

the property is to be appraised as Agency financed housing, the "as-is" value should take into consideration anticipated expenses to bring the housing into compliance with Agency requirements, vacancy rate expectations, anticipated tenant turn over rates, and estimated operation and maintenance expenses taking into consideration the property's condition.

(ii) *As-improved value* means the value of the housing and the related facilities in the condition in which the housing will exist after specified improvements are made. If the property is to be appraised as Agency financed housing the "as-improved" value should take into consideration vacancy rates, tenant turn over rates, and operations and maintenance costs as expected after improvements.

(3) *Section 8 project-based assistance.* Depending on the purpose and use of the appraisal, the Agency will specify whether or not section 8 project-based assistance will be considered in the calculation of the housing's estimate of value. The remaining term of the section 8 contract and the probability of subsequent renewal terms being authorized will be taken into consideration when making this determination.

(4) *Low-Income Housing Tax Credit (LIHTC) and other financing sources.* Depending on the purpose and use of the appraisal, the Agency will specify whether or not LIHTC's and other financing sources involved in the housing will be considered in the calculation of the housing's estimate of value.

(c) *Release of appraisals.* Appraisals procured by the Agency for internal decision-making processes will not be released for purposes unrelated to the decision for which the appraisal was procured.

§ 3560.753 Agency appraisal standards and requirements.

(a) *General.* The Agency recognizes the Uniform Standards of Professional Appraisal Practice (USPAP) as the basic standards for appraisals. Appraisals completed by independent appraisers must comply with USPAP standards and this part.

(b) *Appraisers.* Appraisals prepared for the Agency will be conducted by Agency staff who have met the educational requirements of the State's appraisal licensing board in the state where the duty station of the Agency staff or independent fee appraisers who meet the licensing requirements of the state where the property is located.

(c) *Appraisal report.* Appraisal report format may be a form appraisal or a

narrative appraisal. The Agency will specify the appraisal format that best addresses the circumstances of the housing project being appraised when the appraisal is requested.

(1) *Form appraisal reports.* The Agency will accept form appraisal reports that meet generally accepted industry standards and have been approved by the Agency.

(2) *Narrative appraisal reports.* Narrative appraisal reports must, at a minimum, contain the following items:

- (i) Transmittal letter;
- (ii) Factual information about the property;
- (iii) Regional and neighborhood data;
- (iv) Description of the subject property;
- (v) Description of existing and planned improvements;
- (vi) A highest and best use statement;
- (vii) A statement about any environmental issues, including the issue of potential contamination of the property from hazardous substances, hazardous wastes, or petroleum products;
- (viii) A cost approach analysis;
- (ix) A sales or market approach analysis;
- (x) An income approach to value analysis; and
- (xi) A dated and signed final estimate of value with a reconciliation of the cost, sales or market, and income approaches.

(3) At the time an appraisal is requested, the Agency will specify one of the following types of appraisal reports based upon the complexity of the appraisal assignment.

(i) A self-contained report which provides comprehensive details of the estimate of value.

(ii) A summary report which provides a concise presentation of the findings that support the estimate of value.

(iii) A restricted report which provides a presentation of the estimate of value with minimal documentation.

(d) *Highest and best use statement and analysis.* The principle of highest and best use is to be addressed for each site to be used for multi-family housing as if the site was ready to be developed. If the highest and best use of a site is for something other than housing, the appraisal report must provide this information to the Agency for consideration in the loan process. The highest and best use statement for a multi-family housing site must address whether the proposed use of the site is:

- (1) Legally permissible;
- (2) Physically possible;
- (3) Financially feasible; and
- (4) Maximally profitable.

(e) *Valuation methods and variances.* The final estimate of value presented in

an appraisal report must have considered a cost approach, a sales approach, and an income approach. If one of these standard approaches is not used, or if the variation between the three approaches exceeds 10 percent, the reconciliation narrative shall provide a full and complete explanation of the variances, or the reasons one approach was not used.

(f) *Real estate history.* Appraisals must contain a 5-year ownership history for the housing project being appraised.

(g) *Reserve accounts.* When conducting appraisals in conjunction with a prepayment request or a transfer request, funds in the housing project's reserve account in excess of repair costs to bring the housing into compliance with state and local codes and the physical standards established under § 3560.103(a)(3), shall be considered as part of the housing's value.

(h) *Escrow accounts.* Short-term prepaid escrow accounts for general operating expenses such as taxes and insurance, shall not be considered during appraisals.

(i) *Rental rates comparison.* The appraisal report must document whether the housing project's basic rents are less than, equal to, or greater than conventional rents for comparable conventional non-subsidized units in the area where the housing is located.

(j) *Description of housing.* The appraisal report must identify and describe both the real estate (legal rights) and the real property (tangible property) interest being appraised.

(k) *Exclusions of rental units from appraisals.* The Agency will provide appraisers with instructions on which rental units will not be valued in the appraisal report.

(l) *Non-contiguous sites.* When a housing project has real property located on non-contiguous sites, a separate appraisal must be developed for each site.

(m) *Value for energy-saving devices.* Appraisal for housing projects with energy-saving devices must document the device's estimated annual cost savings in present value dollars for each year during the manufacturer's useful life projection for the energy-saving device. If a device is found to produce a negative savings, then an adjustment for obsolescence is to be made to the value of the energy-saving measure.

§ 3560.754 Non-completion of appraisal assignment.

If an appraiser determines that the instructions provided are inappropriate or unclear, or the appraiser is unsure of the assignment after beginning the appraisal, the appraiser must provide