



## Property Inspection Guidance for Third-Party Reports

March 25, 2020

Freddie Mac expects property inspections performed in support of third-party reports to continue to meet the requirements detailed in Chapters 60–66 of the *Freddie Mac Multifamily Seller/Service Guide* (Guide) to the extent possible given today's unique circumstances with COVID-19. Our loan partners and downstream capital markets investors rely on Freddie Mac for best-in-class analyses of the valuation and physical risks associated with the loans we purchase, even if there is limited access to occupied units, or limited access to the property because of a shelter-in-place order or other similar government mandate.

To address this, we will need to find creative ways to assess the physical and financial nature of the subject property, especially when social interaction and travel are limited. However, if there is no applicable government order or mandate restricting travel and access to the property, Freddie Mac still requires an on-site inspection, although with some modifications to avoid occupied units.

We also do not want to be overly proscriptive about specific inspection methodology since there are multiple variations available to complete a credible inspection depending on the capabilities of the property management, the property condition, its location and whether the inspection team has been to the property before.

However, if an appraiser or consultant employs a modified inspection protocol, they must clearly state in their report that they have not completed a Guide-compliant Freddie Mac inspection, but that their alternative processes or methods are their best efforts given the restrictive social interactive environment in which we find ourselves.

### Background Information for the Inspection Team

Regardless of the modified inspection protocol, Freddie Mac suggests that the borrower provide the inspection team (i.e., appraiser, engineer, lender and Freddie Mac underwriters) with the following information, to the extent possible, to help them more fully understand the physical aspects of a property:

- An inventory of maintenance items, by unit, in the past six months (cost and a brief description)
- The last time the property's kitchen, bathrooms, HVAC, roof and other major systems were renovated/replaced, and the costs and detail of those renovations if within the past two years
- Any repairs to electrical or plumbing systems over the past three years, including when those repairs occurred, and the cost
- Identification of any capital projects planned for the next 12 to 24 months (costs, scope of work)
- Any "green" upgrades or renovation projects in the recent past or planned in the future
- More photos than usually provided, especially if there is a range of property characteristics, condition issues, or renovation status. And identify the unit number and date that the photos were taken

### Virtual Inspections

In jurisdictions with a shelter-in-place order or other similar government mandate that restricts travel and access to the property, Freddie Mac will allow the site visit to be conducted on behalf of the consultant by on-site property representatives using approved remote viewing technology. During the virtual site visit, the consultant will facilitate the inspection and guide the property representative around the property to complete as comprehensive of a Guide-compliant inspection as is possible using video conferencing software.

**Note: More guidance on the scope and structure of virtual inspection protocol to come.**

## Appraisal Guidance

The definition of Market Value assumes that the property is hypothetically transferring today, so the appraiser must analyze the property in that context. If it sells today, what would a buyer's inspection look like, how would it be limited if there is a shelter-in-place order or other similar government mandate, how would the buyer mitigate any risk or uncertainties with the inspection process, and what data would they rely on to reach their purchase decision?

- **Inspections:** We require transparency in the appraisal report, including what the appraiser saw, what they did not see that would normally have been inspected, and the steps they took to meet the Uniform Standards of Professional Appraisal Practice (USPAP) and Freddie Mac's inspection requirements to provide a credible As-Is estimate of market value, or which requirements could not be met and how the appraiser addressed these issues. The appraiser should inspect what they can and then include an *Extraordinary Assumption* about their conclusions for the portions of the property they were unable to inspect, or note any issues for which they have additional concerns. Additionally, it would be expected that the appraiser be included on any virtual inspection tours.
- *Please do not include generic inspection disclaimers in the appraisal report.*
  - As defined by USPAP, an Extraordinary Assumption is specific to that particular subject property and cannot be a general one-size-fits-all statement. If the appraiser uses an Extraordinary Assumption, they must disclose 1) why the appraiser is applying that assumption, 2) what steps, methods and techniques the appraiser has applied for that property, and 3) that the application of the Extraordinary Assumption would still result in a credible estimate of market value for that specific property.
  - The appraiser's modified inspection protocol must be identified in the report's Scope of Work section and addressed as an Extraordinary Assumption.
- **Market Data and Analysis:** Given the potential uncertainty about current financial and transactional markets, we expect the appraiser to provide sufficient discussion, data and analysis to help Freddie Mac understand the risks in multifamily valuation in today's environment. In addition to the historical market data typically provided in an appraisal, we expect the appraiser to also rely on and document discussions with brokers, investors, borrowers, owners, etc., to provide color around the status of the local multifamily market and how it relates specifically to the subject property. (See Guide Section 60.14b)

*In addition, the appraiser must comply with the USPAP Competency Rule regarding inspection protocols and for access to current market participants, data and sources.*

## Engineering, Environmental, Green and Physical Risk Reports

Freddie Mac expects that site visits for all properties will continue with reasonable attempts being made to deliver reports in compliance with the unit inspection requirements of Guide Chapters 61, 62, 62SBL, 65 and 66, as applicable.

- At a minimum, the sum of the vacant, down and offline units available for inspection should equal the total number of units required by the Guide, had occupied units been available for inspection. We will consider situations on a case-by-case basis when an adequate number of units are not accessible.
- The inspection must include the most recently vacated units, with the date each unit was vacated noted in the report.
- The borrower must certify that the finishes and systems in units not inspected by the consultant are similar in age, condition and quality as those in the inspected units. Any differences must be disclosed by the borrower in this certification.
- For acquisitions, we will require that borrowers make available to the lender's consultant their acquisition PCA, whether this PCA was completed by internal or external resources. The Optigo® lender's consultant must reflect the information contained in this PCA in their own report. The borrower's report will not take the place of the lender-engaged report, the consultant's site visit, or the borrower's certification.
- Optigo lenders should expect longer report delivery timelines as consultants must rely less on air travel and more on car access to properties.

Any questions regarding the above should be directed to:

- Appraisals: [Marty Skolnik](#)
- Engineering, Environmental, Green and Physical Risk Reports: [Brian Morith](#) or [Justin Thomson](#)