

**October 29, 2018**

**To: Laura Nicholson  
SC Tate Housing Finance and Development Authority**

**From: Frank Headley  
Frank Headley Apartment-Commercial Appraisers, LLC**

**Thank you and your board for letting me comment on the appraisal requirements at the Friday meeting. I have had some concerns with some of the appraisal requirements that do not reflect the real world that appraisers face when trying to comply with some of the regulations particularly in smaller communities around the state where there is little or no activity.**

**Because of the nature of the program, the owners land is tied up for one to three years before closing. Land costs are rising in most areas, even small communities. Developers from as far away as Ohio are looking for good sites in the South Carolina to develop. The market is very competitive.**

**Appraisers understand this and most do the best they can to value the properties in light of a rising market. Developers also do the best they can to purchase land as low as they can. Sometimes the appraiser can't justify a purchase price and we come in lower. We have to be able to support the value. In any event if you question a value, you can always contact the appraiser for clarification.**

**To limit the area to search for comparable sales is great on paper but it is not necessarily real world, particularly for tax credit properties in or near some of our smaller communities. If you or your board have any questions or comments, please feel free to contact me at 803-920-2673.**

**Frank Headley  
Practicing Affilliate, Appraisal Institute  
Certified General Appraiser  
SC-CG 571 NC- A3574 GA- CG 4999**

**15. Appraisals** - The Authority requires commercial real estate appraisal at Application submission for all development proposals.

a) Appraisers must be licensed by the South Carolina Real Estate Appraisers Board on a permanent, non-temporary basis, as well as have a State Certified General Real Property Appraiser's license.

b) Appraisers must identify the Authority as an authorized user of the appraisal, noting that the Authority may rely on the representations made therein. Additionally, the Authority reserves the right to convey a copy of the appraisal to third parties, assigns and pertinent parties involved in the contemplated allocation of tax credits.

c) Appraisals must be prepared in conformance with the Uniform Standards of Professional Appraisal Practice (USPAP) published by the Appraisal Foundation and with title XI of the Federal Finance Reform, Recovery and Enforcement Act of 1989 (FIRREA).

d) Comparable properties must be located in the proposal's sub-market. If an appraiser chooses comparable properties outside of the sub-market, the appraiser must also include a detailed description of every comparable located closer to the proposal and a list detailing why each was not chosen as a comparable. Regardless, comparable must be located in the proposal's home county or in extreme instances, an adjacent county.

**Suggested wording:**

Ideally, comparable properties should be located in the proposal's sub-market or county. Often, there are few or no sales that can be considered truly comparable to the subject or there can be a fairly wide range in terms of time of sale and prices. In some counties there are no sales for apartment land that have occurred or occurred recently. The market for tax credit land is competitive and is considered regional not local with state-wide developers and regional developers bidding for land in suitable areas around the state for tax credit developments. At times, due to demand from one cycle to another or because a property which sold for a successful project in a previous cycle, may result a much higher price for nearby land in subsequent cycles. Because of the regional nature of the market, the appraiser may go outside the county to determine prices being paid for similar properties.

e) If the appraisal does not substantiate the purchase price submitted in the tax credit application the Authority may decrease the amount proposed in the application to match the appraised value. Developments not meeting minimum underwriting requirements or found to be financially infeasible as a result of this reduction will be disqualified.

f) Land value and building(s) value must be appraised "as is" and reported separately.

g) Land Value - land should be valued without regard to any improvements/restrictions.

Deleted "restrictions"- Zoning is a restriction and the property should be appraised for the underlying land "unimproved" that is zoned multifamily or assuming it is rezoned to allow multifamily.

This value should be based on similar land sales in the sub-market or the value of the "land only" portion of improved sales in the sub-market.

**Suggested revision:**

The value should be based on land sales in the sub-market, county or regional market.

Note: Delete the last part of the sentence regarding land only portion of improved sales as the only way to get this land "allocation" is from the tax assessors allocation which could be unreliable or misleading.

Sub-market is defined as a smaller defined area within a market such as a neighborhood or suburb.

Note: Delete this sentence as the allowable market area has been defined.

In addition to commonly practiced appraiser profession standards, a per acre raw land value must be included in the appraisal report.

**Suggested revision:**

In addition to commonly practiced appraiser profession standards, a land value per acre, per square foot or per unit must be included in the appraisal report.

Note: Typically apartment land is appraised on a per unit basis which reflects the developers land cost per developed unit. In some cases where land is in a commercial area to get close to services a per square foot value

may be appropriate. Many times the price per acre may produce a very wide range while the price per unit generally reflects a closer range.

Land value must not be less than the tax assessor's valuation.

Note: This should be stricken entirely. Tax values are based on mass appraisal techniques which many times produces values which can be higher or lower than the actual value of the property. Assessments are required every five years by law. In a five year time span, markets can change dramatically. Relying on this can be misleading.

**h) As-Is Building Value - i. Market:** as if market rents are in place; the appraiser will not consider the unique aspects of below-market financing, federal subsidies and/or low-income tax credits in this value estimate.

**ii. Restricted:** based on current restricted rents (not post rehab); the appraiser will consider the unique aspects of below-market financing, federal subsidies and/or low-income tax credits in this value estimate.

i) For Rural Development funded developments only, the values for "As-Is, Restricted Rents" and "Interest Credit Subsidy" will be added together to arrive at the appraised value. If a property's acquisition price exceeds the appraised value using this method, the purchase price will be written down to the appraised value. If the purchase price includes acquired reserves (cash), the reserves should be deducted from the purchase price before the comparison to appraised value.

Note: No comment.

j) If the Authority deems the appraised value of a proposal to be unusual, excessive or utilized comps that are not acceptable under this section a separate appraiser will be hired by the Authority, at the applicant's expense, to prepare a second appraisal. All questions and concerns regarding the appraisal must be resolved before preliminary points scores are released. An application could be disqualified should a second appraisal not resolve the land value issue.

k) For acquisition/rehabilitation developments only, underwriting purposes, the Authority will value land at the greatest of (i) the appraiser's valuation; (ii) the tax assessor's valuation; or (iii) ten percent (10%) of the total purchase price.

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Note: Suggest you delete tax assessor's value although it is convenient in this case.

l) For underwriting purposes, new construction proposals not in the Large Population Urban Set-Aside, land costs are limited to eight percent (8%) of the total development costs (TDC). For underwriting purposes, new construction proposals in the Large Population Urban Set-Aside, the land costs are limited to ten percent (10%) of the total development costs (TDC).

Note: No comment

m) All applications must submit **Exhibit Q**, signed and certified by the primary appraiser

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17. Maximum Soft Costs/Fees Requirements – The Authority requires the following soft costs/fee limitations per application at Initial and PIS application:

a) Architect and Engineering Fees – must not exceed four percent (4%) of Hard Construction Costs;

Note: I cannot comment. This impacts the developers.

b) Appraisal Fee – (i) For raw land appraisals and rehabilitation developments up to 55 units, the fee cannot exceed \$1,500

(ii) For rehabilitation developments with more than 56 or more units the fee cannot exceed \$2,500

Note: This should be stricken. The developers do a good job of negotiating fees. These fees leave the developer little choice. Both these fees are low in many cases depending on the assignment and location of the property.

c) Market Study – must not exceed \$6,000;