November 27, 2018

Mr. Jesse Leon
Ms. Marissa Button
Mr. Kevin Tatreau
Florida Housing Finance Corporation
227 N. Bronough Street, Suite 5000
Tallahassee, FL 32301

Re: Appraisal Methodology

Dear Jesse, Marissa & Kevin:

In regards to the appraisal methodology employed by LIHTC for all deals funded through the Preservation RFAs, we would request that FHFC consider the following:

It is our understanding that of all the reported values using various assumptions and hypothetical conditions in the appraisals for rehabilitation of LIHTC deals funded through Preservation RFAs, FHFC uses the valuation with an opinion of market value ("as is", un-renovated) as restricted by the HAP contract.

We would request that for LIHTC deals funded through the Preservation RFAs, that FHFC consider using an opinion of market value as restricted by the HAP contract **as if renovations are complete.** The rationale for this request is that the sales comparison and income approach to valuation does not consider a critical element that exists in real-world negotiations with owners of properties with HAP contracts: FHFC has created a market for properties with HAP contracts through the Preservation program by reserving 15% of the annual allocation of 9% tax credits in the Qualified Allocation Plan.

The purpose of the Preservation program is to protect rental assistance resources from disappearing and to prolong the utility of such developments. The owners of multifamily developments with HAP contracts are fully aware of both the disappearing nature of rental assistance and the FHFC Preservation program that incentivizes private developers to purchase and rehabilitate such developments, thus preserving the rental assistance. As a result, owners of properties that are eligible for the Preservation program are in a position to demand a premium in the purchase price. This premium is not considered in the appraisal process using the sales comparison approach, as the comps used are generally **market** multifamily developments that do not have HAP contracts. It could be argued that such sales are not truly comparable.

Additionally, the opinion of market value ("as is", un-renovated) as restricted by the HAP contract is usually discounted by the "immediate needs" identified in third party capital needs assessment reports. This leads to a **further** reduction of valuation that makes properties that most need rehabilitation and preservation of their rental assistance potentially unqualified for the Preservation policy goal that FHFC has targeted for otherwise qualified affordable multifamily developments – remember that the policy to preserve developments with high percentages of the units covered by HAP contracts was created due to the concern that these developments would fall into such disrepair that the HAP contracts would cease to be renewed and would be lost to Florida. FHFC began this policy knowing that the current owners of these developments had most likely not maintained them as well as they should have. In fact, the developments MOST at risk of losing the HAP contract in such a manner are the developments most likely to have significant “immediate needs”.

Requiring a third party assessment of market value for property helps FHFC ensure that public resources are being used prudently. Having some mechanism for doing so, while still acknowledging the unique realities of the FHFC “application value”, is important for making sure that FHFC’s procedures align as closely as possible with its stated policy objectives. In recognition of the above, and because the LIHTC that FHFC would allocate will result in the rehabilitation of properties soon after the allocation of LIHTC, we would ask that FHFC consider a policy for deals funded through the Preservation RFAs, of using an opinion of market value as restricted by the HAP contract **as if renovations are complete**, as this would allow a greater number of multifamily developments with HAP contracts to be viable in the Preservation program.

Sincerely,

Lisa Lacock

cc: Nancy Muller