Affordable Housing: An Appraiser’s Role
Lessons from Appraising Affordable Housing

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Who Am I

- Adam G. Dickinson, AACI, P.App.
- Appraiser/Co-owner; de Stecher Appraisals (Saint John, NB)
- Volunteered with Abbey St. Andrew Inc.
  - 96 unit mixed income development constructed in 2011
  - 4 years as board president
- Work for affordable housing sector clients:
  - Bank financing appraisals
  - Market research for converting school to housing
  - Replacement cost analysis (insurance)
  - Land value analysis – urban parking lot
  - Valuation of rent-to-own townhouse property
Need for Appraisers in Affordable Housing

- New entrants into affordable housing delivery
  - Civil Society Groups
  - Churches
  - Municipal Bodies
  - For Profit Developers

- Expiration of Operating Agreements
  - Funding programs for certain affordable properties are coming to an end
  - Coincides with mortgages being paid off
  - Groups are pursuing strategies for new frameworks
Where Appraisers Fit In

• Existing Affordable Housing Groups:
  • Seeking new financing (bank and alternative)
  • Considering changes and/or expansion
  • Maximizing rents for “market rent” units
  • Considering sale of buildings

• New And Existing Affordable Housing Groups:
  • Highest and Best Use Analysis
  • Market Studies
Case 1: Defining Scope

- **Property:**
  - Small town apartment building run by local affordable housing co-op

- **Assignment:**
  - Point in time valuation for credit union mortgage renewal

- **Unique Details:**
  - Property was paying lower property tax rate because of “affordable housing” use
  - If property were sold to for-profit owner, property tax rate would increase
Case 1: Defining Scope

• **Solution:**
  • Explained to client and lender the difference between “value to owner” and market value
  • Provided value estimate and analysis based on “market” tax rate
Case 2: Maximizing Revenue from Market

- **Property:**
  - Urban apartment building with underground parking
  - Mixed income (60% rent-geared to income, 40% market rent units)

- **Assignment:**
  - Help management to strategize how to increase revenue from market units

- **Unique Details:**
  - Market units had vacancy rate more than double local market’s vacancy rate
  - Property had unoccupied underground parking
Case 2: Maximizing Revenue from Market

• **Solution:**
  • Study competitive properties
    • How were they achieving higher rents and lower vacancy rates
  • Made recommendations
    • Utilize professional rental agent (not in-house staff who specialized in managing affordable housing)
    • Offer rental incentives (such as discounted underground parking)
Case 3: Market Analysis for New Project

• **Property:**
  • Former school with redevelopment potential
  • Client considering redevelopment as mixed-income apartment building

• **Assignment:**
  • Provide clients inventory of competitive properties

• **Unique Details:**
  • Market rents and vacancy rates vary widely in community
  • Client had business model completed; had established break even rent
Case 3: Market Analysis for New Project

**Solution:**
- Provided inventory of new (10 years and newer) apartment buildings
- Provided rent details for competitive buildings
- Provided amenities included in competitive buildings (elevators, appliances, parking)
- Provided overview of vacancy for similar buildings
- Identified several competitive properties that were proposed for the area

**Outcome:**
- Analysis allowed client to understand competitive market rents
- Client has not yet moved forward, due to break even requirements
Case 4: Rental Program Impact on Value

• **Property:**
  • Fire damaged apartment building being repaired and converted to affordable rental units

• **Assignment:**
  • Provide market value for mortgage financing

• **Unique Details:**
  • Property was being renovated as part of the Rental Residential Rehabilitation Assistance Program (RRRAP)
    • RRRAP provides forgivable mortgage financing for renovations, if the owner will provide “affordable” rents
Case 4: Rental Program Impact on Value

• **Solution:**
  • Provided value estimates under 2 scenarios:
    • Based on affordable rents & relevant vacancy
    • Based on market rents & market vacancy
      • To revert to market rents, owner (or purchaser) would have to pay off remainder of forgivable loan

• **Additional Note:**
  • Developer won local award for quality of renovation
Case 5: Help Clients Understand Process

- **Property:**
  - Former church building, converted to homeless shelter

- **Assignment:**
  - Provide replacement cost value estimate (as new) for insurance

- **Unique Details:**
  - Two storey church building converted to homeless shelter using paid and volunteer labour
  - Several months later, client’s funding partner required market value

- **Solution:**
  - Explained to client and funding partner the intended use of original report
  - Explained the difference between a replacement cost value (as new) and market value
Case 6: Not Always Highest and Best Use

• **Property:**
  • Parking lot beside church.

• **Assignment:**
  • Church wanted to know land value, as they considered developing affordable housing.

• **Unique Details:**
  • Urban parking lot, rented to municipality for paid parking
  • Zoned “Central Business”

• **Solution:**
  • Appraisal presented valuation based on “highest and best use”
  • Group proceeded with housing development because of proximity to their church building
Lessons

• **Case 1 (Case of Below Market Property Taxes):**
  • Define scope with client and their lender asap

• **Case 2 (High Vacancy) & Case 3 (School):**
  • More opportunity than just "point in time" valuation.
  • Boards are often willing to engage qualified experts.
    • Note, boards/NPOs may be slower to act than some other clients

• **Case 4 (Renovation Program):**
  • Be prepared to provide analyses that explore different scenarios for the same real estate.
  • Be prepared to inspect properties that need some (or a lot) of work.

• **Case 5 (Converted Church):**
  • Some clients will have limited experience with appraisers, be prepared to explain your process and your reports.

• **Case 6 (Land):**
  • Developer may not always pursue highest and best use
Additional Thoughts

- Tenants may not be open during inspections
- Projects may proceed slowly due to governance and accountability frameworks
- Projects may change and evolve as funding is secured
Thank You