

## **The Dynamics of Determining RV Value**

*By Greg Gerber, Editor, RV Daily Report*

The question comes up a lot, "How much is this RV really worth?"

And for the answer, most RV dealers and RV owners turn to the appraisal guides developed by NADA—the National Automobile Dealers Association. But, how does that esteemed group determine what a particular make and model RV is really worth?



It's a complicated process that doesn't fit into any simple mathematical algorithm, said Lenny Sims, vice president of operations for NADA Appraisal Guides.

The first thing NADA does is extract transactional data from the marketplace. They get direct feeds from auction sites across the nation. So whenever a vehicle sells at auction, NADA knows what sold and what the price was.

"We are probably the only entity to get that volume of quality information in the front door," said Sims.

Another way to get information is by asking, and NADA turns to about 250 RV dealers from across the country who sit on an advisory board. They are periodically given surveys and questionnaires to complete to provide data on used RV sales from their own lots.

These dealers offer us information on the RVs they took in trade, including the year, make, model and mileage," said Sims. "For motorized units, they tell us what they allowed in trade and what they put into refurbishing the unit so that it could be sold again, and at what price it was sold."

Next, the NADA staff reviews inventory websites to look up the asking prices of various RVs. That gives them a good idea as to what the average retail price may be.

### **Taking Economic Conditions Into Account**

However, Sims said several economic conditions are taken into consideration before determining the published values. NADA looks at current interest rates, consumer confidence levels, seasonality and how it can affect pricing, and the inventory pipeline -- especially the level of inventory on dealer lots. The more inventory on the lot, the more likely prices will need to drop to complete a sale.

"It's a pretty complex process, but it is what sets us apart from other providers," said Sims. "The average market data analyst in our company has 12 years experience in factoring these numbers."

Some people might think that all those numbers can be plugged into a computer system which can analyze the data and arrive at a final figure in seconds. That would be a mistake, said Sims.

"There still needs to be a human element to the process. Someone has to actually touch the data and evaluate its relevance to the market," he explained.

For example, major RV brands have lots of transactional data from which to draw sales figures. However, NADA doesn't see that kind of information for smaller or regional RV manufacturers.

"At that point we have to deal with some of it as a multiple listing service which looks at comparable Brand X to evaluate the other RV in terms of quality, build and equipment," said Sims. "We are always looking at how the values are shifting. In fact, it is a daily process."

But, three times a year, the line is drawn and the data is published in appraisal guides distributed in January, May and September. Although the team is aware of major shifts in market value of units, NADA doesn't try to make as drastic adjustments to RV values as one might think.

"The market has been more volatile in the last year or two, but we don't want to get too crazy with random updates," said Sims. "That's the equivalent of being a day trader versus investing for the long haul."

### **Maintaining Market Stability**

NADA tries to maintain market stability by avoiding huge fluctuations in RV values that would only lead to confusion when trading in units or financing loans. Ask any Canadian dealer who has to determine the value of RVs on his lot when the dollar fluctuates wildly. It is not easy and often leads to problems where used units can be worth more than brand new units.

"We have lost some clients in the past who feel it is better to get data that is updated more frequently, but that eventually gets them in trouble," Sims explained. "The values we publish don't fluctuate that much from issue to issue. We look at current conditions but also develop trendable prices that are good for four months."

Still, the science isn't without its challenges. An RV might be worth more at the start of a buying season than it would be at the end. If there is a lot of inventory on dealer lots -- and manufacturer lots -- that will certainly make it harder to hold values. And when manufacturers release new models, it can have ripple effects not only on their other brands and previous model years, but on competitive models as well, said Sims.

"If a dealer has 10 2010 models on his lot and the 2011 units show up, it doesn't necessary devalue the older models," he explained. "It could be that the 2011 models are virtually the same as the 2010 models, especially if there is little or no increase in price."

However, if the 2010 model travel trailer had a retail price of \$20,000 and the 2011 unit shows up valued at \$20,500, then dealers will likely have to lower the 2010 units to make them more attractive to buyers.

"Everyone generally wants the newest, latest and greatest models," said Sims. "When situations like that arise, then it is possible the 2010 unit will experience a significant drop in depreciation in one fell swoop."

"If manufacturers are releasing models in timely, consistent fashion, then the dealers can plan for their arrival," he added. "But, if he is expecting a new model to come out in October, and it shows up on his lot in August, then it really messes up his business planning."

### **Many Variables Come Into Play**

There are way too many variables in determining an accurate value, which is why careful attention has to be paid to what's happening in the market now, what will happen next month and where the market will be six months from now, Sims explained.

"While it is good to see what has happened in the past, it doesn't really plug into an algorithm. All of us are projecting values," he added. "Whenever we publish a new appraisal guide, the values posted are reliable for that four-month time frame, but we are still projecting values.

"I don't think anyone can say it is possible to accurately represent where the market is at a particular day in a particular part of the country, but we try to be as accurate as we can," said Sims.

The RV market witnessed the perfect economic storm in the past 18 to 24 months, which made it extremely difficult to track what was really going on in market values. Last year, several auction sites were reporting that used units were being sold at wholesale for more money than NADA had valued them. That's why it's important to project where values are expected to be within a few months from the date the guides are published, Sims explained.

The law of supply and demand can also greatly influence the value of units, but not in the way many expect. Sometimes prices rise because not everything is depreciating in value, Sims explained.

"The market is ever changing. We could see a significant spike at one auction one week, and the new week the whole thing fell out of favor," he added. "That's why we need to be good at trending values rather than reacting to what's going on in the market on a daily, weekly or even monthly basis."

### **The Challenge Posed by FEMA Units**

Perhaps one of the greatest challenges facing NADA appraisers as well as RV dealers can be seen in the problem of assigning values to FEMA units.

"It's very complicated," said Sims.

There are basically two different types of FEMA units on the market. The first are the white label basic emergency living units that were built without any holding tanks, which often makes them easy to identify, Sims said.

But, there are also a significant percentage of RVs that were tagged as certified units. They were on dealers lots when Hurricanes Katrina and Rita hit the Gulf Coast, which allowed those units to be immediately mobilized as "FEMA units." They remain certified, quality units, said Sims.

"The problem is that the certified unit was built for recreation use. I don't know if manufacturers build all RVs for full-time use. But, the FEMA families put a lot of pressure on those units in that they were used in a far greater capacity than they were intended to be used," said Sims.

Now that they are coming back into the market, it is creating confusion regarding the unit's actual value.

"The data we receive does not reflect whether a particular unit was used in a FEMA situation," said Sims. "Some dealers are doing a legitimate job of disclosing that the units were used by FEMA families. But some interesting things are being done with the trailers that may be misrepresentative of their original use. The units are being sold at low prices, which is having an effect on the market, but not necessarily on the published values

"If we see 100 transactions on a particular trailer and the range of those transactions come in between \$10,000 and \$15,000, but we had a handful come in with the same year and model, but were sold at \$5,000, we would toss that data out," he added. "By taking out the higher and lower price ranges of units sold, we eliminate any anomalies in the data."

## **Historic Rise in RV Values**

Sims said the question he is hearing most frequently today concerns the value of used units. "I have people telling me they have been our customers for 20 years and have never seen values go up. They want to know if it is correct or if there is a problem," he explained. "We tell them that we've seen increased demand and prices in the used market that we have never seen before."

NADA pays close attention to the prices, and Sims said their data show used RV prices are trending upward as demand increases because dealers are still having difficulty getting the floorplan financing they need to stock a wider selection of new units on their lots.

The bottom line is that all published values are set only after they have been meticulously evaluated based not only on complex mathematical formulas, but through human oversight of actual market condition. As a result, Sims said, the values NADA publishes in their guides are the most accurate on the market.

It's a level of confidence, he added, that dealers and RV owners can take to the bank.

For more information about NADA appraisal guides, call 800.544.6232 or visit [www.nada.com](http://www.nada.com).

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