KANSAS DEPARTMENT OF REVENUE

DIVISION OF PROPERTY VALUATION

AFFORDABLE HOUSING APPRAISAL GUIDE

for the

STATE OF KANSAS

2024

EFFECTIVE DATE OF APPRAISAL GUIDE

JANUARY 1, 2024

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INTRODUCTION

An Affordable Housing Committee ("the Committee") of the Kansas County Appraisers Association (KCAA) was formed to assist the Division of Property Valuation (PVD) with developing this Affordable Housing Valuation Guide. The committee, PVD and industry representatives have worked together to compile, research and issue this guide for the valuation of this sub-class of multifamily housing. The initial recommendations included, but were not limited to, the following:

- The guide must be kept simple so all users can understand, utilize and explain the procedures and methodology.
- The guide approach should be geared toward the income approach methodology, utilizing direct capitalization as the primary method.
- Rental income should be derived based upon median rents of similar income-restricted properties within the market area.
- For purposes of this guide, Section 42 income tax credits offered by the Internal Revenue Service do not meet the definition of real property as stated by K.S.A. 79-501 and will therefore not be included in the income stream.
- Vacancy rates should be market-derived, preferably based on like income-restricted properties in the market area. Like rental income, absent directly comparable data, an expanded geographic area may be employed, or the actual property vacancy rate may be used.
- Capitalization rates should be established statewide using an "urban" rate and an "non-urban" rate based on population.
- An income and expense reporting/valuation template should be adopted as the primary valuation tool.

An independent Capitalization Rate and Effective Gross Income Multiplier (EGIM) analysis were completed by Valbridge Property Advisors for use in this guide, and both will be discussed more in the body of this document. The document can be found on the Kansas Department of Revenue's Property Valuation Division website at https://www.ksrevenue.org/pvdvaluation.html. The results of the analysis are as follows:

Capitalization Rate

	Primary Markets			Secondary Markets			Tertiary Markets		
Source	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**
Market Extraction	5.25%	6.00%	6.75%	5.75%	6.50%	7.25%	-	7.25%	8.00%
Band of Investments	6.50%	7.25%	8.50%	7.00%	7.75%	8.50%	7.75%	8.50%	9.75%
Third Party Surveys (MKT)	5.25%	5.75%	6.75%	6.00%	6.50%	7.50%	-	-	-
Concluded Rate	**5.25%**	**6.00%**	**6.75%**	**5.75%**	**6.50%**	**7.25%**	**-**	**7.25%**	**8.00%**
Plus Rate Increase	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	-	1.00%	1.00%
Reconciled Rate 2023	**5.75%**	**6.50%**	**7.25%**	**6.50%**	**7.25%**	**8.00%**	**-**	**8.25%**	**9.00%**

* Concluded rates include a typical reserve requirement ranging from $200 - $300 per unit (varies by investment class)
* Primary – Kansas City MSA
* Secondary – Wichita, Topeka, Lawrence and Manhattan
* Tertiary – All remaining markets

Effective Gross Income Multiplier

Operating Expense Ratio	Primary Markets	Secondary Markets	Tertiary Markets
30%	14.00	12.00	11.00
35%	13.00	11.00	10.00
40%	12.00	10.00	9.00
45%	11.00	9.00	8.00
50%	10.00	8.00	7.00
55%	9.00	7.00	6.00
60%	8.00	6.00	5.00
65%	7.00	5.00	4.00
70%	6.00	4.00	3.00
Range	**5.50 - 15.00**	**5.00 -11.00**	**4.50 - 10.00**

PURPOSE

This guide is developed with both the county appraiser and the property owner in mind. The objective is to outline a fair, impartial and defensible valuation process that all Kansas county appraisers can follow to obtain fair market value as required by Kansas statutes. Utilizing a standardized process promotes statewide uniformity, equalization and taxpayer fairness.

The guide is intended to be used by county appraisers as a valuation guide reference outlining income approach concepts for affordable housing. Although the focus is on the income approach, it is not intended to, and should not be construed to, prohibit the consideration of any relevant factors or valuation methodologies. The publication provides general guidance and the determination of the ***fair market value*** of a property remains the goal of the county appraiser. The determination of fair market value is made on a case-by-case basis considering all relevant factors and appraisal methodologies pursuant to K.S.A. 79-503a.

The success of a valuation guide of this nature is contingent on obtaining accurate information and cannot be properly executed without a joint commitment from all parties. Property owners/managers and appraisal personnel from each jurisdiction must communicate with one another for the guide to work effectively. The information required by the valuation template is crucial to developing an estimate of fair market value.

APPRAISAL REQUIREMENTS

Kansas ad valorem appraisals are administered by Kansas statutes, PVD directives, Revaluation Maintenance Specifications and the Uniform Standards of Professional Appraisal Practice (USPAP). Kansas property valuations shall be established for each parcel of real property at its fair market value in money in accordance with the provisions as outlined in K.S.A. 79-503a, and amendments thereto. K.S.A. 79-503a defines market value as follows:

79-503a. Fair market value defined; allowable variance; factors to be considered in determining fair market value; generally accepted appraisal procedures to be utilized.

"Fair market value" means the amount in terms of money that a well informed buyer is justified in paying and a well informed seller is justified in accepting for property in an open and competitive market, assuming that the parties are acting without undue compulsion. In the determination of fair market value of any real property which is subject to any special assessment, such value shall not be determined by adding the present value of the special assessment to the sales price. For the purposes of this definition it will be assumed that consummation of a sale occurs as of January 1.

Sales in and of themselves shall not be the sole criteria of fair market value but shall be used in connection with cost, income and other factors including but not by way of exclusion:

(a) The proper classification of lands and improvements;

(b) the size thereof;

(c) the effect of location on value;

(d) depreciation, including physical deterioration or functional, economic or social obsolescence;

(e) cost of reproduction of improvements;

(f) <u>productivity taking into account all restrictions</u> imposed by the state or federal government and local governing bodies, including, but not limited to, restrictions on property rented or leased to low income individuals and families as authorized by section 42 of the federal internal revenue code of 1986, as amended;

(g) earning capacity as indicated by lease price, by capitalization of net income or by absorption or sell-out period;

(h) <u>rental or reasonable rental values or rental values restricted</u> by the state or federal government or local governing bodies, including, but not limited to, restrictions on property rented or leased to low income individuals and families, as authorized by section 42 of the federal internal revenue code of 1986, as amended;

(i) sale value on open market with due allowance to abnormal inflationary factors influencing such values;

(j) <u>restrictions or requirements imposed upon the use of real estate</u> by the state or federal government or local governing bodies, including zoning and planning boards or commissions, and including, but not limited to, restrictions or requirements imposed upon the use of real estate rented or leased to low income individuals and families, as authorized by section 42 of the federal internal revenue code of 1986, as amended; and

(k) comparison with values of other property of known or recognized value. The assessment-sales ratio study shall not be used as an appraisal for appraisal purposes.

The appraisal process utilized in the valuation of all real and tangible personal property for ad valorem tax purposes shall conform to generally accepted appraisal procedures and standards which are consistent with the definition of fair market value unless otherwise specified by law.

History: *L. 1982, ch. 391, § 2; L. 1990, ch. 346, § 3; L. 1995, ch. 254, § 5; L. 1997, ch. 126, § 42; L. 2003, ch. 156, § 4; L. 2009, ch. 97, § 3; L. 2016, ch. 112, § 9; July 1.*

(Emphasis added)

As a rule, low income housing involves more than a normal real estate transaction. Particular inducements are offered to influence an investor to invest in a project the market would probably not support. These benefits are related to the real estate as neither would probably exist without it, but they are distinguishable from it. These are the components of intangible value that come into play in a low-income housing project. K.S.A 79-501 addresses the valuation of real and tangible personal property.

79-501 Appraisal of real and tangible personal property at fair market value in money; exceptions; rate of assessment.

Each parcel of real property shall be appraised at its fair market value in money, the value thereof to be determined by the appraiser from actual view and inspection of the property. The price at which such real property would sell at forced sale may be taken as a criterion of such fair market value in money in the market place of such sale if the appraiser believes such price to be a reasonable factor in arriving at fair market value. The price at which real property would sell at auction may be taken as the criterion of fair market value in money if the appraiser determines such sale to be an arms-length transaction between a willing buyer and seller. In addition, land devoted to agricultural use shall be valued as provided by K.S.A. 79-1476, and amendments thereto. Tangible personal property shall be appraised at its fair market value in money except as provided by K.S.A. 79-1439, and amendments thereto. All such real and tangible personal property shall be assessed at the rate prescribed by K.S.A. 79-1439, and amendments thereto.

History: *L. 1876, ch. 34, § 15; R.S. 1923, 79-501; L. 1963, ch. 460, § 3; L. 1969, ch. 433, § 2; L. 1988, ch. 375, § 6; L. 1989, ch. 2, § 9 (Special Session); Dec. 14.*

79-1456 Duty of county appraiser to follow guidelines and procedures of director of property valuation; deviation from appraisal guides, when; rules and regulations.

(a) The county appraiser shall follow the policies, procedures and guidelines of the director of property valuation in the performance of the duties of the office of county appraiser. If the director has developed and adopted methodologies to value specific types of property, the county appraiser shall be required to follow such methodologies. Prior to January 1, 2017, the secretary of revenue shall adopt rules and regulations necessary to administer the provisions of this section.

(b) The county appraiser in establishing values for various types of personal property, shall conform to the values for such property as shown in the personal property appraisal guides prescribed or furnished by the director of property valuation. The county appraiser may deviate from the values shown in such guides on an individual piece of personal property for just cause shown and in a manner consistent with achieving fair market value.

History: *L. 1982, ch. 391, § 3; L. 2016, ch. 112, § 14; July 1.*

USPAP Advisory Opinion AO-14

USPAP Advisory Opinion AO-14 is directly applicable to subsidized housing and recognizes that in valuing low income housing there are likely to be various values that should be considered. Users of this guide should become familiar with Advisory Opinion AO-14, in particular the "Property Rights Issues" section which states the following:

"Subsidies and incentives that encourage housing for low- and moderate-income households may create intangible property rights in addition to real property rights and may also create restrictions that modify real property rights. The appraiser should demonstrate the ability to discern the differences between the real and intangible property rights and value the various rights involved. Low-Income Housing Tax Credits (LIHTCs) are an example of an incentive that results in intangible property rights that are not real property but might be included in the appraisal. Project-based rent subsidies are an example of a subsidy accompanied by restrictions that modify real property rights. Appraisers should be aware that tenant-based rent subsidies do not automatically result in a property right to the owner or developer of subsidized housing.

Standards Rule 1-2(e) allows the inclusion of intangible assets that are not real property in the appraisal. When personal property, trade fixtures, or intangible items are included in the appraisal, the appraiser must analyze the effect on value of such non-real property items, as required by Standards Rule 1-4(g).

A critical factor in all subsidized housing appraisals is the analysis of whether or not the various subsidies, incentives, and restrictions remain with the real property following a sale or foreclosure and thus are marketable property rights to be included in the appraisal."[1]

[1] USPAP Guidance: Advisory Opinions ©The Appraisal Foundation

WHAT IS AFFORDABLE HOUSING?

When reading or discussing government housing options, one may hear terms like Affordable Housing, Section 8, Elderly Housing or Low-Income Housing. Today it is common for government sponsored housing programs to be referred to as "Affordable Housing" and there are many different types of assistance offered. The purpose of affordable housing is to make housing affordable and available for debt burdened families, people with disabilities and the elderly. For the purposes of this guide, "Affordable Housing" shall mean "Federally Subsidized Housing" made available to qualifying low-income households through the federal tax program or a government sponsored housing program such as the U.S. Department of Housing and Urban Development (HUD) or the US Department of Agricultural (USDA). The subsidy may come in the form of funds to off-set development costs such as income tax credits, special financing or assistance to pay for rental or operating subsidies. Most affordable housing is reserved for income-qualifying low-income households and have rents that do not exceed a specific percentage (usually 30%) of a household's gross annual income. See also "*Subsidized Housing"* in the glossary of this guide.

An important term that needs to be understood is the Area Median Income (AMI). Every year HUD determines the AMI for every region in the country. Rental assistance is based on a percentage of a family's income to the AMI. Households earning less than 80 percent of the AMI are considered low-income. Those earning less than 50 percent are considered very low-income, and anyone making less than 30 percent of the AMI is considered extremely low-income. Generally speaking, that's how affordable housing works.

So, how are the programs structured? Well, it depends on many things. First, there's a type referred to as "Low-Income Housing Tax Credits" that go to developers who agree to set aside a certain percentage of units for low-income families. In turn, the rents for these units must remain affordable (again, around that 30 percent of AMI level) for low-income renters.

Then there's public housing, which is government-owned housing. It stays affordable, because the government sets the rental rates. Government owned housing has faded over the years and hasn't been built since the 1970's. When the units are torn down, they're gone and not rebuilt.

There are also multiple programs where private investors receive an incentive to build affordable housing such as Section 8, Section 515 and Section 202 etc. These programs help renters pay rent when it exceeds 30 percent of AMI.

AFFORDABLE HOUSING PROGRAM OVERVIEW

Although there are a variety of active government housing assistance programs, there are two principal programs offering incentives for private investors to develop affordable housing. These programs are commonly referred to as Section 42 - Low-Income Housing Tax Credit (LIHTC) Program and Section 515 - US Department of Agriculture's Rural Development Program respectively. These programs are the latest of a long line of public housing programs dating back to the 1930's, through which government inducements encouraged developers to provide housing for the nation's needy. This document will serve as a guide for appraising all affordable housing projects in Kansas. More program information can be found by accessing the resources summarized in Appendix A of this document.

Section 42 Low-Income Housing Tax Credit (LIHTC)

- Created under the Tax Reform Act of 1986 and made permanent in 1993.
- Program provides an indirect federal subsidy used to finance the construction and rehabilitation of low-income affordable rental housing.
- The LIHTC program gives investors a dollar-for-dollar reduction in their federal tax liability (income tax credit) in exchange for providing financing to develop affordable rental housing.
- The tax credit is claimed pro rata over 10 years and can be used to construct new or renovate existing rental buildings.
- Financed projects must meet eligibility requirements for at least 30 years after project completion. Owners must keep the units rent restricted and available to low-income tenants. At the end of the period, the properties remain under the control of the owner.

Section 8 Project Based Rental Assistance

- Section 8 housing is a federally funded program sponsored by the US Department of Housing and Urban Development (HUD) aimed to assist low-income families pay rent.
- There are two main types, Project-Based Rental Assistance and the Housing Choice Voucher program or (also referred to as Tenant-Based assistance).
- ***Project-Based Rental Assistance*** subsidy is tied to a specific property or project typically through a long-term contract.
    - The subsidy is project-based, is not portable, and cannot be transferred.

  - Requires qualified property owners to engage in a Housing Assistance Payment (HAP) contract with HUD.
  - Eligible households are assigned by the local public housing authority (PHA).
  - Owner in return receives rental support for those households.
  - Requires qualified property owners to engage in a Housing Assistance Payment (HAP) contract with HUD.
  - Project-based assistance guarantees a certain number of units are held in a property for persons qualifying for assistance.

- ***The Housing Choice Voucher Program*** (Tenant-Based assistance) is not tied to a project.
  - The program provides housing vouchers to qualified families or individuals accepted into the program to help pay monthly rent.
  - The voucher is portable and renters take the voucher with them when choosing a property. This allows them to select suitable housing for themselves.
  - The valuation of properties in the Housing Choice Voucher program is not addressed in this guide.

Section 515 USDA Rural Rental Housing Program

- The program offers direct loans made by the U.S. Department of Agriculture's Rural Development Housing and Community Facilities Programs Office (RD) acting as the lender to eligible borrowers.
- Borrowers provide economically designed and constructed housing and related facilities for very low, low, and moderate-income households, elderly households, and persons with disabilities living in rural areas.
- This is primarily a direct housing mortgage program; its funds may also be used to buy and improve land and to provide necessary facilities such as water and waste disposal systems.
- Individuals, partnerships, limited partnerships, for-profit corporations, nonprofit organizations, limited equity cooperatives, Native American tribes, and public agencies are eligible to apply.
- For-profit borrowers must agree to operate on a limited-profit basis.
- Borrowers must be unable to obtain credit elsewhere that will enable them to charge rents affordable to low and moderate-income tenants.
- Owners may obtain guaranteed equity loans after 20 years as an incentive for participation.

Section 202 Supportive Housing for the Elderly

- The program is similar to Supportive Housing for Persons with Disabilities (Section 811).
- Occupancy is open to any very low-income households comprised of at least one person who is at least 62 years old at the time of initial occupancy.
- HUD provides interest-free capital advances to private, nonprofit sponsors to finance the development and construction of supportive housing for the elderly. The capital advance does not have to be repaid as long as the project serves very low-income elderly persons for 40 years.
- Project rental assistance funds are provided to cover the difference between the HUD-approved operating cost for the project and the tenants' contribution towards rent. Project rental assistance contracts are approved initially for 3 years and are renewable based on the availability of funds.
- Private nonprofit organizations and nonprofit consumer cooperatives that meet the threshold requirements contained in the General Section and the program Notice of Funding Availability (NOFA) are the only eligible applicants under this Section 202 program.
- Neither a public body or tribe nor an instrumentality or agency of a public body or tribe is eligible to participate in the program. Nonprofit entities associated with public bodies or tribes must establish their eligibility by providing an attorney's opinion stating that under state or tribal law the associated entity is not an instrumentality or agency of the public body or tribe and confirming that such entity:
    - Meets the definition of "private nonprofit organization" under part 891;
    - Has Articles of Incorporation which provide no more than minority control by the public body or tribe; and
    - Is not receiving a majority of its operational funding from the public body or tribe.

Section 811 Supportive Housing for Persons with Disabilities

- Section 811 provides funding to develop and subsidize rental housing with the availability of supportive services for very low and extremely low-income adults with disabilities. The program does not provide funding for supportive services.
- The program is authorized to operate in two ways:

(1) by providing interest-free capital advances and operating subsidies to nonprofit developers of affordable housing for persons with disabilities; and

(2) by providing project rental assistance to state housing agencies. The assistance to the state housing agencies can be applied to new or existing multifamily housing complexes funded through different sources, such as Federal Low-Income Housing Tax Credits, Federal HOME funds, and other state, Federal, and local programs.

- Nonprofit organizations with a Section 501(c)(3) tax exemption from the Internal Revenue Service can apply for a capital advance to develop a Section 811 project.

HOME Investment Partnership

- The HOME Investment Partnerships Program (HOME) provides formula grants to states and localities that communities use - often in partnership with local nonprofit groups - to fund a wide range of activities including building, buying, and/or rehabilitating affordable housing for rent or homeownership or providing direct rental assistance to low-income people.
- Eligible uses of funds include tenant-based rental assistance; housing rehabilitation; assistance to homebuyers; and new construction of housing. May also be used for site acquisition, site improvements, demolition, relocation, and other necessary and reasonable activities related to the development of non-luxury housing.
- Funds may not be used for public housing development, public housing operating costs, or for Section 8 tenant-based assistance, nor may they be used to provide non-federal matching contributions for other federal programs, for operating subsidies for rental housing, or for activities under the Low-Income Housing Preservation Act.

Lease-Purchase Developments (AKA Rent-to-own Housing)

- These types of developments can help stimulate a weak market in the target area of the Lease-Purchase Development.
- They can also provide a community with the opportunity to re-stabilize with families making a long-term commitment to a property.
- The programs often originate at the local level but are also often used in conjunction with HOME funds, Low Income Housing Tax Credits, and/or other state and federal programs.
- The goal of the lease-purchase program is to provide home ownership opportunities to families that, for income or credit reasons, cannot obtain a mortgage.

- Organizations work with the families to overcome the barriers of a final purchase. Such barriers may include the need to acquire a down payment, repair credit problems or receive subsidies that require a lease period.

- The typical lease agreement is for 15 years. A small stipend is withheld from the monthly rent paid and transferred to an escrow account that helps the lessee purchase the property at the end of 15 years if they qualify. Rents and sale prices are subject to HOME and/or other subsidy programs publish by HUD.

AFFORDABLE HOUSING RESOURCES

There are numerous resources for obtaining information on affordable housing programs as well as surveys for operating income and expense data. Following are a few sites where information can be found. Additional listings of affordable housing resources can be found in Appendix A of this guide.

- ***Housing and Urban Development (HUD)*** oversees federal programs designed to help Americans meet their housing needs and provides information on the many affordable housing programs it oversees. The agency enforces a swath of federal housing laws, operates mortgage-supportive initiatives and distributes millions of dollars in federal grants. HUD's mission is to create strong, sustainable, inclusive communities and quality affordable homes for all. The HUD website offers information on all the various HUD programs mentioned at the beginning of this guide. There is also useful information in the HUD database such as fair market rents (FMR) by county, location, contact information, program start and end dates, number of units/unit breakdown and program types. (https://www.huduser.gov/portal/home.html)

- ***Kansas Housing Resources Corporation (KHRC)*** is the custodian of Section 42 Housing in Kansas and provides information on other sponsored programs in addition to information for homeowners, renters, special needs and housing partners. Since 1987 it's awarded Housing Tax Credits (HTC's) and monitored projects for Section 42 housing. KHRC is also a contract administrator for Section 8 Project Based housing. The site provides a directory of all Section 42 projects in Kansas and specific project information regarding costs and HTC amounts. The site also provides a list of properties currently for sale under the Qualified Contract Regulations. (https://kshousingcorp.org/)

- ***Affordable Housing Online*** provides an overview of each affordable housing project as well as a list of all the projects by state, county and city. Items found for specific projects include the program type, total and number of project based units, actual rents and estimated % of fair market rent, etc. This following information can be found at https://affordablehousingonline.com/housing-search/Kansas.

- ***The Institute of Real Estate Management (IREM)*** produces Income-Expense Analysis for Conventional Apartments (including a Section 42 category) and Federally Assisted Apartments. The information is comprehensive but it is restricted to subscribers. Data from IREM was used in the template and will be referenced later in this guide.

- ***The National Affordable Housing Management Association*** (NAHMA) provides a breakdown of the housing projects and units in each county and city. It provides a market overview of every county, listing the number of Section 8, Section 42 LIHTC, 515 Rural Development, Section 202 projects, etc. The overview can be referenced by State, County, and/or City. (https://www.nahma.org/)

- ***The National Housing Preservation Database (NHPD)*** provides a breakdown of housing projects and units in each county and city including the bedroom count, profit type, tenant target, occupancy rate, and program start/end dates. This information is provided through a query tool users can register to use. Registering is free. (https://preservationdatabase.org/)

AFFORDABLE HOUSING APPRAISAL INFORMATION

- The appraiser needs to know what type of Affordable Housing Program is in place on a property. There can be multiple programs in place on a single property that act very differently in the market place. It would not be uncommon for a property to incorporate Section 42 projects with HUD wrap around contract rents. It may also be possible to see Section 8 projects that were acquired and rehabbed using Section 42 LIHTC's. Either of these situations could also include conventional housing units. So as stated earlier, knowing the resources for each program is important to obtain the needed information.

- The consensus among industry participants and appraisal professionals is the ***income capitalization approach is the preferred valuation approach*** for low-income multifamily housing. Most believe direct capitalization supported with comparable income-producing property transactions that would appeal to the same category of prospective purchaser provide the best value indication. While other valuation methods may be considered and used to support the value, the income capitalization approach is the recommended method of valuation in this guide.

- The appraiser should verify the property is still in a government sponsored program. As mentioned earlier, this can be verified through one of the on-line resources for the program or by contacting the property owner/manager.

- The ***sales comparison approach can be useful*** when there are sufficient, recent, reliable transactions to indicate value patterns or trends in the market. To ensure the reliability of the value conclusions derived by applying the sales comparison approach, the assessor must verify the market data obtained and fully understand the behavior characteristics of the buyers and sellers involved in property transactions of these types. In most cases, when these properties sell, they are either leaving the program or they are experiencing financial distress and perhaps bankruptcy.

- ***Reliance on the cost approach is generally not recommended*** for everyday valuation of affordable properties, but the approach can be used to support a value conclusion from another approach on newer properties. Because it is difficult to account for the intangibles associated with the property, the cost approach is typically not a reliable appraisal method for LIHTC properties.

- The appraiser should verify a project is ***"Project" based***. "Project" based subsidies are tied to the project with long term contracts while "Tenant" based subsidies are portable, have short term leases, and are not bound to a specific project.

- Section 42 projects have restrictions outlined in a ***Land Use Restriction Agreement*** (LURA) for a period of 15-years, along with an additional 15-year requirement. The project must remain in the program for at least 15 years per the LURA. The LURA declaration is typically filed in the Register of Deeds Office and can be accessed there if it is not available from the property owner.

- Projects such as Project Based Section 8 housing will be restricted by a Housing Assistance Payment (HAP) contract. A HAP contract is a written agreement between the Public Housing Authority (PHA) and the owner of a unit. The HAP contract must be in the form prescribed by HUD. Under the HAP contract, the PHA agrees to make housing assistance payments to the owner on behalf of a specific family leasing a specific unit. The PHA uses its payment standard schedule to calculate the monthly HAP payment to the owner.

- The county appraiser is responsible for recognizing federally subsidized housing by using the "Function" element of the Land Based Classification Standard (LBCS) incorporated into the Kansas Computer Assisted Mass Appraisal (CAMA) system. The function code reference for this type of housing is ***1171 - Federally Subsidized Apartment Complex***. This code should be used by appraisers for all properties that qualify as a federally subsidized apartment complex. This is available in the CRS database and can easily be queried to identify all the projects in a jurisdiction.

- ***Property owners and managers must share responsibility*** with the appraiser if a fair, equitable and credible value conclusion is to be expected. It would be unreasonable to expect an appraiser to accurately appraise a property without knowing important facts about the property. Property owners and appraisers must work together to build an honest and trustworthy relationship if the appraisal process is to succeed.

- County appraisers are expected to follow the valuation process outlined in this guide when appraising affordable housing properties in Kansas; i.e. an income approach is preferred when applicable.
- County appraisers should put an emphasis on credible operating data if submitted by the property owner or representative. It is the responsibility of the property owner to furnish operating information (preferably three years) upon request from the county appraiser if it is to be considered.
- County appraisers often develop models based upon median rents of similar income producing properties within a market area. These models can be used in conjunction with specific operating information received from property owners/managers. It is not the intent of this guide to restrict the use of Computer Assisted Mass Appraisal models developed by the county.

CAPITALIZATION RATE ANALYSIS

Income capitalization is the process of converting income into an estimate of value. There are multiple techniques that can accomplish this and each are dependent on the income expectancy of the property. Generally, higher overall capitalization rates are associated with less desirable properties while lower capitalization rates are associated with higher quality investments.

There is a risk-reward dynamic associated with investing and managing this risk is key in any investment. Fundamentally, investors must decide whether the potential return of the investment justifies the risk of buying a property. Prudent investors accept common market risks but tend to avoid excessive risk. As an investment risk rises, so should the potential reward for accepting the risk. The anticipation of receiving future benefits creates value while the possibility of not receiving future benefits reduces value and creates added risk.

As stated in the introduction, the capitalization rates study shown in this guide were developed by Valbridge Property Advisors. The analysis is based on multiple approaches including direct capitalization (Market extraction) using market rate data, a band of investment and third-party surveys. The primary application of the analysis is for Section 42 Low Income Housing Tax Credit (LIHTC) properties, but it can also be applicable to other types of affordable housing projects.

The investment market is separated into three distinct categories: primary, secondary and tertiary as noted in the graphic below. Demographic and economic characteristics such as population, employment growth, traditional and economic drivers, amount of existing inventory, number of transactions and cap rate analysis are key criteria in determining the classification.

The vendor notes that real estate is an inefficient market with incomplete data, which results in a range of value. Therefore, a 25 +/- basis point difference for each of the calculated rates is within a typical range of reason for an affordable project in the State of Kansas.

Based on current and future interest rate trends, the vendor increased the baseline conclusions by 50 basis points (primary markets), 75 basis points (secondary markets), and 100 basis points (tertiary markets) to account for the increased cost of capital on January 1, 2023. Based on the analysis contained in the study, the conclusions are summarized as follows:

	Primary Markets			Secondary Markets			Tertiary Markets		
Source	**A**	**B**	**C**	**A**	**B**	**C**	**A**	**B**	**C**
Market Extraction	5.25%	6.00%	6.75%	5.75%	6.50%	7.25%	-	7.25%	8.00%
Band of Investments	6.50%	7.25%	8.50%	7.00%	7.75%	8.50%	7.75%	8.50%	9.75%
Third Party Surveys (MKT)	5.25%	5.75%	6.75%	6.00%	6.50%	7.50%	-	-	-
Concluded Rate	**5.25%**	**6.00%**	**6.75%**	**5.75%**	**6.50%**	**7.25%**	**-**	**7.25%**	**8.00%**
Plus Rate Increase	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	-	1.00%	1.00%
Reconciled Rate 2023	**5.75%**	**6.50%**	**7.25%**	**6.50%**	**7.25%**	**8.00%**	**-**	**8.25%**	**9.00%**

* Concluded rates include a typical reserve requirement ranging from $200 - $300 per unit (varies by investment class)
* Primary – Kansas City MSA
* Secondary – Wichita, Topeka, Lawrence and Manhattan
* Tertiary – All remaining markets

PVD recommends appraisers use the rates outlined in the study when capitalizing net income for the appraisal of affordable housing. However, it is understood county jurisdictions develop capitalization rate studies and appraisal models independent of this analysis as part of the normal appraisal routine. Although caution should be used when deviating from the recommended capitalization rate ranges in this guide, appraisers can consider the use of independent analysis so long as there is adequate supporting documentation.

Investment Class

In addition to the investment market area, sale data was grouped by investment class. Multifamily properties are generally classified into three investment categories, class A, B and C. Investment classes are associated with properties and areas by characteristics such as age, tenant income levels, growth areas, appreciation, amenities, and rental rates. Although there is no concise definition or standard practice across the industry, the following generally defines each investment class in Kansas.

Class A - These properties are typically newer properties built within the last 15 years with the most amenities, highest income earning tenants, lowest vacancies, and typically demand the highest rents. These properties usually have no deferred maintenance noted. Class A properties are typically (though not always) located in newer, high growth areas or those areas experiencing a significant amount of redevelopment. These properties are typically owned by institutional investors such as Real Estate Investment Trusts (REITs), life insurance companies, pension funds, etc. These properties have the lowest overall capitalization rates based upon the relatively lower risk of the cash flows. These are mostly contained within investment portfolios that include multiple of similar properties.

Class B - This class of properties generally consist of properties built in the last 15 to 30 years with average amenities. Rents are generally lower than the Class A properties. These properties will generally exhibit at least some deferred maintenance given their older age. Tenants are typically a mix of white collar and blue-collar workers with incomes lower than that of tenants of Class A properties. Class B properties are generally located in older, stable areas. These properties are typically owned by REITs, private investments groups, some institutional investors, and very high net worth individuals. Overall capitalization rates are typically higher than Class A properties given a slight increase in risk to the cash flow based upon tenancy, rent levels, vacancy, and volatility of expenses given their older age.

Class C - Class C properties are typically older properties, built 30 plus years ago. They generally have limited amenities. These properties will typically exhibit lower rents, higher vacancy, and more deferred maintenance. Tenants are typically blue-collar workers. Class C properties are generally located in older, declining or stable areas. These properties typically trade at a higher overall capitalization rates given increased risk to the cash flow based upon tenancy, rent levels, vacancy, and volatility of expenses given their older age. These properties are typically owned by private investors and private investment groups and are generally not considered institutional grade investments.

Class Comparison

Class	Characteristic	Description
Class A	Age	Generally 15 years or less
	Amenities	Best
	Location	Newer, Growth or Redevelopment Areas
	Rents	Generally Highest
	Vacancy	Generally Lowest
	Typical Owner	Institutional
	Overall Capitalization Rate (Risk)	Lowest
Class B	Age	Generally 15 to 30 years
	Amenities	Above Average
	Location	Older, Stable Areas
	Rents	Average to Above Average
	Vacancy	Average
	Typical Owner	Some Institutional/Private Investment Groups/High Net Worth Individuals
	Overall Capitalization Rate (Risk)	Average to Below Average
Class C	Age	Generally 30 years or older
	Amenities	Average to Below Average
	Location	Older, Declining, Stable Areas
	Rents	Average to Below Average
	Vacancy	Average to Below Average
	Typical Owner	Private Investor or Investment Group
	Overall Capitalization Rate (Risk)	Average to Above Average

Sample Photographs by Class

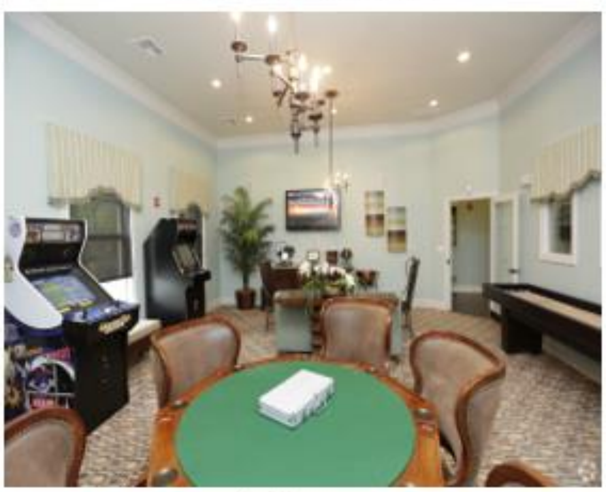
Class A Property (Sovereign at Overland Park, Overland Park, KS)

Typical Building

Typical Building

Outdoor Common Area

Pool Area



Clubhouse

Fitness Facility

Photo Source: Apartments.com

Class B Property (The Ridge Apartments, Overland Park, KS)

Typical Building

Fitness Facility

Pool Area

Laundry Facility

Photo Source: Apartments.com

Class C Property (The Courtyard Apartments, Overland Park, KS)

Photo Source: Apartments.com

Replacement Reserve Allowance

Replacement reserves refer to the periodic replacement of certain building components that wear out more rapidly than the building itself. These are not typical ongoing maintenance items and usually include items such as roof covering, HVAC compressors, paving, etc. The Dictionary of Real Estate Appraisal, 5th Edition, published by the Appraisal Institute, defines this term, in this case, replacement allowance, as follows:

> *An allowance that provides for the periodic replacement of building components that wear out more rapidly than the building itself and must be replaced during the building's economic life; sometimes referred to as reserves or reserves for replacement.*

The technique for allocating expenses typically included in reserves varies widely by property owner. In some cases, the property owner sets aside a certain amount ($250 per unit for example) each year in a fund for use when these items are at the end of their useful life. Other property owners will set aside a specific budgeted amount and draw from it each year. Regardless of which technique the property owner employs, the amount set aside varies from property to property. Some property owners will not include replacement reserves at all as a line item expense. These property owners enjoy a higher annual cash flow and accept the risk of large capital expenses that are not formally funded.

According to The Appraisal of Real Estate, 14th Edition, also published by the Appraisal Institute, reserves should be handled in accordance with local practice, and "the replacement allowance may be reflected explicitly as an expense or implicitly in the capitalization or discount rate." Id. at 485. Overall capitalization rates without replacement reserves included as an expense in the operating statement were utilized for the purposes of consistency given that some properties reported a deduction but most did not.

Inclusion of the replacement allowance would result in a lower overall capitalization rate recommendation as the reduction in cash flow resulting from the inclusion of replacement allowance would result in a lower overall capitalization rate. The chart below summarizes the effect of the inclusion of replacement allowance in a property's cash flow on the overall capitalization rate.

	Without RA	With RA
Total Income	$1,439,250	$1,439,250
Operating Expenses	($641,963)	($641,963)
Replacement Allowance	$0	($37,500)
Net Operating Income (NOI)	**$797,287**	**$759,787**
Sale Price	$10,000,000	$10,000,000
Resulting OAR	**7.97%**	**7.60%**
Difference		**-0.38%**

In this hypothetical example, the inclusion of replacement allowance results in an indicated overall capitalization rate that is 38 basis points lower than when replacement allowance is excluded from the income statement. The above example is meant to illustrate the relationship between the inclusion of replacement allowance and is not meant to suggest the difference is always 0.38 percent. The difference would vary between specific properties as the income and expense inputs would deviate.

The Appraisal of Real Estate Appraisal, 14th Edition, p. 486, published by the Appraisal Institute, states the following concerning replacement reserve allowance:

> *The appraiser must know whether or not a replacement allowance is included in any operating statement used to derive a market capitalization rate for use in an income capitalization approach. It is essential that the income statements of comparable properties be consistent. Otherwise adjustments will be required. A capitalization rate derived from a comparable property is valid only if it applied to the subject property on an equivalent basis. Consequently, a rate derived from a sale with an expense estimate that does not provide for a replacement allowance should not be applied to an income estimate for a subject property that includes such an allowance without an adjustment that reflects the difference.*

Replacement Reserve Allowance Recommendations

For the purposes of ad valorem assessments in Kansas, PVD recommends appraisers consider LIHTC property operating expenses net of reserves, and apply a standardized per unit reserve amount to all applicable developments as discussed below.

Within the affordable housing industry, repair allowances are estimated based primarily upon tenancy but also accounting for the age of the property. As previously discussed, repair allowance accounts for the repair and replacement of certain long-lived real estate components such as roof, HVAC, parking lot, etc.

Also, when a property applies for LIHTC funding, be it for new construction or acquisition/ rehabilitation, state housing entities that govern the allocation process often require a minimum amount for replacement reserves be included in the required as part of the property's pro forma statement. These typically vary based upon age and/or tenancy.

Senior properties can generally expect to have a lower required reserve allowance versus family properties. New construction properties have a lower requirement than existing properties. Generally speaking, a replacement allowance of $250 per unit for senior properties is accepted in the industry while $300 per unit is an industry norm for family properties.

PVD recommends counties use a set standard to promote consistency given that this is an item subject to some variation based upon the varying accounting practices and/or motivations of particular owners. Based upon the above discussion, PVD recommends the following replacement reserve allowances based on age and tenancy which represent the industry standard.

	Tenancy	
Age/Years	**Family**	**Senior**
0 - 10	$300	$250
11 - 20	$300	$250
21 - 30	$325	$275
30 plus	$350	$300

INCOME VALUATION TEMPLATE

One of three approaches to value, the income approach is based on the concept that current value can be estimated based on the present worth of future benefits to be derived through income production by an asset over the remainder of its economic life. The income approach uses capitalization to convert the anticipated benefits of the ownership of property into an estimate of present value.

The income approach is based on the principle of anticipation in that the expected future income stream of a property underlies what an investor will pay for the property. It is also based on the principle of substitution where an investor will pay no more for a property with a certain income stream than the investor would have to pay for a similar income stream. Investors rely heavily on the income approach when determining how much to pay for a property, thus supporting its strength as a value indicator.

The PVD has developed an income valuation template to help promote consistent application of the data and development of the appraised value. The template is designed for the income approach and is structured to record general property information, the apartment inventory, operating expenses (including reserves and RE taxes), an income capitalization reconciliation section, a rent loss calculator for unstable properties and an EGIM calculator. The following pages illustrate the template layout.

AFFORDABLE HOUSING INCOME & EXPENSE REPORT FORM

(BLUE shaded cells contain formulas and should not be altered)

Property Name		**Tax Year**	
Property Situs Address		**Today's Date**	
Parcel Identification #		**County Name**	
Preparer's name		**Quick Ref ID**	
Preparer's Email Address		**Telephone #**	

What apartment utilities are paid by the owner? ☐ Water & Sewer ☐ Gas ☐ Electric ☐ Heating Fuel

Project Occupancy Restriction Type ☐ Family/General ☐ Elderly ☐ Disabled

APARTMENT INVENTORY									PARKING	
Unit Type	**Program Type**	**Building Type**	**Year Built**	**# Units**	**# Baths**	**Rent Per Unit**	**Unit Size**	**Net Area**	**Parking Units**	**Rent Per Unit**
ANNUAL RENT ROLL SUMMARY				0		$0		0	0	$0

	INCOME			
	2020 Year	**2021 Year**	**2022 Year**	**Stabilized**
Rental Income				
Parking				
Other Income (1)				
POTENTIAL GROSS INCOME	$0	$0	$0	$0

Enter operating data with oldest information on the left and most current on the right. Select the year from drop down.

	VACANCY & COLLECTION LOSS				% of PGI
Vacancy					
Uncollected Rent (2)					
Other					
VACANCY & COLLECTION LOSS	$0	$0	$0	$0	
EFFECTIVE GROSS INCOME	$0	$0	$0	$0	

	EXPENSES				% of EGI	
Management Fee						
Administrative (3)						
Payroll (4)						
Utilities						
Repairs & Maintenance						
Insurance						
Other Expense						
TOTAL OPERATING EXPENSES	$0	$0	$0	$0		
OPERATING EXPENSE RATIO					Age =	
Annual Replacement Reserves					$/Unit =	
TOTAL EXPENSES w/RESERVES	$0	$0	$0	$0		
NET OPERATING INCOME	$0	$0	$0	$0		
OVERALL EXPENSE RATIO						
Real Estate Taxes						

(1) Other income should include items such as laundry income, clubhouse, and storage rentals.

(2) Uncollected rent includes collection loss, rent concessions, bad debt, uncollectibles and any past rent collection income.

(3) Administrative costs may include items such as marketing, advertising, signage, licenses, fees, permits, collection, accounting/auditing, mileage, bank charges, office supplies, leasing fees (if not already included) and postage.

(4) Some payroll may be included in Administrative or Maintenance. All other payroll should be reported on this line item.

***You may be requested to provide a detailed breakdown of expenses if data does not appear consistent with industry norms. Expenses should not include capitalized items including replacement of roofs, parking lots, boilers, water heaters, appliances, or other items typically capitalized. Expenses should also not include principal payments on debt, nor interest payments. Expenses must reflect actual and not proforma expenses unless the property does not have three years of history. If reporting expenses other than actual expenses, indicate expenses used with a note in the comments section of this report.**

I hereby certify the information submitted in this report is accurate and complete to the best of my knowledge. I further certify there are no depreciable expenses or interest payments included in the expense categories within this report.

Printed Name ______________________________

Signature ______________________________ **Date** ____________________

(By typing or signing your name in the signature box above, you are certifying that you are the preparer of the information on this form)

PREPARER COMMENTS (Use separate sheet if necessary)

For County Appraiser's Use Only

INCOME CAPITALIZATION RECONCILIATION

(BLUE shaded cells contain formulas or data that should not be altered; YELLOW shaded cells need data input)

	2020 Year	2021 Year	2022 Year	Stabilized
TOTAL EXPENSES w/o TAXES	$0	$0	$0	**$0**
NET OPERATING INCOME	$0	$0	$0	**$0**

Effective Tax Rate	**0.0000%**	**Tax Unit**	
Capitalization Rate		**Mill Levy**	
Overall Capitalization Rate	**0.0000%**	**Assessment Rate**	
PRELIMINARY VALUE			
PERSONAL PROPERTY VALUE ADJUSTMENT		Adjustment %	**0%**
PRELIMARY VALUE minus PERSONAL PROPERTY		(Enter whole number greater than 0)	
INDICATED VALUE ROUNDED			
VALUE per UNIT ROUNDED			

RENT LOSS CALCULATOR FOR *NON-STABILIZED* PROPERTIES

User must calculate a stabilized income value above prior to using this rent loss calculator.

	2020 Year	2021 Year	2022 Year	FUTURE VALUE
TOTAL EXPENSES w/o TAXES	$0	$0	$0	**$0**
NET OPERATING INCOME	$0	$0	**$0**	**$0**

	Future Value
Effective Tax Rate	0.0000%
Capitalization Rate	
Overall Capitalization Rate	0.0000%
PRELIMINARY VALUE	
PERSONAL PROPERTY VALUE ADJUSTMENT	
INDICATED FUTURE STABILIZED VALUE ROUNDED	
VALUE per UNIT ROUNDED	

Adjustment % **0%**

	"As Is" Value
Preliminary Future Value (From above)	
Estimated Years to Stabilize	
Less PV of Rent Loss Due to Shortfalls (OAR+1.5%)	$0
Less Deferred Maintenance/Completion Costs	
PRELIMINARY "AS IS" VALUE	
INDICATED "AS IS" VALUE ROUNDED	
VALUE per UNIT ROUNDED	

SHORTFALLS CALCULATION

Diff in NOI	*Yearly $*	*Absorption*	*Current Year NOI*
		0	$0

Years	Rent Loss	PW Factor 1.5000%	
			OAR + 1.5%
1			
2			
3			
4			
5			
6			
7			
Totals	$0	$0	

EFFECTIVE GROSS INCOME MULTIPLIER (EGIM) CALCULATOR

(BLUE shaded cells contain formulas or data that should not be altered; YELLOW shaded cells need data input from drop down list)

Market Area	Expense Ratio To Use	Indicated EGIM	Expense Ratio	Primary	Secondary	Tertiary
		#N/A	**30%**	14.00	12.00	11.00
(Click yellow cells for menu)			**35%**	13.00	11.00	10.00
	Stabilized EGI	**$0**	**40%**	12.00	10.00	9.00
			45%	11.00	9.00	8.00
	INDICATED VALUE ROUNDED		**50%**	10.00	8.00	7.00
			55%	9.00	7.00	6.00
	VALUE per UNIT ROUNDED		**60%**	8.00	6.00	5.00
			65%	7.00	5.00	4.00
			70%	6.00	4.00	3.00

General Property Information

AFFORDABLE HOUSING INCOME & EXPENSE REPORT FORM

(BLUE shaded cells contain formulas and should not be altered)

Property Name		Tax Year	
Property Situs Address		Today's Date	
Parcel Identification #		County Name	
Preparer's name		Quick Ref ID	
Preparer's Email Address		Telephone #	

Most of the information in the General Property Information section is self-explanatory. To aid the user, there are some formatted fields (Date, and telephone) as well as a drop-down menu for the county name. However, the PIN does not have any formatting but should be entered with the leading 3-digit county number followed by the 16-digit parcel ID as follows:

(**000**-000-00-0-00-00-000.00-0).

Apartment Inventory

The Apartment Inventory section provides specific information about the structure(s) itself as well as parking availability. The following information provides some direction on how to report the data in the template. There are several drop-down fields to aid the user.

What apartment utilities are paid by the owner? ☐ Water & Sewer ☐ Gas ☐ Electric ☐ Heating Fuel

Project Occupancy Restriction Type ☐ Family/General ☐ Elderly ☐ Disabled

APARTMENT INVENTORY									PARKING	
Unit Type	Program Type	Building Type	Year Built	# Units	# Baths	Rent Per Unit	Unit Size	Net Area	Parking Units	Rent Per Unit

Utilities

It is important to understand the utility arrangement of a property as it can have a significant impact on the NOI and the subsequent property value. Check boxes are provided to denote the utilities that are being paid for by the project. If no utilities are being paid by the owner, leave the boxes unchecked.

NOTE: *When entering data in the Apartment Inventory section, each line item for the unit type, program type, building type, year built and number of baths should be unique. If there is a difference in one of these entries, a line item should be created for each unique occurrence.*

Project Occupancy Restriction Type

Check boxes are provided to indicate whether the property is designated for by a family, elderly or disabled person(s). This can affect the amount of replacement reserves to allow for the appraisal.

Unit Type

Unit type refers to the bedroom count. Rents will vary according to the bedroom count so it is important to record this information. A drop-down menu of bedroom types 1 through 5 as well as studio/efficiency is available.

Program Type

The program type refers to the affordable housing program the units qualify for. There are numerous affordable housing programs within the industry. The common programs are available in a drop-down menu. If the program type is not listed in the drop-down menu, select "Other" and note the program type in the comments section on page two of the form. It is not uncommon for there to be more than one program type per property.

Building type

Building types can range from single family units to high rise elevator properties and can have different rents and expenses based on the type of building. A drop-down menu is available to indicate the type of structure.

Year Built

Enter the actual year built of the structure(s).

Units

Enter the total number of living units in the structure(s) for each unique line item. This number will be used to calculate the net area of the line as well as the total number of units being reported for the property. It will also be used to calculate a preliminary PGI estimate from apartment rents. This entry should include all available units.

Baths

A drop-down menu has been provided to select the number of baths up to 4 for each unit type being described.

Rent Per Unit

Enter the rent per unit. The rent figure should include all subsidies included in the contract, not just the tenant payment. The rent per unit will be used to calculate the potential gross rents for the property.

Unit Size

Enter the unit size. The unit size will be used to calculate the net area of the line and all the line item entries will be totaled to calculate the net leasable area of the property.

Net Area

Using the number of units and the unit size, the net area will be calculated for each line and for the property.

Parking

Enter the total number of parking units and the rent per parking stall. Since parking is somewhat of a generic entry for a complex, all parking can be combined into a single line item. It's important to account for the income from the parking since the entries will be used in the PGI calculation.

Note: *The rent roll summary totals for apartments and parking will indicate annual figures.*

Income Section

	INCOME				Enter operating data with oldest information on the left and most current on the right. Select the year from drop down.
	2020 Year	2021 Year	2022 Year	Stabilized	
Rental Income					
Parking					
Other Income (1)					
POTENTIAL GROSS INCOME	$0	$0	$0	$0	

Rental Income

Obtaining accurate operating information is key to developing a credible appraisal. This is also one of the most difficult tasks posed upon the appraiser if there is not a reporting requirement. But it is important for the appraiser to have an accurate representation of the operating status of the property to perform the income approach. A three-year stabilized history is always preferred and the appraiser should try to obtain local project data that encompasses many of the restrictions and economic factors that might impact a property. This gives the appraiser the best opportunity to develop a credible appraisal.

The Appraisal Institute, The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010) defines a stabilized income as: *"Income at that point in time when abnormalities in* *supply and demand or any additional transitory conditions cease to exist and the existing conditions are those expected to continue over the economic life of the property; projected income that is subject to change, but has been adjusted to reflect an equivalent, stable annual income."*

However, there will be times when the cash flow is non-stable due to new construction, renovation or perhaps just being distressed physically or economically. These instances can cause the value to be misrepresented if used and require special attention by the appraiser.

The appraiser should first arrive at an estimate of PGI. The scheduled rent is the total rent a property will produce if all the units are fully leased at the established subsidized rental rates. The estimated PGI is the scheduled rent plus any miscellaneous sources of income such as parking, laundry facilities, clubhouse rental and storage rental. Typically, scheduled rent information and income from miscellaneous sources are separated out on the income statement.

If rent information is not available from the property owner, the appraiser should attempt to obtain information from an alternate source such as one listed below or use the benchmark data discussed later in this guide.

- Property manager
- Property website
- Local housing authority
- Published market rent studies (HUD)
- Published resources such as IREM or The National Apartment Association

The operating data should always be entered in the templates starting with the oldest data on the left side moving to the most current data on right side. Information for the most recent year reported should always be in the column next to the stabilized column. The stabilized value field is for the appraiser's use and should be used to correlate stabilized entries to use in the appraisal.

Miscellaneous Income

It is not uncommon for apartment projects to have additional income other than just apartment rents. Parking was referenced in the Apartment Inventory section and is also a line item here in the Income section. However, additional income can also be generated from sources such as a community laundry facility, a clubhouse, storage rentals or vending machines. Income generated from any of these sources should be reported as "Other Income" on the last line of the income section. The entries from rental income, parking and other income will be totaled at the bottom of the section and reported in the PGI.

Vacancy and Collection Loss

	VACANCY & COLLECTION LOSS				% of PGI
Vacancy					
Uncollected Rent (2)					
Other					
VACANCY & COLLECTION LOSS	$0	$0	$0	$0	
EFFECTIVE GROSS INCOME	$0	$0	$0	$0	

Vacancy

It is recognized that properties experience vacancy over the course of time and this is typical in the property rental industry. As people choose to buy housing, change their life goals, or just decide that they want to be somewhere else, a vacancy situation is created. When a unit is vacated, there is expected turnaround time before a unit can be rented again. Vacancy should be taken into consideration even if occupancy is 100 percent at the time the analysis is being conducted. This entry should be provided by the property owner but an industry standard of 5% is a general guideline if no other data is available for reference.

Vacancy loss refers to the amount of potential income lost due to unrented space. It is not uncommon for very low-income projects like Section 8 to have lower than normal vacancy rates because of the affordability and the demand. Conversely, Section 42 projects will typically have vacancy rates more in line with a conventional project.

Vacancy can be estimated on the subject property’s history or comparable properties in the local market while assuming typical management quality. This allowance is sometimes estimated as a percentage of the PGI. Uncollected rent includes collection loss, bad debt/uncollectibles and any past rent collection income. Deducting the vacancy and collection loss from the PGI gives the appraiser an estimate of EGI.

Many operating statements include vacancy in the reported income meaning the income will be lower as a result. However, it is best to first establish the PGI from the annual rent roll summary and then apply the appropriate vacancy factor. Doing this will help maintain consistency from property to property and will make property comparisons easier to understand.

Uncollected Rent

The appraiser should also consider an uncollected rent loss amount if reported in the operating statement. A collection loss amount can be recognized for several reasons. It could be bad debt, and come from the fact that not all tenants honor their contractual lease obligations. Landlords can also offer incentives such a free rent to renters to get them into a lease agreement and these concessions are an expense to the project.

A rent loss can also come in the form of a loss to the lease. If market rent is considerably higher than contract rent and the project is bound by the lease agreement, an economic loss occurs. However, one must be careful to recognize a loss to lease. A loss to lease should only be allowed if it is being measured from the market rent and not the actual rent. In other words, if contract rent is being reported, the loss to the lease has already been accounted for in the rental rate and no adjustment is needed. In the case of an economic downturn, a project could also experience a gain to the lease. Assume contract rents were in place before an economic downturn took place and the rents were higher than market rents as a result. The project would actually see a gain above market rents. The adjustments from the vacancy and collection loss are totaled at the bottom of the section and deducted from the PGI to obtain the EGI estimate.

Expense Section

	EXPENSES				% of EGI	
Management Fee						
Administrative (3)						
Payroll (4)						
Utilities						
Repairs & Maintenance						
Insurance						
Other Expense						
TOTAL OPERATING EXPENSES	**$0**	**$0**	**$0**	**$0**		
OPERATING EXPENSE RATIO					Age =	
Annual Replacement Reserves					$/Unit =	
TOTAL EXPENSES w/RESERVES	**$0**	**$0**	**$0**	**$0**		
NET OPERATING INCOME	**$0**	**$0**	**$0**	**$0**		
OVERALL EXPENSE RATIO						
Real Estate Taxes						

Expenses vary widely depending on many factors so one must approach expense adjustments with caution. The location, type of project, individual unit size, type of building, the unit's location within the building and the number of total units will all affect the expenses. It is often perceived the presence of children is associated with a higher occurrence of damage and wear at family properties. Therefore, it is not uncommon for family units to have greater maintenance costs than elderly units.

Expenses can be broken into two groups: fixed expenses and variable expenses. Fixed expenses are expenses that generally do not vary with occupancy and that prudent management will pay for whether the property is occupied or vacant. Examples of fixed expenses are real estate taxes and insurance.

Variable expenses will vary based upon the occupancy and the extent of services provided. Examples of variable expenses are utilities, maintenance and repair etc.

Typical Allowable Expenses

Operating expenses include all cash expenditures required to operate and maintain the property and command market-oriented rents. They are categorically lumped together to include several expenses as a single line item expense. Expenses can be categorized differently depending on the owner and software being used. The following are some common allowable expenses for apartment properties.

- Advertisement and Marketing (If no professional management contract)
- Bank Service Changes
- Common Area Repairs
- Credit Check Fees
- Insurance
- Maintenance
- Office Expense
- Other Payroll
- Professional Property Management
- Real Estate Taxes (Loaded in capitalization rate and NOT as a line item expense)
- Replacement Reserves
- Snow Removal
- Telephone
- Trash Removal
- Utilities (Electric, Gas and Water/Sewer)

Appraisers can generally anticipate Section 42 properties will have higher expenses than a conventional project. This is especially true for administrative and payroll costs due to the additional monitoring requirements for these projects. Typically, a HUD project can have even higher expenses than a Section 42 or conventional project.

Unallowable Expenses

It's also important to note there are expenses typically excluded from the net operating income figure. Some notable unallowable expense items are:

- Debt service/Loan payments
- Depreciation
- Income Taxes
- Capital Expenditures

Understanding each income and expense item is very important as it directly affects the value of the income approach. If there is any doubt to whether an expense is valid or not, ask the question, "Can the property operate without the expense?" If it can operate as the use being appraised without the expense, the expense should probably not be allowed. A more comprehensive list of expenses can be found in Appendix B of this guide.

Management Fee

A management fee is the cost to manage the operations of the property such as rent collection, bookkeeping duties and screening new tenants. It is not uncommon for this expense to be contracted to a professional management firm. The services offered by management companies vary widely so there may be some functions carried out from some on-site management personnel that would not fall under this line item expense. This is a broad category and many of the expenses reported on one statement for this item can be reported in other categories on another statement.

Administrative

Administrative costs are general expenses not necessarily tied to a specific function, but to the entire property. They are general expenditures needed to satisfy the costs of daily operations and can include marketing costs, advertising, signage, licenses, fees, collection, answering service, mileage reimbursement, bank charges, legal/eviction charges, postage, telephone/fax/internet charges, office supplies, etc. Administrative expense can vary widely from project to project.

Payroll

General payroll expense includes salaries and wages paid to all employees who services are essential to the operation of the property but have not been included elsewhere. However, site management may have already been accounted for in the management expense so it would not be included here if that's the case. All other payroll expenses should be included here.

Utilities

Service utilities generally include water/sewer, gas, heating fuel, and electric. Utilities can be paid by the property owner or by the tenant so the expense allowance can vary widely depending whose responsibility the expense is. If a property is master metered, the utility expense is likely to be paid by the project. It is not uncommon for water/sewer to be master metered and paid by the project. Conversely, if units are individually metered there is a chance they will be covered by the tenant. The property owner will generally incur some utility expense for the common areas of the facility so expect to see a charge for these areas. The utility expense may be best stabilized using the most recent actual reported expense.

Repairs & Maintenance

Repairs & maintenance expenses are costs that keep a property in efficient operating condition, restore a property to a previous condition, repair incidental damage or maintain underlying property through routine maintenance. Examples include small, deferred maintenance items such as repairing torn screens, broken windows, leaky plumbing, general painting, replacing missing shingles and minor carpentry work.

Basically, a capital improvement is performed to boost an asset’s condition beyond its original or current state. Capital improvements are additions to a property that will either enhance the property's overall value, increase its useful life or adapt it to new uses. The scale of the capital improvement can vary so each one should be evaluated separately. Examples include a new roof (not just a few shingles), a new addition, new carpet, adding central HVAC or installing a security system.

It is important to understand the difference between these two items as repairs are an allowed appraisal expense while a capital improvement is not. A good rule of thumb is if there is a new item being added or an existing item being upgraded, then it’s usually considered an improvement.

Repairs and maintenance expense can be a volatile expense from year to year. The user may wish to consider averaging the maintenance expense if three years of historical expenses are provided.

Insurance

Insurance will always show up as an expense item, and if financing is involved, insurance is required by the lending institution. Insurance expense can fluctuate based on location and other economic conditions and may be best stabilized using the most recent actual reported expense.

Other Expense

Any allowable expenses not being reported in one of the line item categories referenced above (excluding RE taxes) can be included in the “Other Expense” category. However, if an entry is entered in this category, it is recommended the expense be described in the comments section on page two of the template so it can be documented.

Total Operating Expenses

The total operating expenses line totals the reported line item operating expense entries excluding real estate taxes and reserves for replacement. This line is used to calculate the operating expense ratio.

Operating Expense Ratio

Expense ratios can be helpful when analyzing expense data in a broad sense. An overall operating expense ratio based off the EGI is calculated for each reported year as well as the stabilized column. The overall ratio is derived by dividing the total operating expenses (less taxes and reserves) by the EGI. An expense ratio based off the stabilized column is also displayed to the right side of each line item expense for use when benchmark data needs to be considered.

Replacement Reserve Expense

As stated earlier, the appraiser should consider replacement reserves as an expense item when valuing affordable properties. The schedule below, based on age and tenancy, is recommended for the appraiser to follow. The schedule is embedded in the income valuation template for the appraiser's reference.

Age	Family	Senior
0-10	$300	$250
11-20	$300	$250
21-30	$325	$275
30 plus	$350	$300

Total Expenses w/Reserves

The total expenses w/reserves line totals the reported line item expense entries including the replacement reserves. Replacement reserves get included as part of the total expenses here and subtracting the total expenses w/reserves from the EGI calculates the NOI.

Net Operating Income

As stated above, the NOI is calculated by subtracting the total expenses w/reserves from the EGI. The NOI is carried over to the value reconciliation page of the template where it is capitalized into a preliminary value estimate by dividing it by the overall capitalization rate.

Overall Expense Ratio

The overall expense ratio is derived by dividing the total expenses w/reserves (less taxes) by the EGI and is displayed. The ratio calculated does not include the replacement reserve allowance.

Real Estate Taxes

It is common practice in ad valorem appraisals to load the real estate taxes as an effective tax rate component into the capitalization rate. Therefore, space is provided in the reconciliation section to enter the ETR. There is also space provided to enter the real estate taxes below the net income calculation on page one informational purposes only.

Industry Benchmark Data

There are several industry publications that report apartment operating data for various types of housing and this can be used for benchmark comparisons to aid the user. Data will typically be reported as a ratio or as a per unit dollar amount. Data such as this can be very helpful but should also be used with caution. ***The appraiser should consider benchmark data a secondary data source to operating data submitted by the property owner.***

The income valuation template in this guide has some benchmark data incorporated in it for the user's convenience. The data is derived from the Institute of Real Estate Management's (IREM) Federally Assisted Apartments Income and Expense Analysis 2019 and Conventional Apartments Income and Expense Analysis (Section 42 LIHTC) 2019. An example of the information provided is found in the illustration below. [2]

Click the "Program Type" from the Drop Down Menu below.

Section 42				(Click cell to left for menu)
Median	**Min**	**Max**	**$/Unit**	
$8.02	**$6.44**	**$10.21**	**$7,266**	Rental Income
$0.17	**$0.09**	**$0.25**	**$176**	Parking
$0.25	**$0.14**	**$0.33**	**$217**	Other Income

Median	Min	Max	$/Unit	
5.5%	**2.8%**	**10.2%**	**$364**	Vacancy & Collection Loss

Expenses Exclusive of Reserves and RE Taxes

Median	Min	Max	$/Unit	
4.9%	**4.4%**	**5.7%**	**$398**	Management Fee
6.9%	**3.0%**	**13.3%**	**$452**	Administrative
9.5%	**4.4%**	**12.5%**	**$667**	Payroll
11.1%	**8.4%**	**13.3%**	**$836**	Utilities
8.6%	**6.8%**	**12.2%**	**$791**	Repairs & Maintenance
4.0%	**2.9%**	**4.9%**	**$311**	Insurance
45.0%	**29.9%**	**61.9%**	**$3,455**	

[2] IREM Institute of Real Estate Management Conventional Apartments Income/Expense Analysis

Income Capitalization Reconciliation

A reconciliation section is provided for the appraiser to analyze the final net operating income, effective tax rate, capitalization rate, and personal property adjustment to arrive at a final value estimate. The total expenses (less RE tax) and NOI's from the front page will display in this section. The appraiser must enter the ETR and the capitalization rate to calculate the preliminary value estimate. A personal property adjustment (if applicable) can be made from the preliminary estimate to arrive at a final indication of value. Every property is different but a personal property adjustment for apartment housing will typically run about 1% to 3% of the preliminary value estimate.

INCOME CAPITALIZATION RECONCILIATION

(BLUE shaded cells contain formulas or data that should not be altered; YELLOW shaded cells need data input)

	2020 Year	2021 Year	2022 Year	Stabilized
TOTAL EXPENSES w/o TAXES	$0	$0	$0	**$0**
NET OPERATING INCOME	$0	$0	$0	**$0**

Effective Tax Rate	0.0000%	Tax Unit	
Capitalization Rate		Mill Levy	
Overall Capitalization Rate	0.0000%	Assessment Rate	
PRELIMINARY VALUE			
PERSONAL PROPERTY VALUE ADJUSTMENT		Adjustment %	0%
PRELIMARY VALUE minus PERSONAL PROPERTY		(Enter whole number greater than 0)	
INDICATED VALUE ROUNDED			
VALUE per UNIT ROUNDED			

Stabilized Property Example

The following examples are hypothetical and for illustration purposes only. Using the information and template outlined in this guide, the indicated value of a stabilized 60 unit property might look something like the completed template on the following pages. The indicated stabilized NOI to capitalize is $279,776. The indicated capitalization rate is in a range of 7.00% to 7.50%. Using a rate of 7.25% and loading the effective tax rate of 1.695% indicates an overall rate with taxes of 8.9450%. In this example, the personal property adjustment is 2% of the preliminary value or $52,555, leaving a final value of $3,065,180 (rounded) or $51,090 per unit.

AFFORDABLE HOUSING INCOME & EXPENSE REPORT FORM

(BLUE shaded cells contain formulas and should not be altered)

Property Name	Sample Stable Guide Property	Tax Year	2024
Property Situs Address		Today's Date	10/25/2023
Parcel Identification #	000-000-00-0-00-00-000.00-0	County Name	
Preparer's name	PVD Staff	Quick Ref ID	R1000
Preparer's Email Address		Telephone #	(123) 456-7890

What apartment utilities are paid by the owner? ☑ Water & Sewer ☐ Gas ☐ Electric ☐ Heating Fuel

Project Occupancy Restriction Type ☑ Family/General ☐ Elderly ☐ Disabled

APARTMENT INVENTORY									PARKING	
Unit Type	Program Type	Building Type	Year Built	# Units	# Baths	Rent Per Unit	Unit Size	Net Area	Parking Units	Rent Per Unit
1 Bedroom	Sec 42-LIHTC	Low Rise	2017	24	1	$700	660	15,840		
1 Bedroom	Sec 42-LIHTC	Low Rise	2017	24	2	$795	950	22,800		
2 Bedroom	Sec 42-LIHTC	Townhome	2017	12	2	$950	1105	13,260		
									45	$65
ANNUAL RENT ROLL SUMMARY				60		$567,360		51,900	45	$35,100

	INCOME			
	2020 Year	2021 Year	2022 Year	Stabilized
Rental Income	$562,940	$564,780	$567,360	$567,360
Parking	$38,350	$36,750	$35,100	$35,100
Other Income (1)	$11,530	$12,601	$13,091	$13,091
POTENTIAL GROSS INCOME	$612,820	$614,131	$615,551	$615,551

Enter operating data with oldest information on the left and most current on the right. Select the year from drop down.

	VACANCY & COLLECTION LOSS				% of PGI
Vacancy	$28,147	$32,248	$34,609	$31,650	5.1%
Uncollected Rent (2)					
Other					
VACANCY & COLLECTION LOSS	$28,147	$32,248	$34,609	$31,650	5.1%
EFFECTIVE GROSS INCOME	$584,673	$581,883	$580,942	$583,901	94.9%

	EXPENSES				% of EGI	
Management Fee	$29,392	$29,046	$31,061	$31,000	5.3%	
Administrative (3)	$55,618	$54,892	$56,018	$55,600	9.5%	
Payroll (4)	$57,744	$58,325	$63,495	$60,000	10.3%	
Utilities	$73,695	$71,368	$72,625	$72,625	12.4%	
Repairs & Maintenance	$46,329	$40,653	$38,209	$40,000	6.9%	
Insurance	$24,513	$25,609	$26,900	$26,900	4.6%	
Other Expense						
TOTAL OPERATING EXPENSES	$287,291	$279,893	$288,308	$286,125	49.0%	
OPERATING EXPENSE RATIO	49%	48%	50%	49%	Age =	6
Annual Replacement Reserves	$18,000	$18,000	$18,000	$18,000	$/Unit =	$300
TOTAL EXPENSES w/RESERVES	$305,291	$297,893	$306,308	$304,125		
NET OPERATING INCOME	$279,382	$283,990	$274,634	$279,776		
OVERALL EXPENSE RATIO	52%	51%	53%	52%		
Real Estate Taxes						

INCOME CAPITALIZATION RECONCILIATION

(BLUE shaded cells contain formulas or data that should not be altered; YELLOW shaded cells need data input)

	2020 Year	2021 Year	2022 Year	Stabilized
TOTAL EXPENSES w/o TAXES	$305,291	$297,893	$306,308	**$304,125**
NET OPERATING INCOME	$279,382	$283,990	$274,634	**$279,776**

Effective Tax Rate	1.6950%	Tax Unit	100
Capitalization Rate	7.2500%	Mill Levy	147.391
Overall Capitalization Rate	8.9450%	Assessment Rate	11.5%
PRELIMINARY VALUE	$3,127,737		
PERSONAL PROPERTY VALUE ADJUSTMENT	$62,555	Adjustment %	2%
PRELIMARY VALUE minus PERSONAL PROPERTY	$3,065,183	(Enter whole number greater than 0)	
INDICATED VALUE ROUNDED	$3,065,180		
VALUE per UNIT ROUNDED	$51,090		

Note For County Appraisers*: The final income estimate from the template should be recorded as a Miscellaneous Improvement Value or an override value on the Orion Final Value page. See the Orion Final Value Checklist for specific data entry information.*

NON-STABILIZED PROPERTIES

Non-stable properties can include new projects, properties where only budgeted information is available, or properties performing below market expectations and are considered distressed. These situations should be carefully analyzed and adjustments considered to account for the non-stable cash flow. The income valuation template provides a useful tool to assist the appraiser with non-stable properties. The process begins by first establishing a stable value using market-oriented rents.

Proposed/Under Construction/In Lease-up

For proposed and under-construction properties, there is no historical income or expense information available. Additionally, for properties that are in the lease-up phase, the income and expense information will be incomplete. However, the developer will have had to submit a pro forma operating statement for the tax credit/subsidy application and/or bank financing. As such, these figures can be considered in estimating the appraised value of the property assuming the property is completed and at stabilized occupancy at market-oriented rental rates.

For a non-stabilized or an incomplete project, an investor looks at the starting point (Is project completely vacant, partially leased, etc.), the future anticipated value, and the length of time and money to achieve the future stabilized value. This under construction or lease-up value is between the starting point and the future stabilized value and represents an "as is" market value. The "non-stable" value reconciliation section on page 3 of the valuation template utilizes the indicated value from the "stable" value reconciliation section on page 2. This value becomes the preliminary future value in the non-stable reconciliation section.

The appraiser needs to determine the entries for three other components to convert the future value to an "as is" value. These three components are 1) The amount of time necessary to stabilize the property as of the appraisal date, 2) The deferred maintenance or completion costs, if there are any, and 3) The approximate NOI as of the appraisal date if the property is partially leased (if vacant the entry can be left blank). The graphic below displays these entries.

Considering the effective appraisal date of January 1, if the property has not yet "broken ground," the appraised value would be the value of the vacant land. Once site improvements and/or vertical improvements have begun, a percentage completion can be determined as of the appraisal date and applied to the as complete/stabilized value as shown in the following example.

Assume a property containing 150 units. In the following example, the property is achieving average rents of $833 per month resulting in a potential gross income (PGI) of $1,500,000 annually based upon the pro forma. Assume the hypothetical expenses in the following template and a market vacancy of 5 percent. Based upon an overall capitalization rate of 8.25% and a hypothetical ETR of 1.6580%, the resulting value is 8,879,560 (Rounded). This value assumes construction completion and stabilization, and achievable market-oriented rents.

	INCOME				Enter operating data with oldest information on the left and most current on the right. Select the year from drop down.
	2020 Year	2021 Year	2022 Year	Stabilized	
Rental Income				$1,500,000	
Parking					
Other Income (1)				$15,000	
POTENTIAL GROSS INCOME	$0	$0	$0	$1,515,000	

	VACANCY & COLLECTION LOSS				% of PGI
Vacancy				$75,750	5.0%
Uncollected Rent (2)					
Other					
VACANCY & COLLECTION LOSS	$0	$0	$0	$75,750	5.0%
EFFECTIVE GROSS INCOME	$0	$0	$0	$1,439,250	95.0%

	EXPENSES				% of EGI	
Management Fee				$71,963	5.0%	
Administrative (3)				$15,000	1.0%	
Payroll (4)				$150,000	10.4%	
Utilities				$127,500	8.9%	
Repairs & Maintenance				$135,000	9.4%	
Insurance				$22,500	1.6%	
Other Expense						
TOTAL OPERATING EXPENSES	$0	$0	$0	$521,963	36.3%	
OPERATING EXPENSE RATIO				36%	Age =	
Annual Replacement Reserves				$37,500	$/Unit =	
TOTAL EXPENSES w/RESERVES	$0	$0	$0	$559,463		
NET OPERATING INCOME	$0	$0	$0	$879,787		
OVERALL EXPENSE RATIO				39%		
Real Estate Taxes						

INCOME CAPITALIZATION RECONCILIATION

(BLUE shaded cells contain formulas or data that should not be altered; YELLOW shaded cells need data input)

	2020 Year	2021 Year	2022 Year	Stabilized
TOTAL EXPENSES w/o TAXES	$0	$0	$0	$559,463
NET OPERATING INCOME	$0	$0	$0	$879,787

Effective Tax Rate	**1.6580%**	**Tax Unit**	**100**
Capitalization Rate	**8.2500%**	**Mill Levy**	**144.174**
Overall Capitalization Rate	**9.9080%**	**Assessment Rate**	**11.5%**
PRELIMINARY VALUE	**$8,879,561**		
PERSONAL PROPERTY VALUE ADJUSTMENT	**$0**	Adjustment %	**0%**
PRELIMARY VALUE minus PERSONAL PROPERTY	**$8,879,561**	(Enter whole number greater than 0)	
INDICATED VALUE ROUNDED	**$8,879,560**		
VALUE per UNIT ROUNDED	**$59,200**		

Once a preliminary stabilized value is established, one can consider the estimated completion percentage and the lease-up period. The completion percentage should be determined from an on-site physical inspection of the property by the appraiser. Assume from conversations with the owner and surveying the market, the appraiser has estimated that as of January 1 it will take two years for the property to reach a stabilized occupancy. At this same time, the property is only 75% complete. In this example, none of the units have been leased as of January 1, and the current year NOI is $0 (can be left blank).

In two years when the appraiser expects the property to stabilize, the indicated value is $8,879,560. The owner will lose out on two years of income, or a present value of $1,144,115 (present value of $879,787 of stabilized NOI). The project is only 75% complete, therefore, 25% (or $2,219,890) of the construction has yet to be completed and can be represented as deferred maintenance/completion costs. In a case where there is an extraordinary event, such as a couple years of bad management, there might not be any deferred maintenance or completion costs. Since this property is new, no leasing has occurred and the starting point is $0 or vacant. If the property were partially leased, the current NOI would be included to reflect a starting point that is further along. The "as is" value on January 1 is $5,515,560 (rounded), or the future value of $8,879,560 less rent loss of $1,144,115 and completion costs of $2,219,890. Once the property is 100% complete, the completion cost value representing the partial construction should be removed from the calculation.

RENT LOSS CALCULATOR FOR *NON-STABILIZED* PROPERTIES

User must calculate a stabilized income value above prior to using this rent loss calculator.

	2020 Year	2021 Year	2022 Year	FUTURE VALUE
TOTAL EXPENSES w/o TAXES	$0	$0	$0	$559,463
NET OPERATING INCOME	$0	$0	$0	$879,787

	Future Value		
Effective Tax Rate	1.6580%		
Capitalization Rate	8.2500%		
Overall Capitalization Rate	9.9080%		
PRELIMINARY VALUE	$8,879,561		
PERSONAL PROPERTY VALUE ADJUSTMENT	$0	Adjustment %	0%
INDICATED FUTURE STABILIZED VALUE ROUNDED	$8,879,560		
VALUE per UNIT ROUNDED	$59,200		

	"As Is" Value	
Preliminary Future Value (From above)	$8,879,560	
Estimated Years to Stabilize	2	2 years to complete & lease up
Less PV of Rent Loss Due to Shortfalls (OAR+1.5%)	$1,144,115	
Less Deferred Maintenance/Completion Costs	$2,219,890	75% complete; 25% remaining
PRELIMINARY "AS IS" VALUE	$5,515,555	
INDICATED "AS IS" VALUE ROUNDED	$5,515,560	
VALUE per UNIT ROUNDED	$36,770	

SHORTFALLS CALCULATION

Diff in NOI	*Yearly $*	*Absorption*	*Current Year NOI*
$879,787	$439,894	2	$0

		PW Factor	
Years	Rent Loss	11.4080%	OAR + 1.5%
1	$879,787	$789,698	
2	$439,893	$354,417	
3	$0	$0	
4	$0	$0	
5	$0	$0	
6	$0	$0	
7	$0	$0	
Totals	$1,319,680	$1,144,115	

Distressed Properties

Distressed properties refer to those properties that are not operating at market levels based upon income, expenses, or vacancy rates that are not consistent with those typically anticipated in the affordable housing market. A variety of factors, both internal and external, can contribute to this situation.

Downturns in the economy can result in distressed properties. Property distress is often associated with financial difficulty and not being able to adequately maintain a property. Because owners may not understand that major building components can suffer significant damage if not periodically maintained, they tend to neglect this area of an operation. This often leads to excessive deferred maintenance of building components such as the roof, HVAC system, plumbing, exterior walls and landscaping. Neglect of these building components will often drive rents down over time.

External factors affecting the performance of a property include an over-supply of units in the market, a financial downturn in the local and/or national economy, increased unemployment, and a decrease in area wages, or a combination thereof. These can be the result of cyclical forces wherein a recovery is anticipated at some point or due to a constant decline in the overall market that may or may not be reversible.

Rent loss is the difference in market performance and actual performance. The following formula can be used to determine the market value of a distressed property.

MV = PGI + Other Income x (Actual Vacancy-Market Vacancy) – Deferred Maintenance

The following illustration summarizes one approach to estimating the rent loss of a property due to the underperformance caused by distress. This approach uses an estimated stabilized value that represents a market estimate. Notice the stabilized NOI (Future Value NOI) is greater than the depressed current year and illustrates a typical market NOI.

Once the stabilized market estimate is finalized, the appraiser can then begin to estimate the rent loss shortfall. The appraiser must first determine how long it will take for the property to stabilize. This estimation is based on the appraiser's knowledge of the situation, local market conditions and should also include feedback from the property owner. In this example, the estimated time (absorption period) is three years.

The appraiser determines the difference in the current year's NOI and the stabilized NOI. In this case that amount is $35,359 ($123,337-$87,978). Discounting this amount at 9.6% (Capitalization rate + 1.5% discount rate adjustment) over a three-year period would indicate a present value of the rent loss of $60,840.

Deferred maintenance should also be considered for distressed properties. This is the cost of the repairs needed to bring the property to a normal operating condition so it can achieve market-oriented rents. This again is based on the appraiser's knowledge of the situation and should again include feedback from the property owner. In this example, the estimated amount of deferred maintenance is $60,000.

In summary, the indicated current "As Is" value can be estimated by taking the preliminary stabilized value of $1,492,230 and subtracting out the rent loss of $60,840 and deferred maintenance of $60,000. This leaves an adjusted value of $1,371,390 (rounded) or a difference of $120,840 ($1,492,230 - $1,371,390).

There may be situations where a property cannot recover to a normal operating status. The appraiser should determine whether the property is in a distressed state and can recover from its current condition or if the current distressed status is now the norm for the property and recovery to market norms is unlikely. If the current status is now the norm for the property, the appraiser should consider this when establishing the stabilized NOI and avoid using the rent loss calculator.

RENT LOSS CALCULATOR FOR *NON-STABILIZED* PROPERTIES

User must calculate a stabilized income value above prior to using this rent loss calculator.

	2020 Year	2021 Year	2022 Year	FUTURE VALUE
TOTAL EXPENSES w/o TAXES	$130,953	$135,405	$136,432	**$132,800**
NET OPERATING INCOME	$122,168	$118,833	**$87,978**	**$123,337**

	Future Value		
Effective Tax Rate	1.3500%		
Capitalization Rate	6.7500%		
Overall Capitalization Rate	8.1000%		
PRELIMINARY VALUE	$1,522,680		
PERSONAL PROPERTY VALUE ADJUSTMENT	$30,454	Adjustment %	2%
INDICATED FUTURE STABILIZED VALUE ROUNDED	$1,492,230		
VALUE per UNIT ROUNDED	$49,740		

	"As Is" Value	
Preliminary Future Value (From above)	$1,492,230	
Estimated Years to Stabilize	3	3 years to stabilize
Less PV of Rent Loss Due to Shortfalls (OAR+1.5%)	$60,840	
Less Deferred Maintenance/Completion Costs	$60,000	$60,000 deferred maintenance
PRELIMINARY "AS IS" VALUE	$1,371,390	
INDICATED "AS IS" VALUE ROUNDED	$1,371,390	
VALUE per UNIT ROUNDED	$45,710	

SHORTFALLS CALCULATION

Diff in NOI	*Yearly $*	*Absorption*	*Current Year NOI*
$35,359	$11,786	3	$87,978

Years	Rent Loss	PW Factor 9.6000%	
			OAR + 1.5%
1	$35,359	$32,262	
2	$23,573	$19,624	
3	$11,787	$8,953	
4	$1	$1	
5	$0	$0	
6	$0	$0	PV of shortfall
7	$0	$0	
Totals	$70,720	$60,840	

EFFECTIVE GROSS INCOME MULTIPLIER (EGIM)

The vendor evaluated sales using the effective gross income multiplier (EGIM) as a unit of comparison. The EGIM is the ratio developed by dividing the sale price by the projected year one effective gross income based on a stabilized, year one operation. The sales reviewed reflect stabilized operations including a typical replacement reserve requirement ranging from $200 to $300 per unit.

An investor is acquiring a future income stream; therefore, a comparison of economic characteristics is a better indicator of value when comparable sales are lacking. The vendor considered and analyzed the income earning capacity (effective gross income per unit) in comparison to the stabilized, year one effective income per unit of several recent sales in the State of Kansas. This methodology best reflects the markets perception indicating value is directly related to the income generating capacity of the property, assuming risk is held constant. Income multipliers are mathematically related to direct capitalization because rates are the reciprocals of multipliers or factors. The following are important considerations to consider when selecting an income multiplier:

- Sales must be similar in physical, locational, and investment characteristics
- Sales must have similar income characteristics (investment and property class, ancillary items, and economic loss)
- Extracted multipliers must be applied to the subject in a similar manner as extracted
- Avoid reliance on an average EGIM unless the sales are overall similar to the subject
- A range of multipliers is reasonable and reflects varying risk profiles and growth expectations of the sales. A higher EGIM reflects less uncertainty and more income growth potential, which is the equivalent of a lower overall capitalization rate.
- Effective income multipliers are less sensitive to input variables than potential income multipliers due to more of the ‘how much” and “when” explicit in the calculated income instead of the multiplier.

The following example shows the potential and effective gross income calculations. As indicated, the EGIM is generally higher than the PGIM to account for less income and a static sales price.

$$\textbf{Potential Gross Income Multiplier} = \frac{\text{Sale Price}}{\text{Potential Gross Income}} = \frac{\$368{,}500}{\$85{,}106} = 4.33 \text{ (rounded)}$$

$$\textbf{Effective Gross Income Multiplier} = \frac{\text{Sale Price}}{\text{Effective Gross Income}} = \frac{\$368{,}500}{\$80{,}000} = 4.61 \text{ (rounded)}$$

The vendor notes the EGIM analysis is less reliable if there are atypical income streams, expense reimbursements, and varying projects sizes. The EGIM is most applicable when applied to a standard property in a typical market and provides a reliable test of reason. The following table reports concluded EGIMs for each market and investment class.

Operating Expense Ratio	Primary Markets	Secondary Markets	Tertiary Markets
30%	14.00	12.00	11.00
35%	13.00	11.00	10.00
40%	12.00	10.00	9.00
45%	11.00	9.00	8.00
50%	10.00	8.00	7.00
55%	9.00	7.00	6.00
60%	8.00	6.00	5.00
65%	7.00	5.00	4.00
70%	6.00	4.00	3.00
Range	**5.50 - 15.00**	**5.00 -11.00**	**4.50 - 10.00**

*Primary - Kansas City MSA

*Secondary - Wichita, Topeka, Lawrence, and Manhattan

*Tertiary - All remaining markets

Although the EGIM has limitations and appraisers should use it with caution, PVD believes the EGIM can be used as a general measure of an affordable housing project's property value. It can be used to support the value generated by another approach but is not necessarily meant to replace other valuation approaches.

The application of the EGIM in the template uses the effective gross income imported from the income section on page 1 of the template. The user must choose the market area and the expense ratio from the drop-down fields in the EGIM calculator section.

Consider a 20-unit class C property in a tertiary market that has an effective gross income of $100,000. The appraiser has determined a typical operating expense ratio for similar properties is in the 55% range which correlates to an EGIM of 6 from the table above. Using the indicated multiplier of 6, the value for the property using the EGIM is $600,000 ($100,000 x 6 = $600,000 or $600,000 / 20 units = $30,000 per unit). See the graphic on the following page.

EFFECTIVE GROSS INCOME MULTIPLIER (EGIM) CALCULATOR

(BLUE shaded cells contain formulas or data that should not be altered; YELLOW shaded cells need data input from drop down list)

Market Area	Expense Ratio To Use	Indicated EGIM	Expense Ratio	Primary	Secondary	Tertiary
Tertiary	55%	6.00	30%	14.00	12.00	11.00
(Click yellow cells for menu)			35%	13.00	11.00	10.00
	Stabilized EGI	$100,000	40%	12.00	10.00	9.00
			45%	11.00	9.00	8.00
	INDICATED VALUE ROUNDED	$600,000	50%	10.00	8.00	7.00
			55%	9.00	7.00	6.00
	VALUE per UNIT ROUNDED	$30,000	60%	8.00	6.00	5.00
			65%	7.00	5.00	4.00
			70%	6.00	4.00	3.00

APPENDIX A – AFFORDABLE HOUSING RESOURCES

Category	Organization	Bookmark	Comments
AGENCY RESOURCES			
HUD Projects	HUD	https://www.hud.gov/program_offices/housing/mfh/progdesc	Good Descriptions of Various HUD Programs
S42/LIHTC Projects	HUD	https://lihtc.huduser.gov/	Search LIHTC by State, City, County, etc.
S42/LIHTC Projects	KHRC	https://kshousingcorp.org/resources/	KHRC - General Info on S42, Administers all KS projects
S42/LIHTC Projects	KHRC	https://kshousingcorp.org/wp-content/uploads/2019/09/2019ReservationList.pdf	Cost Data and Yrly Tax Credit Amount - each Project
S42/LIHTC Projects	KHRC	https://kshousingcorp.org/wp-content/uploads/2019/09/RentalHousingDevelopmentList.pdf	List of Properties by County, Shows Mix, Type
S42/LIHTC Projects	KHRC	https://kshousingcorp.org/find-an-apartment/	Property Search
All Properties	HUD	https://resources.hud.gov/#	HUD Resource Locator
RENTAL INFORMATION RESOURCES			
Low Income Apts.	Apartments.com	https://www.apartments.com/ks/low-income/	Listings by County - lots of info, pictures, rents, etc.
Low Income Apts.	Affordable Housing Online	https://affordablehousingonline.com/low-income-housing-section-8-apartments	Listings by County, City, Good Program Info.
Low Income Apts.	Low Income Housing.US	https://www.lowincomehousing.us/KS.html	Fairly Detailed Info - Large List of Projects
Low Income Apts.	PublicHousing.com	https://www.publichousing.com/state/kansas	Fairly Detailed Info - Large List of Projects
Low Income Apts.-KC	Apartment Guide	https://www.apartmentguide.com/apartments/Kansas/Kansas-City/income-restricted-4mb/	Listings by County - lots of info, pictures, rents, etc.
Low Income - Wichita	Mennonite Housing	http://mhrsi.org/our-properties.html	Covers mostly Wichita MSA
Low Income Apts.	Key Management	https://www.keymgmt.com/	Large Mgmt Company for Low Income Housing
All types of Apts.	Apartment Finder.com	https://www.apartmentfinder.com/	Good general database
All types of Apts.	Apartments.com	https://www.apartments.com/ks/	Listings by County - lots of info, pictures, rents, etc.
All types of Apts.	Cohen Esrey-For Rent.com	https://www.forrent.com/find/KS	Good general database
All types of Apts.	Apartment Guide	https://www.apartmentguide.com/apartments/Kansas/	Good general database
GENERAL INFORMATION			
S42/LIHTC Projects	Novogradac	https://www.novoco.com/resource-centers/affordable-housing-tax-credits/lihtc-basics/about-lihtc	Good General Information
HUD Projects	HUD	https://www.hud.gov/program_offices/housing/mfh	Good General Information
HUD Projects	HUD	https://www.hud.gov/program_offices/public_indian_housing/ih	Good General Information
Low Income Apts	HUD	https://www.huduser.gov/portal/datasets/fmr/fmrs/FY2022_code/select_Geography.odn	Fair Market Rents by County
Low Income Apts	USDA	https://www.hud.gov/states/kansas/renting	Rural housing units by city and county
All types of Apts	HUD	https://preservationdatabase.org/	Good General Information

APPENDIX B – OPERATING EXPENSE SUMMARY

Allowable Expenses	Most Common	Taxes	Management Fee	Salaries/Personnel	General/Admin	Insurance	Utilities	Repair/Maintenance	Replacement Reserves	Comment
Advertising/Marketing	X				X					If there is no management contract
Application Processing					X					
Attorney Fees					X					Property only issues/no criminal/civil defense
Auto Allowance					X					Only if necessary for operation of a subject specific site vehicle
Bank Service Charges	X				X					
Background Checks					X					
Cleaning and Supplies	X							X		
Common Area Repairs	X							X		
Contract Services								X		Include in services if for other than property operation specific
Credit Check Fee	X				X					
Deposit Returns					X					
Electricity	X						X			
Employee Rent				X						If typical for project type and investment class competition
Exterminating								X		Routine exterminating
Fire Protection								X		
Gas							X			
Insurance	X					X				Property & fire; no personal liability or mold; flood only if in flood zone
Keys/Locks								X		
Leasing Commissions					X					If leasing is not part of management firm's responsibility
Leasing Commissions (Internal)					X					If typical for market that units are leased by agents or employees
Licensing (If Required)					X					
Locator/Referral Fees					X					
Maintenance Payroll	X							X		
Model Expense										Usually only during lease up period
Partnership Participation					X					
Personal Property Taxes					X					
Property Mgt Company	X		X							Professional Company/Does not include "owner" expenses
Office Expense	X				X					
Painting								X		
Postage					X					
Real Estate Taxes		X								Loaded ETR into the cap rate (not a line item expense)
Repair Supplies/Material/Labor	X							X		
Replacement Reserves									X	
Salaries				X				X		Can also be repair/maintenance expense
Security System Maintenance								X		
Snow Removal	X							X		
Stationary/Supplies					X					
Telephone	X				X					
Trash Removal	X							X		
Uniforms					X					Can also be for maintenance staff
Water/Sewer	X						X			

Not considered a complete list.

Unallowable Expenses	Comment
Amortization	
Appraisal	
Attorney Fees For Lawsuits Or Criminal Defense	
Bad Debt/Collection Expense	Included in V&C Loss
Cancellation Fee	
Capital Expenses	
Corporate Expenses (Multiple properties in portfolio)	
Deposits	Forfeited, Refundable
Depreciation	
Equipment Rental Not for Maintenance	
Home Office	
Income Taxes	
Loan Payment	
Month To Month Fees	
Non Tenant Related Late Charges	
NSF Fees	
Owner Profit	
Principle & Interest	
Prior Year Expenses or Adjustments	
Sale Closing Costs	
Space Rental Off Property	
Utility Rebates/Reimbursements	

Not considered a complete list.

APPENDIX C – GLOSSARY OF TERMS

AS IS MARKET VALUE

The estimate of the market value of real property in its current physical condition, use, and zoning as of the appraisal date. *(Proposed Interagency Appraisal and Evaluation Guidelines, OCC-4810-33-P 20%) The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).*

CAPITAL EXPENDITURE

Investments of cash (or the creation of liability) to acquire or improve an asset, e.g., land, buildings, building additions, site improvements, machinery, equipment; as distinguished from cash outflows for expense items that are normally considered part of the current period's operations. *The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010). Per Page 483 of the Appraisal Institute 4th Edition, "Alterations, including major replacements, modernization, and renovation, may be considered capital expenditures and therefore are not included as a periodic expense under repair and maintenance."*

CAPITALIZATION RATE

Any rate used to convert income into value. *The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).*

CONTRACT RENT

The actual rental income specified in a lease. *The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).*

COST APPROACH

A set of procedures through which a value indication is derived for the fee simple interest in a property by estimating the current cost to construct a reproduction of (or replacement for) the existing structure, including an entrepreneurial incentive, deducting depreciation from the total cost, and adding the estimated land value. Adjustments may then be made to the indicated fee simple value of the subject property to reflect the value of the property interest being appraised. *The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).*

DEFERRED MAINTENANCE

Needed repairs or replacement of items that should have taken place during the course of normal maintenance. *The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010). Per Page 619 of the Appraisal Institute 4th Edition, "Significant deferred maintenance items are usually atypical expenses that require a capital decision by a property owner rather than a routine repair handled by a property manager."*

DISCOUNT RATE

A yield rate used to convert future payments or receipts into present value; usually considered to be a synonym for yield rate. *The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).*

EFFECTIVE GROSS INCOME (EGI)

The anticipated income from all operations of the real property after an allowance is made for vacancy and collection losses and an addition is made for any other income. *The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).*

EXTREMELY LOW-INCOME HOUSEHOLDS

Those with incomes below 30 percent of area median income. Department of Housing and Urban Development (HUD) programs use “area median incomes” calculated on the basis of local family incomes, with adjustments for household size. *HUD Glossary of Terms*

FAIR MARKET RENT (FMR)

Primarily used to determine payment standard amounts for the Housing Choice Voucher program, to determine initial renewal rents for some expiring project-based Section 8 contracts, to determine initial rents for housing assistance payment contracts in the Moderate Rehabilitation Single Room Occupancy program, and to serve as a rent ceiling in the HOME rental assistance program. *HUD Glossary of Terms*

FUTURE VALUE (FV)

The worth of a current investment at some later date. See also present value (PV); prospective opinion of value; time value of money. *The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).*

HOUSING ASSISTANCE PAYMENT (HAP) CONTRACT

The housing assistance payments contract between the Public Housing Agency (PHA) and the owner. The PHA pays housing assistance payments to the owner in accordance with the HAP contract. *Form HUD-52641 (04/2015) ref Handbook 7420.8; pg. 12 of 12*

HOUSING CHOICE VOUCHER PROGRAM

The federal government's major program for assisting very low-income families, the elderly, and the disabled to afford decent, safe, and sanitary housing in the private market. *HUD Glossary of Terms*

INCOME CAPITALIZATION APPROACH

A set of procedures through which an appraiser derives a value indication for an income-producing property by converting its anticipated benefits (cash flows and reversion) into property value. This conversion can be accomplished in two ways. One year’s income expectancy can be capitalized at a market-derived capitalization rate or at a capitalization rate that reflects a specified income pattern, return on investment, and change in the value of the investment. Alternatively, the annual cash flows for the holding period and the reversion can be discounted at a specified yield rate. *The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).*

LOW-INCOME FAMILY

Families whose [combined] income does not exceed 80 percent of the median family income for the area. *HUD Glossary of Terms*

LOW-INCOME HOUSING TAX CREDIT (LIHTC)

A tax incentive intended to increase the availability of low-income housing. The program provides an income tax credit to owners of newly constructed or substantially rehabilitated low-income rental housing projects. *HUD Glossary of Terms*

MARKET RENT

The most probable rent that a property should bring in a competitive and open market reflecting all conditions and restrictions of the lease agreement, including permitted uses, use restrictions, expense obligations, term, concessions, renewal and purchase options, and tenant improvements (TIs). *The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).*

MODERATE INCOME

Households whose incomes are between 81 percent and 95 percent of the median income for the area, as determined by HUD, with adjustments for smaller or larger families. HUD may establish income ceilings higher or lower than 95 percent of the median for the area on the basis of HUD's findings that such variations are necessary because of prevailing levels of construction costs, fair market rents, or unusually high or low family incomes. *HUD Glossary of Terms*

OPERATING EXPENSES

The periodic expenditures necessary to maintain the real property and continue production of the effective gross income, assuming prudent and competent management. *Source: Appraisal Institute, The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).*

OPERATING EXPENSE RATIO (*OER*)

The ratio of total operating expenses to effective gross income (*TOE/EGI*); the complement of the net income ratio, i.e., $OER = 1 - NIR$. *The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).*

PERSONAL PROPERTY

1**.** Identifiable tangible objects that are considered by the general public as being “personal”—for example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all tangible property that is not classified as real estate. (USPAP, 2010-2011 ed.) 2. Consists of every kind of property that is not real property; movable without damage to itself or the real estate; subdivided into tangible and intangible. Also called personalty. (IAAO). *The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).*

POTENTIAL GROSS INCOME (PGI)

The total income attributable to real property at full occupancy before vacancy and operating expenses are deducted. *The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).*

PROJECT-BASED HOUSING ASSISTANCE

In project-based assistance [as opposed to tenant-based housing assistance], the HUD [rental] subsidy is tied to the unit. *HUD Glossary of Terms*

PUBLIC HOUSING

Rental projects that are owned and managed by state or local government agencies and made available to low- and middle-income tenants at reduced rates. *See also* **Section 8 housing**; **subsidized housing**. *The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).*

PUBLIC HOUSING AGENCY (PHA)

Any state, county, municipality, or other governmental entity or public body, or agency or instrumentality of these entities that is authorized to engage or assist in the development or operation of low-income housing under the U.S. Housing Act of 1937. *HUD Glossary of Terms*

RENT LOSS (*See* ***Loss or Gain to Lease***)

Loss or Gain to Lease - The amount by which contract rent falls below or exceeds market rent. Loss to lease is also known as rent loss. *Appraisal Institute, The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).*

REPLACEMENT ALLOWANCE

An allowance that provides for the periodic replacement of building components that wear out more rapidly than the building itself and must be replaced during the building's economic life; sometimes referred to as *reserves* or *reserves for replacement*. *The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).*

SALES COMPARISON APPROACH

The process of deriving a value indication for the subject property by comparing market information for similar properties with the property being appraised, identifying appropriate units of comparison, and making qualitative comparisons with or quantitative adjustments to the sale prices (or unit prices, as appropriate) of the comparable properties based on relevant, market-derived elements of comparison. *The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).*

SECTION 8 HOUSING

A residential property occupied under a federal program that provides assistance for lower-income households. The difference between the HUD-established allowable rent for each unit and the household's contribution is paid by HUD to the project owner or manager. *The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).*

SHORTFALL

"For example, the value of the lost revenue (i.e., what is known as a *shortfall*) during a new building's lease-up period could be discounted at an appropriate rate considering the risk of the shortfall." *Page 579. The Appraisal of Real Estate, 14th ed. (Chicago: Appraisal Institute, 2013).*

STABILIZED INCOME

Income at that point in time when abnormalities in supply and demand or any additional transitory conditions cease to exist and the existing conditions are those expected to continue over the economic life of the property; projected income that is subject to change, but has been adjusted to reflect an equivalent, stable annual income. *Source: Appraisal Institute, The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).*

STABILIZED OCCUPANCY

An expression of the expected occupancy of a property in its particular market considering current and forecasted supply and demand, assuming it is priced at market rent. *Source: Appraisal Institute, The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).*

SUBSIDIZED HOUSING

Housing developed by private or public sponsors for low-income earners. Subsidies may take the form of below-market financing or direct payment of a portion of the rent. In recent years, some subsidized multifamily housing has undergone co-op conversion (the National Co-op Bank, created by Congress in 1978, finances co-op conversions of subsidized multifamily housing). *See also* **public housing**. *The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).*

TENANT-BASED RENTAL ASSISTANCE (TBRA)

HUD assists low- and very low-income families in obtaining decent, safe, and sanitary housing in private accommodations by making up the difference between what they can afford and the approved rent for an adequate housing unit. *HUD Glossary of Terms*

VACANCY AND COLLECTION LOSS

A deduction from potential gross income (*PGI*) made to reflect income reductions due to vacancies, tenant turnover, and nonpayment of rent; also called *vacancy and credit loss* or *vacancy and contingency loss*. Often vacancy and collection loss is expressed as a percentage of potential gross income and should reflect the competitive market. Its treatment can differ according to the interest being appraised, property type, capitalization method, and whether the property is at stabilized occupancy. *The Dictionary of Real Estate Appraisal, 5th ed. (Chicago: Appraisal Institute, 2010).*

VERY LOW-INCOME

Households whose incomes do not exceed 50 percent of the median area income for the area, as determined by HUD, with adjustments for smaller and larger families and for areas with unusually high or low incomes or where needed because of facility, college, or other training facility; prevailing levels of construction costs; or fair market rents. *HUD Glossary of Terms*