



# MAP: Multifamily Accelerated Processing

3rd-party Technical Training:  
Valuation

# Objectives of Session



- Understand the role of the Lender's Appraiser and/or Market Analyst under MAP
- Understand HUD's expectations on what information is needed to support the loan application
- Know the components of a complete application

# Agenda



- Qualifications for Market Analysts and Appraisers
- Requirements for the Market Study and Appraisal
- 220 and 221d Projects
- Estimate of Market Rent by Comparison
- Ground Lease Processing
- Ground Rent Payments
- 223f Projects
- 223 (a) 7 Projects
- 231 Projects

# Lender's Appraiser

# Lender's Appraiser Qualifications



- Each appraiser must meet the following minimum qualifications:
  - Be a Certified General Appraiser in the State in which the property is located
  - Be currently active in the appraisal of multifamily properties and have experience with properties of similar complexity
  - Meet all requirements of the Competency Rule described in USPAP
  - Have at least 3 years of income property appraisal experience
  - Be knowledgeable concerning real estate market conditions and financing trends in the area where the property is located

# Lender's Market Analyst Qualifications



- Each market analyst must meet the following minimum qualifications:
  - Have at least three years of experience in performing market analysis for income producing property
  - Be currently active and regularly engaged in performing market studies for multifamily properties and have experience with properties of similar complexity
  - Be knowledgeable concerning real estate market conditions and financing trends in the area where project is located

# Lender's Appraiser Appraisal Requirements



- Each appraisal must meet the following requirements:
  - Be prepared for, paid for, and initiated by the Lender
  - Be a self-contained appraisal in support of conclusions made on forms completed by the appraiser, including:
    - Form HUD-92264
    - HUD-92264-A
    - HUD-92273
    - HUD-92274

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# Lender's Appraiser Appraisal Requirements



- Adequately describe the geographic area, neighborhood, rental competition, sales comparables, site, and improvements
- Produce a fair market value, replacement cost, or “as is” value depending on type of project
- Have an effective date within 120 days before the Pre-application and 180 days before the Firm Commitment application is delivered by the Lender to HUD
- Be prepared with information provided by MAP Lender (Appendix 4)
- Have an appraiser certification

# Lender's Market Analyst Market Study Requirements



- Each market study must meet the following requirements:
  - Be prepared for, paid for, and initiated by the Lender
  - Adequately describe:
    - ✓ the geographic boundaries
    - ✓ general characteristics of the market area
    - ✓ specific housing market conditions
    - ✓ characteristics of projects under construction and in planning
    - ✓ contain a demand estimate and analysis and estimated absorption time

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# Lender's Market Analyst Market Study Requirements



- Each market study must meet the following requirements:
  - Have an effective date within 120 days before the date the pre-application is delivered by the Lender to HUD or within 180 days before the Firm Commitment application is delivered for a 223(f)
  - Be prepared with information provided by the MAP Lender (Appendix 4)
  - Be prepared in conformance to the market study format found in MAP Guide Section 7.5
  - Have a market analyst certification

# Lender's Appraiser 220 and 221d projects



**Pre-application  
Stage**

## **Actions:**

- May prepare market study (can be performed by Market Analyst)
- Use market comparables to:
  - Determine project rents
  - Determine operating expenses

# Lender and/or Appraiser 220 and 221d projects



## Pre-application Stage

### Deliverables:

- HUD-92013
- Location map
- Evidence of site control
- Market study
- Determination of project rents, estimated rental income, and operation expenses
- Estimate of Market Rent by Comparison (HUD 92273 with supporting attachments)
- Operating Expense Analysis Worksheet (HUD 92274 with supporting attachments)
- Determination of market demand
- Acceptability of the proposed site

# Lender's Appraiser 220 and 221d projects



- Estimate of Market Rent by Comparison
  - Prepare one HUD-92273 form for each type and size of rental unit (if significantly different)
  - Rental comparables shall be as similar as possible to the subject related to:
    - Location
    - Structural type
    - Number of bedrooms
    - Average unit size
  - Rental adjustments are always made to the comparables for differences from the subject property

# Lender's Appraiser 220 and 221d projects



- Operating Expense Analysis Worksheet
  - HUD-92274 must be prepared for all cases processed
  - Used for the development of project expense estimates for Section E of Form HUD-92264, Multifamily Summary Appraisal Report
  - Section 7.8, Operating Expense Estimates, covers in detail:
    - Sources of expense data
    - Estimate of operating expenses by units of comparison
    - Expense adjustments
    - Updating procedures

# Lender's Appraiser 220 and 221d projects



- Ground Lease Processing (Section 7.15)

The lease term must satisfy one of the following requirements:

- For Section 223(f)
  - Term is 99 years and renewable, or
  - Term is at least 50 years beyond date mortgage is executed
- For Sections 220, 221(d) and 231 (new construction)
  - Term is 99 years and is renewable, or
  - Term has at least 10 years to run after maturity date of mortgage

# Lender's Appraiser 220 and 221d projects



## Unacceptable methods of ground rent payment:

- Graduated schedule of future increases on a lump sum year by year basis (e.g., year one \$20,000, year two \$25,000, etc.)
- Payment schedule based on COLA increases
- Increases based on future appraisals

# Lender's Appraiser 220 and 221d projects



## Acceptable methods of ground rent payment:

- Fixed percentage of gross collections (or effective gross income). Example: 8% of EGI.
- Fixed percentage of net cash flow to equity (after debt service payments but before lease payments)
- Stated dollar amount per year to stay fixed 10 years beyond insured term

# Lender's Appraiser 220 and 221d projects



**Firm  
Commitment  
Stage**

## Actions:

- Perform a complete appraisal establishing the replacement cost
  - Update HUD 92273 and 92274 from pre-app stage
- Prepare sections of the Multifamily Summary Appraisal Report (HUD 92264). Calculate:
  - market rents
  - estimated income
  - estimated total operating expenses
  - total estimated replacement cost
  - "warranted price of the land" for new construction
  - "as is" value for substantial rehabilitation
  - estimate of operating deficit and replacement reserve

# Lender and/or Appraiser 220 and 221d projects



**Firm  
Commitment  
Stage**

## Deliverables:

- HUD-92013
- Evidence of permissive zoning
- Evidence of last-arms-length transaction and price
- Complete, self-contained appraisal
- Multifamily Summary Appraisal Report Form (HUD 92264) and Supplement to Project Analysis (HUD 92264A)
- Updated estimates of Market Rent by Comparison (HUD 92273)
- Updated operating Expense Analysis Worksheet (HUD 92274)
- Appraiser's certification

# Lender's Appraiser 223f projects



**Firm  
Commitment  
Stage**

## Actions:

- Perform a complete appraisal of the property establishing market value
- Inspect property with Lender's Needs Assessor to:
  - consider eligibility of project (condition)
  - check project occupancy level
  - verify owner's rent roll
  - determine whether apartments are furnished
- Analyze property for site acceptability
- Review balance sheets and operating statements
- Determine project rents (HUD 92273)

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# Lender's Appraiser 223f projects



**Firm  
Commitment  
Stage**

## **Actions:**

- Determine project operating expenses (HUD 92274)
- Prepare sections of the Multifamily Summary Appraisal Report (HUD 92264).
- Calculate:
  - market rents
  - estimated income
  - estimated total operating expenses
  - total estimated replacement cost
  - "warranted price of the land"
  - "fair market value" of project
  - estimate replacement reserve
  - estimated occupancy rate

# Lender and/or Appraiser 223f projects



**Firm  
Commitment  
Stage**

## Deliverables:

- HUD-92013
- Location Map
- Evidence of Permissive Zoning
- Evidence of Site Control
- Evidence of Last-Arms-Length Transaction and Price
- A Complete Appraisal
- Estimate of Market Rent by Comparison (HUD 92273)

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# Lender and/or Appraiser 223f projects



**Firm  
Commitment  
Stage**

## Deliverables:

- Operating Expense Analysis Worksheet (HUD 92274)
- Multifamily Summary Appraisal Report (HUD 92264)
- Trial Supplement to Project Analysis (HUD 92264A)
- Balance sheets and Operating Statements
- Rent Roll
- Project Capital Needs Assessment
- Appraiser's Certification

# Lender's Appraiser 231 projects



## Actions:

- For new construction and substantial rehabilitation, follow instructions for Sections 221(d) and 220
- For Sections 231 projects pursuant to 223(f), follow instructions for projects pursuant to 223(f)

# Lender's Appraiser

## 231 projects



### Principal elements of the Lender's appraisers duties:

- Land appraisal
- Site and market acceptability
- Annual expense
- Net income computations
- Determination of project value
- Operating deficit

# *Points To Remember*

- *Understand what documentation is necessary to support an application*
- *Lender's appraisers are expected to be familiar with HUD requirements*
- *Appraisal must be clear as to methodology and reasoning, and show all data*

# Contact Information

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