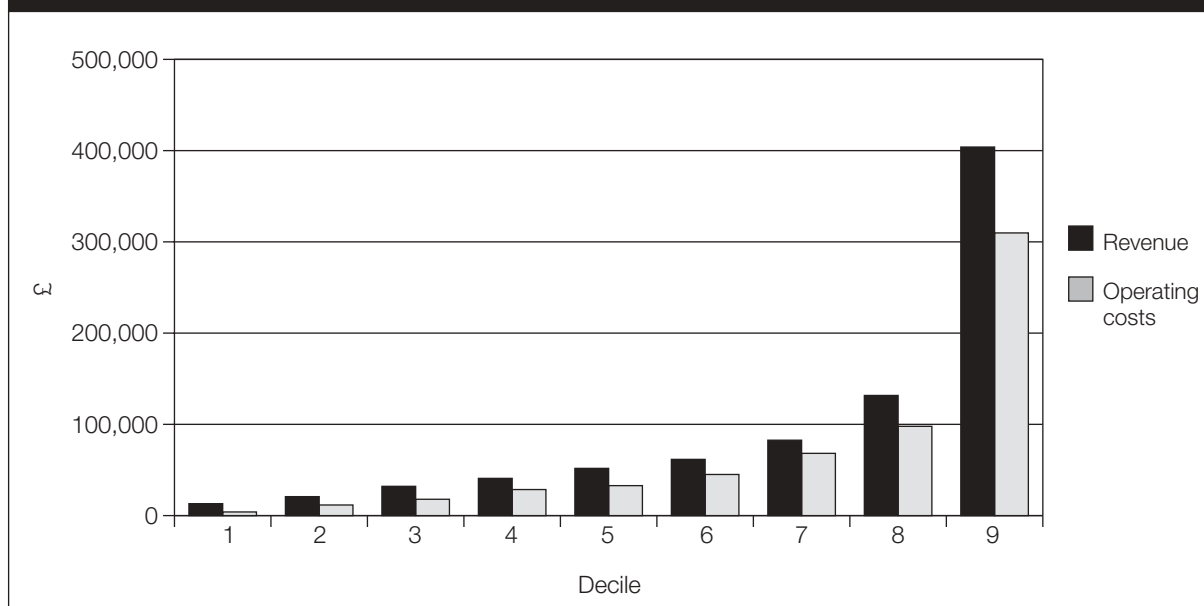
⁶ Discounts from manufacturers to operators vary from 25% to 38% depending upon a number of factors such as exclusivity agreements, market strength of operator etc.

Park Operating Costs

OPERATING COSTS: DIRECT EVIDENCE FROM SURVEYS

- 4.59 The questionnaire asked operators to provide their total operating costs. The reply was always likely to be difficult to interpret. Some will have included items such as depreciation and interest payments, and the ambit of these reported costs need not coincide in other details. The parks providing considerable touring and holiday home provision will have associated costs and this complicates the picture. Across all parks, the average operating cost is £147,000 compared with average revenue of £155,000. If the analysis focuses on only all residential home parks, average operating costs are reported as £98,000 with corresponding average revenue of £139,000. The sharp change in average reported operating costs suggests that those home parks with considerable touring and holiday homes are a quite different business operation. However, assuming competition in the provision of residential park homes there is no reason to discount all the information received from mixed sites but one must take care when interpreting data that include such sites.
- 4.60 As with revenues, the distribution of operating costs exhibits considerable variation, which is due mainly to variations in size. Figure 4.10 shows the distribution of costs and revenues for all residential parks that reported any revenues.

**Figure 4.10: Distribution of Average Operating Costs and Revenues per Park
– All Residential Home Parks**



OPERATING COSTS: INDIRECT EVIDENCE FROM SURVEYS

Maintenance and Repair Costs

- 4.61 The DLC infrastructure model has been used to assess the costs of maintaining, repairing and replacing the physical fabric of home parks. Since the face-to-face interviews indicated that many park operators would have difficulty in representing these costs in a survey that would be consistent from one park to the next, the model was built to impute the capital value of park infrastructure and its maintenance. The model includes the costs of rebuilding

pitch bases. It imposes life cycles on different assets and assigns costs to their maintenance, repair and replacement. In order to find a single annual sum that reflected an adequate provision for these costs a hypothetical Sinking Fund was established. The model calculates the constant annual amount that would have to be put aside each year. The model is inclusive of labour costs and in many instances this will involve park employees rather than park contractors. Further details of the model are in Appendix 8.8 (see note on contents page).

- 4.62 Table 4.2 below demonstrates that operators are able to comfortably meet their sinking fund costs through the pitch fees they charge to residents and hence cover the costs of keeping the fabric of the park intact. Indeed, the larger parks generate strong income when compared solely to the maintenance and repair costs, as much as 128% above the sinking fund payment. The operation of economies of scale ensures that these costs decrease with the size of the park, whereas pitch fees appear to increase. There are of course other costs (see below). Furthermore, a large proportion of total maintenance and repair costs and hence the annual sinking fund payment is made up of the cost of new hardstandings – approximately 30–40% as calculated by the model. These costs may be recovered from the sale of a sited home following re-building of the hardstandings, so care should be taken in combining these figures with earlier figures on sales net income.

Size of park	Total SF Payment (per annum)	SF Payment Per Pitch	Average Pitch Fee	Ratio Pitch Fee/SF Payment per pitch
Small	£11,224	£802 ⁷	£915	114%
Medium	£20,482	£585	£1,013	173%
Large	£50,145	£482	£1,099	228%
All	£34,787	£519	£1,032	199%

- 4.63 A caveat is required in this analysis regarding the DLC model and its sinking fund figures. The model results are dependent on the inputs to it. The results are useful in showing the broad magnitude of average costs but costs for individual parks are likely to vary around this.

Employment Costs

- 4.64 Employment is another key cost in running a park. The operators were asked how many full-time and part-time employees they hired. These figures were converted into full-time equivalents, combining the number of full-time and part-time employees. The average number of full-time equivalents was then multiplied by the average wage rate to estimate the annual average employment costs per park. The wage bill includes an additional 7% for National Insurance contributions. Annual employment costs per park vary from £35,574 for small parks to £60,802 for large parks. The average for all parks was £51,069. This reflects the tendency for both employees and wage rates to rise with the size of the park and the number of employees.

⁷ We believe that sinking fund costs for a small park are slightly overestimated, because a large proportion of respondent small parks reported relatively large open areas compared to the residential pitches area. This results in high landscaping costs for larger open areas, which, in their turn, increase the sinking fund costs. This result might be explained by the fact that a high proportion of respondent small parks are mixed, i.e. have holiday as well as residential homes and the reported figure for the open areas might also include holiday homes area.

4.65 The calculated wage costs will in some cases cover some of the maintenance and replacement costs calculated by the DLC model. Additionally, some labour is provided by family and other individuals living on the park rent-free. Later when estimating park profits, steps have been taken to avoid double counting of employment requirements.

Other Costs

4.66 Other major costs which operators face for the running of their park, are predominantly business rates, legal costs and insurance premiums. They tend to be fixed costs for a park, as they do not vary with the utilisation rate. A consistent pattern tends to emerge amongst these overheads – the level of these costs varies predominantly by size and type of park. So, costs for large parks tend to be higher than for small parks and parks, which contain a number of non-residential pitches, have higher costs than those of purely residential parks. Table 4.3 shows typical fixed costs from the survey for different sized parks but excludes coverage of parks with any non-residential pitches on their premises (e.g. holiday or touring pitches).

Size of Park	Business Rates	Legal Costs	Insurance Costs
Small	£725	£314	£368
Medium	£1,535	£1,044	£733
Large	£2,149	£2,278	£2,479
All	£1,694	£1,318	£1,192

4.67 Business rates when calculated solely for residential parks are proportional to size, as one would expect. The figures are substantially higher for parks with non-residential pitches. For example, the figure for business rates derived from all parks, without distinction, is £6,654 per year compared to £1,694 for all-residential parks. This divergence in business rates between parks comprising all-residential pitches and those with a mix adds a further level of complication to the analysis of cost structures.

4.68 Insurance charges have the same pattern in that parks with non-residential pitches pay more on average than their all-residential counterparts. Small residential park owners for example pay on average £368 per annum for their insurance requirements whereas those small parks with non-residential pitches pay on average £3,372, almost ten times more. This probably reflects the fact that some of the “small” parks, in terms of residential pitches, are quite large when their non-residential pitches are included and so attract higher insurance charges. When calculations are made for all park types, there is relative consistency between insurance payments of the variously sized parks. There is a range between £2,399 for large parks to £2,822 for medium sized parks, with small and total parks being within these figures.

4.69 Legal fees require careful treatment because in individual cases there may be particular legal challenges and issues, which could inflate calculations. However, across the whole sample, it is assumed that these one-off fees are averaged out.

Net income and profit

DIRECT EVIDENCE FROM SURVEY

- 4.70 Since many park operators are sole traders – particularly those operating small parks – and do not maintain formal accounts that distinguish capital and current items, operators' net income is discussed rather than profit levels. Interviews with operators also revealed that many would have difficulty providing information in a way that permitted a more formal profit and loss account and balance sheet. However, parks were asked to provide a profit estimate, and many did, but there is no guarantee that the concepts used will be the same. For example, some will have included interest payments on borrowed capital but others will have not. Contributions to owner-directors' pensions will have been recorded as a cost in some, even though it represents an alternative way of enjoying a return from the business.
- 4.71 Operators were asked to provide total revenue, total costs and profits. Because response rates varied it was possible to compute average profits from the difference in revenues and costs and also from the profits reply. However, the result inevitably has a definitional fuzziness.
- 4.72 The earlier distribution of costs (figure 4.10) given in direct reply to a question range from the lowest 10% parks spending up to £4,000 to the top 10% spending over £310,000 per annum. The implied profit on this basis, given their replies on revenue (see figure 4.1) averages £34,000 with the lowest 10% of parks earning up to £9,000 and the top 10% earning over £94,000. The implied profits of the most profitable parks severely skew the average since 80% of parks earn less than the average. The implied average margin (profit/revenue) is 27%, although this varies too.
- 4.73 The parks were asked directly what profits they earned in their last financial year and on a lower response rate this was shown to be an average £48,000. Since the number of parks responding to the revenue and operating cost questions is not the same, though greater than the number of parks directly reporting their profits, it is reasonable to conclude that the average level of profit approaches £50,000 but that the distribution is very broad. Margins are likely to be below 30%.

NET INCOME: INDIRECT

- 4.74 From all the foregoing discussion of revenues and costs built up from revenue and cost components it is also possible to infer a net income figure. The three main sources of revenues are sales, pitch fees and assignment commissions. The survey values have been reported directly and also estimated from revenue components. Additional sources of income, which have not considered in the analysis, might be rents, utilities resale and resale of old mobile home units.

- 4.75 The estimates of total revenues match closely with the findings of the survey. The following table compares BHC estimates of revenues of residential parks with survey responses:

	Sales revenue	Pitch fee revenue	Assignment commission	Total revenue
BHC estimates	£68,000	£54,000	£11,000	£133,000
Survey finding	£67,000	£63,000	£12,000	£139,000

- 4.76 In the survey, operators were asked about total operating costs of a home park. According to the operators' direct responses, total operating costs of an average residential park are £98,000. However, difficulties were experienced in estimating the total operating costs from cost components, because it was not possible to calculate the full costs component associated with sales. The estimate of total operating costs excluding sales costs is approximately £45,000 for an average park.
- 4.77 Thus, the calculations of total net income (gross revenue less all costs) exclude net sales costs (i.e. all revenue and costs related to sales) and certain other revenues and costs, for example utility charges and associated costs and interest payments on borrowings. According to these estimates, small parks are 'losing' around £5,000 annually. However, one has to take into consideration the fact that most small park operators are sole traders and their employment cost is effectively their self-employment net income. So it can be assumed that in most of the cases, small park operators are able to generate some net income. Indeed, the survey analysis indicated that labour costs on small parks were estimated to be some £36,000. It is most likely that a considerable proportion of this 'cost' is in effect payment to the owner and family, who live and work 'in situ'.
- 4.78 The calculations show that average net income for a residential park (excluding sales net income etc.) is about £20,000, whereas according to operators' responses to the survey, average profit is £48,000. Though the latter figure includes sales net income, the low average incidence of sales cannot explain a large proportion of this gap. Where parks are in mixed use, the profits from non-residential activities will probably inflate the reported average profit figure. A further reason for the big difference between these two figures may be the fact that estimated net income is a difference between two large numbers, which increases the possibility of error. Also, it is possible that actual repair and maintenance costs might be overestimated, since it has been assumed that all necessary repairs are always carried out.⁸ However, in reality there will be some underprovision of park maintenance by a proportion of operators, which will reduce the costs. The table overleaf represent the net income and revenue for small, medium, large and average parks:

⁸ However, the omission is consistent with a net income measure that would sustain the fabric of the park.

Table 4.5: Total revenue and net income of home parks

	Reported in the survey		Imputed from the survey	
	Profit	Revenue	Net income ⁹	Revenue
Small	£11,000	£22,000	£(5,000)	£35,000
Medium	£31,000	£77,000	£11,000	£105,000
Large	£83,000	£276,000	£58,000	£291,000
All	£48,000	£139,000	£20,000	£133,000

- 4.79 There are significant differences between net income generated by small, medium and large park operators. There are obviously some economies of scale for medium and large parks, which have higher levels of net income. Though it is difficult to standardise the profit distribution in relation to an accounting measurement of capital, it is possible to examine the investment yield on a park through a different route.

Value of a Home Park

- 4.80 The value of a home park is a key consideration to its owner and is largely determined by capitalising the net income stream from the park. Capitalisation places today's total value on all future net income streams using a procedure to reflect that money earned farther in the future is of less value than money earned closer to the present day. Operators would be expected to seek to maximise the asset value of their parks and will largely conduct themselves accordingly in the management of the park.
- 4.81 The rate of capitalisation for parks is determined in the asset markets. Investors will place their money in a particular asset after comparing the future net income that will flow from the investment and the risk associated with each particular investment. Perhaps the best way to make the comparison is to look at the rate of return on the investment – the annual net income from the asset divided by its market price. If a home park offers a rate of return of 8%, which after allowance for risk differentials compare favourably with all other alternative investments, investors will acquire home parks. In so doing they start to bid up the value or market price of home parks until it reaches a rate of return that is commensurate with other investments.
- 4.82 While rates of return are relatively easily assessed, risks are harder to judge. Unlike investing in a government bond there is a certain management cost of providing the services for which income arises. There is also a requirement to make certain capital payments over the tenure of the asset in re-developing pitches and maintaining/replacing the other fixed assets. However, neither the daily management nor the occasional capital exercise is on a scale of involvement that would characterise the home park business as a production activity. Indeed a considerable number of parks have no full time staff present at all. Nonetheless, few investors would be comfortable assessing such risks without considerable research or direct experience of home park management. This is likely to narrow the pool of investors who might contemplate such investments but not to the point that the determination of the value of a home park is completely divorced from returns in other markets.

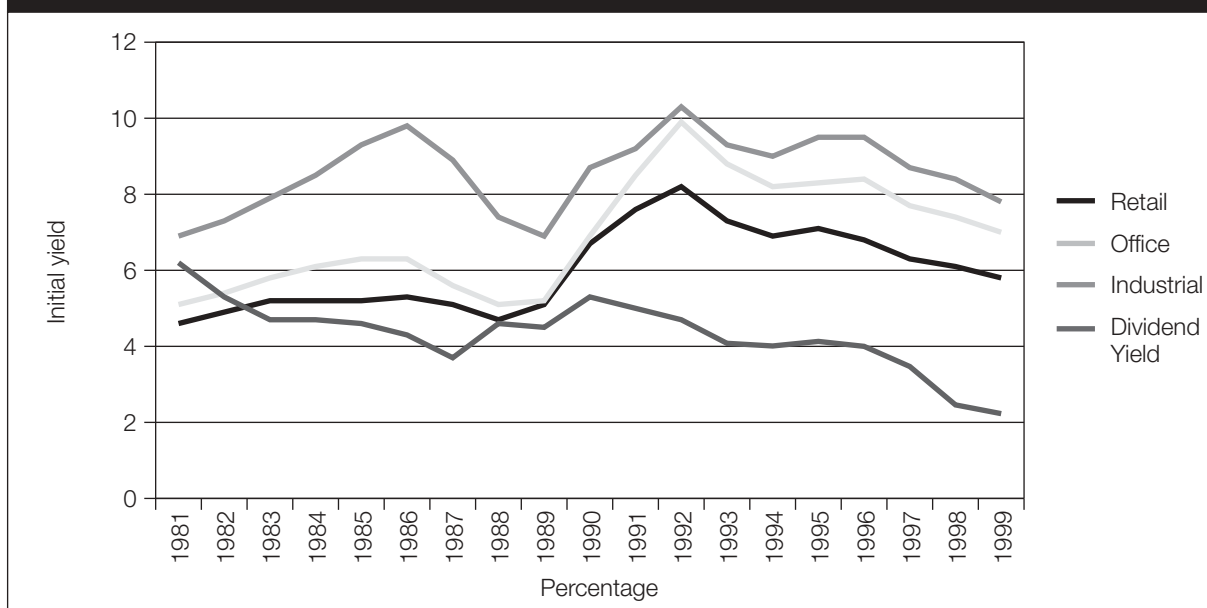
⁹ Net income estimate exclude sales profit

- 4.83 Interviews with valuers specialising in the sale and purchase of home parks provided an indication of how active the market is. In “normal” years those interviewed may have 20 home parks going through their books for sale. At present, the market is very tight, with very few parks coming forward for sale. Excepting the current situation, it would appear that there is an active market in home parks with around 80 transactions a year. This suggests a rate of park turnover of 3–4% p.a.
- 4.84 According to the interviews, the normal reasons for selling tend to be largely domestic reflecting the sole trader character of the business. Thus divorce, death and succession are common causes. At present “owners are selling only if they have to”.
- 4.85 The present tightness in the market has been ascribed to the following:
- the tight housing market is maintaining sales and commission levels;
 - interest rates are low so vendors would not enjoy a particularly healthy return on the liquidation of their home park;
 - a greater incidence of upwardly mobile owners wishing to put together a chain of sites is in the market but by definition not releasing home parks.
- 4.86 The foregoing observations both reinforce the point that the process of buying and selling home parks is governed by broader asset values (interest rates), that there is a number of investors, existing owners, who are well placed to assess business risks, and that the market is active and therefore competitive.

Yields on home parks

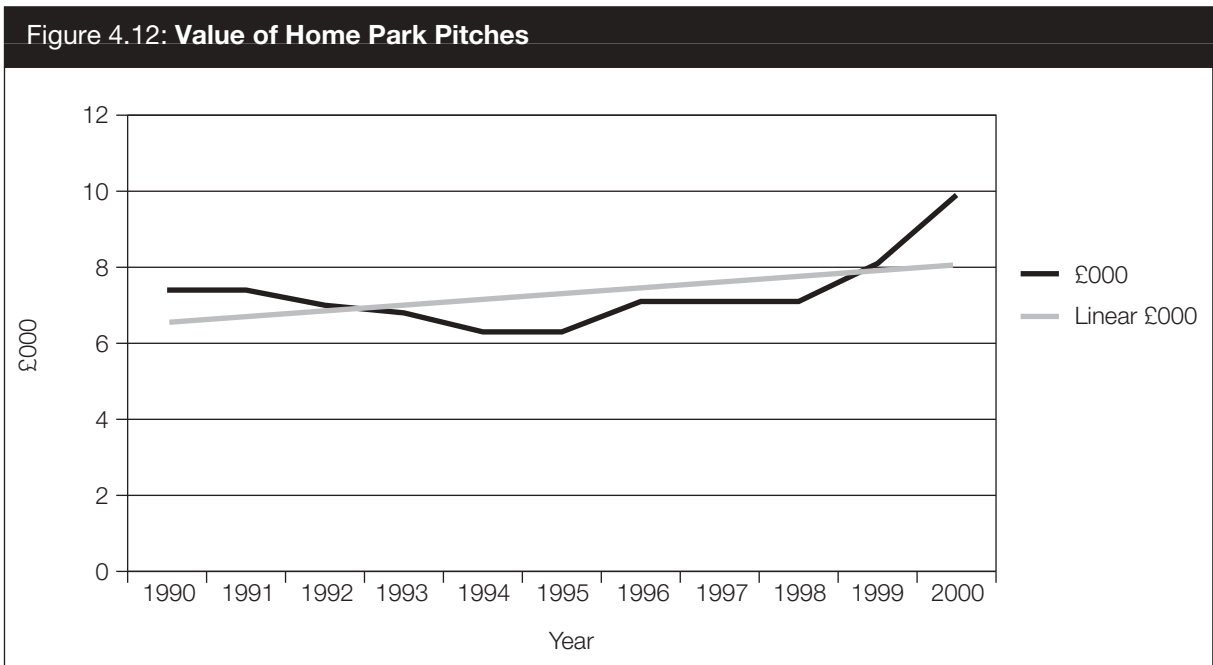
- 4.87 Valuers used to work on the assumption that yields were in the region of 12–15% but with the recent values being achieved in the market place they may have fallen as low as 10% and there was a suggestion of yields as low as 8%. The yield on a government bond is currently around 5% indicating a significant premium over a virtually risk free investment. The falling yields are reflective of a willingness to pay increasing amounts for a park.

Figure 4.11: Assets yields on Various Property Types



Source: IPD

- 4.88 Other property asset yields have fallen in nominal terms over the last decade (see figure 4.11). While yields of 12–15% do not appear to have been achieved in other property markets, figures in the region of 8–10% seem more consistent within the rates enjoyed elsewhere. However, great care has to be taken with such comparisons not only because of the different sources but also due to the methods of valuation.
- 4.89 Home park valuers have slightly different approaches to valuation and generally stress that there is considerable judgement based on experience. They do not appear to do physical site surveys as a general rule though they will inspect the home park. They will look at accounts, if available and may adjust them to establish a prudent (acceptable risk) basis for both revenues and costs. The net income base used to apply a yield may vary. Thus it could include pitch fees, commissions and sales less expenses or it may focus more on pitch fees less expenses. The latter yields a more certain net income stream but then a capital value has to be added for potential sales and commissions. Here, valuers have to make the judgement of how far forward they should consider this potential. They might consider the capital value of likely sales and commissions over the next 3 years.
- 4.90 In coming to a view on yields, valuers collect information on home park sales, quite often expressing them as value per pitch. Figure 4.12 presents the database collected by Edwards & Partners, a valuer active in the park homes market. Their business is relatively broad based in terms of its geography. The sales price of parks, upon which figure 4.12 draws, is confidential information and so not available to this study. Attempts were undertaken to construct a similar database from Land Registry and Valuation Office reports but this yielded discouraging results. Thus figure 4.12 represents the best publicly available information on home park values.



Source: Edwards & Partners

Figure 4.12 shows that there was a sharp increase in home park values to £10,000 per pitch in 2000. The above pitch value for 2000 reflects a relatively mature park valuation, sold as a going concern. This is above trend but the trend is clearly rising. This is to be expected not only due to inflation but the tendency of house prices to rise beyond inflation. Higher house prices increase the amount residents are prepared to pay for their park homes, which raises assignment and sales revenues, and pitch revenue where it affords the operator the chance to raise pitch fees.

- 4.91 The survey indicated that large sites, 461 altogether, would have an average of 104 pitches which means that in 2000 their average value would have been a fraction over £1 million each, whereas a medium size park, 524 in all and averaging 35 pitches per park, would have been valued at £350,000. If the reported profit is taken from the survey for all residential large parks (£82,000) and is divided by above valuation, the result is approximately 8%. Similarly, for all residential medium parks, the reported profit is £30,000 and the yield is 9%. The yields therefore broadly coincide with the figures provided by the valuers, which tends to confirm the reasonableness of the reported profit figures.

Conclusion on the Profitability of Home Parks

- 4.92 There have been claims that home parks are making “excessive” returns. Excessive implies exploitation of market dominance. However, it is possible for suppliers to have high returns without exploiting market dominance. Regulatory restrictions of supply can cause demand to push up prices but prevent supply responding which would bring prices down. Pitch growth over the period 1999–2000 appears to have been 2.3%. However, operators and valuers draw attention to the fact that few new parks are being added despite a clear demand to invest witnessed by the number of existing home park purchases. They claim it is due to restrictive land-use planning.
- 4.93 Home park asset yields appear to be in the same range as other property types. This does not lend strong support to the argument of excessive profits.
- 4.94 While the study has found it difficult to pin down a tightly defined measurement of average profit, it is clear that whatever the figure there is abundant evidence to suggest that the distribution of profits regionally (because they are indirectly related to house prices) and by size of park is considerable. It would be therefore unwise to generalise about the market as a whole. Some small parks clearly do not make large returns particularly if the owner’s own labour is charged as a cost.
- 4.95 The method, which imputes all costs and revenues, except net sales revenue, suggests an average park profit of £20,000 per annum. According to operators’ replies average profit is closer to £48,000 and that probably includes sales and redevelopment net income (although parks will have interpreted the question in different ways). Taking operators declared total operating costs from gross revenues suggest a figure of £34,000. On balance, it is probably safer to talk of net income rather than profit and take £30,000–£50,000 per park as the range encompassing the average which stretches from the low thousands to as high as £100,000.

- 4.96 The level of profits is likely to vary from year to year, as an important driver is the residential property market which tends to move in cycles. Profit estimates for years since 1999–2000 might show higher figures, given the reported increase in park home values since then. But lower profits figures would probably have been reported for the early or mid 1990s when the residential property market was close to the bottom of its cycle. 1999–2000 may in fact represent a point close to the middle of the cycle and so be a neutral position from which to judge profitability.
- 4.97 None of this evidence is strongly suggestive of excessive profits in this sector as a whole. However, that judgement is less likely to rest upon the figures of profitability than on the competitive character of the market and the balance of negotiating power between operator and resident. This is discussed fully in Chapter 6.

CHAPTER 5

Demand

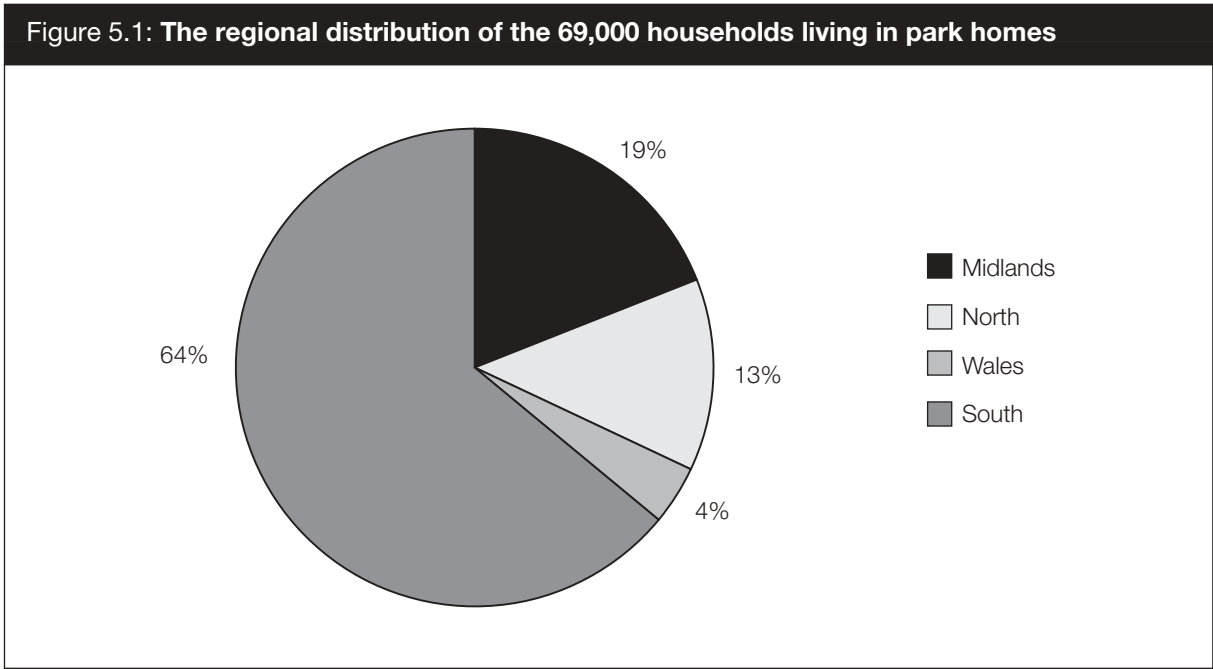
Introduction

- 5.1 In describing the demand side of the park homes market, this chapter firstly highlights two stock elements: the profile of current residents and their tenure experiences before proceeding to discuss the two flow elements, namely the experiences of entry onto and exit from a park.
- 5.2 This commentary draws upon a detailed analysis of the survey questionnaires received as a result of the main survey of residents, as well as information received during earlier site visits and information received from individuals and residents' associations. In addition, comparisons are made with some outputs of the 1992 Mobile Homes Survey by Pat Niner.

Current Residents

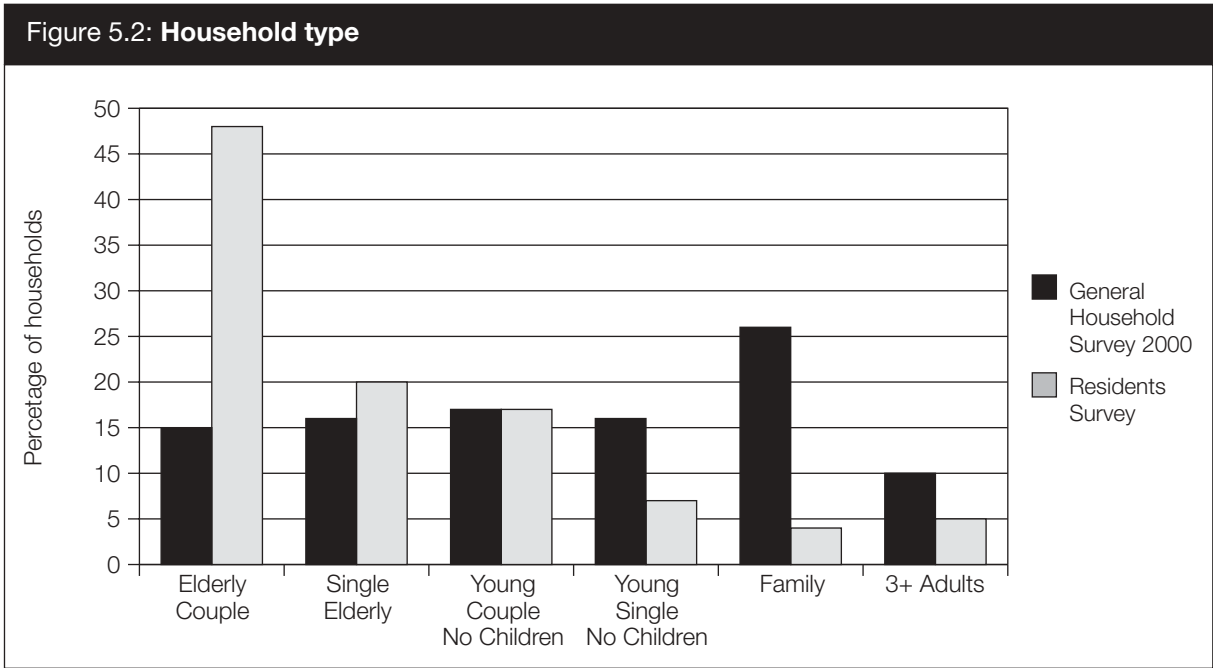
DEMOGRAPHICS

- 5.3 It is estimated that there are some 69,000 households currently residing in park homes in England and Wales, representing a population of approximately 114,000 adults and 2,400 children. This number of households is not entirely consistent with the estimate of pitches (75,000) shown in table 3.8. However, the site visits and discussions with the operators' associations indicated a small percentage of unoccupied pitches at any one time. Therefore, the two sets of figures are not inconsistent in scale terms.
- 5.4 Nearly two thirds of those households live on parks in the south of England, as shown in figure 5.1.



5.5 Our survey confirms that the residents of mobile home parks do not mirror the demographic or socio-economic characteristics of the population at large. That variation reflects the opportunities that park home living offers various segments of the population and can also be the source of some of the difficulties encountered in the operator-resident relationship.

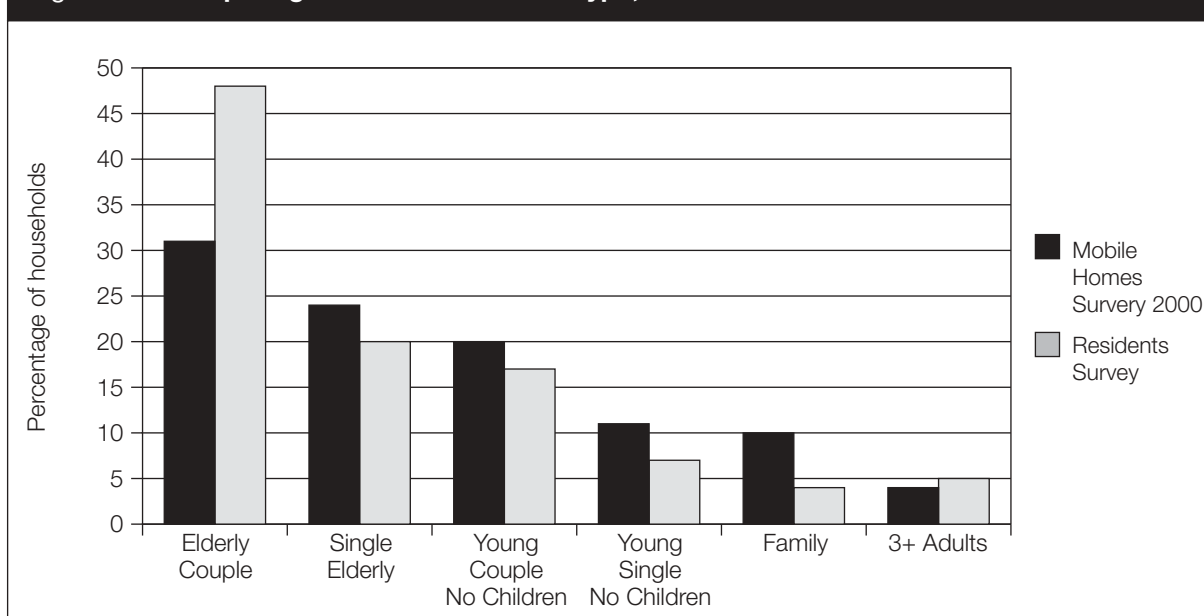
5.6 Elderly and retired households are dramatically over-represented as a whole, as figure 5.2 illustrates. Elderly couple households form nearly half of park home residents but only 1 in 7 of the population as a whole.¹



¹ The comparison data for household type is taken from the 2000 General Household Survey, which unlike the Park Homes survey, includes Scotland.

5.7 Furthermore, this dominance of retired households has greatly increased greatly since the 1992 report, when elderly couple households made up just over 30% of park households (see figure 5.3).

Figure 5.3: Comparing shares of household type, 2002 vs 1992



RESIDENT ASSOCIATION MEMBERSHIP

5.8 There are 3 resident associations, which are active at national level:

- National Association of Park Home Residents (NAPHR)
- British Park Home Residents Association (BPHRA)
- Independent Park Home Advisory Service (IPHAS).

5.9 Individual residents from the parks can become member of the associations, which provide advice and information to people who plan to move to a park home or to an existing park home resident. Advice usually concerns settling disputes between park operators and residents. They provide information about various issues through their newsletters, websites, publications etc.

5.10 The following data was gathered from the organisations concerning their membership:

- NAPHR – 3,550 residents from 417 parks
- BPHRA – members from 400 parks
- IPHAS – in excess of 2,000 members.

It would appear that between 5/10% of all residents have taken membership of a residents' association.

PREVIOUS TENURE

- 5.11 Some 83% of today's residents owned their own homes prior to moving onto a park, which compares with 73% in 1992 – a significant increase in a period when the share of the total population owning their own home barely changed at all (67% to 69%).
- 5.12 Of those residents arriving on the park since 1995 who were previously owner-occupiers, some 94% were able to purchase their park home outright.
- 5.13 Again this over-representation of owner-occupiers becoming park home residents reflects some particular characteristics of the park home offer.

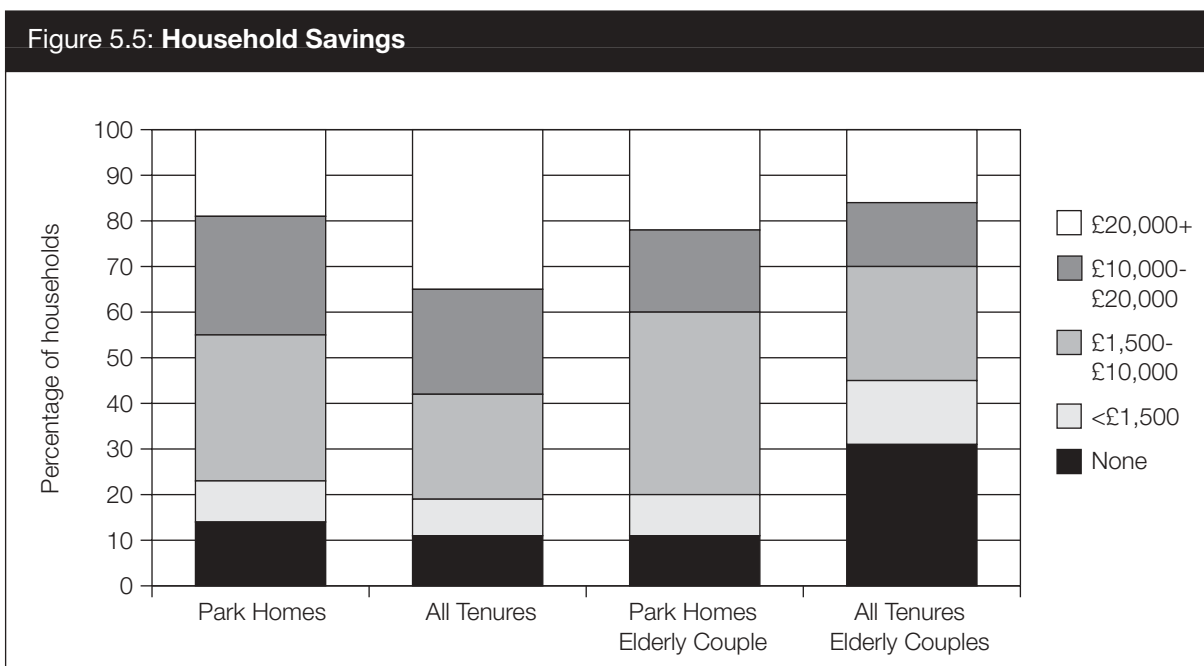
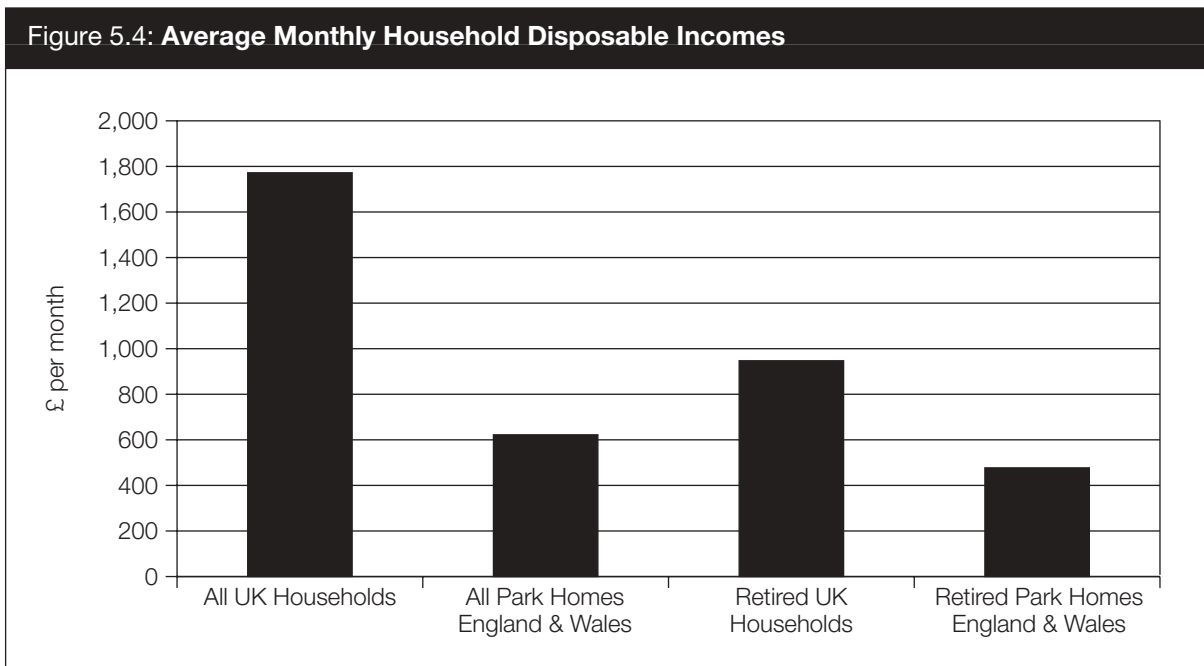
HOUSEHOLD FINANCE

- 5.14 Asking about personal finances is a sensitive task, with respondents often suspicious of the intended use of the data, despite reassurances. Notwithstanding this, some 84% of respondents replied to the question regarding household income and 72% to the question regarding the level of household savings – response rates that compare very favourably with other surveys.
- 5.15 Households living on parks have considerably lower incomes than the population as a whole, with an average net income of £622 per month compared to £1,772 for all households. As figure 5.4 demonstrates, these lower than average incomes are not solely due to the differences in age of households, with park homes retirees having average monthly net household incomes half that of all UK retired households.²
- 5.16 These low levels of income are important considerations to hold in mind when considering policy options, as the impact on resident's finances of any action that either directly or indirectly increases pitch fees could be considerable.
- 5.17 For savings, the comparison between park homes residents and the population of Great Britain reveals a different story.
- 5.18 As figure 5.5 shows, only 19% of park homes residents have no savings compared to 35% of the GB, with greater proportions in each of the non-zero bands. However, when specifically addressing the household savings of the elderly it is very apparent that park home residents have generally lower savings than GB elderly couples, and this despite generally releasing some equity on the sale of their previous home.³

² The comparison data for household incomes comes from the 2000-2001 Family Expenditure Survey, as this shows levels of disposable income which can readily be compared with the after-tax income collected in the Park Homes survey. FES covers all of the UK and so includes respondents from Scotland and Northern Ireland.

³ The comparison data for savings comes from the 2000 Family Resources Survey. The FRS covers Great Britain, and so includes respondents from Scotland.

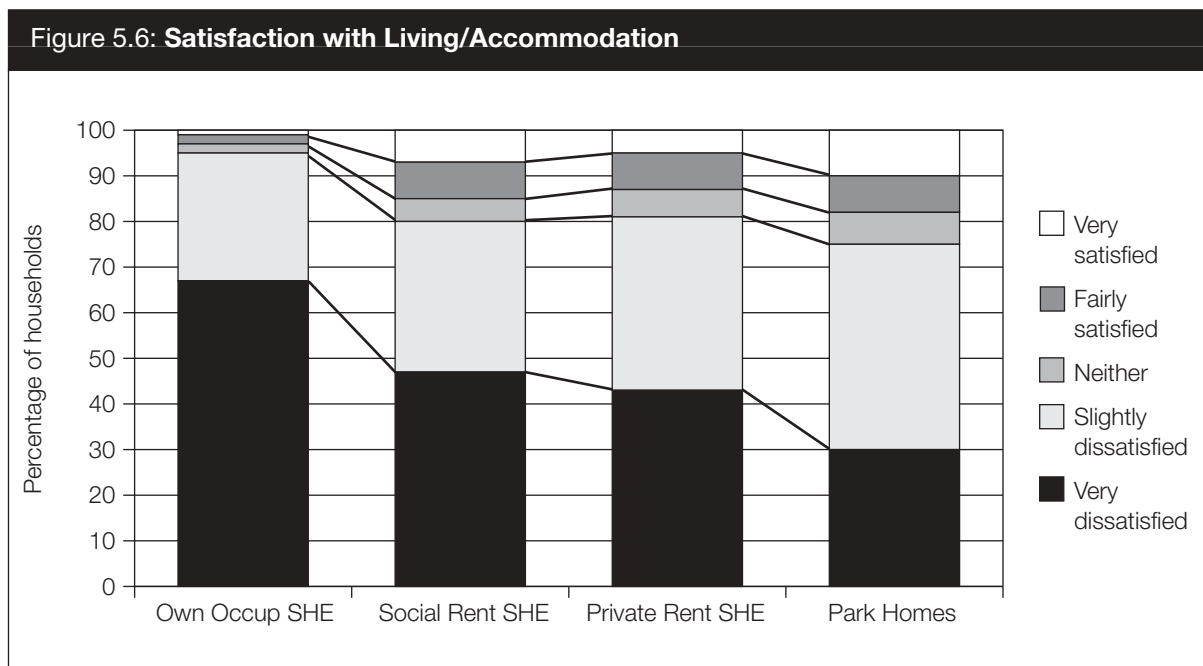
5.19 It is possible that those who have fewer financial resources are more naturally drawn to park home living, in addition to their declared life style reasons for entry.



The Tenure Experience

SATISFACTION WITH PARK HOMES LIVING

5.20 When asked how satisfied or dissatisfied they are with living on their park, 75% of residents declare themselves either satisfied or very satisfied. This compares with poorly with 92% of the population of England in all tenures, who are very satisfied or fairly satisfied with their accommodation.



Note: SHE=Survey of English Housing 2000.

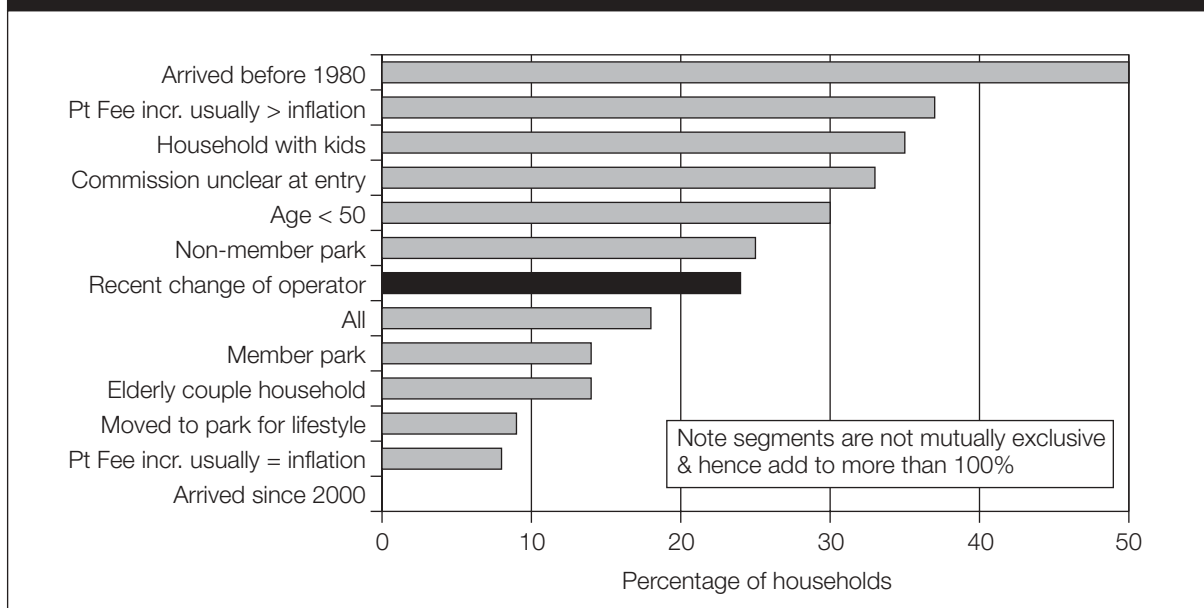
5.21 However, owner-occupiers dominate that latter figure, 95% of who are satisfied. Park homes residents are closer to the experiences of other tenures that involve relationships with a 'landlord', i.e. social (80%) and private renters (81%), although survey methods mean that these differences can only be indicative.⁴

5.22 That the experience of park home living may incorporate some of the characteristics of renting, and that this may come as a surprise to households moving out of owner occupation, is a theme developed in Chapters 6 and 7 in this report.

5.23 However, as figure 5.6 makes clear, park home residents are considerably less likely to be very satisfied (30% compared to 65% of owner occupiers) and more likely to be very dissatisfied (10% vs 1%). Once again looking at the distribution of these dissatisfied residents matches the divergent experiences of different groups living in park homes.

⁴ The comparison data for satisfaction comes from the Survey of English Housing 2000. These data are not strictly comparable since (i) they exclude Wales and (ii) SHE asks if respondents are satisfied with their accommodation & the Park Homes survey asked if respondents how satisfied they were with living on their park.

Figure 5.7: Dissatisfied or Very Dissatisfied

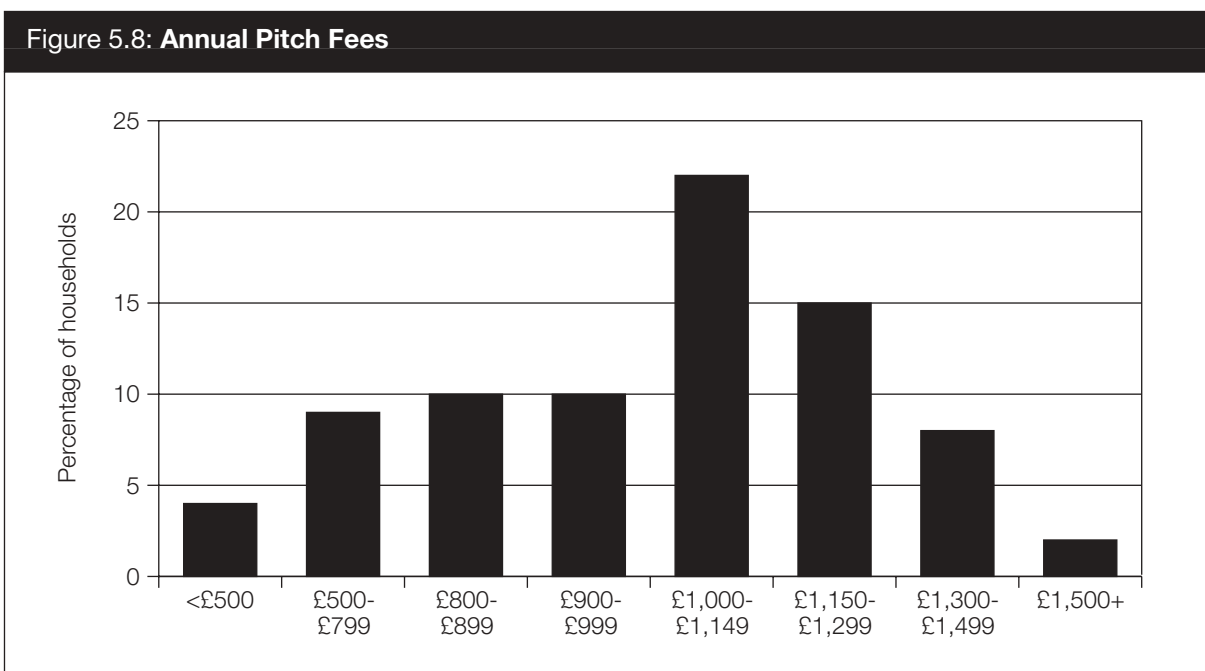


- 5.24 Figure 5.7 looks in detail at the characteristics of residents who said they were either dissatisfied or very dissatisfied. The ‘new’ elderly, retired residents who have recently moved to the parks for lifestyle reasons are the least likely to be dissatisfied. The younger, family households are most likely, exhibiting very high degrees of dissatisfaction.
- 5.25 Half of those who are residents of 20 year standing or more are unhappy/dissatisfied. Because by nature of their longstanding tenure these residents will have seen the most change since they entered the park, this is perhaps inevitable since most of us dislike change. This is echoed by the quarter of residents who have seen a recent change in ownership who are dissatisfied. Those aspects of park home living that make exit problematic (see below) may well exaggerate the impact of change, since the choice to leave may be constrained.
- 5.26 Also noteworthy is the correlation between the two major resident concerns and dissatisfaction. About one-third of those who feel that the obligation to make commission payments was not made clear to them when they moved to the park are dissatisfied, as are 37% of those who feel that their pitch fee reviews are usually above inflation.
- 5.27 Cause and effect are likely to be confused here, as disputes around these two issues are likely to be more prevalent on poorly managed parks, and maybe also sour relationships with some residents on otherwise well run parks is well documented.
- 5.28 The 75% of satisfied residents at first glance represents a 5% drop in satisfaction compared with the 1992 Park Homes report, which showed 80% of residents as satisfied or very satisfied with their park. However, it is important to realise that the wording of questions between the two surveys was different and that comparing a face-to-face interview output with a postal questionnaire could lead to some unknown effects. The postal survey may have been more successful at penetrating the least reputable parks and therefore reaching the most dissatisfied residents.

PITCH FEES

5.29 According to the residents’ survey, average annual pitch fees are £1,027, with nearly 50% falling into the £900 to £1,300 range. This level of pitch fee represents for park home residents an average share of household income of 17%, lying between the equivalent housing expenditures as share of income for owner-occupiers (15%) and private renting (21%).⁵

5.30 Around 70% of residents report that their pitch fees ‘usually’ rise in line with or below inflation. Of the 30% that report above-inflation increases as the norm, some 94% suggest that pitch fees do not drop back down again once any works are completed. That 30% rises to over 40% on large, non-member parks and drops to below 20% for small member parks.



5.31 Information gathered from the site visits and the residents’ associations appears to indicate that, particularly on smaller sites, pitch fees increases can be lower than inflation. It would appear that some operators do not always increase pitch fees every year or always by the maximum amount.

5.32 However, one interesting aspect – which was not covered in the questionnaire – relates to the increase in pitch fees for new homes. There is anecdotal evidence that such fees on larger parks have grown by as much as double the rate of inflation in the last 2 to 3 years. This would indicate that, as one would expect, new agreements are priced according to current (high) demand conditions.

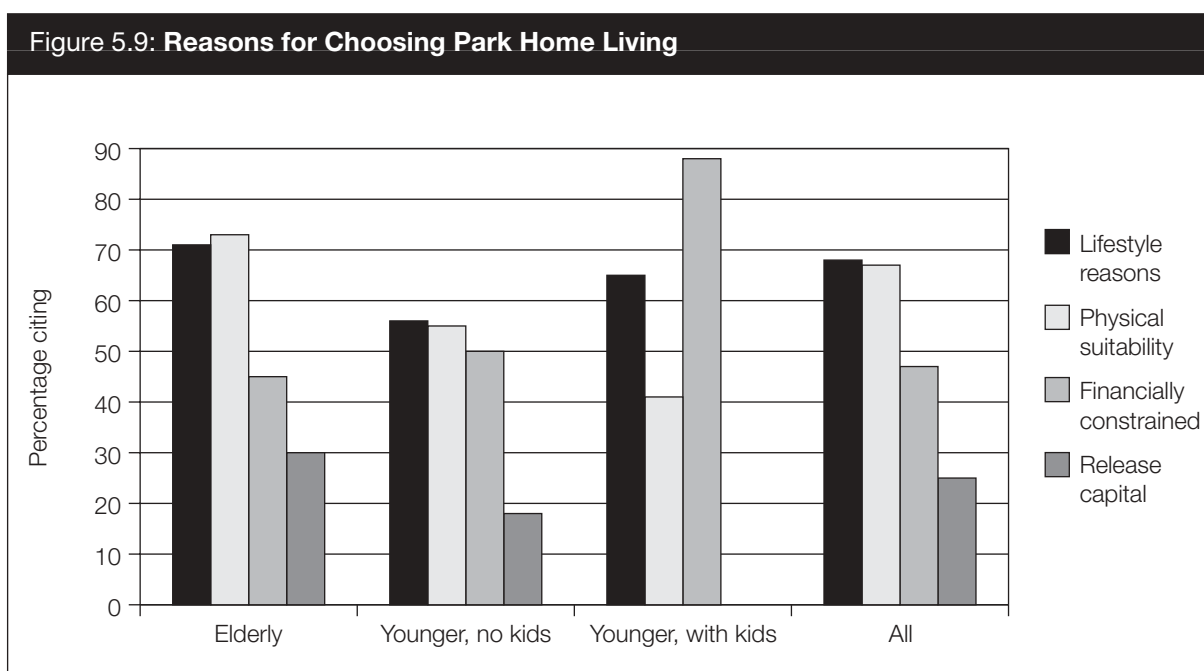
⁵ Source = Family Expenditure Survey 2000–2001. Note these comparisons can only be indicative, due the complex treatment of housing costs in the FES.

The Entry Decision

- 5.33 Of the current population of park homes, some 85% of residents have arrived since 1985 and on average residents have been living on the park for approximately 10 years.

REASONS FOR ENTRY

- 5.34 The site visits identified a range of reasons that residents give for their decision to embark on park home living, most citing a combination of factors. Those reasons fall into four broad categories and residents identified the three most important reasons from a list of 10.

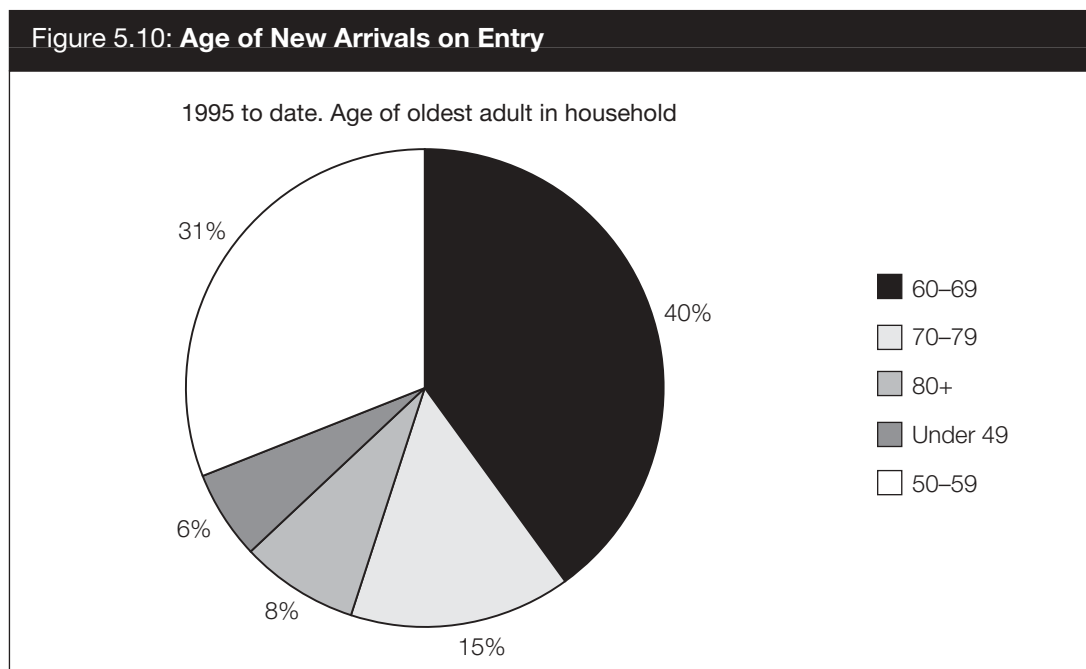


- 5.35 As figure 5.9, shows, the greatest proportion, over two thirds of residents, cite lifestyle elements of the park offer, namely the rural/pleasant environment, the peace and security of the park and the design of the homes. In addition, 67% cite the suitability of the home for elderly residents, such as single floor living, cheaper/easy maintenance, smaller home etc. Nearly half of residents point to what one might call 'negative' financial reasons, i.e. that park homes were the best accommodation that they could afford and or best value in the area. Finally, one quarter indicated 'releasing maximum capital' as one of their top three reasons for moving to a park.

- 5.36 There is a divergence of reasoning between older households, who are more likely to cite lifestyle reasons (especially pleasant environment) and physical suitability (especially one-floor living), and younger family households, who are most likely to cite financial constraints (could not afford anything else).

AGE OF ENTRY

5.37 The attractiveness of the park homes offer to older consumers is supported by figure 5.10. The eldest adult was older than 50 at the time of arrival in 94% of recently arrived households. Indeed, almost two-thirds were over 60 years of age.



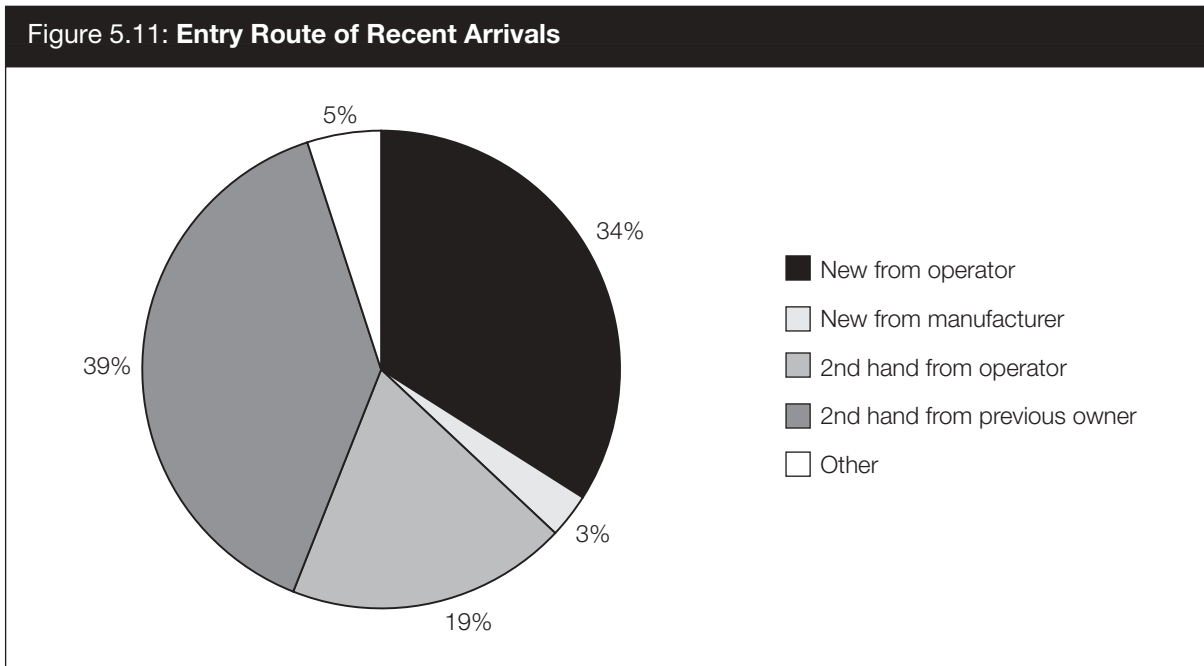
5.38 The operator survey (see paras 3.40–3.42) also reveals that nearly 70% of parks now operate a minimum age of entry and that for 70% of those with a minimum age that age is 50, with another 15% operating a minimum age of 45. In effect, the parks are imposing similar age conditions to that found with ‘retirement’.

5.39 The site visits confirmed that older residents clearly prefer retirement-only parks, citing peace and quiet and security as reasons and operators confirmed that it was difficult to keep both retirees and young families happy on mixed parks.

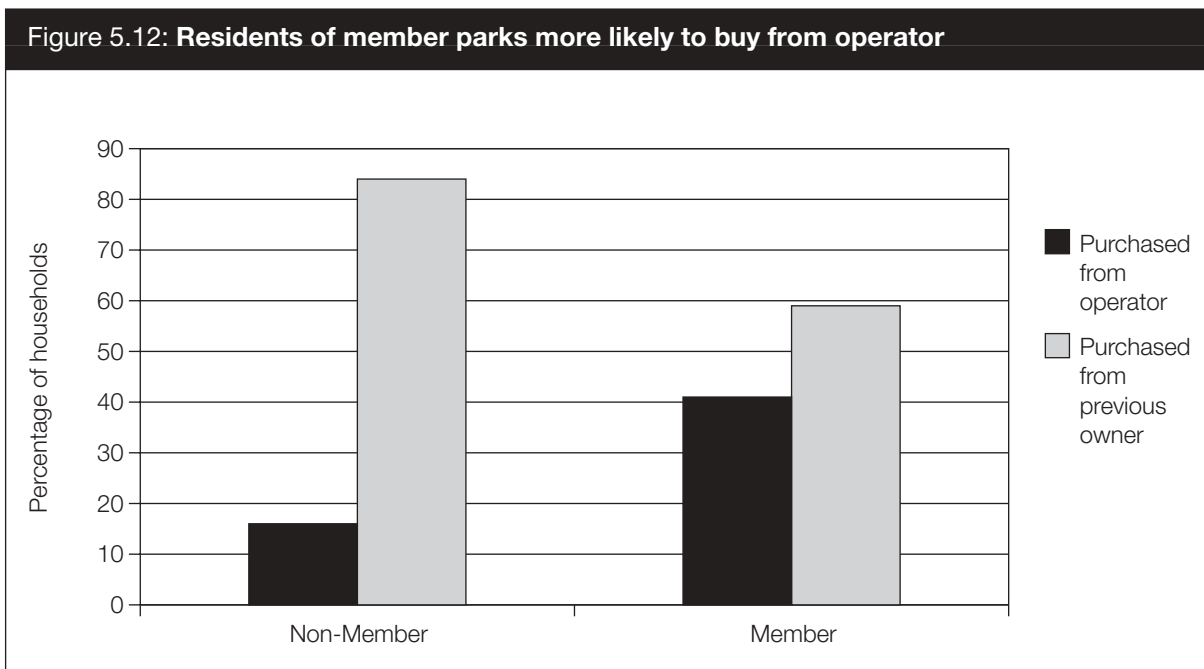
5.40 One might also speculate that for the operators, retirement-only parks make for good commercial sense, since the maximum length of tenure is likely to be shorter and hence the occurrence of assignment and sales opportunities more frequent. In addition, parks reserved for older residents are likely to be easier to manage and suffer less damage to infrastructure.

ROUTE TO ENTRY

5.41 Figure 5.11 describes the routes to entry used by recent arrivals (since 1995) and indicates that around 60% purchased their home second hand, with nearly 40% buying a new home.



5.42 Once again the experiences of the two ‘opposing’ groups of residents varies, with younger families being more likely to buy a second hand home and elderly couples most likely to buy new homes.

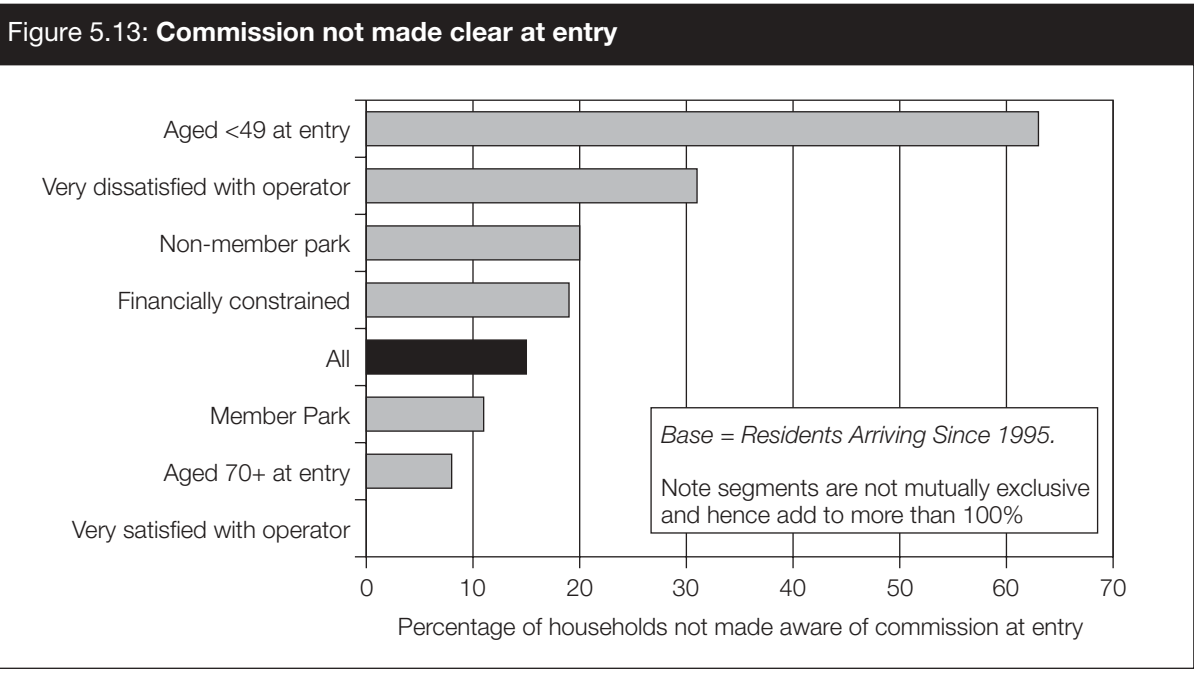


5.43 Of those recently arrived residents purchasing a second hand home, some 70% purchased directly from the previous resident. Yet as figure 5.12 above shows, this proportion varies depending on the operator’s status, with only 14% of residents on non-member parks buying from the operator, compared with over 40% of residents on member parks. Whilst the proportions for non-member parks appear not to have changed in recent years, earlier arrivals on member parks seemed to have been more likely to purchase from the previous resident (74%) than today. The implications of this difference are discussed in the Exit section below.

- 5.44 It is worth noting that **none** of the questionnaire respondents had moved a home to their current park from another park. The discussions with both residents and operators confirm that this route is virtually never exercised. The implications for this for choice at exit are also covered below.
- 5.45 A mere 3% of recent arrivals suggest that they purchased their new home direct from the manufacturer and it is clear from the interviews that the operators effectively control the purchase of new homes. Chapter 2 discusses some of the commercial linkages between manufacturers and operators, which effectively preclude the resident from this chain. Effectively a new home is of no practical value without a pitch to place it on. The operator controls the scarce resource (licensed pitches) and the potential resident is obliged to find an empty pitch first and then arrange the purchase of a home. The suggestion that operators exert undue power at entry is discussed further Chapter 6.

AWARENESS OF COMMISSION REQUIREMENTS

- 5.46 A constant feature of some park home residents concerns about the industry is the issue of commission payments at exit. Discussion of the purpose and impact of commission payments are detailed in Chapter 7. However, it is worth noting here the understanding of commission payments as part of the entry experience.
- 5.47 Residents were asked whether it was made clear to them when they moved onto the park that they would have to pay commission when they came to sell their homes. Of residents arriving on their parks since 1995, 82% say this was made clear, 14% that it was not made clear and 4% that they cannot remember. Although 82% is a high proportion, 14% of residents not being made aware of the requirement to pay commission is a cause for concern.
- 5.48 Figure 5.13 illustrates some interesting features of the distribution of those residents who state that the obligation was not clear at entry. There is a clear variation between member parks and non-member parks, with the proportion unclear rising to 1 in 5 in non-member parks compared with 1 in 9 on member parks. The polarisation of experience between the younger and older residents is evident with the 63% of those aged under 49 at entry suggesting that the commission requirement was not made evident at entry.

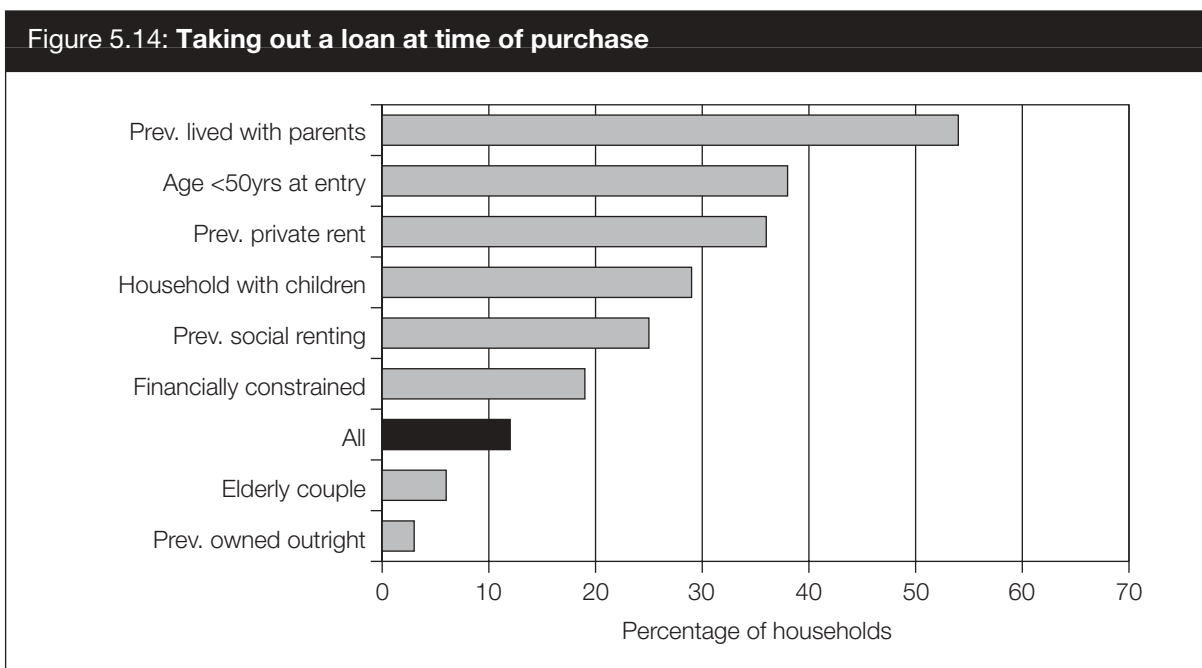


- 5.49 The observation that only 8% of those aged 70 or over at entry cite a lack of clarity on commission implies that one should be wary of imposing preconceived views about an inability to understand on older residents.
- 5.50 Clearly, the fact that none of those residents who declare themselves very satisfied with their operator experienced a similar lack of clarity implies both a cause and an effect. Very conscientious operators are likely to follow best practice and seek to be extremely clear on the implications of the contract.

PURCHASE LOANS

- 5.51 Some 12% of current residents took out a loan when they purchased their home. Figure 5.14 shows the proportions by other significant factors and again draws out the polarisation of the park homes experience. Elderly couples and those who previously owned their own home outright are very unlikely to have taken a loan, whilst family households, those aged less than 50 at entry and first homers are considerably more likely.

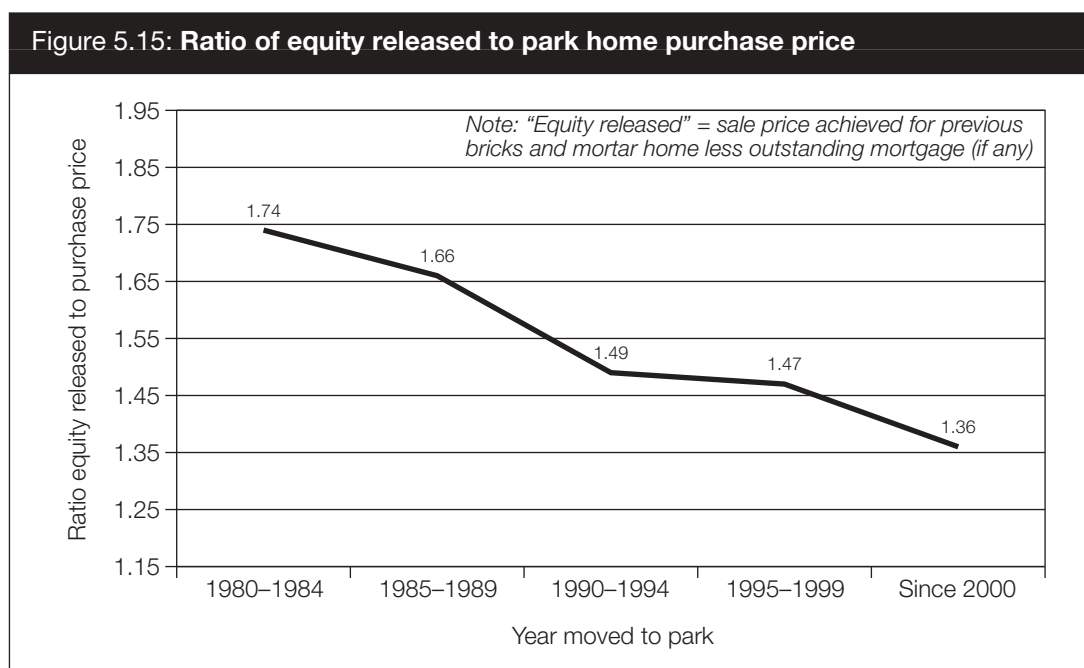
Figure 5.14: Taking out a loan at time of purchase



EQUITY RELEASE AS FINANCING MECHANISM

- 5.52 Equity release is a term used to describe the liquidating of part or all of the asset value of a home, either by moving to a lower value property or by the use of some financial mechanism.
- 5.53 Whilst only some 25% of residents cite releasing the maximum capital as a key reason for moving onto a park, the dominance of home ownership in previous tenures means that it is a feature of the majority of entry experiences. Some 80% of those previous owner-occupiers who were prepared to provide the information had capital left over from the sale of their bricks and mortar property and the purchase of their park home.

- 5.54 However, as the price of park homes has grown relative to the price of brick and mortar housing, the amount of capital retained by homeowners on moving onto a park is shrinking. Figure 5.15 shows the ratio between equity released and the purchase price of the park home of the survey respondents. It shows a steady decline from an average of 1.74 in the early eighties to 1.36 today.



EQUITY RELEASE AS DEMAND ANALOGY

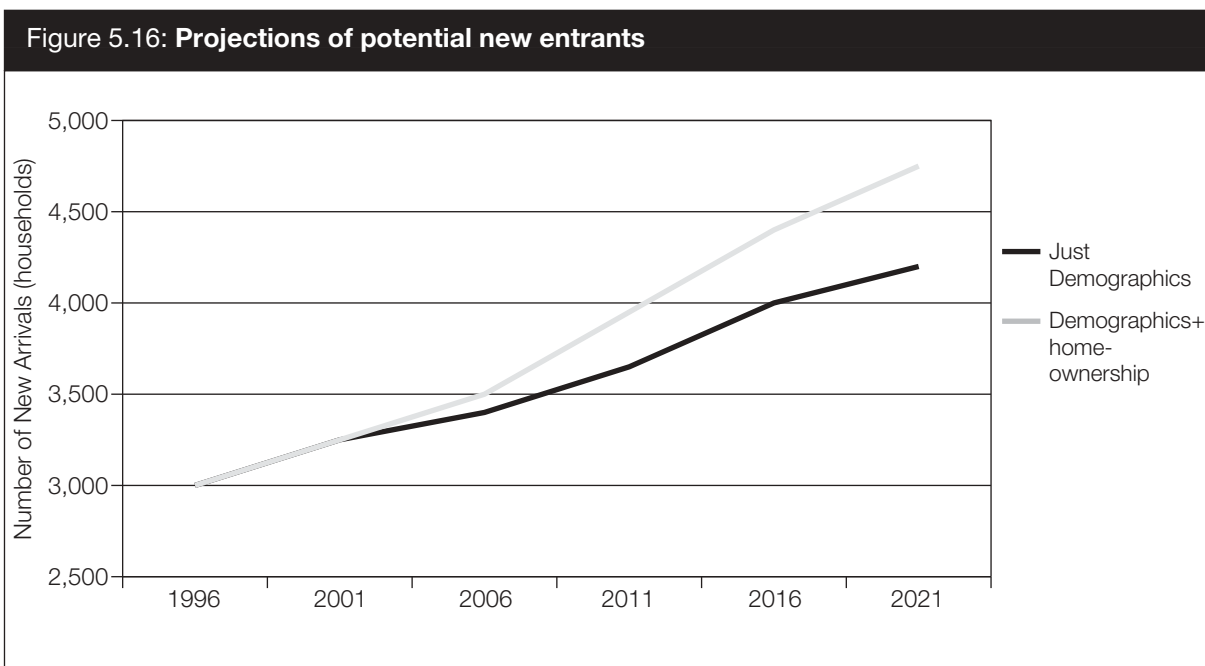
- 5.55 Equity release as a financial product enables elderly homeowners (70+) to realise some or all of the asset value embedded in their home and to use the capital thus realised to provide additional income. A financial services company will provide a capital lump sum or income stream in return for a delayed payment, which becomes due upon the death of the last occupant.
- 5.56 This form of equity release has interesting lessons for park homes because of similarities in some of the core customers, their aims and concerns, an overlap of the key trends that will drive the market in the future, the delayed payment and the potential for equity release to act as a substitute product for some potential park home residents.
- 5.57 Some of the common drivers of demand for both financial equity release and park homes include: an ageing population, rising incidence of home ownership among the elderly, rising values of housing equity, a suggested weakening of the desire to leave the maximum inheritance,⁶ rising expectations of living standards in retirement, and declining provision for retirement income.

⁶ An anecdotal trend much discussed in financial services that follows from parents living longer, their children being well-established and better-off by the time of their old age and the general trends to consumerism and individualism. It has to be said that quantitative evidence of this trend is largely absent.

- 5.58 Unlike park homes, the market for financial equity release is clearly unconstrained by planning restrictions or land supply. Hence, it may provide a pointer as to how the park homes market might have developed if there were no constraints on the supply of new parks and pitches. Product sales are currently experiencing very rapid rates of growth, averaging 11% per annum over an 11-year period. Last year sales more than doubled, to over £1/2bn.
- 5.59 Whilst equity release may provide added impetus to demand by the elderly to live on park homes, it is still important not to consider this mechanism in isolation of other key factors. In particular, the lifestyle aspects of park homes may be the key driver to many entrants and equity release provides an important facilitator and/or side benefit.

FUTURE ENTRY TRENDS

- 5.60 As with many other features of the park homes sector, the outlook for demand is not static. Following the demand drivers identified above, it can readily be seen that demand for park homes, particularly amongst the elderly, is likely to rise.
- 5.61 Calculations have been made of two very broad-brush indicators of future demand pressures. In the first, it has been assumed that the same proportions of households by age as today look to move to a park home. Using the government's projections for household numbers this calculation sees potential new entrants rising from around 3,000 per annum today to around 4,200 by 2021. Adding a cautious allowance for the increases in owner-occupation amongst the over 65s, results in a higher projection of 4,800 potential new entrants per annum – an annual increase of nearly 2%.
- 5.62 Two further caveats need adding to these projections. Firstly, no allowance has been made for the other factors pressurising demand, such as increased values of housing equity and reduced levels of savings for retirement. Secondly, this methodology can only suggest patterns of potential demand. Clearly if supply does not adjust, that potential increase cannot be realised.
- 5.63 Despite this, when set alongside expectations for growth in financial equity release this projection for increasing demand for park homes seems extremely modest. The Council of Mortgage Lenders suggests that a cautious assessment, based on the same government household projections, might see the market for equity release grow at 8% per annum up to 2008.



- 5.64 It is confidently predicted that demand pressures on park homes can only increase. Without a consequent increase in the supply, the value of the scarce resource (licensed pitches) can only increase. Consequently, it is envisaged that the costs to new purchasers will continue to rise relative to house prices. All other things being equal, this would also imply that the potential returns to the owners of that scarce resource, the operators, has the potential to rise.

THE EXIT DECISION

- 5.65 The one-sided nature of the sample, that is being 100% current residents, is a far greater limitation on the analysis of the exit than the entry decision. It has not been possible to assess the experience of those who have actually left the park and therefore are missing key insights into the 'total' life-cycle experience of park home living.

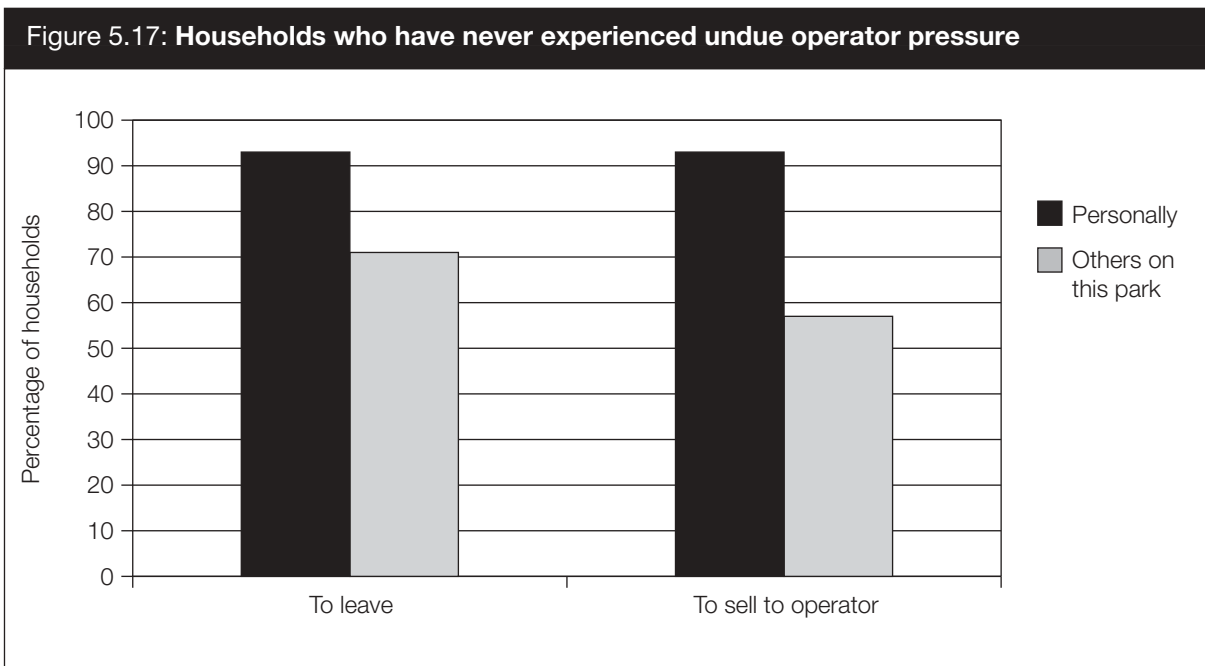
Exit Triggers

- 5.66 Nearly 80% of current park homes residents do not presently intend to move off the park. On the site visits, the interviewers repeatedly heard the comment "they'll carry me out of here in a box". When pressed to consider what may induce them to move, some 43% cite death as the expected exit trigger.
- 5.67 This has important implications for the design of payment mechanisms, since there are strong reasons for running down assets towards the end of a life and part payment at death is a common feature of many retirement accommodation tenures.
- 5.68 And yet actual exits seem to exhibit variations with these aspirations, with operators reporting only 28% of recent assignments as due to death and residents observe only 9% of previous inhabitants of their homes as dying.

- 5.69 The data would lead to the conclusion that there are a certain number of “surprise” exits, that is, exits that are earlier than the resident anticipated at entry. It is difficult to untangle the reasons for the surprise exits, since for example “moving nearer family” could disguise financial or health difficulties. Nevertheless, the likelihood that residents make forecast errors in assessing their likely longevity, morbidity, sufficiency of savings and incomes is as high here as elsewhere. That residents may not wish to explicitly focus on the probability of becoming ill exactly reflects that observed in the population as a whole. The difficulty with park home living is that both choices and resource may be severely constrained at exit.
- 5.70 In particular, paying 10% of the value of your home in commission may not have seemed material at entry to a resident expecting to live out the rest of their life on a park, but may become very significant if they are seeking alternative accommodation at an older age due to unanticipated changes in circumstance.

Operator Pressure

- 5.71 The nature of the park home market and its contractual relationships naturally presents two particular incentives to harassment, and indeed these are a feature of frequent complaints from residents’ groups. Firstly, operators may harass residents to leave a park in order to increase commission payments. Secondly, an operator, by using their veto on new purchasers, may effectively force residents to sell to themselves rather than directly to incoming residents, in order to maximise revenue from sales and redevelopment.
- 5.72 It is clear from the findings that the vast majority of residents have not experienced any such pressure. 93% say that they personally have never been pressurised to leave the park and the same proportion that they personally have never been pressurised to sell their home to their operator.
- 5.73 However, a smaller proportion (but still the majority) reports that such pressure has never been applied to other residents on their parks. 71% suggest that other residents on their park have never experienced pressure to leave and 57% that their fellow residents have never experienced pressure to sell to the operator.
- 5.74 These findings are difficult to interpret. On the one hand, there has been a considerable amount of coverage of these issues in the specialist press, making an individual’s perceptions of frequency of occurrence subject to the ‘fear of crime’ effect. Secondly, the concept of “undue pressure” is necessarily subjective, and in a postal survey, there is no accurate means of measuring the precise nature of the perceived pressures. Thirdly, those who have truly experienced considerable pressure may well have left the park, putting them beyond the reach of this survey. The first two may lead to an exaggeration of pressure, the last to an under-reporting.



5.75 It is evident that such pressure as is perceived is marginally higher on non-member parks, amongst residents with no or low savings, among younger and family households, those living in older homes and residents who have been on the park for 20 years or more. Again, this highlights the difficulties faced by the non-retirement residents, particularly those who have fewer financial resources at their disposal.

Life Expectancy of Resident vs Home

5/76 Another possible problem at exit for park homeowners is the dependence of the tenure rights on the life of the home, which unlike the length of leasehold, is not a definite time period. Anecdotal evidence would suggest that whilst it may be rare tofor a resident to be ‘evicted’ when their home collapses, that same evidence suggests that it is the most vulnerable residents in homes that are towards the end of their life thatwho maybe put under pressure to leave.

ROUTE TO EXIT

5.77 Section 5.11 above describes how recent arrivals had purchased their homes and highlighted the different experiences of second-hand purchasers across member/non-member parks. The mirror of the arrival experience means that recent departees from member parks were much more likely to sell to the operator rather than to the next resident (41%), when compared to non-member parks (16%).

5.78 In considering possible reasons for this marked difference, it is observed that owners who are members of operator organisations tend to be running larger parks and are hence likely to experience larger and more regular cashflows. This may enable them to better resource purchase programs and to be able to offer higher prices to departing residents.

5.79 A very startling observation, however, is the proportions of current residents who would wish to sell their home via their operator and how this contrasts with their own entry experiences. A massive 97% of residents would prefer to sell their home on exit directly

to the incoming resident and only 3% to sell to their operator. This proportion barely changes for those who on entry purchased their own second hand home via their operator (94%).

- 5.80 One explanation may be that whilst residents aspire to sell directly, some homes will be inherited upon their death and their children, who, in living some distance away or having little interest or understanding of park homes, may have different criteria and choose the fast sale that an operator can offer.
- 5.81 This is unlikely to account for the dramatic difference between own entry experience (32% via operator) and aspirations for own exit (3% via operator) and the interviews with residents confirmed that they perceive direct selling as most likely maximise the value of the sale. It can be observed from the survey that perceptions of pressure to sell to an operator rather than to the incoming resident are more widespread than other pressures and this is indeed a feature of residents' associations' concerns.
- 5.82 This divergence between entry experiences and exit aspirations is situated alongside the theoretical incentive to block a direct sale to the incoming resident that is inherent in the park home contractual relationships. When combined with the finding that operators owe a greater proportion of their revenues to sales than assignments (section 4.14 above), it is concluded that there may be evidence of undue operator power at the point of exit.

Summary

- 5.83 Several themes are worth drawing out from this discussion of the demand for park homes.
- 5.84 Parks are becoming increasingly retirement-only and those elderly residents who have traded-down their equity, have some capital but low incomes, and have moved onto the park recently, seem to very much enjoy the whole 'offer'. This contrasts with the experience of those for whom the move onto a park is a distress, typically the financially constrained and younger family households, as well as those who have been on the park for much longer. These households are more likely to perceive undue pressure from operators and to risk outliving their homes.
- 5.85 Entry onto a park for recent arrivals is characterised by relatively free choices. Residents are demonstrating the value they place on the park home offer by the increasing prices that they are prepared to pay to secure a home and a pitch.
- 5.86 Since park homes share many similar demand drivers to financial equity release, it is likely that demand has been increasing over the last decade, which with a relatively inelastic supply has translated into increased purchase prices.
- 5.87 Some of the informational problems encountered at entry, for example, the difficulties in accurately predicting longevity or future retirement incomes are no different from those encountered by others in the population.

- 5.88 One clear problem at entry, which may distinguish the park home experience from others, is the potential for confusion around the implications of the contractual relationship with the operator. With a majority of new arrivals coming from owner-occupation, which enjoys very high satisfaction ratings, the potential to see park home living as just owner-occupation in a different location is large. In fact, the offer is somewhat between owning and renting (which typically exhibits satisfaction levels which are closer to those of park homes) and the consequent relationship with the 'landlord' may be unanticipated and problematic.
- 5.89 There is considerable evidence of constrained choices at exit. Market conditions ensure that residents cannot move their home to another park, aspirations to sell direct to an incoming residents are not realised, unanticipated exits may change the perception of the fairness of commission payments, and some residents run the risk of outliving their home. 'Landlord' power at exit is higher, and open to potential abuse.
- 5.90 In looking ahead 10 or more years, the industry will become further dominated by retirement-only parks. This process may alleviate some of the problems experienced by residents to the extent that they may be due to some current residents having bought into a different offer many years ago.
- 5.91 Significant pressure on demand is projected, which without a supply response means that the costs to new purchasers will continue to rise and the potential returns to the owners of the scarce resource (licensed pitches), the operators, will rise.

CHAPTER 6

Key transactions and bargaining strengths

- 6.1 This chapter discusses the key economic transactions between operators and homeowner residents that define the park homes' market. These principal transactions have earlier been summarised in paragraph 1.11. The relatively small rented sub-sector is not addressed.
- 6.2 The discussion is economic in nature and based upon observed common practices. This chapter considers the general characteristics of the industry, rather than variations specific to individual parks. Though there is a legislative framework that seeks to regulate the character of the park homes' market it must be remembered that the market has arisen from voluntary economic exchange. The law did not create the market. There are economic interests on both the demand and supply sides that brought the market into existence and impart it with its character. These interests need to be borne in mind when considering any possible reform of these transactions lest the changes destroy the market's economic rationale and the value of investments held by both residents and operators. Impacts of possible reforms and charging options are described in the next chapter.

New Agreement

- 6.3 The first transaction considered is a new sale which creates a new agreement and occurs when:
- i. A new park is created and pitch spaces are sold for the first time; or
 - ii. New pitches are added to an existing park; or
 - iii. A pitch comes up for re-development upon the termination of a previous agreement. The re-development rate of a mature park has important revenue implications (see Chapter 4).

Relevant Regulations

- 6.4 The Mobile Homes Act 1983 has endeavoured to codify and rationalise the park home product that evolved in the market place. The signing of an Agreement marks the new transaction. Some of the terms are required by the Mobile Homes Act 1983 – 'Implied Terms' – others are normally proposed by the operator and accepted by the resident – 'Express Terms'. These are explained more fully in Appendix 10 (Regulatory Paper)

(see note on contents page – it is available separately from the ODPM). In addition, the operator is required to abide by any conditions to the site licence imposed by the local authority, relating, for example, to the maintenance of the park. Depending on their nature, these conditions could have potential implications for residents, particularly with regard to payment for the cost of works.

What Operators Contract

- 6.5 The following is what the operator agrees under the Implied Terms to cede or provide that has a major economic significance:
- i. the right of the resident to occupy the mobile home on the site indefinitely, depending on the operator's planning permission and interest in the land, or until the valid termination of the agreement;¹
 - ii. the right of the resident to sell the mobile home and to assign the agreement to a person approved by the operator, which approval will not be unreasonably withheld;
 - iii. the right of the resident to gift the mobile home to certain family members and assign the agreement if approved by the operator, which approval will not be unreasonably withheld;
 - iv. the right of the resident to will the mobile home, and for a spouse or any other member residing with the resident at the date of death to occupy the home. Any other beneficiary can sell the home and assign the agreement but can only live there with the operator's approval;
 - v. in the event of the operator needing to re-site the home, the right of the resident to a pitch of equal attractiveness and to reimbursements for costs the resident incurred as a consequence.
- 6.6 The Express Terms vary under each agreement but using the Standard Agreement drawn up as a guide by the BH&HPA & NPHC (which is a voluntary agreement and would apply only to those residents whose operators are member of either of these bodies and are using the agreement), the operator also agrees to:
- i. the right of the resident to quiet enjoyment;
 - ii. keep the common parts of the park in a "good state of repair" and use "best endeavours" to provide, maintain and keep in good order the facilities and services available to the pitch;
 - iii. review the pitch fees annually having regard to the movement in the RPI, sums expended by them for the benefit of the residents and any other relevant factor including legislation affecting the operation of the park.

¹ It is unclear whether the act refers to a mobile home or the mobile home. If it is "a" then theoretically a resident could replace an ageing home and continue in occupation on the same terms without further payments.

What Residents Contract

- 6.7 Under a new agreement the resident contracts to make a mutually agreed payment to the operator, which will normally cover the purchase and outright ownership of the mobile home unit, and a consideration towards the tenure rights conferred by the agreement. The resident also agrees to:
- i. promptly pay the pitch fees;
 - ii. use the park home as a principal residence;
 - iii. pay a commission upon assignment, except where gifting or bequeathing, based on the sale value and an agreed rate that cannot exceed 10%;
 - iv. the termination of the agreement if the appearance of the home by reason of age and condition is, in the opinion of a court, detrimental to the amenity of the park (or if the terms of the agreement are broken).
- 6.8 In accepting the Express Terms of a Standard Agreement the resident might also agree to:
- i. abide by the rules of the park;
 - ii. keep the mobile home in a sound state of repair and keep a neat and tidy pitch.
- 6.9 It is worth noting that both parties are agreeing to act to preserve the physical and social character of park life. As noted earlier, this is valued by residents and partly determines what they are willing to pay to the operator, and therefore creates value in the park that is reflected in an operator's balance sheet. Both residents (singly and collectively) and operators benefit from this compact. There are certain aspects of the park home product that qualify as a public good. This is discussed further in the Public Goods inset below. Both parties have a vested interest in ensuring that attempts to alter the operation of the market do not unintentionally destroy these collective benefits.

Public Good Aspects

It seems reasonable to argue that a park with more attractive natural or man-made features would be more highly prized by potential residents. Attractive natural woodlands or gardens are an amenity for which, all other things being equal, people would pay more. Not only would this be reflected in the value of the homes but also in the value of the park. These features will explain in part the variations in park home and home park values.

While all can enjoy these amenities it is often difficult to exclude any from the benefit, which means that it is peculiarly difficult to charge for them. It is very easy for someone to refuse payment by saying they do not want it, knowing full well that if others pay they benefit for free. This is the free-rider problem that occurs with certain types of public good products. There will be other circumstances, however, where residents are justified in objecting to the funding of certain works, for example, where justification for the costs of particularly expensive works has not been provided.

On a home park this would not normally create a problem if all these amenities were in place from day one of the park's creation. When a resident was contemplating the price of living on the park they would have made their own judgement on what these amenities, among others, were worth to them. The difficulty comes when an operator wants to add such features to the park. This has caused disputes particularly where there has been an attempt to recoup the costs through additions to pitch fees. The argument made by some residents is that this adds to the value of the home park but not to the park homes. This cannot be correct. If the improvement raises the value of the home park it is because it has raised the willingness of prospective residents to pay more for a park home on the site. This must also mean that all homes on the site have risen in value too.

In principle one would want to see a mechanism that allowed improvements to be made that raised residents' enjoyment of the site. From the operators' perspective, if the costs of improvement are not recouped through the pitch fee then they will be recouped through re-development and on the assignment commission. The calculation is inherently difficult for the operator. First, an estimate of how much such improvements will raise park home values needs to be made, and second, an assessment of when sites will be coming up for redevelopment or reassignment. This could legitimately be argued as part and parcel of being in business. If the rewards are not judged to be worth the risk, the improvement will not happen. The risks might be substantially reduced if there is likely to be a spate of re-developments or assignments. On the other hand if the re-development rates are falling because of the greater longevity of the units and assignment revenues disappear then where is the incentive for these public good improvements? Pitch fees for new entrants could be lifted but they might be puzzled by why they are paying more than other residents for the same amenity. This problem should not be exaggerated since these public good improvements apply largely to amenities that fall outside the Model Standards and relate to the "beautification" of the site. Nevertheless there should not be barriers to such improvements.

The amenity of a site is also improved by the detrimental clause in Agreements, which the survey shows is virtually never invoked. To the extent that a dilapidated park home reduces the value of other park homes, the clause confers a benefit on residents and operators alike. However, as noted elsewhere it can become a double-edged sword if it is used to harry people from the park.

It is evident that park life is something that residents value in its own right. Important determinants of that are the express terms in the agreement that bind residents to park rules. Most people who own bricks and mortar homes do not run the risk of losing their homes if they cause a nuisance to their neighbours or if they do not look after their home to the satisfaction of a third party. An obligation to keep areas in front of homes tidy is not a common requirement of owner-occupied homes, although it is quite common for such a requirement to be a feature of tenancy agreements for renting tenants. Residents who come to park homes from owner-occupation may have expectations of park home living based on their ownership of bricks and mortar properties. However, as each is bound by these rules it serves to create part of the atmosphere that is collectively enjoyed. It also brings with it the responsibility of enforcement by the operator. So the operator can be drawn into residents' disputes about, for example, inconsiderate parking and noisy music. This is rendered easier if residents are "screened" as suitable at the point of purchase. This illustrates an advantage of the operator having a right of refusal on a new entrant. However, this in turn creates a constraint on vendors seeking a re-assignment. There are a number of mechanisms within the park homes market that seek to handle public good benefits. In the main they are contained within the Agreement. They are an important underpinning of the character of park life and since this is valued help to sustain that value. Some of these provisions such as the operators right to refuse an assignee and the detrimental clause can have unwanted side effects in unscrupulous hands. The challenge is to reduce the potential for the unscrupulous without changing the character of the product, which is clearly prized.

Point of Sale Bargaining Strengths

- 6.10 At the point of sale, a new entrant with a new home is entirely free to agree the proposed capital payment and the agreement. The new entrant has choice; there is no scope for coercion and there is scant scope for price collusion by operators. Whilst the prospective resident may be unaware of the discounted price of a new home sold by a manufacturer to the operator, the payment is a freely determined market price (see Competition Inset). This is particularly relevant given the restrictions on the ability of residents to site their own homes on a park (see Chapters 2 and 5).

Competition from within Park Home Industry

In Chapter 3 table 3.3 provides the estimate of the number of home parks. Of the 1,683 identified parks 538 or 32% are in multiple ownership. Those parks in multiple ownership are controlled by 150 owners, suggesting an average 3–4 parks for this sub-group. There are therefore approximately 1,300 separate owners. On any reasonable reading of these figures, the national picture suggests that there are a very large number of independent suppliers.

Existing operators can exit from the market by selling their park to someone else but the nature of their contractual agreements makes it difficult or very expensive to change the use of land from park homes to something else. The number of parks is not likely to shrink in the foreseeable future. Furthermore even if an operator could buy out all the assignments, they would still need to secure planning permission for change of use.

New entrants coming into the market through greenfield development need to secure first planning permission and then a site licence. Chapter 4 discussed the amount of development that has been detected upon existing parks and the constraints on expansion imposed by the local plans. At best it would seem that the planning system does not encourage a particularly elastic supply and if there were pressures for expansion of pitch numbers the planning authorities would probably prefer to meet them from expansion of existing parks. Thus the scope for new entrant on greenfields does not seem great, and were the planning system to be more receptive to expansion, it is highly likely that existing owners would seek to take the opportunity to develop new parks.

The present stock of owners seems to provide adequate choice and competition at the national level. This is also true at the regional level. From the park database it is possible to identify multiple owners and whilst economies of scale encourage ownership concentration, even at a county level there appears to be broad ownership.

From other Industries

Potential park home residents not only have a choice of other types of accommodation but also the equity release financial instruments that are available. However, as mentioned above and discussed in Chapter 5, there is also a marked preference for park life for which there are far fewer alternatives. Even so, it can be concluded that alternative accommodation still provides a significant substitute for park homes as to impose a powerful constraint on the market price of park homes. Chapter 4 also established a statistical relationship between the sales value of park homes and bricks and mortar housing.

- 6.11 Where the payment exceeds the cost of the unsited mobile home, the costs of transporting and the costs of siting and connecting the home to pad facilities, any residual element can be viewed as payment for the service of the land under the tenure agreement. It need not be a complete payment for them. There appears to be no legal requirement that the level of the pitch fee has to be set to cover maintenance and repair costs, though the review terms of the Standard Agreement imply that regard ought to be paid to the evolution of maintenance and repair costs. Similarly the payment of commission must also be for the services of the land under the tenure. The Park Home Charter says the following on the purpose of the commission.

“... it reflects the fact that the pitch and the amenities of the park add to the resale value of the home. Transfer fees supplement the income the park owner receives from pitch fees: without them, pitch fees would have to be higher.”

- 6.12 There is no suggestion here that the commission is a reimbursement for any improvement to the park wrought by the operators' capital since signing the agreement. It seems to be suggesting that the fact the home is sited on the park adds value to the mobile home. Here some confusion may arise. A resident might perceive that if the use of the land has already been **fully** paid for at the beginning and, perhaps through pitch fees, this is being paid once again for the same service from the land. This would indeed be the case but by freely accepting the obligation to pay a commission this acknowledges that payment for the use of the land is indeed spread over three transactions.

- 6.13 As far as existing contracts are concerned, the price struck for the sited home and agreement reflects what residents were willing to pay mindful of prospective pitch fee payments and a certain 10% commission. The price also reflects the willingness to supply by operators given the same pitch fees and a possible commission. That price was determined in the market place without coercion and it follows that the removal of the commission or a reduction of the commission rate is a retrospective change that must disadvantage the operator. This argument would not apply to new contracts, which if based upon a no-commission basis and the same pitch fees would result in a higher capital payment (see Chapter 7). The operator would be foregoing any share in the rise or fall of land values over the period of the agreement. Both parties would have to take a judgement on that prospect.
- 6.14 The sales cost of a new home therefore seems freely and fairly determined. The resident knows what is being asked at the point of entry and there is sufficient clarity and availability of information to know what the operator and the resident are committed to do in the future. However, there are uncertainties and risks that both parties have to take account of in determining the current price of entry.
- 6.15 It is essential that all terms are clear to both parties since it is largely upon this information that residents decide whether the proposed financial terms represent fair value to them. A number of residents have said that they did not realise the full implications of the agreement, which can be handed over by the operator up to three months later, and that it did not reflect their recollections of the verbal basis upon which they proceeded. The time delay seems an unreasonable practice and it should be possible to present a prospective purchaser with a fully specified Agreement at the time of the sale or before. There may also be a case for a short cooling off period.
- 6.16 Resident organisations have argued that the commission rate is arbitrary. This is certainly true. However, it is an arbitrary arrangement that both parties are able to fully bear in mind when striking the price of the mobile home and agreement. That price is not arbitrary and, given full knowledge of the commission, the resident can effectively factor this into any offer to an operator.
- 6.17 The terms of the Agreement make clear the rights being procured and it is equally clear that the mobile home is the property of the resident. It is also equally clear that, after payment of an initial capital sum, the resident is obliged to pay pitch fees and a commission. Similarly it is clear that the operator has certain obligations to provide certain services.² What is unclear is what these payments are securing, and when. The only reasonable economic interpretation is that these payments jointly procure the services of the land upon which the home is sited.
- 6.18 The transparency of the agreement is further confused by:
- i. the simultaneous purchase and siting of a mobile unit via the operator and the signing of the agreement that might imply property rights are wholly purchased at this stage;

² *Caravan Sites and Control of Development Act, 1960 Section 5, Model Standards 1989: Permanent Residential Mobile Home Sites, Department of the Environment*, which underpins licensing conditions required by local authorities sets standards of provision in various respects.

- ii. the significance of the difference between the initial capital payment and the manufacturer's list price of the home and the further obscuring of that difference by manufacturing discounts (though the resident may be totally unaware of the level of discount offered by a manufacturer to an operator);
- iii. the implied linking of pitch fees to maintenance and repair costs, that might be largely a service payment as opposed to a rent;
- iv. the arbitrary basis of commissions in terms of the rate, its base and the chance nature of the event;
- v. the rather random basis of the termination of an agreement – the age and condition of the home (see Product Life inset below).³

Product life

Chapter 4 established that the value placed on a park home would depend on its economic life. Unlike a lease the life of an agreement will generally be determined by the life of the home. In the early days of the park home market mobile, homes were far less robust than they are today. Well maintained homes now arguably have an almost infinite life. This is an important change. Upon exit from the park residents will have more residual value than in the past and will therefore have to pay more commission. They are more likely to resent commission payments in direct proportion to their size. For operators, the re-assignment commissions will yield more for longer but the opportunities for re-development from vacant possession will decline and the more likely that securing a pitch for re-development will require a payment. The lengthening life of the park home is likely therefore to make the operator more dependent on income from commission than before.

From the survey and interviews it is known that residents are attracted to home park living in large part because it is quiet, secure and neighbourly. That home parks tend to have these characteristics is due both to eligibility rules (residents are often required to be over a certain age) and to the inherently short-term nature of this tenure as determined by the limited life of the park home itself.

This latter characteristic gives expression to another attraction of park home accommodation. It allows those with freehold or long leasehold bricks and mortar properties to release their capital and secure a dwelling with shorter lived property rights. The equity release would have particular appeal to those who have otherwise accumulated little in the way of pensions or other financial assets. The way of life and the advantages of a short-lived tenure represent the special features of demand and the unique interests referred to earlier.

³ The agreement can also be terminated by a resident breaking the agreement, for example, by not using the park home as a principal residence.

The dependence of re-development upon the age of the unit creates certain problems. Residents cannot be certain about the duration of the asset and so the future value of their asset is uncertain. This must have an influence on what residents are prepared to pay now for a new or, more particularly a second-hand sited home. Operators are equally uncertain about the point in the future when a re-development will occur. By the same token, this uncertainty, at least in the short/medium term, makes future revenue streams uncertain, and this may reduce the price the purchaser will be prepared to pay for the park. It ought, however, to be possible for an operator who has been in business for a few years to detect longer term trends and make plans accordingly.

So quite clearly, if a park home unit has a finite and perhaps short life, the less a resident will be willing to pay. By the same token, the shorter the life of a home the greater the future development potential and present value of a home park. The increasing longevity of homes means that the development cycle becomes longer and there are likely to be more assignments within that cycle. Residents in former times when the effective life of a park home was relatively short might have assumed that its residual value at their expected assignment date would be quite small and 10% of that was neither here nor there. However, as the life extends and to the extent that park home values are tied to house prices generally, the residual value may not be a small sum and 10% of it is a material consideration. Similarly, since the re-development income from a pitch with vacant possession is considerable, it is not surprising that operators range from being ambivalent to hostile regarding refurbishment of mobile homes. It has been understood that manufacturers of park homes have come under considerable pressure to not provide refurbishment services and relatively few do. While the rights and wrongs of stories about “cowboy” refurbishers cannot be assessed, those stories also serve to deter refurbishment. Refurbishment may indeed be the most efficient use of resources.

- 6.19 Beyond these confusions, the resident and operator, in negotiating over the initial capital payment and comparing it with other potential offers, need to bear in mind:
- i. the quality of the mobile home and qualitative differences between it and other mobile homes;
 - ii. the amenity value of the park;
 - iii. the general location of the park;
 - iv. the differences in pitch fees;
 - v. the cost of alternative accommodation; and
 - vi. the likelihood of the other keeping to the agreement.
- 6.20 It therefore becomes a complex judgement as to what might be a reasonable price to offer and accept. The provision of as full information as possible on the transaction would reduce suspicions on the part of residents about unfair practice by site owners. An improvement in transparency would be an advantage to both parties.

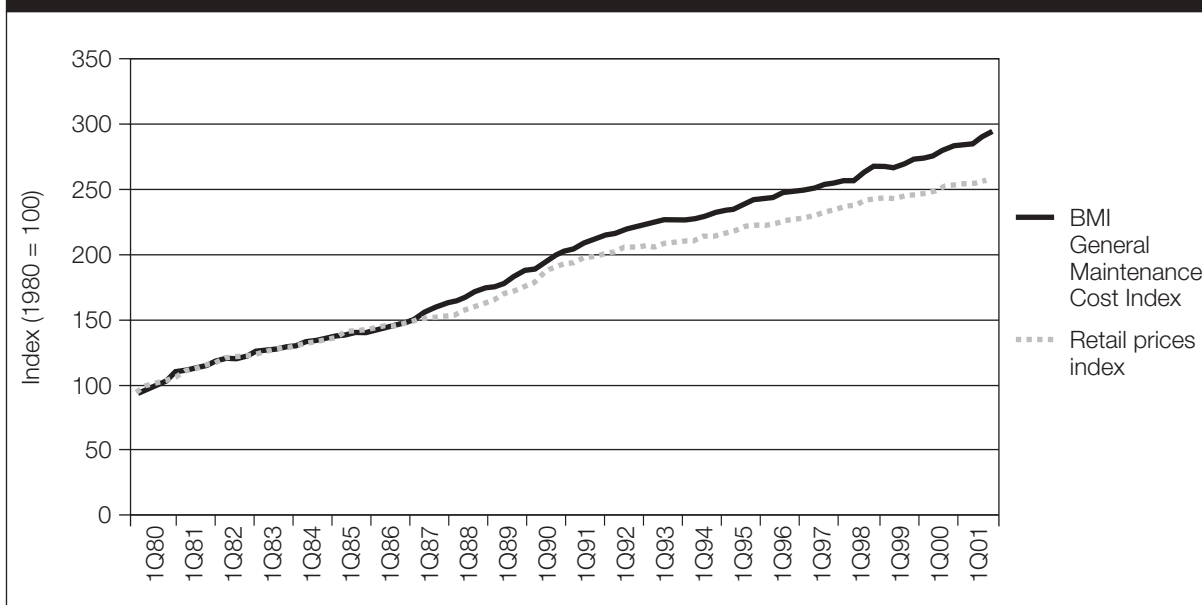
Pitch Fees

- 6.21 During a tenure the resident will be charged pitch fees and there will be charges for utilities. The latter has not been fully examined by the study. It is also widely implied that pitch fees cover repairs and maintenance costs.
- 6.22 The resident will know the level of pitch fees at the time of entry. The impression that some site owners may give to residents (though it is not precisely what is written in the industry's standard agreement) is that pitch fees will increase in line with the RPI. Whether this is borne out on average requires a consistent time series of pitch fees. Such data is not centrally collected. Some residents argue that pitch fees are increased because there are exceptional costs in one year but that they are not unwound in later years and so become consolidated in the base on which further increases are calculated.

Repairs and Maintenance

- 6.23 Generally building-related costs tend to rise above inflation. This tends to follow from the relatively low productivity growth in construction and construction related activities. Figure 6.1 shows the relationship between maintenance costs and RPI.

Figure 6.1: Maintenance Costs and Retail Prices



- 6.24 Chapter 4 illustrated home park lifecycle costs. There is scope for substantial variability in the incidence of maintenance and repair expenditures from one year to the next. The analysis identified what ought to be adequate provision to maintain the existing stock in a reasonable state of repair. The actual levels of expenditure by parks are not known, but one interpretation of the inferred net income figures relative to those reported is that overall repair and maintenance expenditures may be too low. However, regular maintenance does not mean that costs flow evenly or that they can be made to flow evenly. Herein lies the problem and source of complaints.

- 6.25 Since the operators are only required to use their best endeavours to maintain the physical assets of the common parts intact and functional, it is not perhaps surprising that some residents complain that maintenance is inadequate or they end up having to pay “extra” for it. The problem lies in the means by which provision is made for the irregular expenditure profile.
- 6.26 Many leasehold blocks of flats operate a sinking fund for repairs and maintenance. An amount is paid into the fund each year based on a forward-looking plan for maintenance and contingencies for repairs. The amount is safely invested and left untouched until such time as there is a need to draw down upon it. Residents make regular contributions to the fund. This option is discussed further in Chapter 7. A similar system might be operated on parks with residents making an agreed contribution to the fund out of their pitch fees. This could provide a measure of discipline to operators to plan ahead for the maintenance of their parks, while also providing an assurance to residents that their pitch fees were being put towards a purpose for which they approved. It would effectively separate payments for sustaining the fabric of the park from the rent component in the pitch fees. Certainly, the age profile of parks shown in Chapter 3 could indicate the need for major infrastructure repairs on many parks.
- 6.27 It is apparent that some old parks are facing major repair costs for items such as water and sewerage provision as high as £2,000 per pitch. The potential to recoup such capital outlay through future increases in the pitch fee are unrealistic. Failure of the operator to have created a sinking fund by placing a proportion of past fees to cover such major costs will result in the operator having to cover a major one-off cost. The establishment of a sinking fund drawing upon pitch fees would make the whole process transparent for residents and operators and potentially avoid misunderstandings over the need to levy increases in pitch fees above inflation.
- 6.28 Chapter 4 suggested that these park fabric expenses, if met by annual sinking fund payments, would account for 45% of pitch fees, and 29% if pitch re-development expenditure is excluded.⁴ There would be a need, however, to audit the sinking fund account and this would add a cost.

Relevant Regulation

- 6.29 The **level** of the pitch fee is not regulated but the Express Terms, particularly in the Standard Agreement, seek to influence its **rate of increase**. There is no requirement that it be wholly or even partially related to maintenance though the common assumption is that maintenance and repairs should be met from pitch fees. There seems to be no requirement that pitch fees should reflect only maintenance and repair costs. Case law has determined that the review period should be annual.⁵ This means failure to keep pace with inflation in past years cannot be subsequently recouped. The Express Terms in the Standard Agreement are unclear as to the basis on which a review of the pitch fee should be conducted on any particular occasion. Regard should be had to the RPI but this is not saying that it must go up by at least inflation.

⁴ These percentages exclude costs of redevelopment.

⁵ *Woods v Pratt* (1999)

Pitch Fee Review

- 6.30 The survey shows (Figure 4.6) that about 30% of parks increase pitch fees by less than inflation, 40% increase fees in line with inflation and 30% increase fees in excess of inflation. Niner (1990) also demonstrated that a large proportion of reviews were in line with inflation. The above inflation increases seem to slightly outweigh the below inflation increases. So there may be some inflation creep in the increases.
- 6.31 Once a resident is living on a site they have very few choices in regard to paying pitch fees. Negotiations can now only be undertaken with their operator. Competitive choice no longer operates, particularly since moving is expensive. Even if it were not, it would be quite difficult to find a park where an operator is prepared to accept a second-hand mobile home on the site when there was a re-development gain to be made on a new home. If the resident decides to leave urgently and avoid paying an increased pitch fee, a lower sale price for the home may have to be accepted because of the need to accept the first offer received.
- 6.32 If the operator chose to increase pitch fees by an amount that a resident felt was unreasonable the resident could:
- i. try to negotiate with the operator;
 - ii. refer the increase to the arbitration services offered by BH&HPA and NPHC (assuming the park is owned by a member – some 50% of parks – and both parties agree to arbitration);
 - iii. continue paying the old pitch fee until the operator starts legal proceedings and allow the court to decide whether the increase is reasonable.
- 6.33 The provision to go to court probably has a deterrent effect on both parties since the costs are likely to exceed the increase involved for any single pitch. For the operator the implication of losing the case is that all pitch fee increases will probably have to be re-cast. However, on balance, the operator is more likely to take advantage of the legal route bearing in mind their experience and, at least for multi-park operators, resources.

Pitch Fee Bargaining Strength

- 6.34 Clearly the review of pitch fees does not lend itself to an automatic market regulation. The resident is largely captive and cannot move off the park to avoid an increase without incurring substantial costs. The current mix of negotiation, arbitration and recourse to the courts seems to provide reasonable ways to resolve disputes. The cheaper and more widely understood they are the better. It is in both parties interest to have an efficient process for resolving conflicts. The fewer financial risks associated with park home ownership, the higher the values of park homes and home parks.
- 6.35 Though the grounds for pitch reviews provide more scope than simply linking increases to the RPI, one must bear in mind that a principal feature of this market, which distinguishes it from others, is the ostensible intent to contain the real growth of pitch fees. This could

be challenged by two naturally emerging phenomena. First, a slowing redevelopment rate could reduce operator incomes, leading them to seek an increase in pitch fees. Left to the market this might be difficult to enforce; it can be reasonably argued that the trend towards longer life park homes is a business risk that they will have to factor into their pricing of new agreements. A court might, however, see a slowing of redevelopment rates as “relevant” and hence grounds for an increase in pitch fees. The second is the tendency for repair and maintenance costs to run ahead of inflation. This would tend to erode the rental elements in the pitch fee. The present regulation seems to encourage repairs out of the pitch fees. So pressures could arise here. There are practical problems with the management of long life cycles and there may be some advantage in instituting sinking funds for park repairs and maintenance.

Second Hand Sale

- 6.36 The sale of a sited home and the reassignment of the agreement to a third party is one contractual exit for the resident. The other is a sale to the operator. The former involves a commission paid to the operator, which is usually 10% of the sale value. The latter involve no commission payment, though may be reflected in the agreed price.

Sale and Re-assignment of the Agreement

Relevant Regulations

- 6.37 The Agreement willingly entered into by the resident requires him to pay an assignment commission. The resident must also seek the operator’s approval of the prospective purchaser. The same agreement binds the operator not to unreasonably withhold that approval. If the resident believes it was being unreasonably withheld an application to the court for a declaration to that end can be made, although this in itself does not guarantee that a sale can proceed. For example, the park operator can still refuse agreement and can only be taken to court again, or can put off a prospective purchaser who is seeking a harmonious relationship. Alternatively the resident can continue with the sale, notwithstanding the lack of approval, and defend any case for breach of contract on the grounds of the operator’s unreasonable behaviour.

Sale and Re-assignment Bargaining Strength

- 6.38 The potential purchaser of the sited home and re-assigned lease is free to walk away from the deal and cannot be coerced into an agreement. There are alternatives including the choice of other parks. Thus the sum the purchaser pays is a free market price and reflects his or her judgement on its worth mindful of the terms of the agreement and age of the park home.
- 6.39 With a re-assignment, however, the vendor acts under the constraint of requiring the operator’s approval of the purchaser. The problem here is that an operator may well have an incentive to withhold approval if they think the incumbent could be forced to sell to them on more favourable terms. If there is the prospect of making a re-development gain this is likely in many cases to exceed the proceeds of a 10% commission.

- 6.40 The survey has shown that the vast majority of homes (and agreements) reverting to operators are in return for a payment by the operator. The survey has also shown that the overall acquisition rate (including those homes/pitches taken out of the stock) is in the region of 1.2% per annum. The average age of homes so acquired is 23 years. To the extent that such pressures are exercised by operators then the older (or more dilapidated) the home the less benefit there is for residents to resist.
- 6.41 The legal protection here is scant. If an operator made known their opposition, it is difficult to see why a prospective vendor would want to continue with the deal. On the other hand, the possibility of a 10% commission is also an incentive to approve the purchaser. However, with old homes the value of the commission might be small since the prospective buyer will have to reflect on the possibility that the residual value at the time of sale will perhaps be zero.
- 6.42 Does the operator need this right to approve the new purchaser? Since the operator is by re-assigning the agreement entering into a contract with an individual, it can be argued that they are entitled to choose with whom they deal. In addition if the operator believed that the purchaser might renege on obligations under the agreement, the operator ought to be able to refuse doing business. Finally, the operator's right to deny approval can be exercised as a proxy on behalf of residents – if it is felt that the in-comer might act anti-socially.
- 6.43 If the operator does need this right, does it afford effective protection? Credit checks might produce some relevant information. Thereafter, it seems the operator is largely making a judgement on appearances, which may be a poor guide.
- 6.44 Could this right to approve the new purchaser be replaced with alternative forms of protection? Whilst the right to refuse has a defence in principle it is difficult to see how that right can be defended in practice. It is all too easy to see how this right might be used against a vendor's interests in pursuit of an operator's interest. It also lends itself to social discrimination. Alternative protection might be secured by the payment of a good behaviour bond (see Chapter 7).

Sale to the Operator

Relevant Regulations

- 6.45 In the regulations, there is nothing that prevents or encourages an operator to make an offer for a sited home, or for a resident to approach an operator about a sale. What has been alleged is that some unscrupulous operators harass residents forcing them to make a sale. In such circumstances, the operator can make a re-development gain. The harassment could take various forms from the petty to the flagrant. An often-quoted technique is threatening to refuse approval of an assignment. Another is to seek to enforce detrimental clauses or threaten to enforce them. The operator's survey showed actual enforcement of the detrimental clause to be a wholly exceptional event. However, it naturally sheds no light on the incidence of threats.

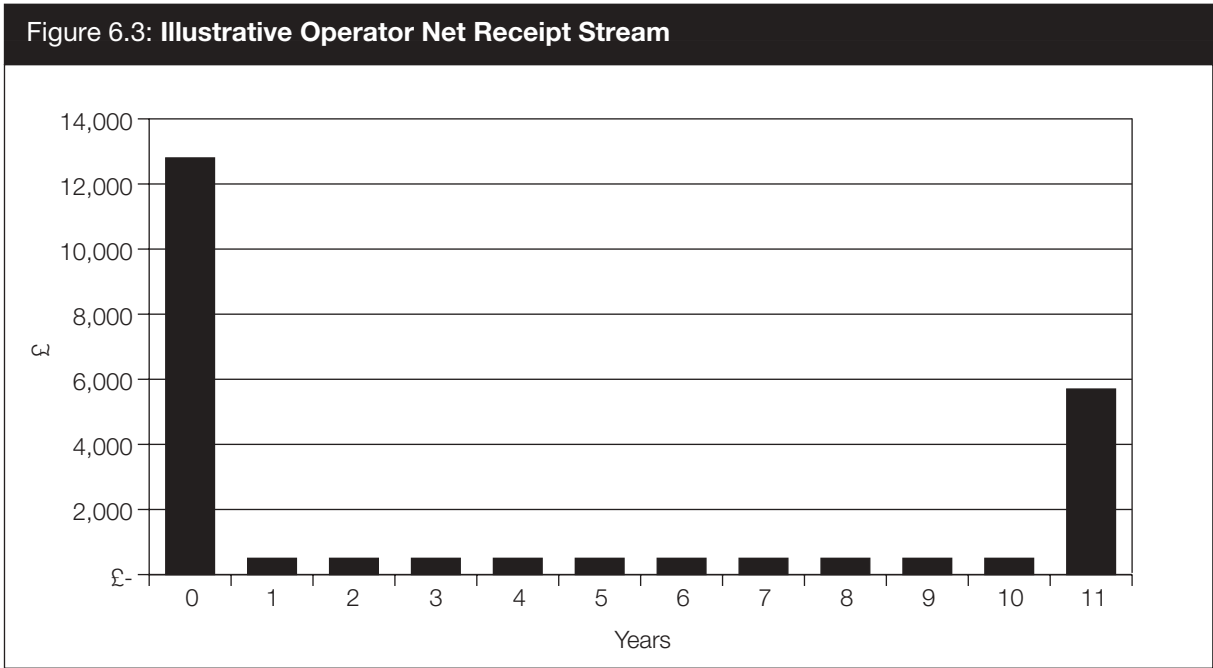
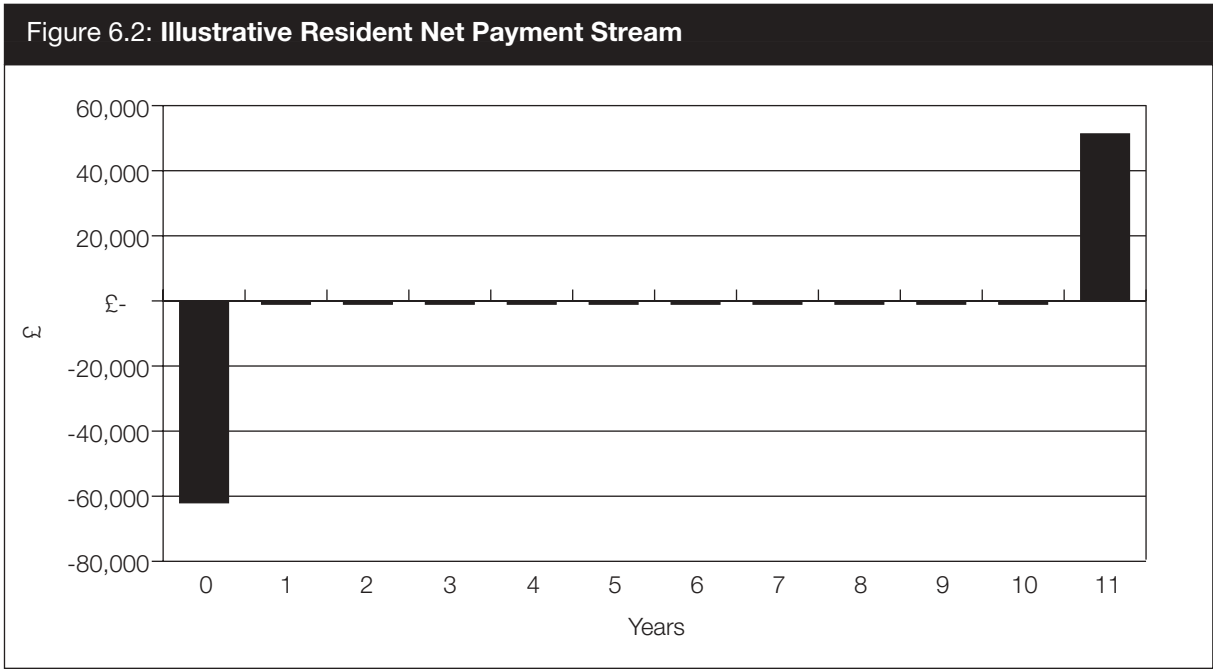
Sale to Operator – Bargaining Strength

- 6.46 The Regulatory Paper Appendix describes the protection afforded by the law; laws define criminality and seek to prevent and deter it. Though local authorities can investigate and prosecute in cases of harassment and illegal eviction, some residents may not feel comfortable in voicing their grievances unless the difficulties they are suffering are particularly pressing.
- 6.47 With longer life park homes reducing the redevelopment rate there could be a greater incentive to criminal behaviour. The removal of commissions runs the risk of compounding those pressures.
- 6.48 The market can provide economic rewards for the parties who enter into an agreement and abide by the terms of it. Changes to the structure of the market are unlikely to have major effect on criminal or unacceptable behaviour if an individual is intent on that course of action. The deterrence of and punishment for unacceptable behaviour is a matter for legislation, supported by alert action by local authorities and/or the police.

The Underlying Product

- 6.49 Whilst it is possible to describe the market in terms of the legal property rights conferred and the services provided, it is also possible to describe the market in quite different terms that emphasise the economic nature of exchange between operators and residents. What is being exchanged is a relatively short tenure use of land for serviced accommodation for a particular stream of payments. The character of these streams of payments is important and helps to define the unique character of the park home product.
- 6.50 Figures 6.2 and 6.3 below illustrate hypothetical payments and receipt streams on a new agreement where a sited twin home is sold to a new resident for £62,000 – the unit having cost the operator £42,500 and the pitch base etc about £7,000.⁶ Eleven years hence but at today's prices the home is sold for £40,000 and a 10% re-assignment commission is paid to the operator. The lower real price of the home reflects two opposing influences: (a) the assumed real rise in bricks and mortar prices; (b) the diminishing economic or physical life of the mobile home. Pitch fees at today's prices are £1,000 per year.

⁶ Whilst this example is hypothetical, the figures are based upon the survey and are compatible with current levels of commission available from manufacturer to operator, construction prices, our best estimates of future prices etc.



6.51 All the figures – except for the re-sale value of the park home – are taken from the main survey. The first point to note is that the gross payment for the park home is £49,200 short of the net receipt by the operator. The £12,500 net receipt is a payment towards the services of the operator’s land and facilities. In this example the proportion of the initial payment due to land is about 20% of the cost of the sited home. A valid, though slightly dated, report estimated that a typical greenfield housing development would expect to have a land cost content of around 35%.⁷ The gap might be somewhat wider since the park home costs exclude capital expenditure on communal services, etc. The study estimates the complete capital cost (i.e. in addition to the £7,000 for the base) to be in the region of £11,000. This would reduce the amount due to land services (£8,500) to 14%. Furthermore,

⁷ Jim Meikle, Marc Pattinson, Doug Wheeler and John Zetter, Costs of Residential Development on Greenfield Sites, The Planner, 1991.

one would expect that the pre-fabricated character of the park home is inherently cheaper to construct on a per square metre land take basis than a conventional house. There are clear difficulties in making such comparisons, but the implication is that at the time of sale, the value of the land services may not be fully reflected in the initial transaction.

- 6.52 In subsequent years of the tenure, the pitch fee payment by the resident is a gross receipt to the operator of £1,000 per annum. The operator has to make provision for maintaining the fabric of the park out of this of around £500 per annum, leaving a net receipt of £500 as shown in Figure 6.3. The figure assumes half the fee goes on maintenance and capital replacement. The study has established that most parks enjoy positive net income, excluding redevelopment revenues and costs. Thus further payment is being made for the services of the operators land and facilities. In year 11 the resident sells the home for £40,000 but only receives £36,000 net while the operator receives £4,000. The operators' commission is a third payment for the use of the operators' land and facilities. The above sales price upon re-assignment is hypothetical, whereas the other figures were taken from the survey. The appropriate representative sales figure will, as argued in Chapter 4, depend upon the price of housing and age of the unit. Assuming that the real price of housing (inflation adjusted) continues to increase at 0.6% p.a., the trend value seen between 1983–2001, then the highest price one could expect for a sale of an eleven year old twin is in the region of £57,000, which must reflect depreciation of the unit.
- 6.53 It is possible to find the present value⁸ of the sums received by the operator and calculate their share of the original purchase price. Using a range of feasible assignment values and discount rates,⁹ within an 11-year period the revenue due to land services ranged between 32–35% whilst by year 22 the range rises to 35–40%. However, these proportions exclude costs of running and maintaining the park. If the returns due to land are, at most, of the same *proportionate* order of magnitude as conventional housing it would seem difficult to sustain the view that operators are generally exploiting residents. The triple payment mechanism tends to obscure the overall payment by residents and receipts by operators; however, the payment mechanism is part of the appeal of the product to residents.
- 6.54 The residents' survey has established that *park lifestyle*, including the physical suitability and *financial considerations* (including equity release), are important influences on the decision to buy a park home. The survey also shows that these considerations are particularly attractive to the elderly. Many residents will be living off capital and perhaps a low income stream, often a pension. The survey has also shown that not only do park homes attract a disproportionate number of elderly they attract a proportionately greater number of relatively poor elderly. It would seem reasonable to suppose that given their life stage and financial circumstances, they would be seeking lifetime security of tenure that (a) does not make a heavy call upon whatever capital they might have, and (b) makes a “predictable” and low call on their quasi-fixed income streams.
- 6.55 The park homes' payment stream suits many residents' circumstances, which the generally high satisfaction ratings support. The current payment stream permits equity release for former freeholders of bricks and mortar properties (i.e. 80% of park residents). The lower price of park homes compared to bricks and mortar freehold properties, reflects various

⁸ A technique that allows for the fact that money received a year hence has less value to the recipient than the same amount received now.

⁹ The assignment value ranged £40,000 to £57,000 and a discount rate in the region of 8–12%, in line with yields on home parks.

factors including the fact that the park home is a different product with a different tenure basis compared to a freehold bricks and mortar property. For those who were not former free-holders the cost advantages still apply. As average pitch fees are about £1,000 per year and rise in line with or only slightly faster than inflation, there is a relatively low predictable call on available income. Were they to seek to rent park homes then in the 8.5% of parks that provide this option they would have to pay between 35% (singles) and 60% (twins) more but have little of the security of tenure or the predictability of increases.

- 6.56 The operator is willing to supply land for serviced accommodation purposes on these terms but has also agreed with the residents that 10% commission can be charged on assignments. From the operators' point of view there is a high net receipt at the time of sale then a low steady flow of income, against which can be offset the cost of providing the services. However there is also an occasional 10% commission. The commission on the assignment of the park home asset impinges on the net wealth of households rather than on the income stream of households.
- 6.57 For those who see this payment coming out of their estate, this may be a welcome arrangement if it has the effect of reducing either the initial payment or the annual expenditures. For those who wish or need to have the use of a large capital sum at the end of their tenure on the site, for example, to move to another park home, or retirement accommodation, the need to pay commission on the sale of the property could cause difficulties. If the market is competitive, the operator having declared a level of pitch fees, new residents will come to a view, mindful of all alternatives and the nature of the contract they would enter, on how much they are willing to pay as a capital sum.¹⁰ In making this decision they are in competition with other buyers who are making similar decisions based on their own circumstances.
- 6.58 In both practice and in the legislation there is no explicit apportionment of the payments to specific delivery of property rights or service. Although the initial payment secures the right to use the land with its tenure, the continued exercise of that right is dependent upon the payment of pitch fees. Thus pitch fees (see below) are part of the payment for the use of land and so has the feature of a rent. Though the pitch fee may be used to finance operating costs including maintenance, there is nothing that appears to say that it is exclusively hypothecated for this role. The net income excluding sales appears to remain positive after removing assignment income, strongly implying that payment continues to be made for the services of land and facilities. Furthermore there is nothing in the legislation that says what the 10% commission on assignments is for. The conclusion must be both in law and in practice that the payments represent a phased payment for the entire consideration related to tenure.

¹⁰ Though few residents would ever do this in practice, they could work out the present value of future pitch fee payments over an expected period of occupation and compare this with alternative accommodation costs. The present value would be substantially lower than say a freehold. The resident would then have to decide how much they were prepared to pay as a capital sum again mindful that they may have to pay a commission at the termination of their agreement.

Conclusions

- 6.59 Providing there is a well informed market and sufficient choice of suppliers, the entire payment mechanism should be regarded as freely determined since the prospective resident is free to propose or reject the price of a park home before entry. From this point of view alone there would seem to be no reasonable grounds for complaint if there is sufficient choice. To the extent that buyers are informed of the pitch fee upon entry and the services they can expect, they have complete freedom of choice over how much they pay for a sited park home, whether new or second-hand. They are not being coerced to make that purchase and most of them do so in the full knowledge that there could be a maximum 10% commission to pay upon the resale value.
- 6.60 However, once the resident has proposed or accepted a price for a sited park home and has secured tenure, it is only right that the quiet enjoyment of the length of tenure, the future stream of pitch fees in real terms and the promised services flow as implied by the agreement. Furthermore once the resident is living on the park there are certain occasions when he or she becomes captive and has limited choice. Approval of a purchaser on assignment and the arrangements governing pitch fee reviews place the resident in a relatively weak position that will create anxieties even if they prove not necessarily to be justified by events.
- 6.61 Certain features of the market, which also define the unique character of the park home product, such as the opportunity to re-develop upon termination of the agreement and assignments, are incentives to increase the turnover of residents. Indeed the reduction in the re-development rate, implied by longer mobile home lives and the tendency for repair and maintenance costs to rise faster than inflation, might in future exacerbate pressures to churn. Removing the features through which that increase of the turnover can be achieved would seem desirable (for example, approval of purchasers). However, if reforms of the system materially affect the ability of residents and operators to exchange a particular product in return for a series of payments made at the start of, during, and at the end of the agreement, it will alter the conditions under which the market operates.

CHAPTER 7

Options for the economic reform of transactions

Introduction

- 7.1 In Chapter 6, the key economic transactions between operators and residents have been discussed in detail. A core objective of the study is the evaluation of alternative options for remunerating operators compared with current practices. Those options potentially include both charge and non-charge based options. The testing of the charge-based options includes the impacts of the possible abolition or reduction of commission rates on assignment. Alternatively, there are options that could alter the basis for charging commissions. Finally, some potential benefits for the introduction of some non-charge based options are discussed.
- 7.2 This chapter initially discusses the economic background for potential reform. This is based upon the firm conclusion that evidence of the general commercial exploitation of residents by park operators is not compelling. However, that is not to say that a market that is characterised by a relatively high level of resident satisfaction is without unfortunate features that need to be addressed. Nevertheless, the research has shown that there is no economic justification to significantly reduce the total current revenue streams for operators.

The Background to Potential Reform

- 7.3 Our research and analysis – particularly as described in Chapters 4 and 6 – have been unable to identify any evidence of overt ‘excessive profiteering’ by the industry. The information gathered from the questionnaires in the survey suggests that a majority of owners, particularly of small parks, realise modest returns from their investment in capital and land. Certainly, aspects of the current structure and legislation of the industry may provide the opportunity for a small number of unscrupulous owners to ‘encourage’ a high rate of turnover of properties by illegal means on their parks, in order to increase both commissions and/or the acquisition of homes at below market price levels. Whilst there is anecdotal evidence of such harassment, this study has not been provided with any evidence that such activities are widespread. As a result, it is evident that the analysis and conclusions must focus upon the vast majority of park owners who run their businesses on a legal basis.

- 7.4 It is a matter of record that many residents perceive that the charging of a 10% commission on assignments is inequitable to their interests. Furthermore, the level of commission appears to many as totally arbitrary, having been reduced from 15% in 1983. Indeed, it has not even been possible to establish the precise reasoning behind the original 15% and the subsequent reduction to a specific maximum of 10%. However, these historical matters are somewhat immaterial today. It is difficult to accept that new residents in recent years are not fully aware of the rules and conditions on assignment commission. Furthermore, they can have no realistic expectancy of park owners imposing anything other than the maximum allowable commission rate of 10%.
- 7.5 When proceeding to enter into an agreement, residents should take care to inform themselves of the conditions attached, including the requirement for any payments to be made in respect of the whole life of the agreement. Residents, who do not accept any of the terms applying under the agreement, including the rate of commission, can if they wish decide not to proceed with the purchase. Agreeing or disagreeing to a required condition of acquisition does not affect the ability to take account of the impact of the said prerequisite condition, for example in the price paid.
- 7.6 Naturally, this factor may not figure very highly in financial calculations given that many prospective residents have an expectancy to remain in their new homes until they 'leave in a box'. (In fact many residents will leave their park before this in response to a range of other reasons, such as the need to move to sheltered accommodation or to be closer to relatives.) Furthermore, with anecdotal evidence of a decreasing concern to leave assets to relatives – which the increasing take up of equity release products may be evidence of – the cost of the commission on assignment may be given even less weight in residents' minds. As a result, a future payment of 10% of an acquisition price of a home in, say, more than 10 years time may not be perceived as part of the total price that a resident is willing to pay today for a home and, therefore, does not form part of the calculation in bidding for a new home. Such a purchaser, in effect, totally discounts the future commission payment to a net present value of zero. However, if a resident knew they were going to sell in a relatively short time, say 2 years, they might be more likely to consider the commission cost when deciding on whether to purchase.
- 7.7 In the event that changes were introduced to substantially reduce or discontinue commission payments, operators would need to seek means to compensate themselves for any consequential loss of income. However, if the loss of income was relatively small in comparison to total income over time, the industry may be able to accommodate such an outcome without seeking compensation.
- 7.8 During the course of the study, an argument was propounded that since commission payments, and for that matter sales, are variable in their incidence they should not be considered as part of the normal income stream of the operator. This view is not acceptable. The fact that the incidence of payment is not predictable on a pitch by pitch basis does not mean that over a period of time one could not count on an average rate of re-assignment or sale. The more mature the site, the more likely that the cycles of re-assignment and sales will have smoothed their time profile. On average the parks in the survey (operators) were set up in 1966 implying an average age of 45 years.

DISLIKE OF COMMISSION ON ASSIGNMENTS

- 7.9 The Mobile Homes Survey (1992) by Pat Niner stated that ‘...*park owners saw commission on sales as a vital part of their income*’.¹ The findings of this latest research provide evidence that income from commission is an important part of the operators’ total income – probably in the region of 7% of total (see Figure 4.2). A substantial reduction in commission rates would reduce total income, without actually reducing expenditure, thus affecting the financial viability of parks.
- 7.10 The residents’ point of view on commission fees is quite different. According to the Mobile Homes Survey, some 55% of responding residents believed that commission fees were unfair or ‘disgusting’ because they perceived that operators do not provide any service for this main source of income. Many residents believed that the operators’ main sources of income should be generated from pitch fees and sales, whereas commission fees were believed to be a source for excessive and undue profits. The current research indicates that residents still maintain the same view 10 years after Niner’s research.
- 7.11 The residents’ associations have strongly promoted the reduction of the commission rate to 2.5%, which they consider to be more acceptable to their members. However, during the discussions with residents’ associations’ representatives, it was made clear that they would not countenance any increases in pitch fees to compensate for any loss of the assignment revenue to operators.
- 7.12 Another of Niner’s findings was that there was a positive correlation between residents’ concerns about the commission and their dissatisfaction with their park owner. Some 71% of residents, who were dissatisfied with their park owner, thought that paying commission was unfair or unacceptable.
- 7.13 The recently published report from the Park Home Working Party highlights the most common reason that park home residents dislike the commission system: namely that they believe that it encourages park owners to try to maximise the turnover of home owners. The maximum commission rate can then be charged even if the park-home was bought recently; and the commission is unfairly based on the total sales price, without excluding items such as furniture and furnishings.
- 7.14 Park operators have a different perspective on the issue of the commission. ‘Economic Analysis of the Assignment Commission’, a report by Humberts Leisure, which described the implications of possible amendments to the commission regime, concluded that ‘...*income from commission is a reliable source of income for park owners. Although commission is not received in even amounts, month by month, in the same way as the pitch fee income, over a period of years a park owner may reasonably expect approximately 6% of owner occupied pitches change hands each year*².... Any reduction in commission income is likely to reduce profitability by almost exactly the same amount since the expenditure will not be reduced. Therefore any change in commission is likely to have a disproportionate effect on trading profit’.³

¹ ‘Mobile Homes Survey’, Pat Niner, p. 113.

² The calculations based on the survey also indicate that average annual assignment rate is 6%.

³ ‘Economic Analysis of the Assignment Commission’, Humberts Leisure, para. 7.1–7.2.

Suggested Assignment Commission Changes

- 7.15 The implications of reductions in the commission rate for park finances are considered below. The reductions reflect residents concerns about the nature and level of commission rate. However, it should be noted that the study has failed to find excessive profiteering from the park operators and thus any change in the assignment fees should be within the context of broad revenue neutrality. Thus any reduction of commissions or, indeed, their total abolition, would result in a need to increase other forms of income for operators; otherwise, a reduction in commission will lead to a significant financial loss of income for operators.
- 7.16 Potential assignment commission changes could include a lower rate of commission for existing and new residents; the abolition of all commission fees or the introduction of a sliding rate of commission fees according to the length of time the resident had been resident on a park. A more radical approach would be the application of a different base upon which to apply any commission rate or charge. Those options are discussed below.

LOWER RATES AND ABOLITION

- 7.17 As discussed above, park homeowners generally dislike the commission regime: their representative bodies promoted a reduction or abolition of the commission rate. There could be advantages to both existing residents who would be able to sell their homes for less, and there would be more incentive for people to buy mobile homes and try the park homes lifestyle. The implications of lower or zero commission rates on pitch fees and operator's income is described later in this chapter.

IMPLICATION OF CHANGE TO ASSIGNMENT COMMISSION

- 7.18 Any proposed future changes to the commission rate would need to make a clear distinction between new and existing residents. New site sales could be made in an unambiguous manner with new pitch fees and commission rates set at the time of purchase.
- 7.19 However, on those sites with existing contracts, the pitch fees have already been set. Obviously, future commission rates have been agreed at a maximum of 10% of the future sales value and this has then been used as a consideration in setting pitch fees. If the commission rate within an existing contract is to be lowered, then the operators would claim that there would be a requirement for pitch fees to be increased, in order to leave operator overall revenues unaltered.
- 7.20 It is conceivable that residents might dispute the site owners' right to increase their pitch fees to compensate for a reduction in commission income, as not being a relevant circumstance to justify a pitch fee review. Courts have taken the view in at least one previous case that a site owner was justified in raising pitch fees where the percentage rate of commission payable had been reduced. Further court or arbitration action may be needed to establish whether an increase in the pitch fee was justified in the particular circumstances considered in this report.

HIGHER PITCH FEES ON EXISTING CONTRACTS

- 7.21 As previously discussed, the pitch fees would need to be increased if the operators' returns were not to be detrimentally affected by a reduction in the commission rate. If residents are unlikely to sell in the foreseeable future, there may be some resentment at increased pitch fees for seemingly no added value in services or property. Another factor to note is that the assignment commission base is partially tied to the rising value of the land. Compensating operators for losses of commission based on current values of homes will therefore be insufficient. Real housing prices have been rising and need to be taken into account. These calculations have been made in the DLC model and indicate the rising value of the park home properties, which in turn could further impact upon pitch fee increases.
- 7.22 There could well be marginalisation of residents who cannot afford the higher pitch fees. It could also make the existing residents decide to consider other alternatives because park home living could be seen to be a less financially attractive option because of the higher pitch fees.

Assignment Commission Options

CHANGING THE RATE

- 7.23 A range of options for reducing the commission rate are considered below, from abolishing commission (a zero rate) to a reduction of 2.5 percentage points from the present rate of 10%. Given that park operators will seek to maintain income, changing the percentage rates of commission would have different effects on residents according to whether they are new or existing occupants. With existing residents, abolition or a reduction in commission rate would lead to an immediate increase in the pitch fees they are charged.

Zero Rate

- 7.24 The complete abolition of commissions without offsetting changes in pitch fees or other sources of revenue of parks over the long term as follows:

Small – 6% (35k to 33k)

Medium – 11% (104k to 93k)

Large – 7% (291k to 269k)

All – 8% (133k to 122k).

Such decreases are likely to have a significant impact on the financial viability of operators. Net income per park is assessed to be in the range £30,000–£50,000 (see para. 4.102). However, this would vary from a few thousand on the smaller parks to over £100,000 on the largest parks. The reduction in gross revenues set out above would lead to an equivalent reduction in net income as expenditure would remain unchanged. There does not appear to be any justification for imposing such a cost on the industry. Without a compensating increase in revenue from another source, the loss of income could result in a reduction in the size of the industry, which would not benefit residents in the long term.

- 7.25 With the current 10% commission rate, the survey showed that the average annual pitch fee is £963 and assignment commission revenue per pitch is on average £212 p.a. Thus approximately 82% of non-sale revenues (pitch fees plus commission) are generated from pitch fees. If the commission rate is reduced to 0% and all other things remain constant, pitch fees would need to rise by between 20% and 30% (29% for a small, 32% for a medium, 20% for a large and 22% for an average park) to offset the loss of income from commissions (see table 7.1 for actual values). As the assignment commission fees are effectively calculated utilising the base price of the park home, removing the assignment fees mid-contract would mean that rising land prices are not taken into account in any of the charges to residents. These land price changes should therefore be included when recalculating the pitch fees, which are not currently reflected in pitch fee estimates.
- 7.26 Given that the average resident has £8,700 annual income and £6,300 savings, the increased level of pitch fees from a 0% commission may appear to be supportable. However, figure 5.4 graphically illustrates that disposable income amongst retirees on park homes approximates £477 per month. The additional burden of an average 22% increase in pitch fees (equivalent to £18 per month) could be a serious concern to many households living in constrained financial circumstances. Furthermore, figure 5.5 indicates very low levels of savings for large numbers of residents. Overall, our view is that it would appear unlikely that many residents would prefer to incur higher pitch fees in preference to the abolition of commission, although residents were not directly asked this in the surveys.

2.5% Rate

With a 2.5% commission fee rate, the average pitch fee would be £1,122 and the assignment revenue about £3,000 per park. Once more, the calculation of the land-price index, which commission had taken into consideration, must be added back to the new pitch fees charged to the existing residents. The same situation is relevant regarding the inflation rate as discussed above.

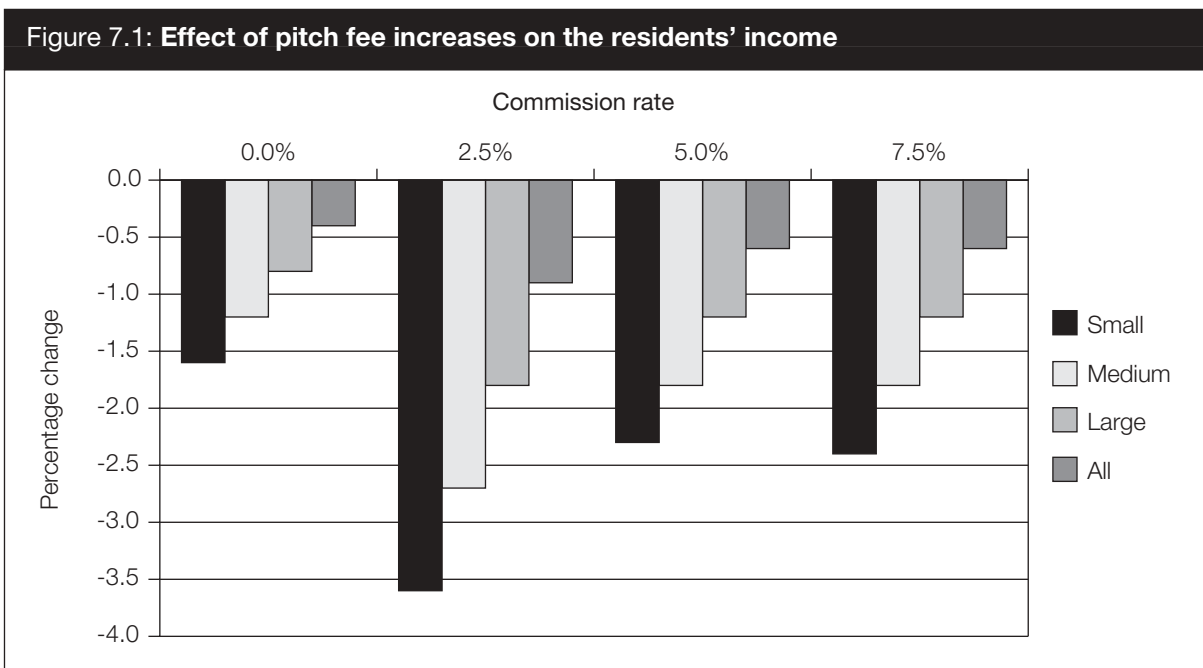
- 7.27 According to the calculations based on the survey, average pitch fees will increase by about 17%, reaching some £1,130 (£1,200 in large parks). These pitch fee increases would also be tied to inflation and land value increases, because by reducing the commission, one deprives the operator of the potential gain he could have made from land value increases.

Other rates

- 7.28 The implications of 5% and 7.5% commission rate were also tested for the pitch fees. The following table summarises the increase of the pitch fees for different commission rates:

Table 7.1 Required Pitch Fee Per Pitch at Different Commission Levels					
Park Size	Commission Rate				
	10%	7.5%	5%	2.5%	0%
Small	506	543	579	616	652
Medium	961	1,037	1,113	1,188	1,264
Large	1,052	1,104	1,157	1,209	1,261
All	963	1,016	1,069	1,122	1,175

7.29 The figure below shows the effect of changing the commission rates on the household income of the residents. With a 0% rate of commission, residents can expect to lose around 2.5% of their annual income, to cover the increased pitch fees.



Including commission payments in the initial purchase price

7.30 For new agreements, one option would be for the commission payment to be ‘incorporated’ into the cost of the purchase of a new or existing park home. This could, therefore, allow a new resident to have the choice of paying the market price of the home and then agreeing to pay a commission upon sale or of paying a commuted amount at the time of purchase and avoiding a future commission payment.

7.31 A simple example can illustrate this point, taking a new sited twin unit priced at £60,000. After 10 years (the average duration of stay according to the residents’ survey), the value of the home would be £82,702 according to the DLC model, assuming inflation is steady at 4% and including depreciation of the unit. Assuming that our hypothetical resident is going to sell after 10 years, they might have the choice when purchasing (in year 1) of

paying no initial fee and then paying 10% of £82,702 in 10 years time, or of paying the discounted value of this 10% when purchasing. This would equate to £4,030 when discounted at 8% per annum. Therefore, if the new resident were to decide to effectively pay the commission upfront, the new sales value of the home, assuming 10% final commission, would be some £64,000. Thereafter they would only have to pay the pitch fee until the time of sale. A similar approach could be adopted with any of the options for commission rates discussed above.

- 7.32 However, such a mechanistic approach to Net Present Value is unlikely to be implemented and the price of the park home with or without the upfront commission payment would be determined by negotiation. The question is whether the resident would actually be willing to pay this discounted commission now and therefore avoid the commission fee later. For most potential residents, the answer would probably be no largely because most residents appear to regard their stay in the park home as a permanent one. Nearly 80% of current park homes residents stated that they do not presently have any intention of moving off their respective parks. The permanence of such an attitude is reinforced with the statistic that some 43% of resident respondents cite death as the expected reason for leaving the park.
- 7.33 With this attitude in mind, there appears to be little incentive for the resident to pay an upfront fee to avoid a commission payment in the future. They might as well allow whoever they expect to be in possession of the home in future to settle the payment of the commission. There is also a general trend away from elderly people bequeathing money and possessions to their next of kin, so once more there is less incentive to be concerned with the value of the home upon sale and hence the 10% to be 'lost' as commission. However, some residents may well value the choice between an upfront payment or paying commission when assigning the park home in later years.

Sliding Rate

- 7.34 An alternative option is for the commission rate to be linked to the length of time the resident had spent on their respective home park. This would alter the way in which revised pitch fee calculations are made. In the first example, commission fees have been adjusted to commence at 1%, and then increase at an annual rate of 1%, until such time as the resident has stayed for 10 years and would pay the current rate of commission (10%). Assuming prices remain constant, the pitch fee in year one for an average pitch would be £1,102 and would decrease to £963 in Year 10.
- 7.35 Tenants who had been on a park for more than 10 years would still be charged the same as before. However, those who had lived there for less than 10 years would pay the same charges as new residents. As long as the operators' overall revenue remains broadly neutral, the operator is not unduly affected by the changes in the structure of commission and pitch fees. This would be fairer for people who sell their homes after a short period of time. This would be another measure to encourage people to try the park homes lifestyle, knowing that they would be able to re-sell their homes relatively cost-effectively, should they find the lifestyle not to their satisfaction.

- 7.36 There are several problems concerning the sliding rate. Most importantly, it is not likely to be easy to administer, because on the one hand, if the pitch fees are to remain unchanged, this puts park operators in a disadvantaged position by reducing their total future income. On the other hand, in order to maintain the same level of total revenues for the operators, pitch fees have to be amended annually and individually for every resident, starting from a higher level and gradually decreasing as commission rates increase. Also, if consideration is given to linking commission to land value, then there is no point relating the scale of the commission to the length of residence in a park home.
- 7.37 There may be some grounds to introduce a simplified sliding scale that could both address the concerns of residents that those who stay for relatively short periods of time on parks are being unfairly penalised by a standard commission rate, whilst ensuring that the financial viability of the industry is not detrimentally affected.
- 7.38 A very simple system could be a zero rate of commission for all residents who leave within 2 years of entry, otherwise a full rate of commission would be payable. The overall impact would be marginal – a loss of under 1% pa of revenue to the average park (133k to 132k) and might be absorbed without pitch fee adjustments.
- 7.39 A slightly more complex sliding scale has been tested incorporating a zero rate of commission for anyone leaving in one year of entry; 2.5% for between 1 year and up to 5 years; 5% for over 5 and up to 10 years; and 10% for over 10 years. This would have an impact of reducing revenues by some 3% (133k to 129k). The impact on margins could be of concern to operators in the absence of pitch fee adjustments.

Altered Base

- 7.40 This option considers applying a commission rate to alternative bases than the sales price of the park home – but again maintaining the same total revenue for the park operator.

Difference rather than level

- 7.41 One of the possible options is to apply the commission to the land component or the increase in the land component reflected in the home value and to take into consideration the depreciation of the home. The price a park home is sold for represents both a land value and value of the unit. To determine the land value, the cost of the unit (including the base) should be deducted from the sited selling price. For example, if the average cost of a twin unit is £44,000 and if the home is sold to a prospective buyer for £70,000, then the commission should be charged on the difference of home and unit values. However, depreciation of a unit should also be taken into consideration and should reduce the original price of unit in the calculation. Over time, the contribution of the home to the total selling price would reduce, and commission would be levied on more of the full transaction price.
- 7.42 Another option could be to charge commission on the increase on land value. For example, if originally the home was sold for £62,000, and the unit value is £44,000, then the operator ‘receives’ £18,000 for the land. Naturally, siting costs would need to be taken into account. However, over time the land component reflected in the price increases, whereas the unit

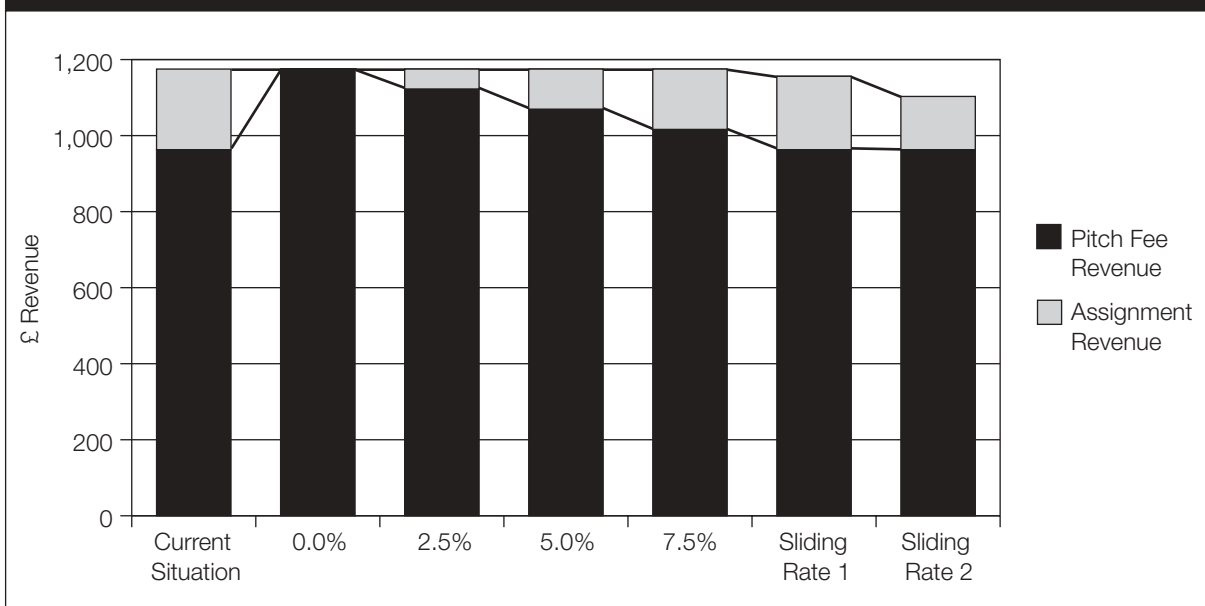
cost component decreases, because of depreciation. By the time the home is being assigned to another resident, the value of the land has risen. Thus another possibility is to charge commission on land value increases.

- 7.43 The advantage of this option is that the charge is still levied on the free market sales price but the depreciation of the unit is removed so the commission is being based on the land content and the likely life of the home. The major problem is implementing it for the cases when a second-hand home is assigned, i.e. the seller originally bought a second-hand home from the operator or acquired it through assignment.
- 7.44 Another option would be to base the calculation upon the value of the home excluding the fixture and fittings and improvements made by the resident. This part of the asset is created by the resident rather than by the operator, and it is perhaps unfair for the operator to take a commission on this element of the added value.

Fixed Commission Charge

- 7.45 Another option is to introduce a flat rate commission charge for all assignments. However, this might not be a fair system and would put the residents whose homes have lower values in a disadvantaged position.
- 7.46 The series of figures below demonstrate the impacts of introducing alternative charging options on net income and per pitch revenues for small, medium, large and average parks.⁴ They show the extent to which the contribution of pitch fees would have to rise in order to compensate for commission loss while maintaining park operator revenues.

Figure 7.2: Implications of charging options on revenue of an average park



⁴ The revenues exclude the sales component.

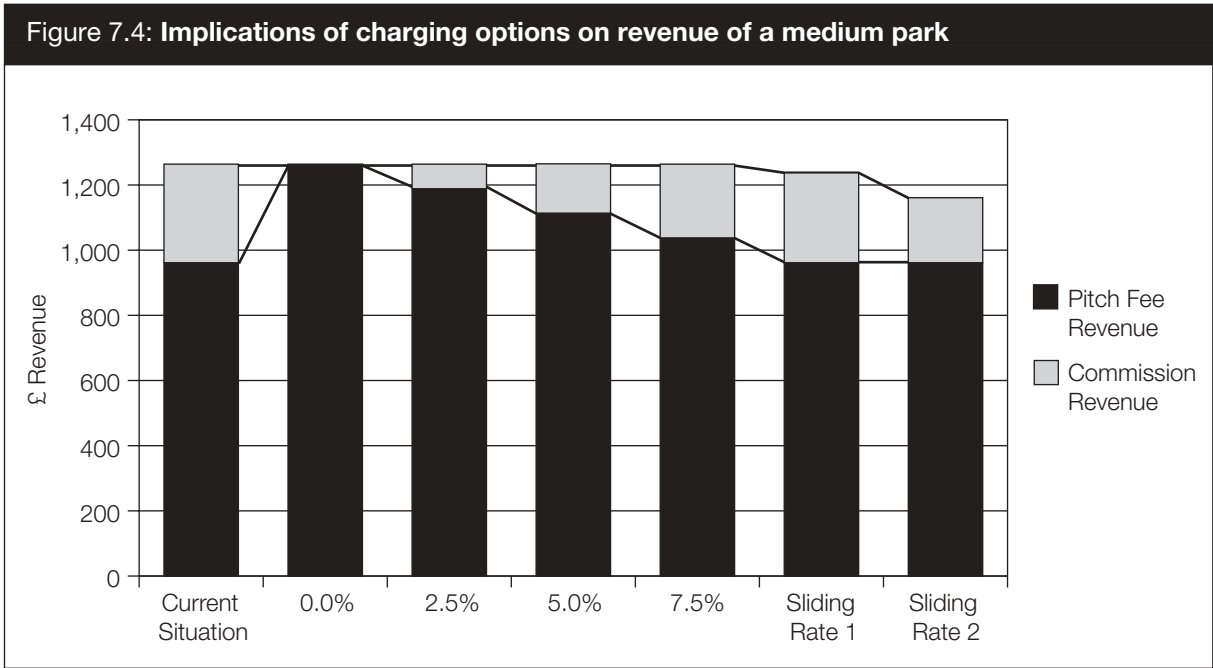
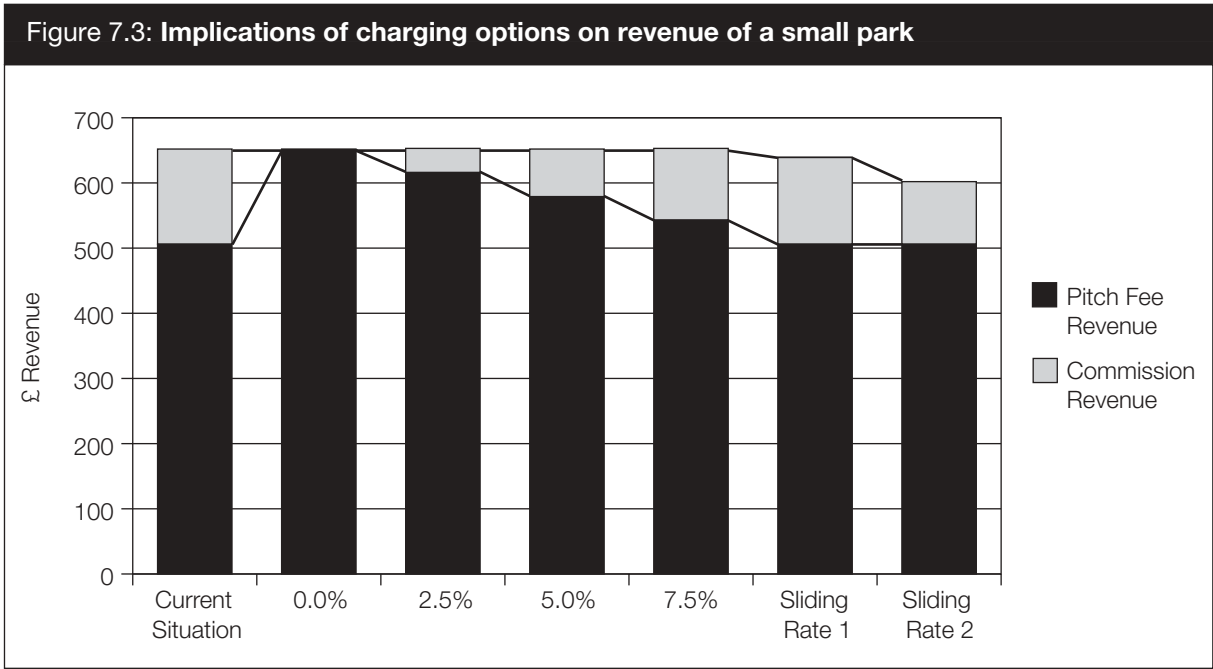
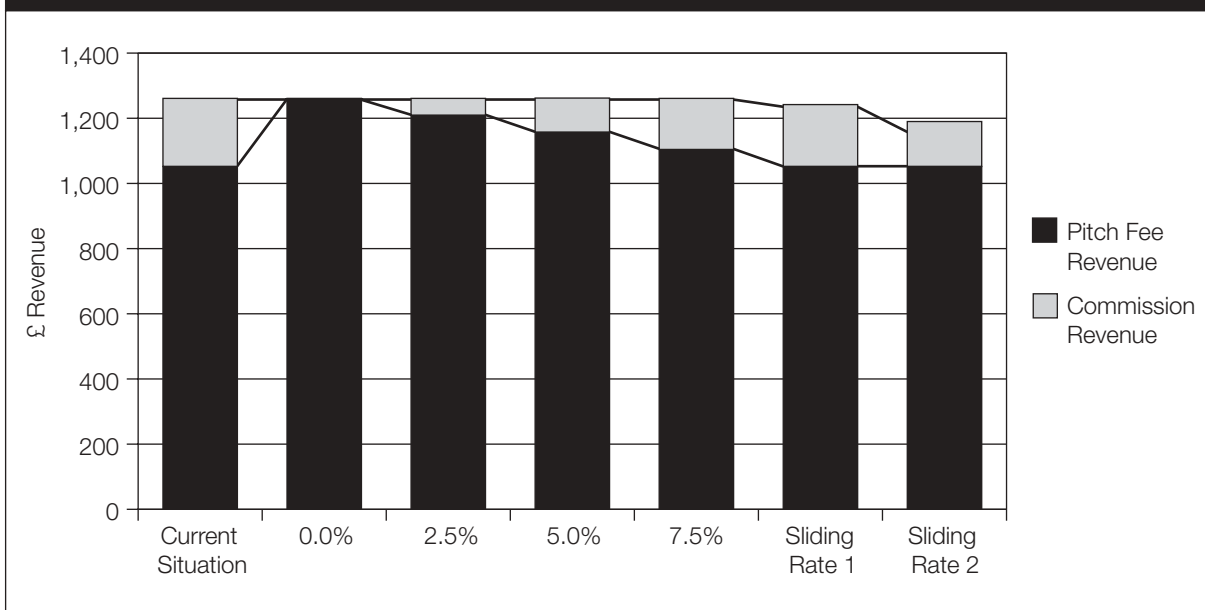


Figure 7.5: Implications of charging options on revenue of a large park



Other Options

7.47 The reform of transactions in the park homes industry could be conducted not only by the introduction of alternative charging mechanisms, but also by considering a number of other options. This section discusses the implication of several issues, such as sinking funds; refurbishment; park operator approval of prospective buyers; arbitration for and council involvement in the transaction changes and reform. Most of these issues are already been discussed in detail in Chapter 6.

SINKING FUNDS

7.48 The option of using sinking funds to create a fund for repairs and maintenance is discussed in Chapter 6. If residents make regular contributions, the operator would be able to create a fund that can be used for infrastructure repairs of the park. These contributions to sinking fund will demonstrate that the 'park repair and maintenance' element is separated from the pitch fee. This is quite a convenient arrangement for both parties, because it will be more transparent for the residents how park maintenance is carried out and it will provide an amount for the operator to cover repair costs. A sinking fund would also help to avoid sudden or significant increases of pitch fees, if unexpected or major repairs are needed. In effect, an agreed percentage of pitch fees could be designated in this way and placed into such a fund.

APPROVAL OF PROSPECTIVE PURCHASERS

- 7.49 As discussed in paragraphs 6.37–6.44, the right of refusal of a prospective purchaser by an operator is potentially open to abuse. The previous chapter explained the mechanism of this process, where the resident has to seek the operator’s approval of a prospective purchaser if he/she is selling the home. It might create problems for the vendor resident if the operator disapproves the purchaser on unreasonable grounds.
- 7.50 If protection is required by the operator this could be secured by the payment of a good behaviour bond by an incoming purchaser. This payment would be repayable to the resident at the end of his tenure. Another option might be to require the operator to apply to the Courts to refuse permission rather than being able to exercise such a veto unilaterally. It does not entirely dispose of the scope for undue pressure but it would certainly document an operator who habitually refuses approval.
- 7.51 Certainly, if a resident is aware that the return of a bond is dependant upon his behaviour to neighbours, the system would be an incentive to neighbourliness; [provided it is combined with sensible checks including the operator’s checking of references and the credit/criminal record of the respective resident]. Properly constituted residents’ associations could be given a statutory voice on the management of the good behaviour bond and whether it is returned in particular cases.

REFURBISHMENTS

- 7.52 When buying a park home, a resident agrees to keep the home ‘in a sound state of repair’. Thus, the resident is required to carry out all necessary refurbishments in order to keep the home in a good state – which also contributes to the overall image of the park.
- 7.53 Well-maintained homes would have a higher value, which in turn result in residents paying higher commission in case of assignments. Since a park home, which is in a good state, contributes to the overall image of the park and also is a potential source for higher assignment revenues, a park operator might encourage the regular refurbishment of the unit.
- 7.54 However, if the repairs are not carried out regularly and the home is eventually dilapidated, it might be more profitable for the operator to re-develop the pitch and site a new unit (see Chapter 6). From the discussions with the industry representatives it was apparent that many operators discourage the manufacturers from providing after-sales repair and maintenance services. This is a certainly a problematic area and residents should be free to refurbish and extend the life of the unit as they wish.
- 7.55 The development of an advice and information service on the improvement and repairs of homes should be considered by the industry. The operators’ organisations – with support of the residents’ associations – could operate such a service. The service could include the establishment of a register of approved surveyors and repairers.
- 7.56 Some operators expressed concern about the potential damage to the amenity of a park by the failure of residents to maintain individual homes. The ODPM and/or local authorities, in partnership with the industry, could consider the development of good practice guidance and acceptable timetables for remedial actions when homes require refurbishing.

ARBITRATION AND LOCAL COUNCIL INVOLVEMENT

- 7.57 To solve the disputes between residents and operators, the involvement a Court could sometimes be required. However, there have been proposals from park homeowners to introduce arbitration schemes that could be run by local councils.
- 7.58 The Government's response to the recommendations of the Park Homes Working Party was that it is not feasible to introduce council-run arbitration schemes, because '*... such a procedure would have considerable resource implications for authorities, who would not necessarily have the expertise for the resolution of disputes*'.⁵
- 7.59 The creation of a new independent body to deal with park home related disputes was also suggested, but the Government believes that it would be unnecessarily bureaucratic.
- 7.60 Obviously, there are voluntary arbitration efforts undertaken by different bodies within the industry, which are encouraged by the government. These could be enforced.
- 7.61 The Report of the Park Homes Working party recommended that a procedure should be established for formally recognising residents' associations on parks and giving them various statutory rights to receive information and to be consulted on local issues by the operator and the local authority. One of these rights could include the right to take a resident's dispute to arbitration provided that the local residents' association had properly accepted that they wished formally to support the resident's case.

Other Considerations

- 7.62 The direct purchase of the home from the manufacturer and the direct purchase of the rights under the agreement from the operator would provide the resident with a wider choice. Whilst they may need advice with the purchase of a home, the operator and his beneficial enjoyment of discounts hardly makes him an impartial guide. The separation of these two purchases might also allow the length of the agreement to be separated from the longevity of the home. Such a move would also allow for the Agreement to refer to "a" mobile home since the resident would be able to extend tenure.
- 7.63 It is important to ensure that the objective information is available to residents – whether or not changes to the payment mechanism are introduced. A clear definition of pitch fees and commission in the written statement would ensure the full understanding of all parties entering an agreement, particularly individuals buying their first park home. For example, residents could be provided with the direct purchase of the home from the manufacturer and the direct purchase of the rights under the agreement from the operator would provide the resident with a wider choice. Whilst they may need advice with the purchase of a home, the operator and his beneficial enjoyment of discounts hardly makes him an impartial guide. The separation of these two purchases might also allow the length of the agreement to be separated from the longevity of the home.

⁵ Government Response to the Recommendations of the Park Homes Working Party, p. 16.

- 7.64 Such a move would also allow for the Agreement to refer to “a” mobile home since the resident would be able to extend tenure. The explicit written explanation that the payment for the cost of a home, the payment of the pitch fee, and commission, taken together, affords the residents the right to occupy the site and receive services and benefit from the maintenance and repair of the park by the site owner. It might explain that commission basically represents the site owner’s share of the capital appreciation of the home, to which he is entitled due to his ownership of the land upon which it rests.
- 7.65 As mentioned in paragraph 6.15, a short ‘cooling off’ period could be considered following such transactions and/or the Agreement should be signed on the day of occupation rather than within 3 months.
- 7.66 The retention of a blanket right of refusal to a prospective purchaser allows scope for threats. The problem it is seeking to resolve could be met by the payment of a good-behaviour bond.
- 7.67 The establishment of formally recognised residents’ associations on parks would provide an appropriate means for the successful introduction and facilitation of a number of the above measures.
- 7.68 The current basis for reviewing pitch fees has come under criticism. Certainly, the actual cost of repair and maintenance, or some indicator of average building costs, instead of the current general RPI basis, would lead to a greater transparency. However, many site owners claim that the current system underprovides for the cost of maintaining parks. Residents may prefer to stay with the current system, which is less likely to lead to disputes. The introduction of sinking funds would support such a process.



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