

Appraisals in 2021



Strength, Dignity, Quality of Life

MISSOURI HOUSING

DEVELOPMENT COMMISSION

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Appraisal Fee

Appraisal fees are to remain the same at \$6,500 for upcoming appraisals.

A blank check form with the following fields and text:

- Top right corner: 5284
- Left side: PAY TO THE ORDER OF
- Right side: \$ []
- Below the dollar sign: DOLLARS
- Bottom left: FOR
- Bottom center: ⑆ 22222222 ⑆ 123 111 555⑆ 5284

Ordering Appraisals

Appraisals will be ordered shortly after the Developer Workshop. If for any reason, the appraisal needs to be delayed, contact your underwriter as soon as possible.

Definitions

- Market value defined: The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:
 1. Buyer and seller are typically motivated;
 2. Both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest;
 3. A reasonable time is allowed for exposure in the open market;
 4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
 5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Definitions

- Appraisal: The act or process of developing an opinion of value. An appraisal is *not* what someone paid for a property – that is price which may or may not approximate value.
- Investment value defined: The specific value of a property to a particular investor, ... based on individual investment requirements; distinguished from market value, which is impersonal and detached.

Definitions

MHDC orders market value appraisals, the conclusions of which may be different from the investment needs of each individual deal.



State law requires appraisers to follow a set of rules called USPAP. USPAP states the required content of an appraisal report. Violations in appraisal development could result in sanctions up to and including loss of license.

Appraisers take this very seriously!

Appraiser Habitude

- ❖ An appraiser is only as good as their data.
- ❖ An appraiser should observe the market and make decisions based on that and not unduly impose their preconceptions on the conclusion.
- ❖ A good appraiser is one who tells the truth.
- ❖ Line up 20 good appraisers and they may point in all directions.



Approaches to Value

- Cost: Adds land value to replacement cost of the structure to be built, less depreciation, if any. Typically does not consider value of tax credits and should provide a market value of the fee simple estate.
- The figures in your Total Development Cost breakdown are compared to cost figures published by Marshall & Swift Valuation Service which is a decades-old nationally recognized cost data service used by appraisers all over the country.
- RCN – Any Depreciation + Site Value = Value via Cost Approach



NOT COST



Approaches to Value

- Income: The PRIMARY approach when it comes to income property. The appraiser takes the figures shown on the Conditional Reservation FIN 100 and compares them to the market to see if they are reasonable.
- Estimates rents, deducts vacancy and estimated expenses to derive a net operating income. Then capitalizes the NOI into a value estimate. Used for valuations with and without tax credit considerations.



Why get an Appraisal?

- ❖ Appraisals provide a 3rd party opinion to us as to the values involved in your deal and appraisals can provide us with additional perspective on your application.
- ❖ Appraisals are one of the steps in our due diligence process.
- ❖ Appraisals assist in good stewardship of the public's money.



Appraisal Processing

- ❖ A 30 day turnaround time is budgeted for each report which is about 20 business days, but sometimes it takes longer.
- ❖ The market study is no longer provided to the appraiser.
- ❖ We will take a look at, and consider, any appraisal you may have, but we will still order our own.



Appraisal Processing

If there is a conflict in appraisal expectations -



every reasonable effort will be made to resolve it.

What Appraisal Content do We Order?

- That the appraiser certifies that they have not reviewed the market study developed for this property.
- Market Value of the Site, whether vacant or not.
- Market Value “as-is” (with any existing buildings) without consideration to any value created by tax credits.
May or may not = or \neq acquisition cost.
- Market Value “as complete” with market rents and expenses (when the “paint is dry”).
- Market Value “as stabilized” with market rents and expenses (when operating normally).
- (These four are the same as if the project were conventional apartments financed through a regular bank).



What Additional Content do we Order?

•MHDC also orders:

1. Market Value “as complete” with restricted rents and expenses.
2. Market Value “as stabilized” with restricted rents and expenses.
3. Market Value of tax credits (LIHTC and/or historic)
4. Present Value (Market) of any below market financing

(These are unique to LIHTC)



Estimating the Land Value of Tax Credit Projects

IF IMPROVED:

The site value is to be estimated using a capitalization rate and project Net Operating Income (NOI) as if the units and the project were unrestricted and market rate, without considering:

- a) any additional value that may be attributable to subsidies available to the project or to any LIHTCs or other tax benefits the project will receive, or
- b) any value reduction due to any NOI or value limitations caused by regulatory agreements or affordability restrictions imposed by any subsidy program or tax regulation.



IF VACANT:

- a) If the site is vacant, then use sales of land with a multi-family highest and best use (if available).

Section 8 As-Is Value (HUD Guidance)

- Generally, we require appraisers to use market rents and expenses to estimate the fee simple value.
- Market expenses attributed to the subject should not be speculative and should bear some reasonable relationship to the project operating history, understanding that some savings in operating expense line items may be gained when proposed repairs are completed.
- For valuation of existing projects, operating expenses must be adjusted on the basis of comparable projects, but will primarily be based on the past three years of operating experience for the subject project – if available.
- All projects must be analyzed as independent operations and must not reflect shared expenses from nearby projects under the same management, including shared insurance premiums.
- When the acquisition price exceeds the “as is” value of the land and improvements (as accepted by HUD), then the acquisition price MAY BE reduced to the “as is” value.

Rent Determination

- Some projects, especially senior properties, offer a lot of services. Some appraisers opine that such properties are akin to Independent Living Facilities, and use such properties as rent comps.



- THEY SHOULDN'T.

- Rents at these properties can range from \$1,500 to \$2,500 per month. At a minimum, MHDC will not consider as rent comparables properties that require state certification/licensing, mandatory meals or other services made mandatory for occupancy, or non-shelter and optional services included in the underwriting of net operating income.

Project Based Section 8 and LIHTC Processing

- The project must be evaluated as the “hypothetical market value” of the project without regard to any Section 8 project based subsidies, rent restrictions or LIHTC.
- Market Value: The appraiser must ignore the Section 8 contract rents, tax exempt bond or LIHTC restricted rents when determining market value and the income to be capitalized for a determination of market value. To be consistent, the appraiser must use a market capitalization rate and must assume market rents in the income approach to value.
- Note that the comparable sales approach to value must be completed without regard to Section 8 or LIHTC awards.

Thank you . . .

Any Questions?

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