

APPRAISAL REPORT SPECIFICATIONS

Acquisition /Rehabilitation

The appraisal report must be prepared by a person or firm who has demonstrated experience in preparing appraisal reports for lenders, similar to the one being proposed. The appraiser must be approved by CalHFA prior to commencement of work. The appraisal shall be prepared in compliance with the requirements of the Uniform Standards of Professional Appraisal Practice (USPAP) as provided by the Appraisal Foundation and federal banking regulatory agencies. The appraiser shall meet USPAP's Competency Rule for performing the appraisal.

The appraiser must not have any identity of interest with the developer, borrower, seller of the land, or any other party with ownership interest in the development.

The final report must be prepared for and addressed to the California Housing Finance Agency, to the attention of the below designated contact. CalHFA is analyzing the feasibility of making an acquisition, construction, and/or long-term permanent loan. Three (3) copies of the report are required. If the final report is not addressed to CalHFA, the appraiser must issue a reliance letter satisfactory to the requirements of CalHFA. Not more than 90 days shall have passed since the completion of the report.

1. Purpose - The purpose of this appraisal is to estimate the following for the subject property:

- A. Land Value as if vacant
- B. Market value "as is" based upon unrestricted rents.
- C. "As is" value based upon any currently restricted rents.
- D. Prospective market value "as improved" based upon unrestricted rents.
- E. Prospective value "as improved" based upon restricted rents
- F. Investment Value of the Property.

Definition of Values Requested:

All values to be shown **with and without** property taxes if the property either currently is, or will be, the beneficiary of any Welfare Tax Exemption or other property tax exemption.

- **"Market Value 'As Is'"** means an estimate of the market value of a property in the condition observed upon inspection and as it physically and legally exists without hypothetical conditions, assumptions, or qualifications as of the date of inspection.
- **"Adjusted Market Value" (Applicable only if Tax Credits are Involved)** means taking into account the three year decontrol provisions of IRC Section 42(h)(6)(E)(ii).
- **"Restricted Value"** means "Market Value" assuming the Property to be encumbered by a governmental or private restriction governing rents and tenant income levels for a term.

- **“Investment Value”** means the Investment Value assuming restricted rents and including the value of Low Income Housing Tax Credits and the value of beneficial financing.

The report should include the three (3) approaches to value or explain why any approach is not used:

- Cost
- Market/Direct sales
- Income Capitalization Approach

This approach to an estimated value requires detailed market review to determine the estimated monthly rental charge expected to be collected from occupants, estimated operating expenses (including a Replacement Reserve Account), estimated vacancy rate/collection loss and absorption period.

The estimated monthly rental charge should be un-trended. The estimate should be what the rents would be as of the date of the market study. The vacancy/collection loss shall be the higher of 5% or the estimated vacancy rate prevailing in the market.

The absorption period should reflect the best estimate of how long it will take to achieve occupancy of 95% of the units and the amount of estimated lost net income during this period. The estimate should be supported by actual absorption periods for recently (past 18 months) completed comparable developments, estimated demand based on current vacancy rates and market demand for proposed product. The absorption period should take into consideration other competing developments currently under construction or estimated to commence construction and be in their rent-up stage during the construction and rent-up of the proposed development. The amount of the estimated lost income during the absorption period should be reflected in the “Market Value as if completed on appraisal date” (value at time of completion).

The Appraisal Report should include:

- Listings of all rental housing developments (15 or more units, including restricted and non-restricted units) in the locality of the market area. The purpose of this list is for CalHFA to determine where the proposed development is in the competitive marketplace.

Listings to include:

- a. Total Number of Units
- b. Address (Street and nearest cross street)
- c. Year built
- d. Rent Rates
- e. Amenities

- Listing of rental developments of 15 or more units (including restricted and non-restricted units) in the planning or development stage as noted below. The purpose of this information is to indicate current activity in the proposed development’s market area, and to consider this information in determining the proposed development’s estimate income structure and absorption period. Listings are to include:

- a. Those under construction
- b. Permits obtained where construction has not started
- c. Developments approved by local government to obtain permits
- d. Applications submitted to local government to approve conditional use permits and/or building plans

For the subject property:

- Area Description
- Neighborhood
- Site
- Proposed improvements to include:
 - a. Building elevations
 - b. Unit floor plans
 - c. Amenities
 - d. Landscaping
 - e. Construction type and quality
 - f. Existing construction type and quality
- Expenses – Provide three (3) expenses comparables from within the market area to support the subject’s stabilized operating budget as well as the subject’s last three years of expenses.

2. Function:

The report is intended for use by the California Housing Finance Agency (CalHFA) for loan underwriting. It may be used in connection with the acquisition, disposition and financing of the sale of the property.

3. Interest Appraised:

Fee Simple

4. Dates of Values:

- Date of Report: Date appraisal is prepared.
- Market Value "As Is": Date of property inspection (current date). (The date of the "As Is" value must be within 30 days of the submission of the appraisal report.)
- Investment, Restricted Value, Date of physical inspection.
- Prospective market value is date of stabilized occupancy, as appropriate, but based upon property’s condition at Date of physical inspection, including improvements proposed to be made without adjustments for inflation or depreciation.

5. Timing:

Appraisal is to be completed within 30 days of appraiser’s acceptance of the assignment.

6. Confidentiality/Fiduciary Duty:

Do not provide the loan applicant, property owner, or borrower with a draft copy. Once the appraisal is finalized and approved by CalHFA, the client, and the designated **construction lender ()** are entitled to receive the report.

7. Addenda:

The following items must be inserted within the addendum of your appraisal.

- A. Engagement Letter
- B. Evidence of Current Appraisal License
- C. Appraiser's resume evidencing experience with project type, scale, and financing programs.

8. Appraisal Type:

Complete, self-contained, narrative report meeting current USPAP standards.

9. Supplemental Requirements and Additional Comments:

- A. Subcontracting of this assignment is not permitted. The contracting appraiser must inspect the subject property and sign the appraisal report. The contracting appraiser must be the sole contributor to the analysis and value conclusions. If more than one person signs the certification, the certification must clearly specify which individuals did and which individuals did not make a personal inspection of the subject property. If anyone other than the person signing the certification provided significant real property assistance to the person signing, the name of each individual providing that significant appraisal assistance must be stated.
- B. The appraisal must comply with these CalHFA Appraisal Requirements which shall be incorporated into the engagement letter agreement.
- C. Your appraisal must discuss if the subject property is known to be affected by and/or needs to comply with the Americans with Disabilities Act of 1990. Address any known areas of noncompliance including the potential impact on value and/or marketability.
- D. If you discover any apparent environmental problems with the subject property that could impact its value, you must contact CalHFA's below designated representative immediately. We will order or arrange for an environmental report. Your appraisal must then include a discussion of that environmental problem and its effect on value.
- E. **CALL AND/OR E-MAIL YOUR CalHFA CONTACT IMMEDIATELY IF YOU DISCOVER THAT AN "AS IS" VALUE CANNOT BE ESTIMATED BECAUSE OF LACK OF INFORMATION.** Some information vital to the completion of this appraisal report may be missing from the appraisal package. It is our understanding that such information may be unavailable. If you find this to be the case you may seek authorization to limit the appraisal report to account for the lack of any vital information prior to completing the report. The appraisal report must state that you are limiting the report and must tell the reader why you are doing so.
- F. The appraisal must identify furnishings, fixtures, and equipment at the subject property no matter how insignificant and discuss the impact of their inclusion or exclusion on the estimate of value.

- G. If the assignment is delayed by lack of cooperation of the borrower or other involved parties, you should inform CalHFA immediately by telephone or memo.
- H. The certification should include the statement "the appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan."
- I. CalHFA is committed to supporting fair lending practices in the appraisal process and will not tolerate discrimination or discriminatory references in any form. State regulations prohibit discrimination due to race, color, religion, sexual orientation, handicap, familial status, or national origin in the selling, brokering or appraising of real property.

Because of CalHFA's commitment to fair lending practice, any appraisal report done for CalHFA should be factual in reporting neighborhood trends and/or market conditions and use specific terms that do not suggest racial or ethnic background to the reader. Comments in an appraisal report that address an unfavorable condition should address the extent of the problem, any adverse effect on the value and/or marketability of the properties in the affected area, and how any unfavorable conditions were handled in determining the final estimate of value. The appraisal should avoid the use of subjective terms or phrases.

It is unacceptable to make a descriptive comment that is not supported by factual information contained in the report.

IMPORTANT:

The Report should also reflect any current or planned community development or redevelopment which will have an impact on the development's operation and/or value.

Your Contacts are:

Property Contact:

Name, Title _____
 Company _____
 Address _____
 City, State _____
 Phone _____
 Fax _____
 Email _____

CalHFA:

Name, Title _____, Multifamily Loan Officer
 Company California Housing Finance Agency
 Address 500 Capitol Mall, Suite 1400
 City, State Sacramento, California 95814
 Phone (916) 326-8806
 Fax (916) 327-5115
 Email _____@calhfa.ca.gov

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