

RURAL HOUSING SERVICE
Multifamily Farm Labor Housing (Off-Farm)
Appraisal Assignment Guidance
Section 514/516 New Construction
 (Version Apr 2023)

IMPORTANT NOTE TO APPLICANT: The appraisal must be submitted with the application. If an appraisal is submitted prior to the application submission, it will be returned to the applicant.

Background: Rural Housing Service (RHS) provides direct and guaranteed loans to eligible applicants for multifamily farm labor housing projects. In support of these programs, RHS requires the services of qualified persons or firms to provide appraisals of subsidized MF-FLH properties. All appraisals must be in compliance with the current edition of the *Uniform Standards of Professional Appraisal Practice* (USPAP) and USDA RD RHS Multifamily Housing appraisal requirements set forth in 1) *CFR-Title 7-Part 3560-Subpart P-Section 3560.751 to 3560.753*, 2) *Handbook-1-3560-Chapter 7-Security Requirements*, and *Handbook 1-3560-Chapter 12, Farm Labor Housing, Loans and Grants*. A copy of the requirements can be found at the following links:

- 1) [7 CFR 3560, Subpart P \(Appraisals\)](#)
- 2) [HB-1-3560 Chapter 7 \(Security Requirements\)](#)
- 3) [HB-1-3560 Chapter12 \(Farm Labor Housing\)](#)

Off-Farm Labor Housing projects are designed to increase the supply of affordable housing for farm laborers regardless of the farm where they work. Appraisals for MF FLH Off-Farm projects will typically be ordered by the applicant. In these instances, the party who engages the appraiser should be named as the client, is responsible for payment of the appraisal services, and must supply the appraiser with the necessary information to complete the appraisal in accordance with RD/RHS requirements. USDA Rural Development must be identified as an intended user of the appraisal.

As used within this assignment guidance, Value #'s are reflective of Attachment 7-C of Handbook 1-3560 "Quick Reference of Values to Request". The Values should be cited exactly as they appear in further sections of this guidance.

Subject Property: The appraiser must identify the location, total number of units, property characteristics, RHS Farm Labor Housing restrictive use status, and other pertinent information regarding the subject property within the appraisal report. A discussion and analysis of the demand for farm labor housing within the subject market must be included. The appraiser must identify the construction site and its valuation prior to construction. The appraiser should also obtain a copy of the proposed plans and specifications for the improvements to be constructed on the site.

Budget: As discussed in further sections of this guidance, in accordance with RD Handbook 1-3560:

Proposed Project Budget: Required for all new construction projects. Applicant's proposed project operating budget covering the operation following completion of construction

This budget form – RD 3560-7 or FIN1000 (or developer budget addressing all the income and expense items as identified on these forms) should set forth the project's proposed budget after completion of construction at stabilized occupancy.

The prospective income approach to value should be based on analysis of the most current proposed budget for the "prospective" valuation analysis. The proposed budget should be obtained from the appraiser's client. Copies of the budget, used by the appraiser in performing the income approach, must be included in the appraisal report.

Professional Qualifications: All multi-family Off-Farm, Farm Labor Housing appraisals submitted to Rural Development must be performed and prepared by a licensed State Certified General Appraiser, licensed within the state in which the subject property is located. A copy of the appraiser's license shall be included in the addenda of the appraisal report.

The appraiser must have the specialized knowledge and experience necessary to be competent to appraise Off-Farm subsidized Farm Labor Housing. The appraiser must understand RHS MF-FLH programs, value types and definitions, real property rights, intangible property, use restrictions, pertinent property tax considerations, and methods for valuation of various types of favorable financing involved in the appraisal of subsidized Multi-Family Off-Farm, Farm Labor Housing.

Client and Intended Users: The appraiser must understand and agree that USDA Rural Development (USDA RD) is not the appraiser's client but must be named as an intended user. All reports must be addressed to the client. The intended users are USDA RD and any other parties identified by the client. Other intended users may require reporting that differs from USDA RD requirements. Requirements that differ may appear in the same appraisal report. Rural Development's Review Appraiser will identify any review questions, issues and/or concerns regarding the appraisal which will be forwarded to the owner/applicant by appropriate RHS staff, unless the owner/applicant authorizes RD appraisers to directly communicate with the appraiser per USPAP confidentiality requirements.

Property Contact: The appraiser's client should provide the appraiser with the project contact information in most cases.

Project Information: The appraiser's client should provide the appraiser with property specific data relevant to the assignment. Specific data to be provided to the appraiser is identified in Attachment A to this guidance.

Confidentiality: The appraiser must keep all information and materials furnished by the client, RHS, the owner/applicant, and/or property contact regarding the subject property confidential, as required by *USPAP*. The appraiser may use such information only in connection with performance of the assignment. The appraiser must agree to prevent the unauthorized disclosure, misuse, or alteration of the confidential information. Any information obtained through public sources is not considered confidential information.

Nondiscrimination: Appraisals of RHS MF-FLH Off-Farm properties must comply with the Fair Housing Act and its amendments. According to the Act, it is unlawful for an appraiser to use factors that are discriminatory on the basis of race, color, religion, sex, handicap, familial status, or national origin in the sale, rental, leasing, or financing of housing.

Assumptions, Hypothetical Conditions, and Limiting Conditions: All extraordinary assumptions, hypothetical conditions, and limiting conditions must be clearly and accurately disclosed within the appraisal report. A statement that the use of the extraordinary assumptions and/or hypothetical conditions might have affected the assignment results, as required by Standard Rule 2-2 (a), must be included. Unless specified by RHS, hypothetical conditions must be agreed to prior to their use as part of the valuation process. Extraordinary assumptions included within the appraisal must be reasonable and are subject to additional clarification, if necessary, at the request of RD.

Potential Environmental Hazards: The appraiser must note any suspected environmental hazards, including issues external to the property that could adversely impact the property's value. Examples of environmental hazards would include damaged asbestos-containing building materials, underground storage tanks, chemical leaks, spills, or staining of ground surfaces, or on-site waste disposal such as sludge, oil, paints, or chemical residues. If the appraiser observes any suspected environmental hazards, he/she must notify the client immediately and refrain from finalizing aspects of the appraisal that could be impacted until resolution of the issue(s) or until instructed otherwise.

Americans with Disabilities Act (ADA): Appraisers must be familiar with the general provisions of the ADA because subsidized housing is a property type that is likely to be affected. The appraiser must consider what effect (if any) noncompliance with the ADA has on the value of the subject property. Any effect on value must be addressed and supported within the appraisal report.

Appraisal Report Formats: The appraisal must meet USPAP requirements of an Appraisal Report as defined in USPAP Standard Rule 2-2 (a). Narrative formats are typical for most multi-family appraisals with the level of detail dependent on the scope of work and the requested appraisal values.

Appraisal Reports must include all financial data provided by the owner/applicant or RHS. Financial data includes prospective budgets, rent schedules, all proposed loan amounts, terms, current rates, any favorable financing rates and terms, restrictive use provisions (RUP) or restrictive use covenant (RUC), LIHTC restrictions, tax credits (federal and/or state), market occupancy levels, number of rental assistance units (if any), and land use restriction agreement (LURA).

The project's proposed (upon completion of construction) budget as provided to RHS must be included in the appraisal report.

All provided cost estimates, scope of the construction, and proposed financing must be included, considered, analyzed and discussed in the appraisal report.

Approaches to Value: In compliance with USPAP and RD requirements, all three approaches to value must be considered as part of the valuation analysis.

For some assignments, development of a particular approach to value may not be necessary. In such instance the appraiser must explain why exclusion of an approach to value is not necessary for credible assignment results as required by USPAP.

For Value #1, as defined below, all favorable financing on any loans are to be valued and reported separately. Value of all intangible assets are to be reported individually and separately and are not to be added to any other value conclusion.

Values Required by RHS: RHS requires an "as-is" value of the site which will underlie the proposed improvements (Value #3 below) and a "prospective value" of the project upon completion of construction (Value #1 below).

Explanatory Notes:

- an "as-is" valuation under Value #3 as defined below, considering the subject site in its current physical condition;
- a "prospective Value #1" as defined below, prospectively upon completion of construction;
- an "insurable value" as defined below, prospectively upon completion of construction;
- a reporting of Conventional Rents for Comparable Units (CRCU) in the prospective physical condition.
- Value of favorable financing as defined in further paragraphs of this guidance.

The specific values required for RHS's intended use for this assignment must be referenced in the appraisal **exactly** as written below (being the bolded value definition and the parenthetical sentence immediately following the bolded type).

These definitions are taken directly from Handbook-1-3560, Attachment 7-C, which provides market values defined as follows:

Considering valuation of the subject, as of the date of completion of construction, the following definition should be cited.

#1 “Prospective Market Value, Subject To Restricted Rents within 7 CFR Part

3560.752(b)(1)(i)”. (The appraiser must consider all restrictions and report the value of intangible assets individually and separately from the real estate. “Prospective Value”, as defined by 7CFR 3560, Subpart P, means the forecasted value of the housing and related facilities as of a specified future date. For Agency appraisals, this date will typically be the projected completion date of proposed new construction or rehabilitation.)

A request for “market value, subject to restricted rents” means the appraisal will take into consideration any rent limits, rent subsidies, expense abatements, or restrictive-use conditions that will affect the property as a result of an agreement with the Agency or any other financing source. Each type of financing involved, including, but not limited to, interest credit subsidy, low-interest rate loans from other sources, tax-exempt bond financing, tax credits, and grants, must be valued individually and separately in the appraisal.

The cost approach for Value #1 is developed by estimating the current cost new to construct the proposed structure(s), including a market derived entrepreneurial incentive or profit; deducting depreciation, if any, from the total cost; and adding the estimated land value. The Cost Approach must be well reasoned and supported.

The income approach for Value #1 should be based on the proposed budget for the “prospective” valuation analysis upon completion of construction and at stabilization. The budget must be included within the appraisal report.

Site (land) Value of the subject must be provided separately utilizing the following definition:

#3 “Market Value within 7 CFR Part 3560.752(b)(1)(ii)”. (Appraisal of the subject property is an “as-is” valuation. “As-is value” as defined by 7CFR 3560, Subpart P means the value of the housing and related facilities as of the effective date of the appraisal. It relates to what physically exists and is legally permissible at the time of the appraisal and excludes all hypothetical conditions. All restrictions and prohibitions currently existing must be considered.)

A request for “market value”, means the appraisal will take into consideration the most probable price which a property should bring in a competitive and open market under all condition’s 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 is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- (A) Buyer and seller are typically motivated;
- (B) Both parties are well informed or well advised and acting in what they consider their best interests;
- (C) A reasonable time is allowed for exposure in the open market;
- (D) Payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
- (E) The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

Highest and best use statement and analysis (7CFR 3560 Subpart P, 3560.753) The highest and best use is to be concluded for the subject site as though it was vacant, and for the subject property as improved, if improvements have been made. If the highest and best use of a subject property is for something other than MFH, the appraisal report must provide this information to the Agency for consideration in the loan process. In addition to being reasonably probable and appropriately supported, the highest and best use of both the land as though vacant and the property as improved must meet four implicit criteria. The highest and best use must be:

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

For purposes of this guidance, Value #3 is required to determine a **site value** prior to the proposed new construction

Insurable Value (after completion of construction): – Insurable value is defined as: The value of the destructible portions of a property which determines the amount of insurance that may, or should, be carried to indemnify the insured in the event of loss. The estimate is based on replacement cost new of the physical improvements that are subject to loss from hazards, plus allowances for debris removal or demolition. It should reflect only direct (hard) construction costs, such as construction labor and materials, repair design, engineering, permit fees, and contractor's profit, contingency, and overhead. It should not include indirect (soft) costs, such as administrative costs, professional fees, and financing costs.

(Source HB-1-3560 Chapter 7)

(See Attachment 7-I.)

“Conventional Rents for Comparable Units (CRCU)”: All reports must conclude Conventional Rents for Comparable Units (CRCU) for the subject’s units. CRCU should be reported for the subject in the prospective post construction condition.

CRCU is defined by RD as: “Market rents for comparable rental units in conventional housing located in the same geographic area as a particular Section 514, 515, or 516 project.”

(Source: 7CFR 3560.11).

Competing rental properties from the same or closest most similar market as the subject property should be the basis for determining CRCU for the subject. Selection of rentals from dissimilar markets is not appropriate.

“As-is Value” or “Prospective Value within 7 CFR 3560.752(b)(2)”. An “as-is value” is assumed in Value #3 above. A “prospective value” of the housing is required in Value #1 above. As-is and Prospective are further clarified as:

- (i) “As-is value” means the value of the site as of the effective date of the appraisal. It relates to what is legally permissible at the time of the appraisal and excludes all hypothetical conditions.
- (ii) “Prospective value” means the forecasted value of the housing and related facilities as of a specified future date. For Agency appraisals, this date will typically be the projected completion date of proposed new construction or rehabilitation.

Value of Tax Credits: The value of Tax Credits, if any, that have been awarded to the property or that are anticipated to be awarded to the property must be valued and reported individually and separately from the real estate.

Value of Favorable Financing: When third party financing of the subject project is determined by the appraiser to be favorable, the appraisal report must contain a narrative identifying each source of financing (example: RHS 538 guaranteed funding, HOME loans, FHLB funding, State Housing Authority funding, grants, etc.) the amount and terms of each type of favorable financing must be described, and the present value of each type of favorable financing must be developed and reported individually and separately.

Appraisal Requirements:

1. All appraisal reports must comply with the current edition of *USPAP*. Specifically, all reports must include all items required by Standards 1 and 2 of USPAP: The content of an Appraisal Report must be consistent with the intended use of the appraisal and include the following information:
 - a) Identification of the appraisal report type,
 - b) Identification of the client and any other intended users of the appraisal,
 - c) Identification of the intended use of the appraisal,
 - d) Description of the subject real estate,
 - e) Identification of the real property interest (property rights) appraised,
 - f) Identification of the purpose of the appraisal,
 - g) Identification and definition(s) of the value type(s) reported,
 - h) Identification of the effective date(s) of the appraisal and the date of the report,
 - i) Description of the scope of work used to develop the appraisal,
 - j) Disclosure of all assumptions, hypothetical conditions, and limiting conditions that directly affect the appraisal, including a statement that their use might have affected the assignment results,
 - k) Description of the information analyzed, the appraisal methods and techniques employed, and the reasoning that supports the analysis, opinions, and conclusions; exclusion of the sales comparison approach, cost approach, or income approach must be explained,
 - l) Description of the use of the real estate existing as of the date of value and the use of the real estate reflected in the appraisal,
 - m) When an opinion of highest and best use was developed by the appraiser, summarize the support and rationale for that opinion,
 - n) A signed certification in accordance with USPAP Standards Rule 2-3.
2. All reports must include an executive summary.
3. All reports must include a legal description of the subject property.
4. All reports must include original photographs of the subject property. Additionally photographs of all land comparable sales (if a site valuation is provided), comparable rentals and comparable sales are preferred, however, if photos from other sources are used the source of the photo must be identified within the appraisal.
5. All reports must (as applicable) include the following maps, showing the location of the subject:
 - Regional map
 - City map
 - Flood plain map
 - Land Sales map
 - Sales Comparables map (if applicable)
 - Rent Comparables map
6. All reports should include the following exhibits of the subject property:
 - Survey (if available)
 - Site plan
 - Aerial photograph
 - Floor plans with exterior dimension

7. **Income Approach Methodology:** All analyses within the Income Approach must be well reasoned and supported. Prospective valuation of the subject (Value #1) must use the proposed budget which contains the subject's proposed rents, other income, vacancy, and operating expenses.

All income and expense data used must be included in the addenda of the report.

Capitalization Rate: The capitalization rate selected for valuation of the subject by the income approach, must be derived from the most recent sales of similar properties in the local (or nearest similar) conventional apartment market. A base capitalization rate is derived from these sales which may then be adjusted qualitatively for factors related to specific benefits and/or restrictions applicable to the subject property. Support for the overall rate should be provided using other accepted methods such as development of the band-of-investment, debt coverage ratio formula, and regional investment criteria surveys, however primary determination of an appropriate OAR is to come from conventional market transactions as described above. Appraisers need to explain their rationale for their determination of the capitalization rate determined appropriate for the subject property.

8. **Remaining Economic Life (REL):** All reports must include a well-supported estimate of the REL after completion of construction of the subject.
9. A market rent adjustment grid (re: CRCU Value above) showing specific adjustments in percentages or dollar amounts must be included and be well supported by data summarized in the report for post construction condition.
10. **Exclusion of rental units from valuation.** The owner/applicant must provide appraisers with instructions and supporting information on any rental units that do not, or will not, produce rental income at the time of the appraisal.
11. **Favorable Financing:** When third party financing of the subject project is determined by the appraiser to be favorable, the appraisal report must contain a narrative identifying each source of financing (example: RHS 538 guaranteed funding, HOME loans, FHLB funding, State Housing Authority funding, etc.) the amount and terms of each type of favorable financing must be described, and the present value of each type of favorable financing must be developed and reported individually and separately.
12. **Proposed Construction Cost Estimates:** Appraisals of properties with proposed construction must include Form RD 1924-13, or other cost estimation documents, in the addenda.
13. A copy of this *Appraisal Assignment Guidance* must be included in the addenda of the appraisal report.

Review of Appraisal: Appraisal reports are subject to review by Rural Development. Appraisers must be prepared to discuss their analyses, opinions, and conclusions and provide additional written support, clarification, and a revised appraisal if requested.

A revised report addressing all of the Rural Development Reviewer's questions, comments and/or issues is required within 10 business days of issuance of the notification document by Rural Development. Any additional fees and/or costs associated with revisions or responses must be discussed with the appraiser's Client, however revision of the appraisal addressing any items in the RD notification document are required.

It is extremely important that all comments from the RD reviewer be addressed in the appraiser's response. Upon receipt of the response / revised appraisal report, the review process will continue, and a determination will be made of whether the revised appraisal is or is not acceptable for agency use.

If no response from the applicant's appraiser is received, the RD review process will be concluded, and a determination will be made of whether the original appraisal is or is not acceptable for agency use.

Accountability: The engaged appraiser must inspect the subject property and be prepared to discuss the appraisal report. A staff appraiser or associate may participate in the appraisal assignment and must either sign the report or be identified in the appraiser's certification by name as having provided significant professional assistance. If a staff appraiser or associate has provided significant professional assistance in preparation of the report, the staff appraiser or associate is to be present during any discussion of the assignment. The engaged appraiser must sign the report in all instances.

The appraiser's valuation process must be transparent to and understandable by RD staff. If the pro forma income, vacancy, expenses, or capitalization rate, are not adequately supported, the RD Review Appraiser may request the appraiser make corrections and or clarifications that provide the necessary support. If a response from the appraiser is not received or does not adequately correct, clarify, or address the concerns of RD, the appraisal report may be found unacceptable for agency use.

USDA RD must be expressly excluded from any exculpatory language limiting the appraiser's liability that may exist in the appraisal report.

Defense of Appraisal: The appraiser may be requested to defend the appraisal in court or in Rural Development's appeals process. This would constitute a consulting assignment that would be negotiated separately from the original appraisal assignment.

Submittal: Submit appraisal and any revisions in a searchable .pdf format to the appraiser's client who is then responsible for submitting the appraisal to RHS.

Direct questions regarding:

Project Information: Appraiser's Client

Appraisal Guidance Questions: SM.RD.PSSCustomerService@usda.gov

Note(s) & Special Instructions for the appraiser:

1. Contact the Client to obtain/confirm any additional information you need to complete the appraisal per this Appraisal Assignment Guidance and any additional information you determine appropriate.

Attachments Follow

Attachment A

Property & Transaction Information Off-Farm FLH Section 514/516 - New Construction

Information that must be provided by the owner or applicant to the Appraiser:

1. Project Name, Address and Property Contact Information
2. Legal Description of Subject Property.
3. Project Information: # of Units and Unit types
4. Proposed Plans & Specifications
5. Current transaction documentation:
 - a. Current Owner
 - b. Contract or Sales Agreement for site
 - c. Construction Cost Estimates (RD Form 1924-13) or similar construction cost estimate.
6. Financing Information:
 - a. Proposed RD Loan(s) amount, rates, and terms.
 - b. Proposed Third-party loan(s) amount, rates, and terms (if applicable)
 - c. Grant(s) (if applicable)
 - d. Low Income Housing Tax Credit (LIHTC) maximum tenant rents (if applicable).
7. Rental Assistance (RA) units at project (if applicable)
8. Proposed Operating Budget
9. Restrictive Use Provisions (RUPs), Restrictive Use Covenant(s) (RUCs), Land Use Restrictions (LURA) Information:
 - a. Date RUPs/RUCS will expire
 - b. LURA terms, expiration
 - c. Any other restrictions placed on the property by any entity other than RHS
10. Capital Needs Assessment (CNA)
 - a. CNA "Post Construction" if available.

ATTACHMENT 7-I

USDA Rural Development				
Insurable Value Calculation				
Property Name:				
Street Address:				
City, County, State, Zip:				
BASE COST				
Main Structure				
Sprinkler				
Other				
Adjustments and/or Multipliers				
TOTAL BASE COST PER SQ. FT				
Building Area Square Footage				
TOTAL REPLACEMENT COST NEW				
EXCLUSIONS	<u>Per SF</u>	<u>Percent</u>		
Excavations				
Foundations				
Site Work				
Site Improvements				
Architect's Fees				
Underground Piping				
TOTAL EXCLUSIONS				
INCLUSIONS				
Appliance Packages				
Patios / Balconies, etc.				
TOTAL INCLUSIONS				
CONCLUDED INSURABLE VALUE				
Total Replacement Cost New				
Less Total Exclusions				
Plus Total Inclusions				
CONCLUDED INSURABLE VALUE				