APPRAISAL REPORT SPECIFICATIONS

NEW CONSTRUCTION PERMANENT TAKE-OUT LOANS

CalHFA is analyzing the feasibility of making a construction and/or long-term permanent loan. The appraisal report must be prepared by a person or firm who has demonstrated experience in preparing appraisal reports for lenders, like the appraisal being requested. 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, conform to Title XI of the Federal Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) all fair lending laws and regulations, and California Civil Code Section 1090.5. 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. One hard copy and a PDF of the Appraisal report are required to be delivered to CalHFA upon completion. If the final report is not addressed solely to CalHFA, thereupon with the understanding and concurrence of the Agency, CalHFA must be identified as an intended user.

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

A. Land Value as if vacant

B. Prospective Market Value Upon Completion of Construction without restrictions

C. Prospective Market Value Upon Attaining Stabilized Occupancy as restricted (including with and without CA Welfare Tax Exemption)

D. Adjusted Market Value of the Property with decontrol period[1].

E. Investment Value of the Property upon completion of construction.

F. Insurable Replacement Value upon completion of construction.

Definition of Values Requested:

- **"Prospective Market Value Upon Completion of Construction"** means a forecast of market value expected to occur at the estimated date of completion of construction. This value premised on market conditions forecast to exist as of that completion date.

- **"Prospective Market Value Upon Attaining Stabilized Occupancy"** means a forecast of market value expected to occur at the estimated date of stabilized occupancy. This is the prospective market value of the property at a point in time when all improvements have been physically constructed and the property has been leased to its optimum level of long-term occupancy.

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[1] The decontrol period is a three-year period during which any owner of the property is prohibited from (i) evicting or terminating the tenancy of any low-income tenant other than for good cause, or (ii) increasing the rent for any such tenant above the rent-restricted rate established by the state housing agency. https://www.thompsoncoburn.com/insights/blogs/credit-report/post/2015-04-07/lihtc-exit-strategies-foreclosure

- **“Adjusted Market Value” (*Applicable only if Tax Credits are Involved*)** means considering the three-year decontrol provisions of IRC Section 42(h)(6)(E)(ii).

- “**Restricted Value”** means "Market Value" assuming the Property to be (i) encumbered by a governmental or private restriction governing rents and tenant income levels for a term, and (ii) benefited by a reduction in, or exemption from, property taxes in the event that it will be owned by a non-profit entity and (iii) **(*Applicable only if there is a Project Based Section 8 Contract)*,** benefited by the annuity value of a project-based Housing Assistance Contract, for the term of the contract, if applicable.

- “**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.

- “**Insurable Replacement Value”** means the value of the asset or asset group that is covered by an insurance policy, based upon the replacement or reproduction cost of physical items that are subject to loss from hazards.

The report should include the three (3) approaches to value:

- 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 analysis. 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 the proposed product. The absorption period should take into consideration other competing developments currently under construction or projected 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 as defined by CalHFA. 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. Year built
c. Address (Street and nearest cross street)
d. Current Rents

- 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 for approval of conditional use permits and/or building plans

- Area Description
- Neighborhood Description
- Site Description
- Description of the proposed improvements to include:

a. Building elevations
b. Unit floor plans
c. Amenities
d. Landscaping
e. Construction type and quality

- Summary of Typical Expenses – Provide 3 expense comparables from within the market area to support the subject's stabilized operating budget.
- Regardless of whether the project is expecting to receive a property tax exemption, the appraisal should provide the most recent tax assessment on the property.

- If applicable, this section should also address the following Freddie Mac Multifamily Appraisal requirements:

  - Extraordinary assumptions or hypothetical conditions that impact the appraised value
  - As-Is vs. As-Stabilized values
  - Sales history of the property (purchased out of foreclosure, purchase price inconsistent with the appraiser's estimate, etc.)
  - Whether any physical or legal issues impact the valuation and to what extent (e.g., ground leases, commercial leases, shared access agreements, shared amenities, regulatory agreements, local occupancy covenants that will be recorded senior to new financing, etc.)
  - If value was attributed to a tax abatement, note the $ amount attributed to the value, the years of tax savings incorporated into the DCF approach and the discount rate the appraiser used.
  - Whether the cap rate is reasonably supported.
  - For unstabilized properties, discussion of lease-up, loss-to-lease, concessions, absorption, unusual obsolescence, cost of repairs, etc.
  - If significant commercial space is present at the property, note if the appraiser applied a different cap rate on the commercial space income or used a blended cap rate approach.

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.
- Prospective Values: Date of completion of Construction or date of stabilized occupancy, as appropriate.

5. Timing:

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

6. Confidentiality/Fiduciary Duty:

You are not to discuss the anticipated values with the loan applicant, or provide the loan applicant, property owner, or affiliated parties with a copy of the draft appraisal. Once the appraisal is finalized and approved by CalHFA, the client, and the designated **construction lender ( )** are entitled to receive a copy of the Appraisal .

7. Addenda:

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

A. Engagement Letter
B. Evidence of Current Appraisal License

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. **CONTACT YOUR CalHFA CONTACT IMMEDIATELY IF YOU DISCOVER THAT AN "AS IS" or "PROSPECTIVE HYPOTHETICAL" 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 are authorized to limit the appraisal report to account for the lack of any vital information. 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 Appraiser's 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 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.

<u>Your Contacts are:</u>

Property Contact:

CalHFA:

________________________, Multifamily Loan Officer
California Housing Finance Agency
500 Capitol Mall, Suite 1400
Sacramento, CA 95814
(916) 326-______
(916) 327-5115~ facsimile
e-mail: ________________@calhfa.ca.gov

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