



Appraisal Requirements

Pursuant to Section 13 VAC 10-180-60 of the QAP, VHDA will order appraisals for rehabilitation and adaptive reuse developments receiving a reservation of low-income housing tax credits primarily where there is an identity of interest between purchaser and seller. Also, VHDA, at its discretion, will order appraisals if there are unresolved concerns about feasibility. The exception to VHDA ordering the appraisals is rehab and adaptive reuse developments that have Rural Development ("RD") financing. In this instance, VHDA will accept the RD appraisals that contain the values referenced below. Where it is necessary for VHDA to order an appraisal, fees will be based on the complexity of the assignment and will be the sole responsibility of the Owner. VHDA will communicate the fee to the Owner in writing. For Tax-Exempt Bond developments, the fee is due when VHDA notifies the Applicant of the appraisal fee (typically within 7-10 days of receiving the Application). For 9% developments, the fee is due with the signed Reservation Agreement. Appraisals will not be ordered until VHDA receives the fee, which may result in a delay of the issuance of the Section 42(m) letter.

To ensure a consistent level of quality in appraisal reports and to reduce administrative costs, VHDA will maintain its list of appraisers whom it has pre-qualified to appraise "LIHTC" properties.

Regarding appraisals that VHDA will accept from RD, the appraisal must be no more than six (6) months old at the time of the low-income housing tax credit (LIHTC) Reservation. For appraisals that are greater than six (6) months old, if there are no material changes to the development and/or market, the appraiser can provide an Update Letter. 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.

Any appraisal submitted to VHDA in connection with a Tax Credit Application will remain VHDA's possession 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 appraisal analyst or firm.

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) as the .

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 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.
3. 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 (should not include 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

The Report

1. The final report will be submitted to VHDA no later than the date agreed, per the Notification to Proceed Letter, which will be submitted to the prospective appraiser at the time of engagement.

2. 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).
3. 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.
4. The effective date of the appraisal will be within 3 weeks of the delivery date.
5. The appraiser will supply evidence of Errors and Omissions Insurance and a copy of State Certification in the Addenda of the report.
6. 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.
7. 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.
8. 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.
9. If the development is located on a subdivided parcel, the appraisal must be broken down by subdivision.
10. The appraiser will analyze the current and projected real estate tax imposition of the development and indicate that contact was made with the local assessor in the process of gathering (most recent) tax and assessment data. The estimate should include tax abatement, if any. The appraiser should defend or dismiss the assessor's split (in value) between the land and building.
11. The legal description must be included in the report or as a part of the Addendum.

12. 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 (preferably within a 3-5 mile radius of the subject). For example, if the development is a "seniors only" development, seniors comps should be used, LIHTC then LIHTC. In any event, rents should be stated for the exact affordability of the subject units.
13. 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.
14. Regarding due diligence and site visits, the appraiser will first correspond with the VHDA Allocation Officer who engaged him/her to complete the appraisal. The Officer will compile due diligence provided by the owner/developer then forward it to the appraiser.
15. The narrative discussion throughout the report should address issues that relate to the fact that the development is a LIHTC development, e.g. the Area and Neighborhood Analysis sections may discuss how common these projects are in the development's sub-market, defined as within a 3-5 miles radius of the subject development.
16. The appraiser will define clearly the neighborhood boundaries.
17. The appraiser will determine and fully explain what you believe is the typical marketing/absorption period for the development and explain how this determination affected your value conclusions.
18. The appraiser will determine and fully explain what you believe is the Remaining Economic Life of the development, after rehab/construction completion.
19. 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 Market Analysis

Supply Analysis

- Existing Low-Income Housing
- Proposed Low-Income Housing
- Existing Market Rate Housing
- Proposed Market Rate Housing

Demand Analysis

- Population Trends
- Household Formation & Density
- Household Income & Affordability
- Waiting Lists for Affordable Units
- Income-Eligible Residents
- Annual Demand Estimate

Conclusions of Supply & Demand Analyses

- Unmet Demand
- Capture and Penetration Rates

Section 6.0 Highest & Best Uses

Section 7.0 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 8.0 Appendices