Multifamily Seller/Servicer Guide

Chapter 12: Appraiser and Appraisal Requirements

Please contact Marty Skolnik at Martin_Skolnik@freddiemac.com if you have questions about Freddie Mac's appraisal requirements.

Chapter 12
Appraiser and Appraisal Requirements

12.1 General requirements (07/01/14)

For all multifamily purchase programs and products, the Seller/Servicer must submit a written Appraisal on the Property with the full underwriting package submission or in connection with certain Special Servicing requests. Freddie Mac usually requires that the Appraisal be in a narrative format; however, Freddie Mac will accept an Appraisal submitted on the applicable Freddie Mac appraisal form (see Section 12.11) with attachments (see Section 12.20) and any necessary addenda, if the use of the form is appropriate to the scope of the appraisal engagement. The Appraisal must be ordered by and completed for the Seller/Servicer and signed by an appraiser approved by the Seller/Servicer. Freddie Mac will not accept Appraisals ordered by and/or prepared for anyone other than the Seller/Servicer.

To support Freddie Mac's evaluation of the Loan, Freddie Mac requires that the Appraisal contain transparent data analysis in a concise but comprehensive report format. It is important that Freddie Mac receive only quality Appraisals and analyses, supported by the Seller/Servicer's selection of well-qualified appraisers and the Seller/Servicer's critical review of the appraiser's Appraisals.

12.2 Purpose of Appraisal (07/01/14)

Appraisals must estimate the as-is leased fee market value of the Property ("leased fee" as defined in the current edition of The Appraisal of Real Estate, published by the Appraisal Institute) as of the effective date of the Appraisal, subject to stated assumptions and limiting conditions. The as-is leasehold value of the Property (defined in The Appraisal of Real Estate) must be estimated if the ownership of the Property is subject to a ground lease. Although other valuation scenarios may be appropriate for a particular Appraisal, at minimum, all Appraisals must provide an as-is estimate of market value.

In addition, for transactions involving affordable housing Mortgages and Targeted Affordable Housing (TAH) Mortgages, Freddie Mac requires the additional values outlined in Section 12.24, items 5-8.

12.3 Market value definition (07/01/14)

Appraisers must use the definition of market value set forth below, which conforms to the definition of market value adopted in the Uniform Standards of Professional Appraisal Practice (USPAP). If the appraiser elects to use Form 71A, Appraisal Report—Residential Income Property, the appraiser must delete the definition of market value printed on the form and must complete the Appraisal in accordance with the definition below, as defined within the Financial Institutions Reform, Recovery, and Enforcement Act ("FIRREA") of 1989:

"The most probable price which a property should bring in a competitive and open market under all conditions 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 are the consummation of a sale as of a specified date and the passing of the title from seller to buyer under conditions whereby

1. Buyer and seller are typically motivated.

2. Both parties are well informed or well advised, and acting in what they consider their best interests.

3. A reasonable time is allowed for exposure in the open market.

4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto.

5. 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."

12.4 Appraisers (07/01/14)

Freddie Mac does not select or approve specific appraisers for Freddie Mac's Multifamily programs or products. The Seller/Servicer selects and approves appraisers and is responsible for maintaining an active file on each appraiser's qualifications. The file must be updated annually and is subject to inspection by Freddie Mac.

The appraiser may not be involved or affiliated with any individual or institution involved in the Mortgage submission other than the Seller/Servicer. Appraisers who are staff appraisers of the Seller/Servicer must be independent of the lending, investment and collection functions of the Seller/Servicer.

In those instances where the appraiser and/or the appraisal firm is affiliated with or related to the Seller/Servicer, Appraisals performed for Freddie Mac's Multifamily programs and products must include statements of disclosure from both the Seller/Servicer and from the appraiser that

- Are signed and dated on the same date as the Appraisal,
- Describe the nature of the relationship between the appraiser and the Seller/Servicer (or other entity),
- State that there is no conflict of interest between these firms, and
- State that there are no fees, payments or compensation between the firms other than that disclosed in the engagement letter between the appraiser and the Seller/Servicer (or other entity), or, if there is compensation in addition to the appraisal fee, provide a description of those fees, payments or compensation.

The disclosure from the Seller/Servicer must be included with the Appraisal as an attachment in the Addenda or following the report's Letter of Transmittal. The disclosure from the appraiser must also be included

- As a statement in the Letter of Transmittal of the Appraisal, and
- In the appraiser's Certification, as required by the Uniform Standards of Professional Appraisal Practice (USPAP).

a. Appraiser qualifications (01/01/13)

Each appraiser must

1. Be a certified general appraiser under the appraiser certification requirements of the State in which the Property is located (or a certified appraiser if that State does not confer the designation of certified general appraiser)

2. Appear on the State roster in good standing under the requirements of Title XI of FIRREA

   For all programs and products, if the Appraisal Subcommittee of the Federal Financial Institutions Examination Council has disapproved the licensing and certification requirements of the State in which the Property is located, pursuant to Title XI of FIRREA, the Seller/Servicer must contact the *Applicable Freddie Mac Multifamily Regional Office* for instructions. The TAH Seller/Servicer must contact the *Multifamily TAH Underwriter*.

3. Be actively and regularly engaged in the appraisal of multifamily properties

4. Have at least three consecutive years of income property appraisal experience

5. Have completed at least two multifamily Appraisals in the past year in the geographic market area where the Property is located

6. Be knowledgeable concerning current real estate market conditions and financing trends in the geographic market area where the Property is located

7. Be experienced in appraising multifamily properties with complexity and characteristics similar to those of the Property (such as the number of units and type of property—garden, mid-rise, high-rise, etc.)

8. Have a working knowledge of construction costs, materials, methods and standards in the geographic market area where the Property is located

9. Have a strong educational background in appraising income properties

   Appraisers must have completed successfully several courses relating to income properties. These courses must have been completed through a nationally recognized appraisal organization or accredited college or university.

10. Have insurance meeting the requirements of Section 31.26.

b. Conditions for an appraisal trainee to co-sign (07/01/14)

An appraisal trainee may co-sign an Appraisal if the appraisal trainee:

1. Clearly and prominently states that the appraisal trainee is an appraisal trainee or equivalent job title

2. Is currently registered as an appraisal trainee in the state in which the Property is located, and clearly and prominently identifies the appraisal trainee's trainee license or certification identification number in the Appraisal, preferably in the Letter of Transmittal and in the Certification

3. Clearly and prominently states in the Letter of Transmittal the appraisal trainee's specific role in the appraisal project and describes in which parts of the appraisal process the appraisal trainee had a contribution and the extent of that contribution

4. Signs the Certifications in the Appraisal and takes professional responsibility for the appraisal trainee's content, conclusions, and discussions within the Appraisal

5. Notes in the Appraisal if he/she has inspected the Property (An appraisal trainee can sign the Certification without having inspected the Property, if so noted in the Appraisal.)

c. Unacceptable appraisers (07/01/14)

The Seller/Servicer must send written notification immediately to the *Applicable Freddie Mac Multifamily Regional Office* if the Seller/Servicer, for cause, discontinues the use of any appraiser who has completed Appraisals within the past 12 months for Mortgages purchased or credit enhanced by Freddie Mac. A TAH Seller/Servicer must send written notification immediately to the *Multifamily TAH Underwriter*.

In addition, Freddie Mac reserves the right to refuse to accept Appraisals completed by any specific appraiser. Freddie Mac will maintain, on FreddieMac.com, the Multifamily Restricted Vendor List. If an appraiser appears on the Multifamily Restricted Vendor List, the Seller/Servicer may not use that appraiser for Multifamily Mortgages offered to Freddie Mac until notified otherwise by Freddie Mac. The decision to place a third-party vendor on the Multifamily Restricted Vendor List is solely within Freddie Mac's discretion.

The Multifamily Restricted Vendor List is made available to Seller/Servicers for the sole purpose of ensuring that unacceptable appraisers do not prepare Appraisals for Multifamily and will constitute "Confidential Information" as defined in Section 2.8.

d. Representations to third parties by appraisers and appraisal services (09/08/04)

Appraisers and appraisal services may not represent themselves to third parties as being Freddie Mac-approved appraisers or appraisal services.

12.5 Appraiser certification (07/01/14)

The appraiser must attach all of the following to the Appraisal:

- All assumptions and limiting conditions
- A certification that states that the report complies with the requirements of the USPAP, promulgated by the Appraisal Standards Board of the Appraisal Foundation, that are in effect at the time of certification
- A certification that states that the Appraisal complies with the current version of the FIRREA of 1989, including its Title XI regulations
- A signed and dated Statement of Limiting Conditions and Appraiser's Certification – Form 439

The Form 439 must be the version approved for use by Freddie Mac as of the date of the Appraisal. If the appraiser elects to use Form 71A, the appraiser must delete the Certification and Contingent and Limiting Conditions printed on the form.

Anyone signing the Appraisal must:

- Comply with all of the requirements in this chapter,
- Inspect the Property (except as noted above for the appraisal trainee's co-sign), and
- Accept full responsibility for the contents of the Appraisal.

12.6 Information provided to appraiser by the Seller/Servicer (07/01/14)

At a minimum, the Seller/Servicer must provide the appraiser with the following information on the Property:

1. Complete legal description (see Section 29.3)

2. Survey, if available (see Section 29.5)

3. Rent roll dated within 30 days of the appraisal inspection date, certified by the Borrower as accurate and correct, and containing, at a minimum:
   - Unit number
   - Unit type, name, or description and/or unit design (i.e., 2BR/1BA, 1BR/1BA/Den)
   - Unit size in square feet
   - Lease commencement date
   - Contract rent
   - Concessions, if any
   - Additional fees or charges (i.e., pet fees and garage fees)

4. Income and Expense Statements for the previous three calendar or fiscal years, as applicable, certified by the Borrower as complete and accurate

5. Year-to-date Income and Expense Statement, certified by the Borrower as complete and accurate

6. Copies of executed commercial leases, amendments and attachments, if applicable

7. Property condition report as soon as available but prior to the Seller/Servicer's transmittal of the Appraisal to Freddie Mac

   Draft versions of the property condition report are acceptable to meet these time constraints but if the final version is materially different than the draft version, the appraiser must be given the final version and the valuation must be amended to reflect this new information.

8. Environmental report as soon as available but prior to the Seller/Servicer's transmittal of the Appraisal to Freddie Mac

   Draft versions of the environmental report are acceptable to meet these time constraints but if the final version is materially different than the draft version, the appraiser must be given the final version and the valuation must be amended to reflect this new information.

9. Copy of ground leases, if applicable

10. Copy of current sales contracts, if applicable

11. Final architectural plans and specifications, if the Property is to be built

12. Any other information that the Seller/Servicer knows may affect the value of the Property

12.7 Seller/Servicer supervision of appraisers (07/01/14)

The Seller/Servicer must evaluate and select appraisers based on qualifications and quality of the appraisal product. The Seller/Servicer must collect information and documentation from appraisers and applicable regulatory authorities to ensure that each appraiser completing Appraisals for multifamily Mortgages offered to Freddie Mac complies with the requirements set forth in this chapter.

Each file must contain

1. The appraiser's resume

2. Letters of reference from current and past clients

3. Types of properties appraised

4. Documentation showing that the appraiser possesses the certified general classification or certified classification in good standing in accordance with applicable State law

5. Copies of Appraisals if appropriate under the ethics provision of USPAP

6. An original certificate(s) of liability insurance meeting the requirements of Section 31.26

Each file must document that the appraiser complies with the requirements of this chapter and that the Seller/Servicer verified the experience information provided by the appraiser to the Seller/Servicer.

The Seller/Servicer must design an internal management control system to ensure compliance with the requirements set forth in this chapter. If the Seller/Servicer identifies a problem area, the Seller/Servicer must take appropriate action to correct the problem. The Seller/Servicer must keep written records of any activity under this internal control system and provide them to Freddie Mac upon request.

12.8 Discrimination in appraising (09/08/04)

The appraiser may not consider, analyze or report any information that involves race, color, sex, handicap, familial status, religion or national origin of the geographic area, neighborhood, occupants, owners or prospective owners.

As a matter of corporate policy, Freddie Mac will reject any Mortgage supported by an Appraisal that makes reference to race, color, sex, handicap, familial status, religion or national origin of the geographic area, neighborhood, occupants, owners or prospective owners.

12.9 Effective date of Appraisal (10/07/08)

The effective date of the most current Appraisal must be within six months before the date on which the Mortgage's full underwriting package is delivered to Freddie Mac. The Seller/Servicer also must submit all other Appraisals completed on the Property in the past three years, if available to the Seller/Servicer and appropriate under the ethics provision of USPAP. See also Section 12.10.

12.10 Updated Appraisals (07/01/14)

If Freddie Mac receives an Appraisal with an effective date that is more than six months before the date on which the full underwriting package is delivered to Freddie Mac, the Seller/Servicer must obtain an updated Appraisal from the appraiser. For the updated Appraisal, the appraiser must

- Reinspect the Property,
- Resurvey the rental comparables, and
- Review the market for any additional sales comparables or changes in capitalization rates.

The documentation that provides the updated Appraisal must clearly indicate the steps that the appraiser performed for the updated Appraisal and discuss the changes, if any, between the original Appraisal and the updated Appraisal.

A letter or abbreviated report such as the Restricted Report from the appraiser stating general conclusions (for example, that the value of the Property has not decreased since the original Appraisal) is not acceptable.

In addition to these requirements, the report must comply with the requirements and advice provided in USPAP for an update of a prior Appraisal.

12.11 Appraisal form (07/01/14)

Typically, Freddie Mac expects that the Appraisal will be in a narrative format written to comply with report development and report structural requirements of the USPAP.

Form 71A, Appraisal Report—Residential Income Property, may be used for any Appraisal if appropriate for the scope and complexity of the appraisal assignment. If the appraiser elects to use Form 71A, the appraiser must comply with the instructions and guidelines on the appraisal form and the requirements of this chapter. Freddie Mac retains the right to determine that the use of Form 71A is appropriate.

If the appraiser uses Form 71A, the appraiser must use addenda to Form 71A to fully explain the appraiser's estimate of value. The appraiser must supplement the preprinted form with addenda to provide a comprehensive analysis that supports the value reconciliation and final value conclusion. See Section 12.20 for required attachments.

12.12 Appraisals (07/01/14)

When the Seller/Servicer delivers an Appraisal to Freddie Mac, the Seller/Servicer is deemed to make the warranties regarding the Appraisal and the appraiser set forth in Section 5.3. The Seller/Servicer must review each Appraisal in detail for its completeness, accuracy, appraising logic and adherence to the requirements of this chapter. The Seller/Servicer must ensure that the Appraisal submitted to Freddie Mac incorporates corrections and/or resolution of any material errors or omissions found during the Seller/Servicer's review of the Appraisal. If required by Freddie Mac, the Seller/Servicer must provide to Freddie Mac a copy of its review of the Appraisal concurrent with the transmittal of the Appraisal to Freddie Mac.

Each Appraisal must:

- Comply with and state its compliance with the USPAP in effect as of the date of the Appraisal
- Comply with and state its compliance with the current version of the FIRREA, including its Title XI regulations
- Disclose any steps taken by the appraiser to comply with the competency provision of the USPAP, if required; and
- Specifically disclose any extraordinary assumptions and/or hypothetical conditions, or explicitly state the lack of any such conditions

The Seller/Servicer must direct the appraiser to include the following language verbatim in the letter of transmittal above the appraiser's signature and/or on the appraiser's Certification page above the appraiser's signature:

"This report is for the use and benefit of, and may be relied upon by,

a) the Seller/Servicer, Freddie Mac and any successors and assigns ("Lender");
b) independent auditors, accountants, attorneys and other professionals acting on behalf of Lender;
c) governmental agencies having regulatory authority over Lender;
d) designated persons pursuant to an order or legal process of any court or governmental agency;
e) prospective purchasers of the Mortgage; and
f) with respect to any debt (or portion thereof) and/or securities secured, directly or indirectly, by the Property which is the subject of this report, the following parties and their respective successors and assigns:
   - any placement agent or broker/dealer and any of their respective affiliates, agents and advisors;
   - any initial purchaser or subsequent holder of such debt and/or securities;
   - any Servicer or other agent acting on behalf of the holders of such debt and/or securities;
   - any indenture trustee;
   - any rating agency; and
   - any institutional provider from time to time of any liquidity facility or credit support for such financings

In addition, this report, or a reference to this report, may be included or quoted in any offering circular, information circular, offering memorandum, registration statement, private placement memorandum, prospectus or sales brochure (in either electronic or hard copy format) in connection with a securitization or transaction involving such debt (or portion thereof) and/or securities."

The Appraisal must adequately describe the geographic area, neighborhood, rental competition, sales comparables, site and improvements. The Appraisal must demonstrate a market value supported by the reconciliation of the cost approach, income approach and market approach.

The appraiser must perform the functions stated in this section and in Sections 12.13 through 12.19 to ensure the completeness of each Appraisal.

a. Completeness (07/01/14)
The appraiser must include all three recognized approaches to value (Cost Approach, Sales Comparison Approach, and Income Approach) in the Appraisal regardless of the reporting format. The appraiser must thoroughly explain and support the exclusion of any of the three approaches to value.

If the Property is not operating at stabilized operations, appropriate consideration must be given in each of the three approaches to value.

The appraiser is not limited to information and analysis requested or provided by the Seller/Servicer or contained on a preprinted form. Whether completing a narrative report or a preprinted form, the appraiser must consider, analyze and report all information that influences value even if not specifically requested by the Seller/Servicer, Freddie Mac or in the preprinted form. The Appraisal must contain a comprehensive analysis that supports the final value conclusion.

If using Form 71A, the appraiser must complete all questions and descriptions requested by the preprinted form. If information requested by the preprinted form is unavailable, the appraiser must explain why the information is unavailable. If information deemed important to the Appraisal, although not specifically requested by the preprinted form, is unavailable, the appraiser must explain why the information is unavailable.

b. Inspection (07/01/14)
Although all appraisers signing the Appraisal and any certification (including the Statement of Limiting Conditions and Appraiser's Certification – Form 439) must have inspected the Property (except as noted below for an appraisal trainee), at least one appraiser signing the report must have made both an interior and exterior inspection of the Property. The interior inspection must include interior common areas, community amenities and a sample of unit interiors.

1. The appraiser must inspect:
   - A minimum of five units
   - All vacant units to determine their state of readiness for occupancy
   - All down units to determine and comment on the amount of repairs/renovations necessary to make them ready for occupancy
   - At least one unit of each unit type and comment on the marketability of each unit type's floor plan, design, layout, amenities, and level of finish

   If this requirement results in more than 25 units to be inspected, the appraiser may sample the vacant units, but all down units must still be inspected regardless of the number of down units. The appraiser must clearly state in the Appraisal how this sample was selected.

2. The Appraisal must identify the specific units inspected and into which category each unit falls.

3. The appraiser must report any physical condition concerns with the Property's land or improvements observed during the appraiser's inspection of the Property or known to the appraiser.

4. The appraiser must report any environmental concerns commonly known in the geographic area where the Property is located and any environmental concerns with the Property's land or improvements observed during the appraiser's site inspection or known to the appraiser.

5. It is not acceptable for the appraiser to merely state that the appraiser did not notice any physical and/or environmental issues during their inspection; the appraiser must discuss the extent of the appraiser's inspection for these issues.

6. Appraisers must report the extent of their due diligence and describe their environmental observations, analysis and conclusions in the Appraisal. It is not acceptable for the appraiser to only state that the appraiser is not qualified to detect environmental issues and thus has made no observations during their physical inspection of the Property.

7. An appraisal trainee may sign the Certification of the Appraisal without performing an inspection of the Property, subject to the requirements of Section 12.4(a).

c. Tax information (07/01/14)

The appraiser must consider, analyze and report property tax and assessment requirements of the jurisdiction where the Property is located. The appraiser must verify that the Property has been fully or partially assessed and provide the most recent assessment date and the next scheduled assessment date of the Property. The appraiser must consider, analyze, adequately support and report any effect on value due to future scheduled assessments, property tax abatements or other property tax benefits.

Property tax comparables must be part of the discussion of the Property's appropriate level of tax liability. The appraiser should identify the taxing jurisdiction of each of the property tax comparables and include in the discussion any differences in valuation methodology, tax rates, and/or reassessment schedules between these and the Property's taxing jurisdiction.

The risk of the Property's reassessment must be considered and appropriately analyzed and reported. Any adjustment to the capitalization rate must have adequate support and discussion.

d. Leasehold estates (09/08/04)

If the Property is fully or partially subject to leasehold interests, the appraiser must consider and analyze how the applicable ground lease affects value. The appraiser must make appropriate adjustments to the comparables in the market approach and the cost approach of the Appraisal.

e. Sales and other concessions (07/01/14)

The Seller/Servicer must provide to the appraiser and the appraiser must consider, analyze and report any

- Current or expired sales contracts, option contracts, contracts for deed, Master Lease and/or listings of the Property known to the appraiser
- Sales of the Property within the past three years

The appraiser must analyze and discuss any material difference between the final appraised value and any recent sale, contract, option and/or Master Lease of the Property.

f. Property condition report (07/01/14)

The appraiser must consider how the results of the property condition report affect the value of the Property.

Prior to the Seller/Servicer's transmittal of the Appraisal to Freddie Mac, the Seller/Servicer must provide the appraiser with the property condition report ordered by the Seller/Servicer as part of the loan transaction process. For expediency, the report can be delivered to the appraiser in draft form, as long as the appraiser notes in the Appraisal report that it was provided with a draft property condition report. If the final version is materially different from the draft version, the appraiser must be given the final version and the valuation must be amended to reflect this new information.

The appraiser must:

- Identify the engineering/consulting firm that prepared the property condition report, the effective date of the report, and whether it was a final version or a draft
- Report the conclusions and recommendations of the property condition report
- Consider the incremental cost to cure, maintain, or operate the Property due to the physical condition factor(s) and properly incorporate them into the value of the Property
- Use the property condition report as the starting point for its estimate of Replacement Reserve deposits unless the appraiser otherwise documents and discusses an alternative reserve figure in the Appraisal

In addition, the appraiser must provide market data, analysis, and discussion to support any opinion of the effect or non-effect on value of an identified physical condition issue. If there is an issue identified in the property condition report, it is not acceptable for the appraiser to merely state that there is not a loss in value; the appraiser needs to discuss why the appraiser has drawn that conclusion.

g. Zoning and other legal issues (07/01/14)
The appraiser must consider and discuss how zoning and other legal issues affect the value of the Property, referencing the authoritative zoning source in the Appraisal, comparing the Property to competing properties, and addressing at a minimum:
- Parking ratio compliance
- Density compliance
- Rebuildability restrictions in the event of substantial damage or casualty loss to the Property

12.13 Environmental reports (07/01/14)

Prior to the Seller/Servicer's transmittal of the Appraisal to Freddie Mac, the Seller/Servicer must provide the appraiser with the environmental report ordered by the Seller/Servicer as part of the loan transaction process and any other environmental reports on the Property retained by the Seller/Servicer. For expediency, the environmental report can be delivered to the appraiser in draft form, as long as the appraiser notes in the appraisal report that the appraiser was provided with a draft. If the final version is materially different from the draft version, the appraiser must be given the final version and the valuation must be amended to reflect this new information.

The appraiser must:
- Identify the environmental consulting firm that prepared the report and the effective date of the report, and whether it was a final version or draft.
- Report the conclusions and recommendations of the environmental assessment.
- Consider the incremental cost to cure, maintain, or operate the Property due to the environmental factor(s) and properly incorporate them into the value of the Property.
- Report any environmental concerns commonly known in the geographic area where the Property is located and any environmental concerns with the Property's land or improvements observed during the appraiser's site inspection or known to the appraiser.
- Analyze and discuss how the identified environmental issue(s) affect value (that is, negative market attitudes, stigma, disruption of occupancy, rent levels, use of property and cost of cleanup).

In addition, the appraiser must provide market data, analysis, and discussion to support any opinion of the impact or non-impact on value of an identified environmental issue. If there is an issue identified in the environmental report, it is not acceptable for the appraiser to merely state that there is not a loss in value; the appraiser must discuss why it has drawn that conclusion.

12.14 Valuation methodology (07/01/14)

Since the Appraisal must, at minimum, estimate the leased fee market value of the Property, appropriate adjustments are required to any analysis of fee simple data within the Appraisal. Examples include:

- Capitalization rates extracted from comparable sales must be consistently applied to the Property based upon actual or pro forma income. When appropriate, an adjustment must be made to reflect the Property's leased fee ownership interests being appraised.
- The traditional Cost Approach is typically developed as a fee simple value; as such, the methodology must be appropriately adjusted to reflect the Property's leased fee ownership interest.
- An analysis with 100 percent market rents, without consideration of the Property's actual in-place rents, is not a leased fee value estimate [see Section 12.14(c)].

a. Cost approach (07/01/14)

If developed, the cost approach conclusion must reflect the leased fee ownership interest in the Property (or leasehold interest if the Property is subject to a ground lease), and the appraiser must include proper adjustments for any items adverse to the Property's marketability, such as deferred maintenance, physical deterioration and functional and economic obsolescence. The Appraiser must specifically describe the estimates of accrued depreciation and entrepreneurial profit. The estimated land value must indicate the market value of the land, recognizing its highest and best use.

If the cost approach is omitted in the Appraisal, the appraiser must adequately provide a Property-specific explanation for its omission. Generic statements such as "investors typically do not consider the cost approach when they purchase this type of property" or "there is difficulty estimating depreciation due to current market conditions" are not acceptable and miss the point of the benefits of a cost approach analysis.

If the appraiser uses cost comparables as part of the estimate of replacement cost, it must include sufficient descriptions including, where appropriate, a photograph of the comparable properties to allow the reader of the Appraisal to adequately understand the construction similarities between those comparables and the Property.

b. Sales comparison approach (07/01/14)

The appraiser must support the value indicated by the sales comparison approach by analyzing the sales of at least three comparable properties. The sales comparables must be physically and locationally similar to the Property and must have been sold recently. The appraiser must make proper adjustments, when necessary, to the sales comparables for such items as real property rights conveyed, financing terms, conditions of sale, date of sale, location, physical characteristics and amenities. The appraiser must adequately explain those adjustments.

If there is an absence of recent comparable improved sales, the appraiser must consider that absence in estimating the market value. Current contracts and competitive property listings can be helpful to round out the appraiser's analysis if they are indicative of the state of the current market. The weight given to a contract or listing might be different from the weight given to the actual sales transactions, and the appraiser must discuss these differences in the Appraisal.

The appraiser must identify the primary data source(s), by name and title (if available), used to verify comparable sales data in the sales comparison approach.

The appraiser may use a multiplier, either a potential gross rent multiplier or an effective gross income multiplier only if the multiplier is customarily used in the Property's market area. The appraiser must derive the multiplier from recent sales of comparable properties in the market area of the Property. The appraiser must properly analyze the multiplier based on the overall quality and reliability of the gross income the Property has produced or is reasonably expected to produce.

The appraiser must not apply an adjustment to the comparable sales for differential net operating income or develop a net income multiplier for the sales since these methodologies duplicate the techniques or value indicators used in direct capitalization in the Income Approach. The Sales Comparison Approach must focus on similarities and differences that affect value, which may include variations in property rights, financing terms, market conditions, and physical characteristics and the causes of income variation, not just that net operating income of the comparable is different than the Property's (either on a per-unit basis or applying a net income multiplier). The appraiser must discuss and adjust for the causes of the differences in NOI, not just note that a difference exists.

The appraiser must refrain from adjusting the comparable properties' sale prices for expenses, costs, or renovation that are to be incurred by the buyer after the date of the sale transaction since these costs and expenditures are not typically part of the transaction/consideration price for the property.

c. Income approach (07/01/14)

The appraiser must derive the value indicated by the income approach by considering the following economic factors:

1. The forecasted gross income must consider historical rents of the Property, current rents of the Property and rents currently obtained from comparable units (similar in amenities, location, size, type, style and quality) adjusted for market concessions, rent abatements, discounts and the like. The influence and limitations of rent control, rental concessions, historical trends and other relevant factors must be reviewed and analyzed relative to the forecasted gross income of the Property.

   The appraiser must analyze and discuss the difference, if any, between the Property's actual recent contract rents and the appraiser's estimate of the Property's market rents, and their impact on the leased fee value of the Property. If the appraiser's estimate of market rent is dissimilar to the recent leasing at the Property, the appraiser must provide an adequate discussion and explanation of the variance.

2. The estimated vacancy and collection loss must consider historical data of the Property, current data of the Property, rental comparables in the market area and anticipated changes of regional market conditions.

3. The forecasted expenses and Replacement Reserves must be comparable with the historical data of the Property and comparable with known and verified expenses in the market area, measured, at a minimum, on a per-unit basis and as a percentage of effective gross income. The identification of the expense comparables must include, at minimum, the age of the Property (year built and/or renovated), its location and the time period indicated by the expenses. The forecasted expenses and Replacement Reserves must consider future changes in expense or reserve levels.

4. The Capitalization Rate must be based on factors reflecting the investment characteristics of typically knowledgeable investors for properties similar to the Property.

   The appraiser must develop the Capitalization Rate using each of the following techniques, if practicable:
   - Extraction from comparable sales with analysis of the comparables' variations, if any, from the Property's economic and physical characteristics. Capitalization rates extracted by pro forma income or with actual income must be reconciled consistently with the appraiser's estimate of the Property's income.
   - Published sources (preferably more than one published data source, and preferably a source that focuses on the Property's local market, not general national data).
   - Personal surveys and interviews with market participants, with date of survey and names/titles of the individuals surveyed.
   - Band of Investment model (also known as mortgage equity technique) with specific reference to the sources of the financial data assumptions.
   - Debt coverage ratio model - with specific reference to the sources of the financial data assumptions.

5. Development of capitalization rates from Ackerson or Ellwood methodologies is not appropriate for Appraisals for Freddie Mac

6. A discounted cash flow analysis (DCF) is typically redundant and not required in the development of the income approach for a multifamily property unless the property is not functioning at stabilized operations and/or occupancy
   - If developed, the cash flow period for the DCF must reflect the period necessary to achieve stabilized operations, unless local practice dictates otherwise, and may be developed with monthly, quarterly, or annual cash flows, depending on the time period of unstabilized property operations.

- In lieu of, or as a supplement to, a DCF analysis for an unstabilized property, the appraiser can consider the present value of lost revenue, operating expenses, and necessary repairs, renovations, alterations as adjustments to value.
- Key assumptions used to develop the DCF must be adequately discussed and supported in the Appraisal including rent and expense changes, discount rate, reversion capitalization rate, and absorption period.

12.15 Area information (07/01/14)

The appraiser must report and accurately explain any positive or negative factors about the property's neighborhood, immediate area and proximity to any adverse influences. If the appraiser uses Form 71A, the appraiser must adequately explain fair or poor ratings of any item in the Summary of Neighborhood and Property section.

The appraiser must

- Consider, analyze and report current and prospective regional economic trends, such as population, employment concentration and diversification, changes in supply and demand, and housing development
- Explain how regional economic trends affect appraised value

12.16 Rental competition (09/08/04)

The appraiser must identify the primary data source for each rental comparable, such as the name and telephone number of the contact person.

The appraiser must use at least six rental comparables. The appraiser must include current rental competition that affects the Property's economic performance and include all the information that would be requested on Form 71A for each rental comparable. The appraiser must identify and describe projects under construction, planned or proposed, that will likely affect the Property's economic performance.

12.17 Income and vacancy

a. Market feasibility analysis (09/08/04)

The appraiser must include a market feasibility analysis if the Property is new construction or if the Property has recently undergone major rehabilitation. The market feasibility analysis can be included as a section of the Appraisal or it can be a separate report. The market feasibility analysis must

- Consider, analyze and report the Property's current rental competition and future rental competition, including a review of projects under construction, planned or proposed that may affect the Property's economic performance
- Explain the expected stability and longevity of the Property's current rent levels and occupancy
- Support forecasted rent levels and occupancy
- Analyze rental concessions and absorption rates

b. Vacancy (09/08/04)
If the appraiser forecasts a vacancy percentage that is higher or lower than the current vacancy percentage, the appraiser must adequately explain the reasons for the difference in the current vacancy and forecasted vacancy. One line explanations, such as "the market is improving," "the property has updated units" or "the competition is becoming stronger," are unacceptable.

c. Rental factors (09/08/04)
The appraiser must consider, analyze and report rental concessions, rental discounts and rental abatements of the Property and market area and explain how these factors affect the Property's economic performance. If the appraiser does not know of any rental concessions, rental discounts or rental abatements, the appraiser must state this fact in the Appraisal.

The appraiser must consider, analyze and report any rent control or rent stabilization of the Property or market area and explain how these factors affect the Property's economic performance.

d. Seasonal and cyclical influences (09/08/04)
The appraiser must consider, analyze and report seasonal and cyclical influences that may affect annual rental income and occupancy of the Property.

e. Income (09/08/04)
The appraiser may include income from sources other than residential units when calculating total gross income if such income is supported by at least three years' historical operations, is common in the market and is expected to continue in the future. Such other sources include commercial space, laundry, parking, cable television, vending and application fees.

12.18 Improvements (07/01/14)
The appraiser must report and explain any building, health and fire code violations at the Property that are known to the appraiser and explain how the code violations affect appraised value. If the appraiser does not know of any known violations, the appraiser must state so in the Appraisal.

The appraiser must report and explain any deferred maintenance known to the appraiser at the Property and explain how the deferred maintenance affects appraised value.

If the Appraisal is subject to the completion of repairs or replacements, the appraiser must report the appraised value before required repairs are completed ("as is" value) and report the appraised value after the required repairs are completed ("as completed") value. The appraiser must estimate the cost to complete the needed repairs.

If the Appraisal indicates the presence of any defects or conditions with respect to the Property, such as dampness, infestation or abnormal settlement, the appraiser must describe the effects of these deficiencies on the appraised value and marketability of the Property.

The appraiser must:

- Estimate the cost to complete the required repairs and any accompanying entrepreneurial profit, if applicable, and
- Estimate the prospective date that repairs are to be completed, and
- Analyze and describe any prospective vacancy issues resulting from the repair process, and
- Estimate the prospective date that lease-up due to repairs is estimated to be completed, and
- Adequately describe, analyze, and discuss the effect of the repairs on market value

The appraiser may rely on the data, discussion, and conclusions of the property condition report and the environmental report in analyzing and reporting on the property's improvements.

12.19 Commercial space (07/01/14)

For Appraisals of Properties containing commercial space, the appraiser must include a rental analysis containing at least three comparable commercial rentals for each type of commercial tenant.

For each comparable commercial rent, the appraiser must provide:

1. Name of the tenant
2. Type of business
3. Address or unit number(s)
4. Leased square feet
5. Annual prospective contractual rent for each of the next three years
6. Concessions (if any)
7. Lease commencement date
8. Length of lease
9. Renewal option, if any
10. Any other material lease terms

Property lease abstracts must contain, at a minimum, the following basic data, as applicable:

1. Term
2. Lease commencement date
3. Lease expiration date
4. Exact name of tenant
5. Type of business
6. Base square footage
7. Core or conversion factors
8. Calculation of gross rent

9. Calculation of percentage rent
10. Calculation of expenses
11. Expense stop
12. Reimbursement of expenses
13. Cancellation clauses
14. Renewal clauses
15. Option to purchase clause
16. Subordination clause

For Properties that contain commercial space, the appraiser must segregate rental income, vacancy and collection loss, operating expenses and Replacement Reserves attributed to commercial rental space from rental income, vacancy and collection loss, operating expenses and Replacement Reserves attributed to residential rental space. If the appraiser is unable to segregate commercial space and residential rental space, the appraiser must explain why the space cannot be segregated. Separate values for the commercial space and residential space are not required but must be provided if the commercial space can be marketed and sold separately from the residential space.

The appraiser must provide data that support the appraiser's estimate of the property's commercial vacancy rate, a discussion of tenant rollover risk, and cost of tenant improvements to re-lease the space.

12.20 Attachments to the Appraisal (07/01/14)

The appraiser must attach the following, if applicable, to the Appraisal:

1. A copy of any current sales contracts, option contracts, contracts for deed or listings of the Property

2. A legible, certified current rent roll provided to the appraiser by the Seller/Servicer, legible Income and Expense Statements for the past three calendar or fiscal years (as applicable), if available, and legible year-to-date Income and Expense Statements for the Property, all dated within 30 days before the Appraisal

3. Color photographs of the Property's exterior, interior common areas, typical unit interiors, surrounding area, rental comparables, sales comparables and commercial rental comparables. The date and source of each photograph (i.e., the appraiser's original photograph, photo copied from the internet, and photo scanned from a marketing brochure) must be clearly identified in the Appraisal.
   - Unless otherwise identified within the Appraisal, the photographs of the sales comparables must be reflective of the property at the time of sale.
   - Unless otherwise identified within the Appraisal, the photographs of the Property must be reflective of the Property as of the effective date of the appraisal value.

4. Maps showing the location of the Property relative to the location of the land comparables, current rental comparables, future rental comparables and sales comparables

5. If the Property contains commercial space, legible copies of all executed commercial leases, riders and amendments

6. A complete legal description of the Property (see Section 29.3)

7. A survey of the Property, if available (see Section 29.5)

8. If the Property is subject to ground leases, a copy of all ground leases

9. Any other information that ensures the completeness of the Appraisal

10. The appraiser's qualifications and the supervising or review appraiser's qualifications

11. A copy of the complete, signed engagement letter and a copy of any other communications about the scope of the Appraisal between the appraiser and the Seller/Servicer

12. A signed and dated Statement of Limiting Conditions and Appraiser's Certification – Form 439

Freddie Mac will also accept a market study incorporated into the Appraisal.

12.21: Insurable value (07/01/14)

Insurable value must be provided in all Appraisals.

The Replacement Cost is the cost to reconstruct a Property of an equal number of units with equal quality of building materials with equal utility that would be acceptable to the typical investor and tenant in the market in which the Property is located. Replacement Cost is not the Cost to construct a replica of the Property.

For insurance purposes, the Replacement Cost may not include goodwill or other intangibles such as value/cost of the land, a deduction for depreciation, cost of site improvements, (e.g., driveways, parking lots, sidewalks, or landscaping), or cost to reconstruct the foundation(s).

12.22 Student Housing Appraisal requirements (07/01/14)

In addition to the other requirements of this chapter, the following requirements apply to Appraisals of Student Housing Properties. The Appraisal must be prepared by an appraiser who has experience in valuing Student Housing Properties, as demonstrated by the qualifications statement provided by the appraiser in the addendum to the Appraisal.

The appraiser must consider the following:

- Trends in student population or enrollment and other demographic trends,
- Changes in the supply of on- or off-campus housing, whether sponsored by the school or planned and built by private developers (such as dormitories, for-profit or not-for-profit apartments, and fraternity or sorority housing),
- Distance from the Student Housing Property to the school, and available transportation,
- Any school policies affecting student residency (for example, requirements for freshmen and sophomores to live on campus), and
- Changes to school-sponsored amenities, whether on- or off-campus.

Freddie Mac requires the use of comparable properties that were purchased, developed or leased for student housing. If comparable student housing properties are not available in the local market, the appraiser may use comparable regional student housing properties. The appraiser must evaluate the comparable property and the school it serves with the Student Housing Property based on the factors described above: student population trends, supply of student housing, distance and transportation between school and housing, amenities, school policies affecting student residency and so forth. These requirements apply to building sales, land sales and rental comparables.

If comparable local or regional student housing properties are not available, non-student housing may be used as a comparable property. However, the appraiser must discuss in sufficient detail the adjustments necessary to correlate non-student housing to the Student Housing Property.

12.23 Collateral evaluation for tax abatement (07/01/14)

For all Appraisals of a Property with a tax abatement, the preferred Freddie Mac valuation methodology is as follows:

- First, full, stabilized real estate taxes are used to calculate the NOI that is used to determine the property value with full taxes.
- Next, the present value of the tax savings over the term of the tax abatement is determined using a discount rate supported fully by the appraiser.
- The present value of the tax savings is then added to the property value with full taxes to determine the value of the Property with the tax abatement.

Note: If local practice is different from the Freddie Mac preferred methodology, the appraiser may use the local methodology, provided that any differences in technique are fully discussed in the Appraisal.

The appraiser must demonstrate in the Appraisal that the tax abatement is likely to continue for its stated term. This can be accomplished by a variety of methods including a review and discussion within the Appraisal of the tax abatement agreement and/or documented conversation and confirmation of the tax abatement by the Appraiser with the local property tax authority or tax abatement-granting agency.

12.24: Affordable Housing and Targeted Affordable Housing (07/01/14)

In addition to the other requirements of this chapter, the following requirements are for Appraisals of affordable housing properties:

1. The Appraisal must be prepared by an appraiser who has experience in valuing affordable housing properties, as demonstrated by the qualifications statement provided by the appraiser in the addendum to the Appraisal and also retained in the Seller/Servicer's files.

2. The appraiser must consider the following:
   - Trends in population and other factors of affordable housing demand
   - Changes in the supply of affordable housing properties within the Property's market area

3. Freddie Mac requires the use of comparable properties that were purchased, developed or leased as affordable housing. If comparable affordable housing properties are not available in the local market, the appraiser may use comparable regional affordable housing properties. These requirements apply to building sales, land sales, rental comparables and capitalization rate comparables.

4. If a sufficient number of comparable local or regional affordable housing properties are not available for analysis, non-affordable housing may be used as a comparable property. However, the appraiser must discuss in sufficient detail the adjustments necessary to correlate non-affordable housing to the affordable housing Property, including, but not limited to, differences in local demographics, investor considerations and marketing time.

5. If the Property has restricted units, the appraiser must include an estimate of market value with the restricted units in place and an estimate of hypothetical market value without the restricted units. For Appraisals directly ordered by Freddie Mac for asset management purposes, the appraiser must also opine, describe and support if the highest and best use of the Property is to phase out restricted rents in favor of non-restricted rents, and, if so, develop an estimate of market value considering the time period necessary to phase in non-restricted rents.

   In the Appraisal, the appraiser must document the source of the Property's restricted rent roll and provide adequate support, analysis and discussion for the continuation of the restricted rents. If the appraiser concludes that the restricted rents will expire or not continue, the appraiser must use the appropriate methodology to value the Property considering the likelihood of the restricted rents expiring.

6. If the Property has HUD Project-based Section 8, the appraiser must include the following values:
   - The value using the project-based contract rents, and
   - The value using the lower of market, Section 8, or achievable LIHTC rents (if applicable) for each type of unit

7. If the Property has not achieved stabilized operations, the appraiser must develop both an "as-is" and an "as-stabilized" value.

8. If the Property is to be built, the appraiser must include the "as-stabilized" value.

12.25: Seniors Housing Properties (07/01/14)

In addition to the other requirements of this chapter, the following requirements apply to Appraisals of Seniors Housing Properties:

1. The Appraisal must be prepared by an appraiser who has experience in valuing seniors housing properties (i.e., independent living properties and assisted living properties) as demonstrated by the qualifications statement provided by the appraiser in the addendum to the Appraisal and also retained in the Seller/Servicer's files.

2. The appraiser must consider the following:
   - Trends in population, seniors' income and other factors of seniors housing demand
   - Changes in the supply of seniors housing properties within the Property's market area

3. Freddie Mac requires the use of comparable properties that were purchased, developed or leased as seniors housing. If comparable seniors housing properties are not available in the local market, the appraiser may use comparable regional seniors housing properties. These requirements apply to building sales, land sales, rental comparables, and capitalization rate comparables..

4. If a sufficient number of comparable local or regional seniors housing properties are not available for analysis, non-seniors housing properties may be used as a comparable property. However, the appraiser must discuss in sufficient detail the adjustments necessary to correlate non-senior housing to the Senior Housing Property including, but not limited to, differences in local demographics, investor considerations and marketing time.

5. If the Property has restricted units, the appraiser must include an estimate of market value with the restricted units in place and an estimate of hypothetical market value without the restricted units. In addition to the hypothetical value if leased at non-restricted rents, the appraiser must opine and support its opinion if the Highest and Best Use of the property is to phase out restricted rents in favor of non-restricted rents, and, if so, develop an as-is estimate of market value considering the time period necessary to phase in non-restricted rents.

   In the Appraisal, the appraiser must document the source of the Property's restricted rent roll and provide adequate support, analysis and discussion for the continuation of the restricted rents. If the appraiser concludes that the restricted rents will expire or not continue, the appraiser must use the appropriate methodology to value the Property considering the likelihood of the restricted rents expiring.

The Appraisal will clearly and prominently report the total market value of the Property as well as an allocation for contributory business value, personal property and/or other non-real estate items. The appraiser will clearly, adequately and comprehensively discuss the value segregation process and provide market-derived data for the value allocations, including, where applicable, surveys of market participants, comparable sales data and authoritative sources for the appraiser's allocation methodology.

12.26: Manufactured Housing Communities value (07/01/14)

In addition to the requirements in this chapter, specific appraiser and Appraisal requirements for Manufactured Housing Communities can be found in Section 22.5.

12.27: Appraisals for premier lease-up and standard lease-up (07/01/14)

Freddie Mac has two types of special lease-up programs: Premier Lease-Up and Standard Lease-up, with the former being for loans with premier sponsorship and assets in premier locations, and the latter being for loans with sponsors and markets that do not meet this criteria.

For Properties to be specifically underwritten in either of these two programs, the Appraisal must provide the as-is and prospective as-stabilized value for the property. The Freddie Mac Underwriting Value is based on the prospective as-stabilized value.

The Seller must provide guidance to the appraiser should these values be required.