



Appraisal Requirements

Revised February 2020

INTRODUCTION

Kentucky Housing Corporation (KHC) requires a professionally prepared appraisal for use in making investment and lending decisions regarding certain rental housing projects. These reports are commissioned by applicants (developers, nonprofit organizations, etc.), at the applicant's expense, for the benefit of KHC.

KHC is the state housing finance agency and a political subdivision of the Commonwealth of Kentucky. Created by the General Assembly in 1972, KHC's mission is to provide safe, decent and affordable housing opportunities for Kentuckians.

Appraisals prepared for KHC multifamily developments must be presented in narrative format. All appraisals must conform to generally accepted standards as documented by the Uniform Standards of Professional Appraisal Practice (USPAP).

Competent preparation of appraisals for KHC Multifamily Rental projects requires more extensive knowledge and experience than is required for most residential appraisals. Projects are generally financed with sources that require imposition of deed and use restrictions, income and rent limits, and various other requirements that can materially affect the value of a development. Such sources may include low income housing tax credits, historic tax credits, HOME Investment Partnership Funds, Section 8 operating subsidies, Rural Housing, tax incentives, and various other multifamily housing programs.

Competently prepared appraisals will document and explain how the financing structure impacts the property's value. To accomplish this, the appraiser must understand the various programs, definitions, and tax considerations relevant to the particular assignment. Appraisers must analyze the impact of these programs in the local subsidized housing submarket. Appraisers should be aware of how regulatory and program changes could affect the durability of the benefits and restrictions to subsidized housing projects and fully understand interpretation and enforcement of subsidy programs.

Questions regarding this document should be directed to KHC's Managing Director of Multifamily Programs at multifamily@kyhousing.org.

PURPOSE

KHC seeks professional appraisals on selected projects to support investment and lending decisions, and requires (as a minimum) opinions of market value at restricted rents, market value at market rents, and the value of preferred financing. In addition, separate values of the land and improvements will be required.

In addition to presenting data, it is vital that the appraisal offer analysis and findings relevant to the valuation of the proposed development as described in the sponsor's application. It is incumbent on the appraiser to provide a thorough analysis of the data and trends presented in the report. Data is a necessary part of the appraisal process, but it is not enough to merely describe the data. Analysts must explain trends in the data, weigh their importance and describe their implications for the success of the proposed project.

CONTENTS

Appraisals submitted to KHC shall contain the following information to be presented **in the following order**:

A. Cover Page

Appraisals shall include a cover sheet indicating:

- Type of Appraisal Report (self-contained, summary or restricted)
- Property address and/or location
- Housing type (apartments, townhomes, single family, etc.)
- Addressed to the benefit of Kentucky Housing Corporation
- Date of report
- Name and address of person authorizing report
- Name and address of appraiser(s)

B. Letter of Transmittal

Appraisals shall include a letter of transmittal indicating:

- Date of transmittal
- Property address and/or location
- Description of property type
- Extraordinary/special assumptions or limiting conditions
- Statement as to function of the report
- 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
- Identification of type(s) of value(s) estimated (e.g., fee simple value, leased fee value, leasehold value, etc.)
- Intended User
- Intended Use(s)
- Signatures of all appraisers authorized to work on the assignment

C. Table of Contents

Appraisals shall use the following Table of Contents:

1. Cover Page
2. Letter of Transmittal
3. Table of Contents
4. Summary Information Table*
5. Intended Use and Users
6. Assumptions and Limiting Conditions
7. Disclosure of Competency
8. Certificate of Value (if not integrated elsewhere)
9. Subject Property Identification
10. Statement of Ownership of the Subject Property
11. Property Rights Appraised
12. Definitions of Values Appraised
13. Appraisal Scope
14. Regional Area Data
 - a) Regional Economy
 - b) Regional Demographics
15. Neighborhood Data
16. Project and Site Description
17. Highest and Best Use
18. Appraisal Process
 - a) Cost Approach
 - b) Sales Comparison Approach
 - c) Income Capitalization Approach
 - d) Reconciliation and Final Value Estimate
19. Absorption Period
20. Certification
21. Other Requirements

**Forms available on KHC website*

D. Summary Information Table

Appraisals shall include the following table that inventories key information in the report. For greater clarity on what KHC is seeking in the table below, please read these Appraisal Requirements in full before attempting to complete the Summary Information Table.

When completed, this table should comprise no more than 3 pages in an appraisal report. This table may be found Word format on [KHC's website](#) under Development, Multifamily, [Underwriting Resources](#), Appraisals.

Appraisal Summary Information Table							
Information Area	Findings						Page #
Project Name							
Project Address							
Sponsor/Developer							
Project County							
Parcel ID							
Date of Report							
Property Rights Appraised							
Values Appraised, Conclusions, and Effective Date							
New Construction, Rehab, Mixed (what proportions?)							
Construction of Units (Walkup, Garden Apts, Townhomes, etc.)							
Total Number of Buildings							
Sources of Restrictions (LIHTC, HOME, Section 8, etc.)							
Rent Subsidy Proposed?							
Proposed Unit Information <i>*Add rows as necessary</i>	# of Units	Rent Limit Source	Developer Proposed Net Rent	Restricted Net Rent Limit	Unrestricted Market Net Rent	Achievable Restricted Net Rent	
Studio							
1 BR							
2 BR							
3 BR							
4 BR							
Other							
Advantage to Market used to arrive at achievable rent determinations							
Rental Vacancy Rates	Rent Subsidized Units		Other Assisted Units		Market Rate Units		

Capture Rate determined by Market Study		
HOME		
LIHTC		
Other:		
Other:		
Absorption Rate/Lease Up (to reach 93% occ.)		

Additional Comments

E. Intended Use and Users

Provide a brief comment stating the purpose of the appraisal and a statement citing the function of the report. Purpose must include, as a minimum, an estimate of value. Intended uses must include, as a minimum, provision of a basis upon which intended users will make investment and loan underwriting decisions. KHC must be named as an intended user. Other intended users may be added as requested by parties authorizing the work.

F. Assumptions and Limiting Conditions

Include a summary of all assumptions, both general and specific, made by the appraiser(s) concerning the property being appraised. **Appraisers may not include statements that release themselves from responsibility for the work performed by contract persons or firms they utilize in the preparation of the appraisal.**

G. Disclosure of Competency

Include a statement similar to the following: “The appraiser(s) performing this appraisal has adequate education, experience, and competence to provide a value estimate on the subject property, which is an affordable housing project using the following funding sources (HOME Funds, Tax Credit Equity, etc.) _____. This report has been prepared with the understanding that restrictions associated with these subsidies may materially affect value estimates, and these effects are competently discussed in this report.”

H. 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.

I. Subject Property Identification

The subject property must be identified and described by street address, tax assessor's parcel number(s), and development characteristics. Include a full, complete, legible, and concise legal description.

J. Statement of Ownership of the Subject Property

Discuss present ownership and all prior sales of the subject property that 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 and analyzed in compliance with USPAP.

K. 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.

L. Definitions of Values Appraised

The report must clearly define each value identified and (as applicable) must cite the source for the definition provided.

Appraisals prepared for KHC projects shall include the following values:

1. As-Is Market Value (must include a separate value for land if the As-Is Value reflects an improved property)
2. Prospective Market Value Upon Completion and As Stabilized (Restricted Rents)
3. Prospective Market Value Upon Completion and As Stabilized (Unrestricted Rents)
4. Prospective and As-is (if applicable) Value of Favorable/Preferred Financing
5. Investment Value, if requested/applicable
6. Analysis of Ground Lease, if applicable

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

M. Appraisal Scope

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

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

N. 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 marked is required.**

This information may be copied from the market study, provided the appraiser performs an independent analysis confirming the data remains accurate and current. The appraiser must specifically state when information has been copied from a market study, state who performed the market study, and include a statement attesting to the continued reliability of the copied material. If no market study has been ordered, KHC may accept a narrower scope of work than described in this section. However, KHC reserves the right to require the full scope of work if an abbreviated scope has not been approved prior to submission.

Regional Economy

Provide data and analysis on the employment and economy of the PMA and SMA to give an understanding of the overall economic health of the community in which the PMA is located. List sources for the data and methodology for the analysis and be sure to relate all findings to the market performance of the subject property.

1. EMPLOYMENT and UNEMPLOYMENT

Describe employment by industry sector and by occupation for the PMA or smallest geographic area available that includes the PMA and compare the data to the larger geographic area, e.g. the city, county, labor market area, or SMA.

- a) Major employers, the type of business, and number of employees and compare the data to the larger geographic area (i.e. SMA, MSA, County, etc.), state, and U.S.
- b) A map or narrative description (including distance from subject property) of the location of major employers and/or employment concentrations.
- c) Unemployment rate for the last 10 years (or other appropriate period) for the PMA and compare to the larger geographic area, state, and U.S.
- d) Employment growth over the same period. Compare to larger geographic areas.
- e) Comment on future trends for employment, as well as general economic conditions, in the PMA in relation to the subject property. This would include planned/anticipated employer expansions/contractions, plant openings/closings or other similar information. Provide proof of your findings.
- f) A narrative analysis of economic data provided with conclusions regarding impact on housing demand.

2. WAGES BY OCCUPATION

Provide a breakdown of typical wages by occupation. These are usually available on an MSA-wide basis, but some sources might exist for smaller areas.

3. COMMUTING PATTERNS

For purposes of this section, the term “area” should be defined by the appraiser in a manner that allows an appropriate description of commuting patterns. Depending on the subject’s location, “area” may be defined as a county, a town, or other well defined geographical area.

- a) Non-area residents commuting from surrounding areas into the area for employment. Indicate from where workers commute.
- b) Regional residents commuting outside the region for employment. Indicate where region residents commute for work.
- c) PMA residents who work inside the PMA.
- d) Comment on what these patterns mean for the marketability of the subject proposal.

Regional Demographics

Provide total population, age and income target data for the region using the most recent available Census data, American Community Survey, current year estimates, and projections (usually 3-5 years after current year).

Data from third-party demographic data providers, such as Claritas, CACI, ESRI and others is acceptable. Indicate the source for all data, and provide an analysis of trends indicated by the data. This is especially important if the trends noted in the Census figures do not match those coming from the third-party sources (i.e., Claritas or ESRI). When they differ, the analyst must offer a plausible explanation for the difference with proof, even if evidence is anecdotal.

Detail on the following demographic topics is necessary:

1. POPULATION TRENDS

- a) Total population, growth/decline, and projected future trends.
- b) Population by age group.
- c) For elderly projects, include the number of non-elderly (0-64) and elderly (65+). If sufficient evidence is introduced, younger elderly populations might be accepted, dependent on the product type proposed by the developer.
- d) If a special population is proposed, provide additional information on population growth patterns specifically related to this population.

2. HOUSEHOLD TRENDS

- a) Total number of households, growth/decline, and projected future trends.
- b) Average household size, growth/decline, and projected future trends.
- c) Household by tenure (i.e. the number of owner and renter households including the percentage of owner and renter households).
- d) Households by income. Elderly proposals should reflect the income distribution of elderly households only.
- e) Renter households by number of persons in household.
- f) Tenure by age of householder, including the number of renters and owners that are headed by elderly (aged 65 and over) and non-elderly.
- g) Household size for homeownership and rental households.

3. INCOME BY TENURE

- a) Provide a breakdown of households by incomes in \$5,000-\$10,000 increments, by household size, current year, and projections.
- b) In most cases, elderly households must be removed from these totals when analyzing family projects, and non-elderly households must be removed with elderly proposals. The only exception would be for markets where the subject, by virtue of market or unit size (for example, markets with a lack of elderly housing, or proposals that feature one- and two-bedroom unit mixes), might indeed attract elderly renters. Proof of this contention is necessary.
- c) Data for independent elderly proposals should be based on households 65 years and over.

4. CRIME DATA

- a) Provide information or statistics on crime in the PMA relative to data for SMA. Where the data on crime is limited, information for the jurisdiction where the proposal is located can be substituted for PMA data. Address any local perceptions of crime or problems in the PMA.

5. SCHOOL PERFORMANCE

- a) Information regarding school performance should be collected and analyzed. The required data can be found at <https://www.greatschools.org/kentucky>. If there is not a Great Schools rating, the Kentucky Department of Education rating is available at <https://applications.education.ky.gov/src/>.
- b) Math and reading standardized test results, compared to the state's average.
- c) Analysis of how this data might affect the market performance of the subject.

O. Neighborhood Data

Provide a specific description of the subject's geographical location and specific demographic data and an analysis of the neighborhood. The appraiser should comment on the extent to which the neighborhood characteristics are consistent with the region. For each topic addressed under "Regional Data," if the neighborhood characteristics materially differ from the region, include a discussion specifically explaining the differences.

Include a summary of the neighborhood trends, future development, and economic viability of the specific neighborhood. **A map must be included indicating the subject location and the neighborhood boundaries.**

P. Project and Site Description

KHC requires appraisers to visit and survey the project site and market area in general. This section may generally be copied from the market study, with the exception that additional zoning information is requested in the appraisal. If this section is copied from the market study, the appraiser must perform an independent analysis confirming the data remains accurate and current. This section must explain the proposed project and detail findings from the site visit(s), including:

1. PROJECT STRUCTURE:

- a) Number of units by unit mix (bedrooms and baths),
- b) Targeted income limit as a percent of AMI,
- c) Unit size in net square feet (the unit living area, exclusive of common areas),
- d) Proposed contract and gross rents,
- e) Utilities expected to be paid by tenants and energy sources for tenant-paid hot water, heat and cooking. Utility allowances for tenant-paid utilities and type of heat provided.

2. PROPOSED DEVELOPMENT DESCRIPTION:

- a) Target population, including income restrictions and any special needs set-asides
- b) Number of buildings, including exterior and interior photographs of existing buildings
- c) Design type (walk-up, elevator, etc.) and number of stories
- d) Unit amenities
- e) Development amenities, including parking, laundry, storage, recreation, etc.
- f) Developer's projected dates for construction start, completion, and start of pre-leasing
- g) Copy of site plan, floor plans, and elevations/renderings should be included as an attachment to the report. Analyst should indicate if plans are not completed at the time of the analysis

3. SITE CHARACTERISTICS:

- a) Provide a description of the site characteristics including its size, shape, general topography and vegetation. For scattered site projects, note the differences in quality that may occur between parcels, as well as a map of the parcels showing their geographic distribution.

- b) Provide photographs of the site and surrounding neighborhood, and a map clearly identifying the location of the project and the closest transportation linkages, shopping, schools, medical services, public transportation, places of worship, and other services such as libraries, community centers, banks, etc. In situations where it is not feasible to show all the categories on a map, the categories may be addressed in the narrative.
- c) Describe surrounding properties, including land uses and condition.
- d) 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. 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. Sources for all information must be included. When individuals are consulted, each person's name, title and contact information must be included in the report. An excerpt from the zoning ordinance regarding the subject's allowable uses should be included. If the project is not subject to any zoning ordinance, then a statement to that effect is required.
- e) Provide evidence of any new private or public investment in the area near the proposed project. This may include community revitalization plans, other housing developments, new commercial enterprises, etc.
- f) Describe the marketability of the proposed development. Aspects include the following:
 - i. Curb appeal
 - ii. Adjacent or nearby land uses incompatible with residential development
 - iii. Analysis of linkages between the project and local amenities
 - iv. Analysis of surrounding neighborhood, including perception of its residential character, land uses, quality of the housing stock, and overall effect on marketability
- g) Describe and evaluate the visibility and accessibility of the site, including the following:
 - i. Ease of ingress and egress, including a discussion of traffic controls around the site, excessive curb cuts surrounding the entrance to the development, and unreasonable lines of sight at the entrance. Sources of traffic congestion should be noted.
 - ii. Self-advertising quality of the site, by virtue of its visibility from roadways

Q. 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.

When a recent Market Study is available, the appraiser is responsible for obtaining a copy and should consider it and integrate its conclusions/observations into the analysis as 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 by any party, as market conditions may vary from the date of the market study to the effective date of the appraisal report. When information has been copied from a market study, the appraiser must specifically state who wrote the market study and include a statement attesting to the continued reliability of the copied material.

R. 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 discussed in the valuation of any property. However, such discussion may be limited to an explanation of why a given approach is omitted from the appraisal. An approach may be omitted from the appraisal if reasonable appraisers would agree that the use of an approach is either not applicable or should be given zero weight when the approaches are reconciled. Any decision to omit an approach must be fully explained.

1. 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.
- b) 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.
- c) The final value estimate should fall within the adjusted and unadjusted value ranges.
- d) 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.).

2. 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:

- a) Address, photograph, legal description, tax assessor's parcel number(s)
- b) Sale price, financing considerations, and adjustment for cash equivalency
- c) Date of sale, recordation of the instrument
- d) Grantor/Grantee
- e) Type of construction, year built and/or renovated, unit mix, land area, number of stories
- f) Occupancy
- g) Amenities
- h) Complete description of the property and property rights conveyed
- i) Discussion of marketing time
- j) A map clearly identifying the subject and the comparable sales.

Several methods may be utilized in the Sales Comparison Approach. The method(s) used must be reflective of actual market activity and market participants. The appraiser should explain why the selected method is the most appropriate.

a) 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.

b) Potential Gross Income/Effective Gross Income Analysis

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

c) NOI/Unit of Comparison

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

3. Income Capitalization Approach

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

a) Market Rent Estimate/Comparable Rental Analysis

The analyst shall determine the market rent for the proposed units and distinguish what utilities, if any, the rent includes. The form HUD 92273 rental grid must be used to determine market rent. Explanations should be given for any unusual adjustments that are not self-explanatory. An unusual adjustment may also include the fact that an adjustment was not made where it would appear one is needed. A discussion should be provided of the reconciliation process used to determine the final market rent.

Compare the analyst-determined market rent and the proposed rent for each bedroom type. Discuss how proposed rents compare to market rents and whether the subject property possesses a market advantage or if rents will have to be discounted to remain competitive.

This section of the report should include adequate actual market data 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 and photograph
- Distance from subject
- Lease terms
- Description of the property (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 Elderly 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.

b) Comparison of Market Rent to Achievable Restricted Rent

Actual income (where applicable) 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 appraiser must clearly state the maximum achievable restricted rent for each unit type. The appraiser must indicate any assumptions (such as required advantage to market) used in arriving at this conclusion. The appraiser may refer to the market study, but an independent analysis is required to ensure the market study has not become obsolete.

Throughout the appraisal, each reference to "Rent" must be clearly identified as "gross rent" or "net rent." Gross rent includes the cost of utilities. Net rent is the amount of rent paid after the appropriate utility allowance is subtracted from gross rent. Rent restriction charts are generally expressed as gross rent, but developer pro formas are typically expressed as net rents.

c) Economic Vacancy

KHC requires estimates of both physical vacancy rates and collection loss. Together, these figures comprise "Economic Vacancy." Physical vacancy refers to the number of units not leased on the last day of a month. If applicable, historical occupancy data for the subject should be reported. Vacancy rates should be derived from rental comparables and overall occupancy data for the subject's market area. If the appraiser uses a vacancy rate of less than the KHC minimum for the area, an explanation of extenuating circumstances is required. The KHC minimum physical vacancy for urban areas is 5%. In rural areas, the minimum is 7%.

Separately, a statement of estimated collection loss for the subject is required. Collection loss should be derived from rental comparables and overall data for the subject's market area. If the appraiser uses a collection loss rate of less than 2%, an explanation of extenuating circumstances is required.

Economic vacancy is the sum of physical vacancy and collection loss and should be used to complete all pro formas or calculations.

d) Expense Analysis

Actual expenses for the subject (if applicable), along with the owner's projected budget, 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.

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 (other may be added as needed):

- 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 and 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 (disregard tax abatements, as these should be considered preferred financing)
- Insurance Premiums
- Special Assessments
- Security Staff or Security System
- Management Fee
- Reserves*

**KHC requirements for replacement reserves are the greater of \$400 per unit per annum or the amount required in the project's physical capital needs assessment or capital replacement reserve schedule. However, when other lending sources or equity providers require greater amounts, the actual expected required amount should be used.*

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.

e) 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.

f) 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.

S. Absorption Period

Define and justify the absorption period and absorption rate for the subject property. The specific methods used to generate this are left to the analyst to determine on the basis of market conditions, demographic change and other factors. Weaker markets (characterized by high vacancy rates, large numbers of pipeline units, or other factors), elderly projects, or capture rates would tend to slow absorption. Absorption rates should be provided in the

report, giving an estimation of the time required for the property to reach sustaining occupancy or at least 93% occupancy. The absorption period is considered to start as soon as the first units are released for occupancy. The selected absorption period should be supported by relevant information from the market study.

T. Certification

The Certification must comply with USPAP and applicable federal regulations, whichever is more stringent, and must be signed by each appraiser contributing to the analysis and valuation of the property. At a minimum, the appraiser must certify the following:

- There is no conflict or identity of interest with the developer/owner of the project;
- The results, recommendations and conclusions stated in the appraisal are based solely on professional opinion and reliable data;
- The study was prepared in accordance with USPAP and with KHC's appraisal guidelines; and
- Date report was prepared, date of site visit and name and telephone number of analyst.

Certifications signed by more than one party must clearly indicate each appraiser's contribution to the analysis and investigation of the property.

U. Other Requirements

1. List of sources for data in the appraisal, including websites, publication information, list of interviews, and phone numbers for any persons interviewed.
2. Statement of qualifications, including a resume.
3. Copy of proposed development's site plan, floor plans and elevations.