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Understanding the Economics of the Park Home Industry in Wales

Executive Summary

1. Introduction

1.1 The Welsh Government appointed Public and Corporate Economic Consultants Limited (PACEC) in October 2015 to undertake 'a study of the Economics of the Park Home Industry'.

1.2 As outlined in the specification, the aim of this research project was to undertake a comprehensive, independent assessment of the economics of the park home industry in Wales, including consideration of whether a Commission Rate remains appropriate and, if so, at what level that rate should be set. In particular, this would include analysis of the income, expenditure and profit of park owners, and the impact of variations in the level of remuneration via the commission rate and pitch fees.

2. Methodology

2.1 Key components of the research methodology included:

- Desk based research, which involved identifying, collating and reviewing relevant published information which provided an understanding of the market and policy context in which the research was being carried out.
- Interviews with representatives of eight key stakeholder organisations, namely:
  - British Holiday and Home Parks Association (BH&HPA)
  - National Caravan Council
  - National Association of Park Home Residents
  - Independent Park Home Advisory Service
  - Carmarthenshire Council
  - Vale of Glamorgan Council
  - Powys Council
  - Torfaen Council.
- Consultation with a group of park home residents who have been campaigning for the abolition of the 10 per cent Commission Rate.

- Implementation of an online park operator survey. The survey was launched on 7th January 2016 and closed on 7th March 2016. Over this two-month period, a total of 32 park operators responded to the survey. This resulted in a response rate of 52 per cent. Responses were obtained from at least one park in 14 out of the 19 Local Authority areas with residential parks.
- Administering a park home resident postal survey. In total, 2,517 surveys were posted to residents at 81 park home sites and responses were received from 587 residents from 65 sites.
- Visits to 18 residential park home sites across Wales. Each site visit included an interview with the park operator and, where possible, a focus group with park residents. A total of 122 residents attended group discussions at 14 sites.
- In total, 65 of the 88 parks (74 per cent) were covered by the survey and / or site visits.

2.2 Research participants were given the opportunity to participate in either English or Welsh and all research tools were provided bilingually.

3. Key Findings

Sector and Operator Profile

3.1 Based on the PACEC fieldwork, the Welsh residential park homes sector appears to be comprised of 88 parks. Over 50 per cent of parks are located in the following five local authorities: Powys, Pembrokeshire, Carmarthenshire, Ceredigion and Flintshire.

3.2 Welsh Government 2012 data and the study's survey data highlights that the sector is dominated by 'micro' or 'small' parks, with only 6 sites being classified as being 'large' or 'very large'. The data also suggests that residential park home sites in Wales are (on average) smaller than those in England and Scotland.

3.3 Of the 32 park operators that completed a survey, 22 (69 per cent) provided revenue and cost information. Therefore, an element of caution should be used when interpreting these results, given the limited number of responses to these questions. The findings of the operator survey suggest that the sources of income most commonly cited by park operators were pitch fees, commissions on private sales, recharge of utilities and sales of park homes.

3.4 The findings also show that on average, income from commission on sales accounted for eight – 10 per cent of total income in 2013/14 and 2014/15. This is broadly consistent with a 2002 Office of the Deputy Prime Minister (ODPM) study undertaken across England and Wales which identified that income from commission represented approximately seven per cent of total income. The most commonly cited sources of expenditure for park operators are: general park maintenance and repairs, employment, licencing and insurance premiums.

3.5 A significant proportion of parks, 36 per cent (n=8) incurred deficits in 2013/14 and 2014/15. Eighteen per cent of parks recorded a surplus of less than 30 per cent of their income whilst the remaining 45 per cent provided data which indicated a surplus of more than 30 per cent of their income. The average surplus made by parks was £40,400.

3.6 Discussions with BH&HPA representatives have corroborated the above as being a fair reflection of the financial state of the sector. Anecdotally, representatives from BH&HPA also indicated that a significant number of their members were operating with their banks on a 'special measures' basis.

3.7 The 2002 ODPM research, which encompassed park homes in both England and Wales, identified an average Net Income range of £30,000 - £50,000 per park (equivalent to c£45,000 - £76,000 at 2016 prices, based on historical inflation rates) across all park sizes. The average surplus identified by this study is £40,400, which equates to the lower end of the range identified by the ODPM research. The ODPM research also identified that on average, small parks incurred a Net Loss of

£5,000. The lower net income/ loss making profile of smaller parks identified within this 2015/16 research is consistent with the findings of the previous research.

3.8 Although the Mobile Homes (Wales) Act 2013 has strengthened the relative bargaining power of residents and clarified the process of determining pitch fees it has also resulted in increased administration and expenditure for park operators. The operator survey and interviews have identified that the restrictions in pitch fee increases have had a particularly significant impact on operators, as there is little scope to offset the additional costs now being incurred. A reported reduction in turnover from the resale of new properties is also impacting negatively on income generation and asset value, and the introduction of the five-year license has reduced the attractiveness of parks during sale.

3.9 The above highlights that the vast majority of businesses within Welsh park homes industry are not making high levels of profit. In fact, a significant proportion of the sector appears to be trading at near or below breakeven. This clearly has implications for any change to the commission rate, as a reduction in a key area of income, without a corresponding increase in another, will invariably jeopardise the viability and sustainability of a significant proportion of businesses within the sector. This could result in the closure/sale of parks, which is likely to be detrimental to both operators and residents.

Resident Profile

3.10 This research identifies that park home residents tend to be aged over 55. The resident survey identified an average respondent age of 71.

3.11 Thirty-seven per cent of survey respondents identified that they have an income of between £1,000 and £2,000 per month, only seven per cent have an income in excess of this and 16 per cent have an income of less than £600 per month. Just over one quarter (26 per cent) of respondents reported that they have no savings, while 52 per cent of those that do have savings report their savings are either not being added to or decreasing. In relation to monthly expenses, residents pay between £333 and £352 per month on average for utilities / services in addition to their pitch fee (£148 per month on average). These findings highlight that a significant number of park home residents are in a precarious financial position, with little capacity to incur a significant increase in living costs.

3.12 Of those that responded to the survey, 37 per cent had lived in their current home for over 11 years, with eight per cent having lived there for more than 20 years. 65 per cent stated that they do not intend to move in their lifetime, while a further eight per cent stated that they intend to stay for 10 years or longer.

3.13 High proportions of survey respondent's access electricity, mains water and mains sewage directly from the park operator. When asked to estimate their monthly or annual expenditure, gas (both mains and bottled gas) featured as the area of highest cost.

3.14 Given the restrictive financial position of many park home residents and the intention of the majority of respondents to remain within their park home for the foreseeable future, there is likely to be limited appetite by these residents to incur higher pitch fees on an ongoing basis in lieu of a reduction/ removal of a commission rate that applies at the time of sale of their home.

Resident Satisfaction

3.15 Survey and interview feedback highlights that three-quarters of residents were satisfied with park location and amenities. However, a third of residents reported being dissatisfied in relation to the maintenance and upkeep of parks and the conduct of park operators.

3.16 Feedback from local authority and resident representative organisations highlight that areas of dissatisfaction tend to arise in relation to:

- poor site maintenance
- the use of the residency agreement as a means of controlling demand/ access to the Park
- some lack of awareness of the 10 per cent commission by residents.

3.17 The above suggests that further work is required to identify and address poor practice at park home sites and to ensure that resident rights are protected.

Resident Awareness of Contractual Obligations

3.18 The resident survey and discussions with residents highlight that whilst the majority of residents are aware of both the 10 per cent commission rate and the potential for pitch fees to be reviewed and increased annually, a significant minority are unaware or unclear about these issues. There is a need to enhance greater awareness of these issues among the current resident population and to ensure that these points are made abundantly clear to future potential residents.

Appraisal of Commission Options

3.19 Options for reforming the economic transactions between residents and operators are outlined below. These options were assessed in the 2002 ODPM report and remain relevant for consideration within this report:

- Removal of the commission rate
- A reduction of the commission rate to 2.5 per cent
- A reduction of the commission rate to five per cent
- A reduction of the commission rate to 7.5 per cent
- Deferring the commission rate until the point of sale on a sliding rate.

3.20 To calculate the impact of reducing or removing the commission rate, financial information provided by park operators as part of the operator survey was analysed. In total, 22 park operators provided financial data. The average revenues generated from pitch fees and commissions per pitch were calculated by park size and these figures were used to calculate the decrease in commission revenue. This is the same methodology employed in the 2002 report. As only two park operators provided data from micro parks and the limited number of pitches in those parks, this data was analysed along with the small parks data.

3.21 As outlined above, there are numerous options for reducing the commission rate. These options could potentially benefit existing residents, as they would receive a higher price when selling their homes. However, given the limited level of profitability experienced within the park homes sector, if the commission rate was to be lowered, operators are likely to seek an increase in another source of income to off-set the loss. The most likely source of increase being pitch fees[1].

Removal of the Commission Rate

3.22 Removal of the commission rate without offsetting the loss through an increase in another source of income would result in a loss of approximately:

- Sixteen per cent of revenue in small parks.
- Ten per cent of revenue in medium parks.

[1] Currently, pitch fees can only be increased in line with the Consumer Prices Index. However, provisions within the Mobile Homes (Wales) Act 2013 may allow for this to be revisited on the basis of changes to operator costs resulting from an enactment which has come into force (ref http://www.legislation.gov.uk/anaw/2013/6/pdfs/anaw_20130006_en.pdf Page 50, Paragraph 18.1(d) para 1). Alternatively, future amendments to the Act may be required.

- Fifteen per cent of revenue in large parks.

3.23 In order to offset losses in the event of the commission rate being abolished, pitch fees would need to increase by an average of 14 per cent, i.e. £13 - £22 per month (£156 - £264 per annum).

3.24 The removal of the commission fee would enable a resident to receive a higher price for the park home, however, if its removal results in higher pitch fees, which are paid regularly on an ongoing basis, it is likely to impact negatively on a group of people that typically have limited financial resources and who wish to remain in their park home in the medium to long term (73 per cent of residents intend to live in their park home for at least 10 years).

Reducing the Commission Rate

3.25 Reducing the commission rate to 2.5 per cent would lead to an increase in pitch fees of 14 per cent in small parks, nine per cent in medium parks and 13 per cent in large parks

3.26 From a resident's perspective, the reduction of the commission fee would have a similar impact as a complete removal, as the reduction of the commission rate may also result in higher pitch fees.

3.27 The impacts of reducing the commission rate to five per cent and 7.5 per cent were also tested. The resulting increases in pitch fees across parks of different sizes can be seen in the Table below.

Table 1: Pitch Fee Increases at Different Commission Levels

Park Size	10 per cent	7.5 per cent	5 per cent	2.5 per cent	0 per cent
Small	£1,444	£1,511	£1,578	£1,645	£1,712
Medium	£1,407	£1,448	£1,488	£1,529	£1,569
Large	£1,419	£1,480	£1,542	£1,603	£1,664
Average	£1,423	£1,480	£1,536	£1,592	£1,648

Base: 22

Sliding Rate

3.28 The introduction of a "sliding rate", payable by the resident on the sale of a park home, would have varying impacts on residents, depending on how long they had owned their park home. This would alter the way in which revised pitch fee calculations are made. In a simple example, commission fees could commence at one per cent and increase at an annual rate of one per cent, up to 10 years, resulting in a maximum payable rate of 10 per cent (the current rate).

3.29 This would be a fairer approach for those residents who may wish to sell their homes after a short period of time. It may also encourage people to try the park homes lifestyle, knowing that they would be able to re-sell their homes relatively cost-effectively.

3.30 In order for this method to be sustainable for park operators, pitch fees would need to be recalculated annually, which would increase the administrative burden on operators. In addition, this option would only be available to new residents as it represents a form of deferred payment and under the current system, existing residents have already paid their commission fee upon purchase of their park home.

3.31 However, given that a large majority of survey respondents indicated that they intend to remain in their park home for longer than 10 years, or for the remainder of their life, many residents are unlikely to be supportive of increases in pitch fees.

4. Recommendations

4.1 Based on the above, the report's recommendations are as follows:

- **Commission Rate** – although the commission rate is an ongoing source of dissatisfaction among residents, the results of this research suggest that its removal/ reduction has the potential to have a negative impact on the viability and sustainability of many Welsh park home operators. If the removal/ reduction of the commission rate were to be offset by an increase in pitch fees, this could have a negative impact on residents who have extremely limited financial resources and who wish to remain in their park home for the foreseeable future. Consequently, we recommend that the commission rate remains unchanged for existing residents, but that consideration be given to providing new residents with an option of incurring higher pitch fees in lieu of a commensurate reduction in the commission rate applied to future sales. Although, this approach may require legislative change and it is likely to add to the complexity of operator administration and business planning, it could (if adopted by sufficient numbers) contribute to improved operator cash flow and viability, whilst providing residents with greater choice and the potential to obtain a higher proportion of the proceeds of the sale of their park home.

- **Resident awareness of contractual obligations** - There is a need to enhance greater awareness of contractual obligations among the current resident population and to ensure that these points are made abundantly clear to future residents. We recommend that key stakeholders work collaboratively to ensure that regular and clear communication of these issues are provided to residents.

- **Identification and Addressing Poor Practice** – relatively high levels of resident dissatisfaction continue to exist in relation to the maintenance and upkeep of parks and the conduct of park operators. We recommend that further consideration be given to how incidents of poor practice can be identified and addressed more effectively. We also recommend that, in line with good practice, a regular review is carried out on the effectiveness of the Residential Property Tribunal, to ensure that it continues to protect the rights of all parties on an equitable and effective basis.

- **Energy Costs –** The cost of energy (and specifically gas) is the highest area of expenditure for park home residents. A household is deemed to be in fuel poverty when more than 10 per cent of income is spent on fuel. 15 per cent of the residents responding to the survey stated that they earned less than £600 per month and the average spend of fuel costs ranged from £47 to £66 per month, as such there is evidence of potential fuel poverty amongst residents. We recommend that further consideration should be given to initiatives that reduce energy costs and fuel poverty for this section of the community.

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Views expressed in this report are those of the researchers and not necessarily those of the Welsh Government

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