



# ORCF Appraisals

Wayne Harris - Appraiser

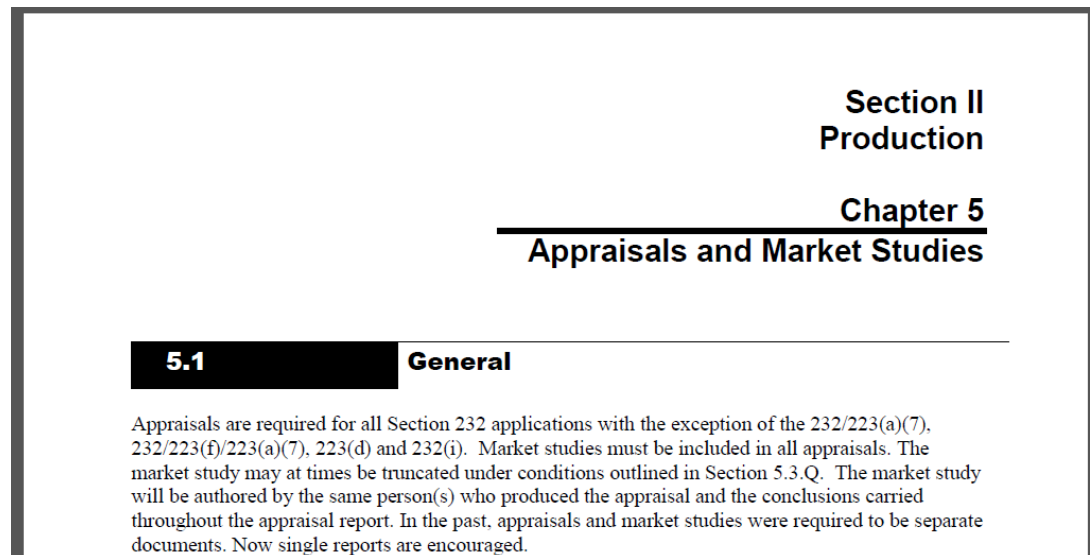
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# 232 Handbook - Chapter 5

## Appraisals and Market Studies

- Originates from Appraisal Statement of Work (now obsolete) and some guidance taken from MAP Guide.



# Chapter 5.1 - General



- Indicates which loan programs require an appraisals
- Asserts HUD's role as a regulatory enforcement agency
  - Allows us access to appraiser's entire work file
- Remedies for unacceptable submissions
  - Warning letters
  - Limited Denial of Participation
  - Referral to regulatory agencies

# Chapter 5.2 – Selection of Appraisers

- To qualify as the appraiser, you must:
  - ☐ Inspect the property
  - ☐ Perform the analysis
  - ☐ Have appropriate experience
  - ☐ Sign appraisal certification
  - ☐ Be certified by State where the property is located or hold a temporary permit
  - ☐ Be independent from lender
  
- This does not preclude others from signing or using a trainee, so long as at least one person meets all the qualifications above.

# Chapter 5.3 – Appraisal Requirements (Statement of Work)

- Compliance with the Uniform Standards of Professional Practice (USPAP) is the foremost rule.
- In addition you are required to supply:
  - Resume
  - Copy of License
  - Photo documentation of subject
- Appraisal expires after 180 days
- Require “Market Value of the Total Assets of the Business”
- Guidance given for 3 approaches to value and descriptions

# Chapter 5.3 – Market Studies

- Every appraisal must contain a market study.
- In some cases, we allow the market study to be “truncated” whereby they don’t need to quantify the unmet need (by number of beds or units) in the market. Allowable when:
  - Subject not adding beds or changing target market
  - Subject at stabilized occupancy
  - No foreseeable increase in supply
  - No foreseeable decreases in demand

# Chapter 5.4 - Ground Leases

## ➤ Lease Duration

- Must run 10 years beyond loan term

## ➤ Loan Sizing

- Appraiser will hypothetically assume land is owned
- Ground lease will include an option to purchase; the optional purchase price will be deducted from loan amount
- If no option to purchase subtract the “leased fee” value of land from the loan amount

## ➤ HUD review appraiser examines ground lease for:

- Acceptability of lease payment amounts
- Acceptability of any scheduled rent increases
- Acceptability of other lease provisions or rent during construction

# Chapter 5.5 – Tax Abatements

## ➤ Type A abatements:

- Abatements that will **not be inherited** by a typical buyer, and abatements where there are less than 5 years of abatement remaining.
  - *Appraised with full market tax expenses*

## ➤ Type B abatements:

- Abatements that **would be inherited** by a typical buyer, where the abatement amount is level, or the exemption is complete, and lasts the term of the mortgage.
  - *Appraised recognizing tax savings*

## ➤ Type C abatements:

- Abatements that **would be inherited** by a typical buyer, but are **variable** in amount and/or **shorter than the term of the mortgage**.
  - *Appraised assuming full tax expense but then adds back the “Net Present Value” of the tax savings*



# Chapter 5.6 – Restricted Rents

- Allowed to underwrite at Market Value ignoring the rent restrictions.
  - Appraiser will invoke a hypothetical assumption
- Appraiser will supply a second value showing the value acknowledging rent restrictions for us to consider in our assessment of risk.
- Maximum Loan sizing based on Debt Coverage will be based on restricted, not market, incomes.

# Standard Work Punchlists

## New Construction Appraisal Punch List

Project Name/FHA Number

Step	Activity	Notes
1	<input type="checkbox"/> Open the latest version of a blank appraisal review worksheet. <input type="checkbox"/> Rename the appraisal review worksheet to include the project name and save to SharePoint (SP) in the project's 00_HUD_UW folder.	
2	<input type="checkbox"/> Find the appraisal on SP, open it and bookmark the page. <input type="checkbox"/> Op <input type="checkbox"/> Fill o docum <input type="checkbox"/> Cre	
3	<input type="checkbox"/> Rec <input type="checkbox"/> Exe <input type="checkbox"/> Mar <input type="checkbox"/> Ide they a <input type="checkbox"/> Ide	
4	<input type="checkbox"/> Rec <input type="checkbox"/> Sta <input type="checkbox"/> Flag <input type="checkbox"/> Pre <input type="checkbox"/> Prin	

## 223f Standard Work Punchlist for HUD Appraisers

Project Name/FHA Number

Step	Activity	Notes
1	<input type="checkbox"/> Always start with a new version of this punchlist posted on SharePoint. <input type="checkbox"/> Self-assign an appraisal to review. Open the <a href="#">Appraisal/4128 Review Status</a> in SharePoint. Sort the 223f applications by "Date Entered Queue". Select the oldest application among those with a status of "Requested", "Requested – Site Visit Required", or "Unassigned". Look for special instructions to you the reviewer in the "Notes" field of the appraisal review tab. Consult with team leader or WLM when selecting a portfolio or a job with a required site inspection, as these assignments may be taken out of the normal queue order. Typically, only 2 active deals are to be reviewed by any Appraiser at one time (excluding portfolio assignments). This is avoid starting a new review every time we hit an obstacle. The theory is that with fewer jobs you can more actively press for the things you need to finish. <input type="checkbox"/> If you are beginning a review of a portfolio, take some time to familiarize yourself with the findings of the corporate credit review by reading the executive summary. This can be found on SharePoint. The ribbon across the top of the page will include a link to "Mid & Large Portfolios." <input type="checkbox"/> Within the "Appraiser Entry" tab of the job you have selected click "Edit". Change the "OHP Appraisal Review Status" to "In Review". Then select your name in the "Appraiser Name" drop-down. Then select today's day for "OHP Appraisal Review Began". Click Save and close. <input type="checkbox"/> It is a best practice to bookmark the file location now.	
2	<input type="checkbox"/> Determine if the lender has filled out the Decision Circuit for us. It will typically be found in the 01-UW folder or the 02-Third Party Reports folder. This is not a document the lenders are required to submit but it does save us time. If you cannot find a lender DC, give them a call and ask if they have one.	

# New Construction

## What Does HUD's Appraisal Review Entail?

### Appraisal Review

New Construction, Substantial Rehab, and Section 241.

Section 232

Review Appraiser:	<input type="text"/>
OHP Underwriter:	<input type="text"/>
Project Name:	<input type="text"/>
FHA Number:	<input type="text"/>
Property Address :	<input type="text"/>
Brief Description:	<input type="text" value="e.g. Type of facility, Number of Beds/Units, Land Size, Age..."/>
Lender Firm:	<input type="text"/>
Lender Underwriter:	<input type="text"/>
Appraiser(s) & Company:	<input type="text"/>
Date of Appraisal Under Review:	<input type="text"/>
Effective Date of Appraisal:	<input type="text"/>
Date of Review:	<input type="text"/>
Appraised Value:	<input type="text"/>
Mortgage Amount:	<input type="text"/>

# HUD Standard Work

- Check Senior Acquisition Report for sales that should be considered
- Web research on local economy
- Check if best rent comps were used:
  - ALFs: State's Licensing Agency
  - SNFs: [Nursing Home Compare](#)
- Visit Site
- Visit Planning Department
- In person interviews of administrators at the most directly competitive properties

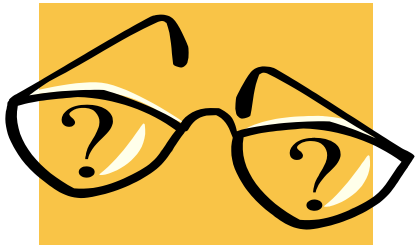
# Administrator Interviews



- ☐ Share information about what is proposed and explain purpose of visit
- ☐ What is the perceived overlap and impact on occupancy as a result of proposed project?
- ☐ Verify # of Units/beds, Use (AL/MC/SN/IL/Rehab), and Type (private/shared)
- ☐ Payor mix (Medicare/Medicaid/Private Pay/Insurance, etc.)
- ☐ Occupancy by type of Use
- ☐ Waitlists by unit type
- ☐ Rents/Concessions?
- ☐ Care charges
- ☐ Second occupant fees
- ☐ Assessment/screenings fees
- ☐ Expenses (per unit & as a % of EGI)

# Administrator Interviews (continued)

- ☐ Knowledge of proposed facilities or expansions and input about absorption
- ☐ Knowledge of any sales
- ☐ Who are main competitors
- ☐ Anything about competitors that is odd or unusual
- ☐ Discuss any deal specific concerns (e.g., # units, sizes, design...)
- ☐ General strengths of market
- ☐ Referral sources (other people we should talk to)
- ☐ Resident origin
- ☐ Ask “what would I miss about the market if I am only here for a day?”



# Initial Operating Deficit Analysis

## HUD-91128-ORCF

	A	B	C	D	E	F	G
1	<b>Initial Operating Deficit Escrow Calculation</b>			U.S. Department of Housing and Urban Development			
2	Section 232			Office of Residential Care Facilities			
3	<p><b>Public reporting</b> burden for this collection of information is estimated to average 1.25 hours. This includes the time for collection, reviewing existing data sources, gathering existing data, obtaining the supportive documentation which must be submitted to HUD for approval, and is necessary to ensure that viable information is provided to HUD. HUD may use this information to determine if properties meet HUD requirements with respect to development, operation and/or asset management, as well as to conduct audits and investigations.</p> <p><b>Warning:</b> Any person who knowingly presents a false, fictitious, or fraudulent statement or claim in a matter within the jurisdiction of HUD is subject to criminal penalties, civil liability, and administrative sanctions.</p>						
4							
5	Project Name: <b>Sample Case</b>			Date Prepared: <b>2/20/20</b>			
6							
7	<b>Income &amp; Occupancy Assumptions</b>						
8	Unit Type	UW Eff. Gross Inc. per year	Total # Beds	UW Occupancy	# Occupied Units	EGI per Occp'd Unit	Number of Preleases
9	e.g. Assisted Living	\$7,864,449	125	95.00%	118.75	\$66,226.94	27.50
10	e.g. Memory Care	\$2,297,485	30	93.80%	28.14	\$81,644.81	6.60
11	e.g. Skilled Nursing or Sub-Acute				0.00	#DIV/0!	
12	e.g. Independent Living				0.00	#DIV/0!	
13	Other Income	\$856,595				\$5,831.54	
14	<b>Totals</b>	<b>\$11,018,529</b>	155	94.77%	146.89	\$75,012.11	34.10
15							
16	<b>Expense Assumptions</b>						
17		Total UW Exp. per year	Total UW Exp. per Month	Per Res Day	POU per year	% of EGI UW	
18	Category						
19	e.g. General & Administrative	\$500,000	\$41,667	\$9.33	\$3,404	4.54%	

# HUD-91128-ORCF

Sample Case	Period One				Period Two				Period
Instructions: Use this tab to make draw request from IOD escrow. Only modify shaded blue cells.	Month 1 Forecast	Month 1 Actual	Month 2 Forecast	Month 2 Actual	Month 3 Forecast	Month 3 Actual	Month 4 Forecast	Month 4 Actual	Month 5 Forecast
e.g. Assisted Living	0.00		0.00		27.50		33.20		38.9
e.g. Memory Care	0.00		0.00		6.60		8.07		9.5
e.g. Skilled Nursing or Sub-Acute	0.00		0.00		0.00		0.00		0.0
e.g. Independent Living	0.00		0.00		0.00		0.00		0.0
Total Occupied Units	0.00	0.00	0.00	0.00	34.10	0.00	41.27	0.00	48.4
Total Resident Days	0	0	0	0	1037	0	1255	0	147
EGI	0		0		213,246		258,197		303,2
e.g. General & Administrative	-33,333		-33,333		-33,333		-33,333		-33,3
e.g. Payroll Taxes and Benefits	0		0		-9,263		-11,211		-13,1
e.g. Resident Care	-32,315		-32,315		-32,315		-36,318		-42,6
e.g. Food Services	-22,421		-22,421		-22,421		-25,198		-29,5
e.g. Activities	-10,366		-10,366		-10,366		-11,650		-13,6
e.g. Housekeeping & Laundry	-1,765		-1,765		-4,096		-4,958		-5,8
e.g. Maintenance	-4,167		-4,167		-4,836		-5,853		-6,8
e.g. Utilities	-28,215		-28,215		-28,215		-28,215		-28,2
e.g. Bad Debt	0		0		0		0		0
	0		0		0		0		0
Ground Rent	0	0	0	0	0		0		0
Marketing and Promotion	0		0		0		0		0
Insurance (property & liability)	0		0		-136,545		-11,379		-11,3
Real Estate (Property) Taxes	0		0		-23,437		-23,437		-23,4

Outputs Details & Draw Requests

Output - Summary Exhibit



# HUD-91128-ORCF

## Occupancy Assumptions

Unit Type	Total # Beds	UW Occupancy	Number of Preleases	Avg. Monthly Absorption
e.g. Assisted Living	125	95.00%	27.50	5.70
e.g. Memory Care	30	93.80%	6.60	1.47
e.g. Skilled Nursing or Sub-Acute	0	0.00%	0.00	0.00
e.g. Independent Living	0	0.00%	0.00	0.00
<b>Totals</b>	<b>155</b>	<b>94.77%</b>	<b>34.10</b>	<b>7.17</b>

Rounded Operating Deficit Total: **\$1,251,000**

Period	Occupied Units	Occupied Percent	Income per Period	Exp. & Mort. per Period	Income/Loss per Period
Month 1	0.00	0.00%	\$0	(\$146,354)	<b>(\$146,354)</b>
Month 2	0.00	0.00%	\$0	(\$146,354)	<b>(\$146,354)</b>
Month 3	34.10	22.00%	\$213,246	(\$458,703)	<b>(\$245,457)</b>
Month 4	0.00	0.00%	\$258,197	(\$648,596)	<b>(\$390,400)</b>
Month 5	48.44	31.25%	\$303,147	(\$419,664)	<b>(\$116,517)</b>
Month 6	0.00	0.00%	\$348,098	(\$438,445)	<b>(\$90,347)</b>
Month 7	62.78	40.51%	\$393,049	(\$457,225)	<b>(\$64,177)</b>
Month 8	69.95	45.13%	\$437,999	(\$476,006)	<b>(\$38,006)</b>
Month 9	77.13	49.76%	\$482,950	(\$496,201)	<b>(\$13,250)</b>
Month 10	84.30	54.39%	\$527,901	(\$517,736)	<b>\$10,165</b>
Month 11	91.47	59.01%	\$572,851	(\$539,271)	<b>\$33,580</b>

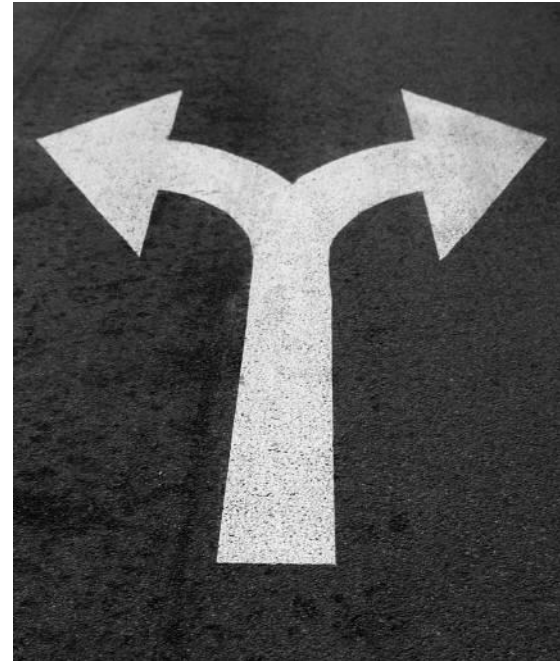
# 223f Refinances

## What Does HUD's Appraisal Review Entail?

	A	B	C	D	E	F	G	H	I	J	K	L	
1	<b>Decision Circuit</b> - to be used with all 232/223f applications (ALF, SNF, BC, ILF)										Year Built ▶		
2		Link to SP Folder ▶									Mortgage Interest Rate ▶	%	
3		Project Name ▶									Mortgage Insurance Premium (MIP) ▶	0.65%	
4		Project Address, City, State ▶									Mortgage Term (in months) ▶		
5		FHA Number ▶									Appraised Value ▶		
6		Lender ▶									Underwritten Value ▶		
7		Date of Submission to HUD ▶									Mortgage Amount ▶		
8		Appraisal Firm ▶									Annual Effective Gross Income	\$0	
9		Appraiser Name ▶									Annual Expenses and Reserves:	\$0	
10		Date of Valuation ▶									Appraiser NOI:	\$0	
11											Occupancy:	#DIV/0!	
12													
13		▶ Enter an "X" in the box if there is <b>no</b> Ground Lease.											
14		▶ Enter an "X" if the footprint of the building is <b>not</b> changing.											
15		▶ Enter an "X" if they are not departing from the historic number of potential days.											
16		▶ Enter an "X" if the underwritten expenses include market taxes with <b>no</b> abatement.											
17		▶ Enter an "X" if the subject has <b>not</b> sold (or is pending) within 3 yrs of the app date.											
18		▶ Enter an "X" if there is <b>no</b> commercial space or income at the subject.											
19		▶ What % of the appraiser's Effective Gross Income is attributable commercial space?											
20		▶ Enter an "X" if the income & expense report (last period only) agrees with Lender's summary.											
21		NOI Variance Test											

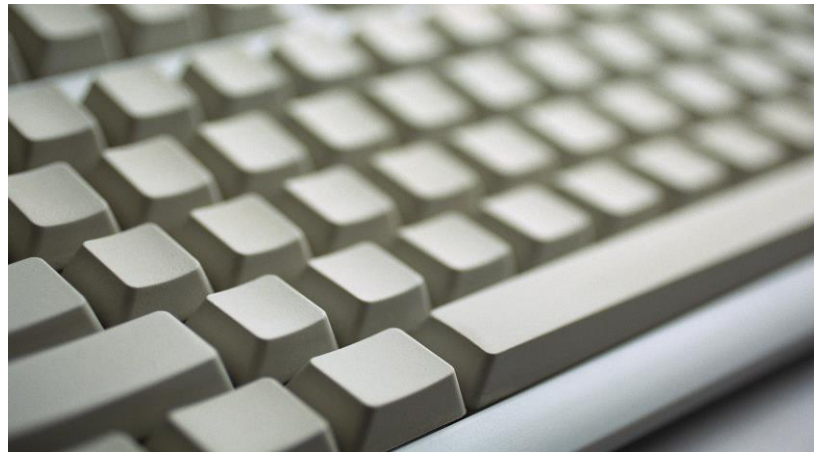
# Decision Circuit

- Tool for setting the scope of the appraisal review
- All applications are looked at by an ORCF appraiser
- Scope of review is on a spectrum depending on risk factors
- [DC Link](#)



# Inputs

- Physical property details
- Loan parameters
- Income & expense history table
- Census mix history table



# When further review is required the scope is customized to the situation by the Decision Circuit.

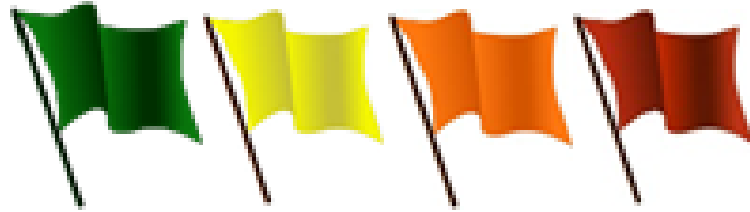
3. ~~Comment on the completeness, accuracy, adequacy, relevance, and reasonableness of the census/payor mix used by the appraiser, with especial attention to quality mix (QM).~~

4. ~~Analyze the commercial lease(s) and the value attributed to that space by the appraiser.~~

5. The initial reviewer found that the historical income and expense reported by in the lender's summary table do not approximately agree with the Operations Report. Investigate for discrepancies and report your findings here.

6. Review the Income Capitalization Approach and comment on the completeness, accuracy, adequacy, relevance, and reasonableness of the effective gross income (EGI), total operating expenses (TOE), operating expense ratio (OER), and net operating income (NOI) concluded pro forma (PF). Include comments on updated financials when present.

# Flags prompt reviewer to comment



- 🚩 Occupancy lower than 75%
- 🚩 Ground Lease
- 🚩 Change in the building footprint
- 🚩 Change in Potential Resident Days
- 🚩 Tax Abatements

# Flags (continued)

- ❏ Recent purchases
- ❏ Commercial Space over 4%
- ❏ NOI trending down for 3 years.
- ❏ Recent NOI at half of concluded rate.
- ❏ Private Pay or Medicare census higher than proven history.

# Flags (continued)

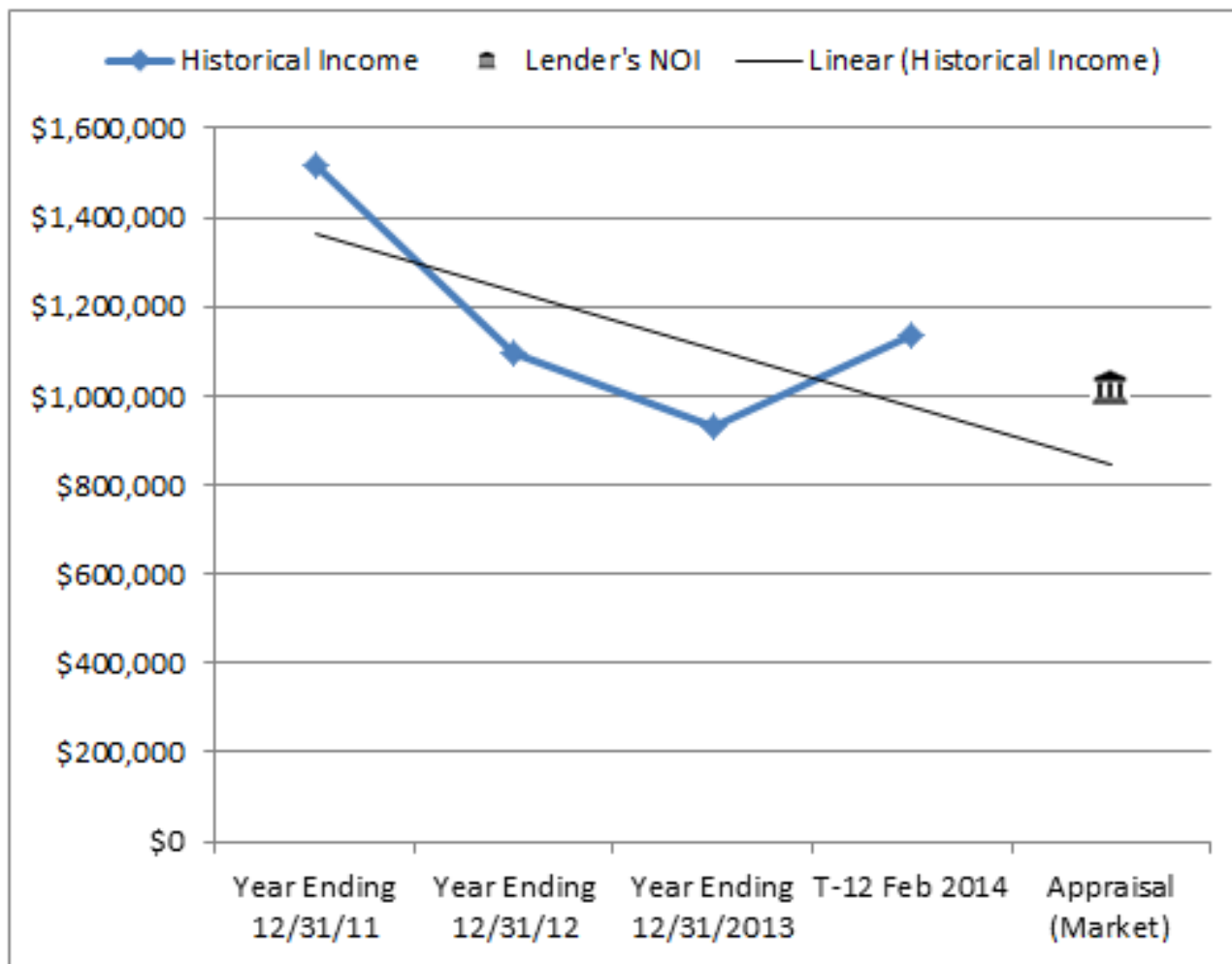
- 🚩 Medicaid census lower than history
- 🚩 No sales comps from in-state
- 🚩 More than 2 comps of bulk sales
- 🚩 Concluded value > undepreciated cost



# Flags (continued)

- ❖ DSCR over 2.00
- ❖ LTV under 80% - evaluated under 2 scenarios
  1. As underwritten **and**
  2. Using most recent NOI and Avg Market Cap Rate

# Concluded NOI is compared to each historical period.



# Normalizing Expense History

<b>Total Expenses</b>	\$5,722,730	\$6,318,560	\$6,205,056	\$7,109,407	\$7,576,409	\$7,576,409
<b>Expense Percentage</b>	97.7%	90.6%	85.6%	83.7%	90.7%	90.7%
<b>Normalization Calculations</b>						
Deduct Actual Taxes	\$23,100	\$44,103	\$44,358	\$66,676		
Add Market Rate Taxes	\$71,840	\$71,840	\$71,840	\$71,840		
Deduct Actual Management Fee	\$0	\$0	\$0	\$0		
Add Market Management Fee @ 5.0%	\$292,909	\$348,632	\$362,613	\$424,513		
Deduct Actual Reserves for Replacement	\$0	\$0	\$0	\$0		
Add Market Reserves by Appraiser	\$32,500	\$32,500	\$32,500	\$32,500		
Normalized Expenses	\$6,096,879	\$6,727,429	\$6,627,651	\$7,571,584	\$7,576,409	\$7,576,409
Normalized Expense Percentage	104.1%	96.5%	91.4%	89.2%	90.7%	90.7%
Normalized Expense per Res Day	\$326	\$377	\$390	\$386	\$399	\$399

# Balancing Historical Statements

Period	FY 2013	FY 2014	FY 2015	T-12 ending 10/31/2016
Bottom Line (usually EBIDAR)	-\$56,278	\$401,808	\$782,606	\$973,590
Reported NOI	\$135,457	\$654,085	\$1,047,205	\$1,380,848
Difference	\$191,735	\$252,277	\$264,599	\$407,258
<b>Expense Add-Backs</b>				
Facility Lease	\$160,358	\$160,320	\$160,320	\$216,338
Non-recurring legal and consulting fees	\$31,377	\$91,957	\$104,279	\$190,920
Balance	\$0	\$0	\$0	\$0

# Special Consideration

- ❖ Loans over \$25 million
- ❖ Stabilizing NOI
- ❖ Special Income (IGT/UPL/QASP...)
- ❖ Purchase within 3 years
- ❖ Altering DC
- ❖ Management Fees
- ❖ Stress Tests

# Loan Term Coaching



- Year built?
- Substantial renovations?
- Divergence from current design standards?
- CON State?
- Ranking among competition?
- Rural vs. Suburban vs. Metro?

## SNF Life Expectancy

Building Class	A	B	C	D
Good - Excellent	50	50	45	40
Low cost to Average	45	45	40	35

Marshall Valuation Service

## ALF Life Expectancy

Building Class	C	D
Excellent	60	55
Average to Good	55	50
Low cost and Fair	50	45

Marshall Valuation Service