T. Appraisal Guidelines

Appraisal Information

Appraisals are required to be submitted with the Reservation Application when the applicant is seeking acquisition credits for acquisition rehab and/or adaptive reuse LIHTC developments.

VHDA will accept RD appraisals that include its requested values.

The applicant obtains appraisals independently. However, VHDA reserves the right to order its own appraisal (at the applicant's expense), if it has unresolved questions or concerns about the report. The associated fee will be communicated by VHDA to the applicant in writing.

Regarding 9% LIHTC applications, all questions and concerns regarding the appraisal must be resolved before preliminary rankings. As such, your application could be disqualified if VHDA has to order its own appraisal.

Regarding 4% LIHTC credit applications, all questions and concerns regarding the appraisal must be resolved before the 42m letter is issued.

2019 Appraisal Guidelines

Pursuant to Section 13 VAC 10-180-60 of the QAP, appraisals are required for <u>all</u> acquisition/rehab and adaptive reuse developments, where the applicant is seeking a reservation of low-income housing tax credits. Appraisals are not required if acquisition credits are not requested. VHDA will accept RD appraisals that include the values discussed below.

Appraisers must have a MAI designation from The Appraisal Institute or an ASA - Accredited Senior Appraiser designation from The American Society of Appraisers. Appraisers must be in good standing with the issuing organization at the time reports are completed for VHDA.

Appraisals will be obtained independently by the applicant; however, if there are unresolved concerns about feasibility, VHDA will order its own appraisal.

Appraisal fees are the sole responsibility of the applicant. If VHDA orders an appraisal, the fee will be communicated to the applicant in writing. Appraisals will not be ordered until VHDA receives the appraisal fee, which may result in a delay of VHDA approval and/or the issuance of the Section 42(m) letter.

The appraisal must be no older than six (6) months at the time of application (see “Effective Date” below). For appraisals with an effective date greater than six (6) months (but less than twelve (12) months), if there are no material changes to the development and/or market, the appraiser can provide a letter stating “No material changes since last report dated…” If there are material changes, the appraisal must be updated to include detailed discussion about those changes. No appraisal greater than 12 months old will be accepted.

Appraisals submitted to VHDA in connection with a tax credit application will remain VHDA’s possessions and may continue to be relied upon by VHDA in determining the market feasibility of the proposed development, regardless of any unresolved concerns between the tax credit applicant and the appraiser.

If as a result of the appraisal, the owner/applicant refuses VHDA’s basis for any allocation of tax credits, then the appraisal will not be approved and the tax credit application will be disqualified.

If there are inconsistencies between representations in the tax credit application and those in the appraisal such as architectural features, unit amenities, site amenities, etc., VHDA will rely only upon representations made in the tax credit application (including supporting application documentation).

Appraiser Qualifications

1. The appraiser certifies that at a minimum, the individual assigned to appraise the development has passed The Appraisal Foundation's approved state examination as well as has met its education and experience requirements, including, a course and examination on the Uniform Standards of Professional Appraisal Practice (USPAP) set forth by The Appraisal Foundation.

2. The appraiser warrants that he/she is in compliance with all applicable state and federal licensing and certification regulations in the State of Virginia.

Legal

1. Section 42 of the Internal Revenue Code requires that any relationship between the person preparing the appraisal and the applicant be disclosed prior to its engagement of services. In addition, the preparer **must not** have any interest in the development or relationship with the development's ownership entity.

2. VHDA has no contractual relationship with the preparer of the appraisal. Appraisals are procured directly by the LIHTC applicant and accordingly, the applicant is the client of the appraiser. Therefore, the appraisal should be addressed directly to the client and any representations made by the appraiser should not directly or indirectly communicate that the appraiser is representing VHDA or in any way acting for, at the request of, or on behalf of VHDA. The appraiser, however, must identify VHDA as an authorized user of the appraisal, noting that VHDA may rely on the representations made therein.

3. VHDA reserves the right to convey a copy of the appraisal to third parties, assigns and pertinent parties involved in the contemplated allocation of tax credits.

4. The appraiser agrees to indemnify, defend and hold VHDA, its directors, officers and employees harmless from any and all claims losses, costs (including attorney's fees) and liabilities associated with the preparation of the appraisal.

Values Requested

VHDA will consider the value of existing below-market rate financing and real estate tax abatement.

The appraiser will complete the Sales Comparison and Income Capitalization Approaches to value. The capitalization rate used in the Income Approach should be supported by an analysis of sales data extracted and verified from the market, investor sources and published data such as the Korpacz Real Estate Investor Survey. If the Band of Investment Method is used, the mortgage and equity rates should be adequately supported in the report.

Sub-market as discussed in these requirements is defined as the subject development's neighborhood.

1. Land "Only" Value
   The idea here is that the value of the land is the same with or without improvements/restrictions. This value should be based on similar land sales in the sub-market or the value of the "land only" of improved sales in the sub-market.

2. As-Is Building Value (Market and Restricted – not including land)

   - **Market:** as if market rents are in place; the appraiser will not consider the unique aspects of below-market financing, federal subsidies and/or low-income tax credits in this value estimate

   - **Restricted:** based on current restricted rents (not inflated); the appraiser will consider the unique aspects of below-market financing, federal subsidies and/or low-income tax credits in this value estimate If applicable, the appraiser will estimate the contribution to value of all necessary off-site improvements (e.g. water, sewer, etc.). The estimated dollar contribution for the off-site improvements should be based on the value they add to the site after their installation and not on cost.

3. Prospective Value Upon Achieving Stabilized Occupancy and/or completion of rehab (Market and Restricted – not including land)

   - **Market:** as if market rents will be in place; do not consider below-market financing, federal subsidies or low-income tax credits for this value estimate

- **Restricted:** based on estimated future restricted rents; consider below-market financing, federal subsidies and low-income tax credits for this value estimate

- **Prospective Future Market Value assuming income restrictions as set forth in the VHDA Regulatory Agreement:** either (a) 20% at 50% AMI AFS, 80% at 150% AMI or (b) 40% at 60% AMI AFS, 60% at 150% AMI; the appraiser should assume the current financing will remain in place.

The Report

1. The appraisal must be submitted to VHDA by the LIHTC applicant.

2. The appraisal should be in PDF/electronic format. VHDA should be able to select, cut and copy text**.**

3. The appraisal shall consist of a complete self-contained Title XI narrative report. A statement must be included in the Letter of Transmittal that the appraisal is prepared in conformance to the Uniform Standards of Professional Appraisal Practice (USPAP) published by the Appraisal Foundation and Title XI of the Federal Financial Reform, Recovery and Enforcement Act of 1989 (FIRREA).

4. The primary appraiser should sign the report. All personnel assisting in the preparation and analysis of the appraisal should be identified in the report by name and title.

5. For VHDA purposes, **the date of the site inspection is the Effective Date of the appraisal**. The Effective Date of the appraisal must be obviously stated on the cover page or in the Executive Summary section. A site inspection by the appraiser **must** occur within 12 months of VHDA's application deadline.

6. The appraiser will supply evidence of Errors and Omissions Insurance and a copy of State Certification in the Addenda of the report.

7. The appraiser will indicate in the Letter of Transmittal and the Summary of Important Conclusions, any special Assumptions and/or Limiting Conditions pertaining to the appraisal assignment.

8. The appraiser will review Federal Emergency Management Agency (FEMA) flood insurance rate map to determine and report the flood zone. Include this information in the summary section of the report.

9. The appraiser must make contact with the local municipal zoning office. The appraiser will verify in detail the level of conformity of the development to the applicable zoning code. In addition, the appraiser will indicate the threshold and reconstruction limits in the case of a legal non-conforming use.

10. The appraiser must make contact with the local municipal zoning office. The appraiser will verify in detail the level of conformity of the development to the applicable zoning code. In addition, the appraiser Page 4 of 7 will indicate the threshold and reconstruction limits in the case of a legal non-conforming use.If the development is located on a subdivided parcel, the appraisal must be broken down by subdivision.

11. The appraiser will present and analyze the current and projected real estate tax imposition of the development, including the most current tax and assessment data. The projection should include tax abatement, if applicable.

12. The legal description must be included in the report or as a part of the Addendum.

13. The primary appraiser or a designated representative will personally inspect the subject development and comparable properties. Every effort should be made to include the most comparable income & expense comps, as well as sales comps (i.e. located in the subject's sub-market and/or 3-5 mile radius of the subject). For example, if the subject is a "seniors only" development, seniors comps should be used. In any event, rents should be stated for the exact affordability of the subject units.

14. In addition to pertinent information (i.e. address, # units, etc.), the appraiser will include photos of each comparable development, as well as a map, which shows the comps' proximity to the subject development.

15. The narrative discussion throughout the report should address issues that relate to the fact that the development is a LIHTC development.

16. The appraiser will determine and fully explain what you believe is the Remaining Economic Life of the development, after rehab/construction completion.

17. The appraisal should focus on historical and budgeted operating statements of the subject and market data.

Sample Income & Expense Breakdown

Income	Expenses
Gross Potential Rent	Real Estate Taxes
Laundry Income	Insurance
Parking Income	Licenses and Permits
Cable Income	Gas
Miscellaneous	Electricity
	Water & Sewer
	Cable
	Trash Removal
	Pest Control
	Building Maintenance and Repairs
	Swimming Pool
	Grounds Maintenance
	(Non-resident) Management Fee
	Apartment Allowance
	Administrative Salaries
	Maintenance Salaries
	Payroll Taxes and Benefits
	Advertising
	Office Expense
	Legal & Audit
	Other

Suggested Appraisal Outline

Section 1.0 Executive Summary
Note: the Executive Summary should include a summary of all final values
Section 2.0 General Information
Section 3.0 Market Area (Physical and Environmental Forces)
Section 4.0 Site & Improvements
- Site Description
- Taxes and Assessments
- Improvements Description
- Policies and Tenant Profiles
- Functional/External Obsolescence

Section 5.0 Highest & Best Uses
Section 6.0 Valuations
- Land Value - As-Is
- Building Value - As-Is & Prospective Market Rent Values - assuming market rents.
- Building Value - As-Is & Prospective Restricted Rent Values - assuming restricted rents; also considers below-market financing, federal subsidies or low-income tax credits.

Section 7.0 Appendices