

APPRAISAL MANUAL

Appraiser Qualifications

All appraisers must be State Certified General by the Georgia Real Estate Appraiser's Board and participate in continuing education as required. The appraiser selected for an assignment should have, at a minimum, five (5) years appraisal experience, preferably in a combination of affordable housing and multi-family properties. An appraiser will not be excluded from consideration solely by virtue of membership or lack of membership in any particular appraisal organization. It is however, desirable, but not required, for the appraiser to have a professional designation or be an active member in a professional accredited appraisal institution. An appraiser must demonstrate competency, expertise, independence, and the ability to render a high quality, written report. The appraiser's experience and educational background will provide general basis for competency.

APPRAISAL GUIDELINES

Appraisal reports prepared for the Georgia Department of Community Affairs ("DCA") must be presented in narrative format or other approved format appropriate for the transaction as approved by DCA. The scope of the appraisal report should be in proportion to the complexity of the property and the intended use of the appraisal. The appraisal should, at a minimum, conform to generally accepted appraisal standards as evidenced by the Uniform Standards of Professional Appraisal Practice (USPAP) which are incorporated into this manual.

USPAP permits either the results of the appraisal may be communicated in a "Self-contained," "Summary" or "Restricted" report format as defined by USPAP. Unless otherwise instructed, all reports must be a **complete** appraisal in a Self-contained format.

Per the advisory opinions provided by USPAP, preparation of appraisals for subsidized housing in compliance with USPAP requires knowledge and experience that goes beyond typical residential appraisal competency. Subsidized housing may be defined as single or multi-family residential real estate targeted for ownership or occupancy by low or moderate-income households as a result of public programs and other financial tools that assist or subsidize the developer, purchaser, or tenant in exchange for restrictions on use and occupancy. The United States Department of Housing and Urban Development (HUD) provides the primary definition of income and asset eligibility standards for low and moderate-income households. Other federal, state, and local agencies define income eligibility standards for specific programs and development under their jurisdiction.

USPAP further states that subsidized housing appraisals require the appraiser to understand the various programs, definitions, and pertinent tax considerations involved in the particular assignment applicable to the location and development. An appraiser should be capable of analyzing the impact of the programs and definitions in the local subsidized housing submarket, as well as in the general market that is unaffected by subsidized housing programs. Appraisers should also be aware of possible political changes that will affect the durability of the benefits and restrictions to subsidized

housing projects and fully understand interpretation and enforcement of subsidy programs.

Appraisal Rules and Guidelines

General Provisions

Self-contained reports must describe sufficient and adequate data and analyses to support the final opinion of value. The final value(s) must be reasonable, based on the information included. Any Third Party reports relied upon by the appraiser must be verified by the appraiser as to the validity of the data and the conclusions.

The report must contain sufficient data, included in the appendix when possible, and analysis to allow the reader to understand the property being appraised, the market data presented analysis of the data, and the appraiser's value conclusion. The complexity of this requirement will vary in direct proportion with the complexity of the real estate and real estate interest being appraised. The report should lead the reader to the same or similar conclusion(s) reached by the appraiser.

DEFINITIONS

The following terminology is employed in the review process and is defined as follows:

Appraisal: the act or process of developing an opinion of value; an opinion of value, of or pertaining to appraising and related functions such as appraisal practice or appraisal services.

The Appraisal is to be performed in accordance with current Uniform Standards of Professional Appraisal Practice (USPAP) published by the Appraisal Foundation.

Appraisal Standards: Minimum requirements established by USPAP and supplemented by the lender or credit enhancement provider.

Capitalization Rate: A capitalization rate is used in the Direct Capitalization method. It is used to convert an estimate of a single year's income expectancy or an annual average of several years' income expectancies into an indication of value in one step by dividing the income estimate by the rate. The rate is typically derived from market analysis or through other quantitative methods.

Discount Rate: A rate of return on capital used to convert future payments or receipts into present value.

Discounting: The procedure used to convert periodic income and reversions into present value based on the assumption that benefits received in the future are worth less than the same benefits received now.

Fee Appraiser: An appraiser not employed by DCA, a lender or credit enhancement provider other than in connection with a specific appraisal assignment who has no interest, direct or indirect, financial or otherwise, in the property appraised or the transaction.

Intended User: The client and any other party as identified, by name or type, as users of the appraisal, appraisal review, or appraisal consulting report by the appraiser on the basis of communication with the client at the time of assignment.

Investment Value: The specific value of a property to a particular investor or class of investors based on individual investment requirements; distinguished from market value, which is impersonal and detached.

Market Value: 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 and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition are the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- Buyer and seller are typically motivated;
- Both parties are well informed or well advised, and both are acting in what they consider their own best interests;
- A reasonable time is allowed for exposure in the open market;
- Payment is made in terms of U.S. dollars or in terms of financial arrangements comparable thereto; and

- The price represents the normal consideration for the property sold unaffected by special or creative financing or sale concessions granted by anyone associated with the sale.

Market Value "As Is" on Appraisal Date: 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 effective date the appraisal is prepared.

Prospective Market Value Upon Achieving Stabilized Occupancy: The value presented assumes the property has attained stabilization which an income-producing real estate project is expected to achieve under competent management after exposure for leasing in the open market for a reasonable period of time at terms and conditions comparable to competitive offerings. The appraiser must state the date of stabilization and the estimated absorption period to achieve stabilized occupancy.

Proposed Scattered Site Development: A project that is constructed, or is to be constructed, as a single development and meets the following criteria:

- Consists of no more than six (6) non-contiguous parcels within a ½ mile radius and a minimum of four (4) residential units per parcel, except for parcels on which the community center is located.

Qualified Appraiser: Any individual who has satisfied USPAP and DCA's, or the lender or credit enhancement provider's, policy on experience and qualifications relating to a specific appraisal assignment. While membership or lack of membership in an appraisal organization may be considered in accepting or rejecting an individual appraiser, the determining factor is the appraiser's professional integrity, education, and experience in addition to his state certification or licensing status. The appraiser's experience and training must be appropriate to the complexity and nature of the proposed appraisal assignment.

State Certified Appraiser: A registered appraiser may perform appraisals on any type of property except when the purpose of the appraisal is for use in a federally related financial transaction.

State Licensed Appraiser: A licensed appraiser may perform any appraisal that is not to be used in a federally related financial transaction and may perform appraisals for use in a federally related transaction in specifically defined categories.

State Certified Residential Real Property Appraiser: A certified residential appraiser may perform any appraisal that is not to be used in a federally related transaction and may perform appraisals for use in a federally related financial transaction in specifically defined categories.

State Certified General Real Property Appraiser: A certified general appraiser may appraise any type of property for any purpose.

USPAP: Uniform Standards of Professional Appraisal Practice established and amended by the Appraisal Standards Board of the Appraisal Foundation.

Value Estimates

The all commissioned appraisal reports shall include the following values:

- As Is Market Value (must include a separate value for land if the As Is Value reflects an improved property)
- Prospective Market Value Upon Completion and As Stabilized (Restricted Rents)
- Prospective Market Value Upon Completion and As Stabilized (Unrestricted Rents)
- Prospective Unrestricted Market Value at Loan Maturity
- Valuation of Tax Credits (including federal, state and historic, as applicable)
- Favorable Financing
- Investment Value, if applicable
- Analysis of Ground Lease, if applicable

If personal property, FF&E, or intangible items are not part of the transaction or value estimate, a statement to such effect should be included.

Date of Appraisal

The appraisal report must be dated and signed by the appraiser who inspected the property. (i.e., appraised engaged by DCA). The date of the valuation, except in the case of proposed construction or extensive rehabilitation, must be a current date.

Appraisal Contents

An appraisal of a development prepared for DCA must be organized in a format that follows a logical progression and must include, at minimum, the following items:

Title Page

- Include identification as to appraisal (e.g., type of process - Complete or Limited; type of report - self-contained, summary or restricted)

- Property address and/or location, housing type
- DCA addressed as the client (or DCA included as an intended user).
- Effective date of value estimate(s)
- Date of report
- Name and address of person authorizing report
- And name and address of appraiser(s)

Letter of Transmittal

- Include date of letter
- Property address and/or location
- Description of property type
- Extraordinary/special assumptions or limiting conditions that were approved by person authorizing the assignment
- Statement as to function of the report
- Statement of property interest being appraised
- Statement as to appraisal process (Complete or Limited)
- Statement as to reporting option (Self-contained, Summary or Restricted)
- Statement that the appraisal is assignable to other lenders or participants in the transaction
- Reference to accompanying appraisal report
- Reference to all person(s) that provided significant assistance in the preparation of the report
- Date of report
- Effective date of appraisal, date of property inspection
- Name of person(s) inspecting the property – the appraiser engaged must inspect the subject property
- Identification of type(s) of value(s) estimated (e.g., fee simple value, leased fee value, leasehold value, etc.)
- Intended User
- Estimate of marketing period
- Signatures of all appraisers authorized to work on the assignment

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Number the exhibits included with the report for easy reference.

Certification

The Certification must be designed in accordance with USPAP and applicable federal regulations, whichever is more stringent. The certification must be signed by each appraiser contributing to the analysis and valuation of the property. If more than one party signs a certification, the document must clearly indicate the extent to which the appraiser(s) contributed to the analysis and investigation of the property. The certification must state that the appraiser retained by the lender inspected the subject property.

Assumptions and Limiting Conditions

Include a summary of all assumptions, both general and specific, made by the appraiser(s) concerning the property being appraised.

Certificate of Value

This section may be combined with the letter of transmittal and/or final value estimate. Include statements similar to those contained in USPAP.

Disclosure of Competency

Include appraiser's qualifications, detailing education and experience.

Identification of the Property

Provide a statement to acquaint the reader with the property. Real estate being appraised must be fully identified and described by street address, tax assessor's parcel number(s), and development characteristics. Include a full, complete, legible, and concise legal description.

Statement of Ownership of the Subject Property

Discuss all prior sales of the subject property which occurred within the past three years. Any pending agreements of sale, options to buy, or listing of the subject property must be disclosed in the appraisal report and analyzed in compliance with USPAP.

Purpose and Function of the Appraisal

Provide a brief comment stating the purpose of the appraisal and a statement citing the function of the report.

Property Rights Appraised

Include a statement as to the property rights (e.g., fee simple interest, leased fee interest, leasehold, etc.) being considered. The appropriate interest must be defined in terms of current appraisal terminology with the source cited.

Definition of Value Premise

One or more types of value (e.g., "as is", "prospective market value at completion and as stabilization") may be required. Definitions corresponding to the appropriate value must be included with the source cited.

Scope of the Appraisal

The amount and type of information researched and the analysis applied in an assignment. Scope of work includes, but is not limited to, the following:

- The degree to which the property is inspected or identified;
- The extent of research into physical or economic factors that could affect the property;
- The extent of data research; and
- The type and extent of analysis applied to arrive at opinions or conclusions.

Regional Area Data

Provide a general description of the geographic location and demographic data and analysis of the regional area. A map of the regional area with the subject identified is required.

Neighborhood Data

Provide a specific description of the subject's geographical location and specific demographic data and an analysis of the neighborhood. A summary of the neighborhood trends, future development, and economic viability of the specific area

should be addressed. A map with the neighborhood boundaries and the subject identified must be included.

Site/Improvement Description

Discuss the site characteristics including the following:

Physical Site Characteristics

Describe dimensions, size (square footage, acreage, etc.), shape, topography, corner influence, frontage, access, ingress-egress, etc. associated with the site. Include a plat map and/or survey.

Floodplain

Discuss floodplain (including flood map panel number) and include a floodplain map with the subject clearly identified.

Zoning

Report the current zoning and description of the zoning restrictions and/or deed restrictions, where applicable, and type of development permitted. Any probability of change in zoning should be discussed. A statement as to whether or not the improvements conform to the current zoning should be included. A statement addressing whether or not the improvements could be rebuilt if damaged or destroyed, should be included. If current zoning is not consistent with the Highest and Best Use, and zoning changes are reasonable to expect, time and expense associated with the proposed zoning change should be considered and documented. An excerpt from the zoning ordinance regarding the subject's allowable uses should be included.

Description of Improvements

Provide a thorough description and analysis of the proposed improvements including size (net rentable area, gross building area, etc.), number of stories, unit mix, number of buildings, type/quality of construction, condition, actual age, effective age, exterior and interior amenities, items of deferred maintenance, etc. (If the property is existing, provide a description of the improvements currently existing). All applicable forms of depreciation should be addressed along with the remaining economic life. Identify architectural plans, including the date and engineer, and include in the report. Floor plans of the proposed improvements should be included in the report. If the proposed improvements per plans and specifications or any other source differ from the application provided by DCA, the appraiser should notify the lender immediately for clarification before proceeding with the appraisal assignment.

Fair Housing

It is recognized appraisers are not an expert in such matters and the impact of such deficiencies may not be quantified; however, the report should disclose any potential violations of the Fair Housing Act of 1988, Section 504 of the Rehabilitation Act of 1973, and the Americans with Disabilities Act of 1990 and/or report any accommodations (e.g., wheelchair ramps, handicap parking spaces, etc.) which have been performed to the property or may need to be performed.

Environmental Hazards

It is recognized appraisers are not an expert in such matters and the impact of such deficiencies may not be quantified; however, the report should disclose any potential environmental hazards (e.g., discolored vegetation, oil residue, asbestos-containing materials, lead-based paint etc.) noted during the inspection. If the appraiser discovers any potential environmental problems that may be unknown to the lender, please notify the lender immediately and cease work on the appraisal unless instructed otherwise.

Highest and Best Use

Market Analysis and feasibility study is required as part of the highest and best use. The highest and best use analysis should consider the following as well as a supply and demand analysis.

- The appraisal must inform the reader of any positive or negative market trends which could influence the value of the appraised property. Detailed data must be included to support the appraiser's estimate of stabilized income, absorption, and occupancy.
- The highest and best use section must contain a separate analysis "as if vacant" and "as improved" (or "as proposed to be improved/renovated"). All four elements in appropriate order as outlined in the Appraisal of Real Estate (legally permissible, physically possible, feasible, and maximally productive) must be sequentially considered.

The appraiser should consider the Market Study provided to DCA which was an exhibit in the LIHTC Application into the analysis, if applicable; however, the appraiser should also perform an independent analysis of the market and rent comparables and shall not rely solely on the Market Study provided to DCA as market conditions may vary from the date of the market study to the effective date of the appraisal report.

Appraisal Process

The Cost Approach, Sales Comparison Approach and Income Approach are three recognized appraisal approaches to valuing most properties. It is mandatory that all three approaches are considered in valuing the property unless specifically instructed by DCA to ignore one or more of the approaches; or unless reasonable appraisers would agree that use of an approach is not applicable. If an approach is not applicable to a particular property, then omission of such approach must be fully and adequately explained.

An adjustment grid demonstrating the appraisal process must be included (i.e., land comparables, sales comparables, and rent comparables).

Cost Approach

This approach should give a clear and concise estimate of the cost to construct the subject improvements. The type of cost (reproduction or replacement) and source(s) of the cost data should be reported. Cost comparables are desirable; however, alternative cost information may be obtained from Marshall & Swift Valuation Service or similar publications. The section, class, page, etc. should be referenced. All soft costs and entrepreneurial profit must be addressed and documented.

All applicable forms of depreciation must be discussed and analyzed. Such discussion must be consistent with the description of the improvements analysis.

The land value estimate should include:

- A sufficient number of sales which are current, comparable, and similar to the subject in terms of highest and best use.
- Comparable sales information should include address and/or legal description, tax assessor's parcel number(s), sales price, date of sale, grantor, grantee, and adequate description of property transferred.
- The final value estimate should fall within the adjusted and unadjusted value ranges.

Consideration and appropriate cash equivalent adjustments to the comparable sales price should be made when applicable:

- Property rights conveyed
- Financing terms
- Conditions of sale
- Location
- Highest and best use
- Physical characteristics (e.g., topography, size, shape, etc.).
- Other characteristics (e.g., existing/proposed entitlements, special assessments, etc.).

Sales Comparison Approach

This section should contain an adequate number of sales to provide the reader with the current market conditions concerning this property type. Sales data should be recent and specific for the property type being appraised. The sales must be confirmed with buyer, seller, or an individual knowledgeable of the transaction.

Minimum content of the sales should include

- Address, legal description, tax assessor's parcel number(s)
- Sale price, financing considerations, and adjustment for cash equivalency
- Date of sale, recordation of the instrument
- Grantor/Grantee
- Type of construction, year built and/or renovated, unit mix, land area, number of stories (for vacant land, include density limits, if applicable)
- Occupancy
- Amenities
- Complete description of the property and property rights conveyed
- Discussion of marketing time
- A map clearly identifying the subject and the comparable sales must be included.

Several methods may be utilized in the Sale Comparison Approach. The method(s) used must be reflective of actual market activity and market participants.

- **Sale Price/Unit of Comparison**

The analysis of the sale comparables must identify, relate and evaluate the individual adjustments applicable for property rights, terms of sale, conditions of sale, market conditions and physical features. Sufficient narrative analysis must be included to permit the reader to understand the direction and magnitude of the individual adjustments, as well as a unit of comparison value indicator for each comparable. The appraiser(s) reasoning and thought process must be explained.

- **Potential Gross Income/Effective Gross Income Analysis**

If used in the report, this method of analysis must clearly indicate the income statistics for the comparables. Consistency in the method for which such economically statistical data was derived should be applied throughout the analysis. At least one other method should accompany this method of analysis.

- **NOI/Unit of Comparison**

If used in the report, the net operating income statistics for the comparables must be calculated in the same manner and disclosed as such. It should be disclosed if reserves for replacement have been included in this method of analysis. At least one other method should accompany this method of analysis.

Income Approach

This section is to contain an analysis of both the actual historical and projected income and expense aspects of the subject property.

Market Rent Estimate/Comparable Rental Analysis-This section of the report should include an adequate number of actual market transactions to inform the reader of current market conditions concerning rental units. The comparables must indicate current research for this specific property type. The rental comparables must be confirmed with the landlord, tenant or agent and individual data sheets must be included. The minimum content of the individual data sheets should include:

- Property address
- Lease terms
- Description of the property (e.g., year built, unit type, unit size, unit mix, interior amenities (including washer/dryer connections), exterior amenities, etc.)
- Physical characteristics of the property (including but not limited to type of construction, number of stories, condition of property, renovation improvements, if applicable)
- Utilities Furnished by Landlord
- Occupancy levels
- Absorption, if applicable
- Turnover
- Concessions
- Identification as to Conventional or Affordable Housing Development

- Identification as to Senior (Elderly or HFOP) or Family Development
- Name and Telephone Number of Contact Person at Rent Comparable

Analysis of the Market Rents should be sufficiently detailed to permit the reader to understand the appraiser's logic and rationale. Adjustment for lease rights, condition of the lease, location, physical characteristics of the property, etc. must be considered as applicable. A location map showing the rent comparables in comparison with the subject must be included.

Comparison of Market Rent to Contract Rent

Actual income for the subject along with the owner's current budget projections must be reported, summarized and analyzed. If such data is unavailable, a statement to this effect is required and appropriate assumptions and limiting conditions should be made.

The contract rents should be compared to the market-derived rents. A determination should be made as to whether the contract rents are below, equal to, or in excess of market rates. If there is a difference, its impact on value must be qualified.

Vacancy/Collection Loss

Historical occupancy data for the subject (if applicable) should be reported and compared to occupancy data from the rental comparable and overall occupancy data for the subject's market area. Consideration for credit loss should also be considered.

Expense Analysis

Actual expenses for the subject (if applicable), along with the owner's projected budget, must be reported, summarized, and analyzed. A copy of the actual operating statements analyzed should be included in the appendix. If such data is unavailable, a statement to this effect is required and appropriate assumptions and limiting conditions should be made.

Expense comparables of three similar properties are required. Historical expenses of published survey data (e.g., IREM, BOMA, etc.) may also be considered but must be supported by expense comparables. Any expense differences should be reconciled. The following expenses should be considered:

- Management Salaries (full time or part time)
- Maintenance Salaries (full time or part time)
- Other Employees Salaries (full time or part time)
- Employee Benefits
- Office Supplies
- Telephone
- Travel
- Leased Furniture
- Support Services
- Legal
- Accounting
- Advertising

- Contract Repairs
- General Repairs
- Grounds Maintenance
- Extermination
- Maintenance Supplies
- Elevator Maintenance
- Redecorating
- Water Expenses Paid by Landlord
- Sewer Expenses Paid by Landlord
- Electricity Expenses Paid by Landlord
- Gas Expenses Paid by Landlord
- Common Area Utilities (Water, Sewer, Electricity, Gas)
- Trash Collection
- Real Estate Taxes (consider tax freeze if applicable)
- Insurance Premiums
- Special Assessments
- Security Staff or Security System
- Management Fee
- Reserves

Historical data regarding the subject's assessment and tax rates should be included. Three tax comparables are required in which the land and improvements are separated and the analysis used to derive estimated taxes for the subject should be included. A statement as to whether or not any delinquent taxes exist should also be included. A tax plat of the subject property should also be included in the report.

Capitalization

Several capitalization methods may be utilized in the Income Approach. The appraiser should present the method(s) reflective of the subject market and explain the omission of any method not considered in the report. The appraiser must provide support for the selection of the capitalization rate.

- Direct Capitalization – The primary method of deriving an overall rate (OAR) is through market extraction. If a band of investment or mortgage equity technique is utilized, the assumptions must be fully disclosed and discussed.
- Yield Capitalization (Discounted Cash Flow Analysis). This method of analysis should include a detailed and supportive discussion of the projected holding/investment period, income and income growth projections, occupancy projections, expense and expense growth projections, reversionary value and support for the discount rate.

Prospective Unrestricted Market Value at Loan Maturity

Generally loan maturity is assumed to be not less than 20 years from the date of stabilization (conversion from construction financing to permanent financing). A value estimate assuming that the project is to be marketed with unrestricted rent and/or income limitations at loan maturity is required. An explanation of the

reasonableness of the methodology utilized to derive this value is required, as well as any illustrative spreadsheets.

Reconciliation and Final Value Estimate

This section of the report should summarize the approaches and values that were utilized in the appraisal. An explanation should be included for any approach which was not included. Such explanations should lead the reader to the same or similar conclusion of value. Although the values for each approach may not "agree", the differences in values should be analyzed and discussed.

Other values or interests appraised should be clearly labeled and segregated. Such values may include FF&E, leasehold interest, excess land, etc.

In addition, rent restrictions, subsidies and incentives should be explained in the appraisal report and their impact, if any, needs to be reported in conformity with the Comment section of USPAP Standards Rule 1-2(e), which states, "Separation of such items is required when they are significant to the overall value." In the appraisal of subsidized housing, value conclusions that include the intangibles arising from the programs will also have to be analyzed under a scenario without the intangibles in order to measure their influence on value.

Marketing Period

Given property characteristics and current market conditions, the appraiser(s) should employ a reasonable marketing period. The report should detail existing market conditions and assumptions considered relevant.

Exposure Period

The estimated length of time the property interest being appraised would have been offered on the market prior to the hypothetical consummation of a sale at market value on the effective date of appraisal; a retrospective opinion based on an analysis of past events assuming a competitive and open market.

Photographs

Provide good quality color photographs of the subject property (front, rear, and side elevations, on-site amenities, interior of typical units if available). Photographs should be properly labeled. Photographs of the neighborhood, street scenes, and all rent and sales comparables should be included.

Additional Appraisal Concerns

The appraiser(s) must recognize and be aware of the particular program rules and guidelines applicable to affordable housing and their relationship to the subject's value. Due to the various programs offered by the Department, various conditions may be placed on the subject that would impact value. Furthermore, each program may require that the appraiser apply a different set of specific definitions for the conclusions of value to be provided. Consequently, as a result of such criteria, the appraiser(s) should be aware of such conditions and definitions and clearly identify them in the report.