SUPPLEMENTAL STANDARDS - APPRAISAL OF MULTI-FAMILY PROPERTIES VERMONT HOUSING AND CONSERVATION BOARD

All appraisals of real property and interests in real property prepared for the Vermont Housing and Conservation Board are to be prepared in conformity with Uniform Standard of Professional Appraisal Practice (USPAP) and these supplemental appraisal standards.

Uniform Standards of Professional Appraisal Practice (USPAP)

USPAP is promulgated by the Appraisal Standards Board of the Appraisal Foundation. The complete text of the USPAP including amendments to date is available from the Appraisal Foundation, 1029 Vermont Avenue NW, Suite 900, Washington, DC 20005.

Vermont Housing & Conservation Board - Supplemental Standards

General

The appraisal report is to include a local market analysis of the property type being appraised. The analysis will discuss current and anticipated supply and demand factors which are relevant to the property under appraisal. The market analysis identifies market conditions and trends that will affect projected income (or absorption), including the extent the trends may affect the value of the property.

The appraisal report must include sufficient supporting documentation with all pertinent information reported to the degree that the appraiser's logic, reasoning, judgement, and analyses in arriving at a conclusion are clear to the review appraiser or reader.

Appraisal reports must make clear disclosure and set forth all assumptions and limiting conditions that affect the analysis, opinions, and conclusions of the report. The reports and the analyses must conform with the requirements set forth in USPAP regarding "hypothetical conditions". The report must clearly and accurately disclose any extra ordinary assumption or limiting condition that directly affects the appraisal and indicate its impact on value.

Comment: Appraisal analyses may require specific assumptions regarding such things as structural integrity of buildings, hazardous conditions, illegal apartments, and estimated rehabilitation costs. Appraisers should set forth all atypical conditions and assumptions which are important to the value estimate, in the Assumptions & Limiting Conditions section and the Letter of Transmittal. The market analysis should be based on the local market. In cases where local conditions are not applicable, the appraiser should look at the most applicable market conditions outside of the locality in which building being appraised is located.

Income Capitalization Approach

The applicability of the income capitalization approach must be carefully considered by the appraiser. Exclusion of the approach must be explained. The income approach is generally applicable for the appraisal of multi-family properties, however, it may prove unreliable in circumstances where there is limited information or:

the property is wholly or partially unoccupied; uninhabitable; in need of significant repair; or where operating expense data is limited and/or difficult to estimate; or in circumstances where the property is in need of significant renovation prior to being suitable for occupancy. In cases where the income approach is believed to be unreliable, the appraiser should make adjustments or take precautions as described below.

Comment: In circumstances where the property, in its present condition, is not suitable for rental, the income approach is less meaningful and may be an unreliable valuation methodology. Care must be taken to ensure that cost estimates for renovation are reasonable and would reflect the extent to which rehab costs would be recognized by typical buyers to sustain the existing / proposed use. Particular care must be taken in forecasting income and expenses which reflect the renovated state of the property. The estimated rehabilitation costs must reflect the amount needed to sustain the forecasted income estimate. The operating expenses must also reflect the property, as renovated.

In cases where the property is not suitable for or only partially suitable for rental in its present condition the appraiser should either: (1) not rely on the income approach but make sure that the sales approach adequately reflects the condition of the property, or (2) use, making assumptions regarding what the property could rent for if brought up to a standard that is suitable for occupancy, but subtract the projected cost of renovation to the standard from the value derived by use of the income approach.

The subject property's gross income estimate must be supported by an analysis of local comparable rents. Evidence regarding comparable rental properties must be presented within the report to the degree necessary to support the market rent estimate for the subject property.

Comment: The existing rents within a multi-family property may or may not reflect market rent levels. Particular care must be given to circumstances involving public assistance rents, including Section 8 vouchers. In analyzing the rental comparables, the comparative analysis must consider variations in unit size, tenant expenses, quality and condition, location, and other relevant factors.

The property's effective income estimate must be based on a market supported vacancy and collection loss estimate.

Estimated operating expenses must be supported. The discussion should include a review of each expense item and explanation of how the expense estimates were made.

Comment: Care must be taken in supporting operating expenses for the property, particularly in circumstances where the income and expenses reflect some level of renovation or rehabilitation. The historic operating history of the property under study needs to be discussed. It is recommended that a two year operating history be studied and the data presented within the report. Expense estimates may be compared / estimated through a study of comparable properties as well as by confirmation with relevant sources, i.e. utility companies, etc. It is essential to employ a similar analytical technique in analyzing the subject property and in the development and application of overall capitalization rates.

The appraisal analysis and report must include explicit market support for development of overall capitalization rates. The overall capitalization rate must be derived directly from multi-family property sales.

Comment: The income, vacancy and collection loss, and expense estimates must be treated consistently among the sales and the subject in developing and applying capitalization rates. A detailed explanation of the means by which these factors have been considered, in deriving a rate, should be presented within the report. The presentation must clearly include the specific items which are embodied in the derived capitalization rate including items such as management, vacancy estimates, and reserves for replacement. The discussion should also state how the potential income for any given sale was derived, ensuring that the gross income estimate for the sale property and it's net operating income is reflective of market rent levels, or otherwise include an explanation as to what impact the atypical income has on the indicated rate. Particular care must be given to deriving rates from sale properties located outside the subject market area where prevailing vacancy rates may vary between communities.

The derivation of overall capitalization rates via mathematical formula (e.g. Band of Investment) are not acceptable without market support for all components of the formula, including the equity dividend rate.

Capitalization rates must be developed with consideration to a property's quality, location, condition, and overall risk. Properties which are inferior / higher risk generally indicate higher capitalization rates.

The value indication from direct capitalization must be adjusted to reflect items such as required repairs and excess land. The value estimate should be adjusted for items such as repairs required to sustain the forecasted income and expenses. Also, these elements should be treated consistently in the sales comparison approach.

Sales Comparison Approach

The exclusive use of comparable sale properties involving non-profit or public agency participants is not acceptable.

Comment: Care must be taken in the use of sale properties involving public agency or non-profit participants. These sales may be impacted by atypical motivating factors. The best evidence of market value is likely to be associated with arms-length sales involving private parties/investors. While sales to public / non profit sales may be utilized, they should not be relied upon exclusively. Greater weight should be given to the comparable sale properties involving private investors.

Ideally, the sales utilized in the analysis should bracket the final value of the subject property. The selection of sales which bracket the analysis means that both inferior and superior properties, relative to the subject, are included in the analysis.

Comparables must be selected from the local market or from communities with similar prevailing market conditions (i.e., supply and demand characteristics). It is incumbent upon the appraiser to discuss the nature of market conditions of the sale properties as they relate to the subject's market.

The appraiser must discuss the rationale for the selection of a specific unit of comparison within the sales comparison analysis.

Comment: For multi-family property appraisals, a variety of units of comparison are possible: price per square foot, per bedroom, per room, etc. Because unit type and unit sizes are highly varied in a typical marketplace, the sale price per unit may not be the optimal unit of comparison.

Adjustments to the sale properties must be applied to the unit values of the sales to reflect the differences that have an impact on value. The adjustments must be described to the degree that the reader can follow and understand the logic and reasonableness of the analysis.

Comment: Care must be taken in the adjustment process involving properties requiring substantial renovation or rehabilitation. Adjustments must be made for required rehab costs, unless the sale properties adequately reflect the overall conditional features of the subject property. Further, atypical financing circumstances for sale properties must be adequately analyzed, described, and reflected within the adjustment process.

Comparable sale properties employed within the appraisal must be adequately described. The sale descriptive information must be adequate to provide to the degree necessary to allow the reader to properly understand and interpret the character of the sale and its relative comparability to the subject property.

Comment: The descriptive information for comparable sales should include, at minimum, a clear identification of the buyer and seller, date of sale, sale price, financing, conditions of sale and a physical description. Sale photographs must be provided.

Land Valuation

If the project is a Low Income Housing Tax Credit development (LIHTC), the appraisal report must include a land value estimate or allocation for the subject property. A land value estimate is not necessarily required for other projects by the VHCB. The appraiser is responsible to ascertain whether the project is being developed under the LIHTC program. The land value should be supported by means of a comparison to similar multi family development sites. Sales should be identified in the local competitive market area, or areas which have similar market conditions relative to the supply and demand and price levels for this type of development land. Sales should have a similar highest and best use (multi family development) and should be analyzed by an appropriate unit of comparison such as price per housing unit. Support should be provided to the degree necessary to enable the reviewer to understand the appraiser's rationale in developing the value estimate.

VERMONT HOUSING & CONSERVATION BOARD

Appraisal Review Checklist - Multi-family Properties

A "NO" response requires explanation in comments section.

YES/NO/NA	Page(s)		
____	____	(1)	Steps taken to comply with the competency provision of USPAP disclosed, if applicable.
____	____	(2)	Appraised value based on definition of market value as defined in 12 CFR 34,42 and USAP.
____	____	(3)	Is the appraiser state certified and in compliance with all regulations of his Professional Appraisal organization?
____	____	(4)	Is the appraisal written and presented in complete narrative form?
____	____	(5)	Is the appraisal sufficiently descriptive to enable the reader to ascertain the estimated market value and rationale for the estimate?
____	____	(6)	Is the type of appraisal report clearly identified?
____	____	(7)	If subject real estate is an income producing property have you analyzed and reported actual and stabilized revenues, expenses, leases and vacancies?
____	____	(8)	Analyzed and reported on market conditons/trends, etc. that will (or may) affect the property or its performance.
____	____	(9)	Included in the appraisal market data for supply/demand considerations that affect the subject property.
____	____	(10)	Comparable sale properties involving non-profit or public agency participants have not exclusively been used.
____	____	(11)	Comparables have been selected from the local market or from communities with similar prevailing market conditions.
____	____	(12)	Rationale for the selection of a specific unit of comparison analysis is discussed.
____	____	(13)	Adjustments to the sale properties have been applied to the unit values of the sales to reflect the differences that have an impact on value. The adjustments are described to the degree that the reader can follow and understand the logic and reasonableness of the analysis.
____	____	(14)	Comparable sale properties employed within the appraisal are adequately described.
		(15)	Analyzed and reported discounts/deductions for:
____	____		(a) proposed construction or renovation
____	____		(b) partially leased buildings

____ ____ (c) projects leased at other than market rents, or
____ ____ (d) tract developments with unsold units.

(16) Used all three approaches to value:
____ ____ (a) cost approach
____ ____ (b) sales comparison approach
____ ____ (c) income approach
____ ____ (d) explanation of why any of these approaches were not used.

____ ____ (17) Value the land by an appropriate appraisal method or technique, if applicable.

____ ____ (18) If the project is a Low Income Housing Tax Credit development, the report includes a land value estimation or allocation for the subject property. The land value is supported by means of a comparison to similar multi-family development sites.

(19) Separate valuation of:
____ ____ (a) personal property,
____ ____ (b) fixtures,
____ ____ (c) intangible items, and
____ ____ (d) impact of their inclusions/exclusion on the estimate of market value defined.

____ ____ (20) Appraisal includes sufficient documentation to determine the appraiser's logic, reasoning, judgement and analysis?

____ ____ (21) The property's gross income estimate is supported by an analysis of local comparable rents. Evidence regarding comparable rental properties is presented within the report to the degree necessary to support the market rent estimate for the subject property.

____ ____ (22) The property's effective income estimate is based on a market supported vacancy and collection loss estimate.

____ ____ (23) Estimated operating expenses is supported. The discussion includes a review of each expense item and explanation of how the expense item and explanation of how the expense estimates were made.

____ ____ (24) Includes explicit market support for development of overall capitalization rates. The overall capitalization rate is <u>derived directly</u> from multi-family property sales.

____ ____ (25) Capitalization rate was developed with consideration to a poperty's quality, location, condition and overall risk.

____ ____ (26) The value and indication from direct capitalization has been adjusted to reflect items such as required repairs and excess land. The value estimate should be adjusted for items such as repairs required to sustain the forecasted income and expenses. Also, these elements should be treated consistently in the sales comparison approach.

____ ____ (27) Includes certification that the appraisal was not based on a requested minimum valuation, specific valuation, and/or approval of loan.

___	___	(28)	Legal description included.
___	___	(29)	Analyzed and reported a reasonable marketing period.
___	___	(30)	Conform to the Uniform Standards of Professional Appraisal Practice (USPAP).
___	___	(31)	Includes disclosure of any extraordinary assumption or limiting condition that affects the appraisal and indicates its impact on value.
___	___	(32)	Is the purpose, use and extent of the appraisal identified?
___	___	(33)	Includes an analytical discussion of highest and best use for both the vacant land and improved property.
___	___	(34)	Adequately identify real estate and property rights under appraisal?
___	___	(35)	Consider and analyze current agreement for sale, option, or list of the property, along with recent sales history.

COMMENTS: