

## **APPENDIX B to the HISTORIC TAX CREDIT RULES AND REGULATIONS**

### **PROCEDURES FOR NON-RESIDENTIAL APPRAISAL REPORTS PREPARED FOR THE CITY OF BALTIMORE HISTORICAL TAX CREDIT**

#### **I. GENERAL REQUIREMENTS**

Upon completion of an appraisal(s) by the production appraiser, a draft report will be submitted for review to the City of Baltimore Department of Finance to ensure that the data and analysis developed by the production appraiser substantiates the estimated valuation and conforms to the Scope of Work provided below.

One copy of the draft report is to be submitted to the Review Appraiser in the Department of Finance within (45) days of the beginning of the assignment for review, or within a time period that is approved by the program manager prior to the commencement of the assignment. The draft report must be complete and fully assembled, and must be submitted in electronic form (PDF format required). All exhibits must be included in the draft report. Exhibits and addenda include, but are not limited to, maps, photographs, plats, comparable data summary sheets, cash flow documentation, the City of Baltimore – Narrative Market Value Appraisal Report Summary of Significant Conclusions and Scope of Work Reporting Requirements Checklist, and the qualifications of the appraiser(s).

The City of Baltimore reviewer will send the completed review document detailing any questions or issues to the production appraiser. After all revisions are complete, one paper copy of the final appraisal report is to be submitted to the City of Baltimore Department of Finance. The final report must also be submitted in electronic form (PDF format) to the Review Appraiser. All exhibits must be included in the electronic form of the appraisal report. The City of Baltimore contact for the production appraiser will be the Department of Finance Appraiser.

#### **II. FORMAT AND CONTENTS**

If a property requires a discounted cash flow (DCF) in the analysis, the software must have certain capabilities. It must calculate individual tenant cash flows, combine the individual cash flows into a single property cash flow, and calculate the data into present value. It must handle individual terms and conditions as well as variations in assumptions over time, and display the assumptions used. The reviewer must be able to follow the assumptions, data, and calculations used in a DCF analysis. Argus is an example of such software. Any discounted cash flow files used in the analysis are to be provided in electronic form and must be compatible with the most current version of that software as of the date of the report's publication. Other spreadsheet files that are used in

the analyses should be Microsoft Excel software or comparable and compatible software, and should also be provided in electronic form.

To provide uniformity for City of Baltimore files, the text of the self-contained report shall be divided into four parts as outlined below:

## PART I - INTRODUCTION

- 1.1 TITLE PAGE. This shall include (a) the name, street address, (b) the name of the individual(s) signing the report, and (c) the effective date of the appraisal.
- 1.2 TABLE OF CONTENTS
- 1.3 LETTER OF TRANSMITTAL.
- 1.4 SUMMARY OF SALIENT FACTS AND CONCLUSIONS. Summarize the important data and conclusions in a concise manner, including: Property Identification, Purpose of the Appraisal, Scope of the Appraisal, Date of Value, Site Description, Improvement Description, Percentage of Current Occupancy, Zoning, Highest and Best Use, Value Indications (by Cost, Sales Comparison, and Income Capitalization Approaches), discount, capitalization and growth rates used, Final Estimate of Value.
- 1.5 PROPERTY IDENTIFICATION. Identify the property by name, location, and address.
- 1.6 SCOPE OF THE APPRAISAL. The asset is to be appraised “as is” as of the effective date of value, or such other date(s) and in such other condition(s) as may be specified by the Department of Finance Staff person in charge of the assignment. However, the hypothetical condition of ownership by a private sector purchaser is to be assumed.

The Fee Simple interest will be appraised, subject to any legally binding agreements, such as leases. The existing tenants may continue to occupy the property regardless of the hypothetical change of ownership. Although the existing tenants may continue to occupy the property under private ownership, assume that a private owner would require that market derived rents and terms would dictate their continuing occupancy. Additionally, for any currently vacant spaces, assume that they would be subject to market derived lease up, rents and terms.

The operating statement developed by the production appraiser must reflect typical income and expenses that would be incurred by a private sector owner assuming application of competent property management practices observed in the local market. Although the fee simple interest in the property is to be appraised, an analysis is to be done regarding the anticipated market derived income and expenses compared to any actual income and expenses the property is generating under current City of Baltimore ownership.

- 1.7 PROPERTY RIGHTS APPRAISED. The property rights to be appraised are the Fee Simple estate, subject to any legally binding agreements, such as leases.

The Fee Simple estate is defined as:

***Absolute ownership unencumbered by any other interest or estate, subject only to the limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.***

- 1.8 REQUIRED DEFINITION OF VALUE. The value to be appraised is the Market Value which is defined as:

***The amount of cash, or on terms reasonably equivalent to cash, for which in all probability the property would have sold on the effective date of the appraisal, after a reasonable exposure time on the open competitive market, from a willing and reasonably knowledgeable seller to a willing and reasonably knowledgeable buyer, with neither acting under any compulsion to buy or sell, giving due consideration to all available economic uses of the property at the time of the appraisal.***

The report will contain this definition and **only** this definition of Market Value within the content of the report, or any addenda or glossary attached to the report,

- 1.9 INTENDED USE AND USERS OF THE APPRAISAL. The intended use of the appraisal is to provide an opinion of the value of the asset for analysis by City of Baltimore in determining the appropriate Historical Tax Credit calculation for the asset. The intended user of the appraisal is the City of Baltimore Department of Finance and the purchasing entity.

- 1.10 DATE OF VALUE. The date of value will be the same date as the date of the latest comprehensive inspection of the asset.

- 1.11 EXHIBITS.

1.11.1 PHOTOGRAPHS. Pictures of the subject shall show at least the front and rear elevations of the major improvements, a street scene, and any salient features (significant deferred maintenance or other value impacting conditions or features). Each subject photograph shall indicate the date the photograph was taken and the camera's direction of view. When a large number of buildings are involved, including duplicates, one picture may be used for each type of building as long as the photograph is labeled to indicate that it represents a typical building type. Views of the comparables are to be included. All graphic material shall include captions.

1.11.2 MAPS. Legible location maps of the subject property and the comparables must be included.

- 1.12 STATEMENT OF LIMITING CONDITIONS AND ASSUMPTIONS.

- 1.13 APPRAISER'S CERTIFICATION. All appraisers who sign any part of the report will provide a certification as required by the licensing board in the State of Maryland and by USPAP. This shall include a statement that signatories have no undisclosed interest in property, that they have personally inspected the premises, date and amount of value estimates, etc. Any hypothetical conditions required by these specifications must be included within the certification.

## PART II - FACTUAL DATA

- 2.1 REGIONAL AND CITY ANALYSIS. *In a concise manner*, discuss the *pertinent* aspects of the asset's city and or region (e.g. geographic, legal, social and economic factors). Include a *succinct* description of the regional market for the asset's property type. This data should include such information as affects the appraised property together with the appraiser's conclusions as to significant trends.
- 2.2 NEIGHBORHOOD DATA. Clearly define the asset's neighborhood, including boundaries, land use patterns, transportation issues, vacant land (especially developable land), as well as the lifecycle of the neighborhood (e.g. developing, stable, declining, redeveloping). Include a description of the local market for the asset's property type, and any other characteristics that have an impact on the asset's value, either positive or negative (vacancy rates, market rents, absorption, efficiency factors, and R/U ratios). Provide a comparative analysis of the subject property within the context of its market.
- 2.3 PROPERTY DATA -
- 2.3.1 LEGAL DESCRIPTION - This description shall be sufficient to properly identify the property appraised. If lengthy, it can be referenced and included in Part IV.
- 2.3.2 SITE – The site description will be based on information provided by the City of Baltimore Department of Finance, the appraiser's inspection, and other data as may be gathered from publicly recorded or other reliable sources. Describe the relevant characteristics of the site (both positive and negative) that impact the site's use and value. Describe the site's location, size, shape, access, ingress/egress, soil, topography, utilities, mineral deposits, easements, off-site improvements, any excess land, and any other relevant factors. Discuss any issues that impact the functionality of the site, such as drainage/flood plain, soil, visibility, potential for development, environmental issues or excess land. If an asset being valued shares an undivided site with a number of other assets that are not part of the asset being appraised, the production appraiser shall immediately contact the Department of Finance staff person in charge of the assignment to discuss the method by which a reasonable and adequately supported estimate of the land necessary to support the existing or proposed asset shall be allocated. An appropriate disclosure of the extraordinary assumptions and limiting conditions related to such an allocation of land must be made within the appraisal report.
- While appraisers are not normally expected to be environmental experts, they should make a reasonable attempt to discover if there is contamination on the property. The appraiser shall note in the report any observed, suspected or other knowledge of environmental contamination. The impacts of any noted environmental issues will be appropriately addressed.

- 2.4 **LEGAL RESTRICTIONS.** Discuss the zoning that regulates the development of the site, or the most likely zoning that would regulate the development of the site under private ownership. Include relevant requirements such as permitted land uses, maximum building height, floor area ratio (FAR), and minimum setbacks and parking spaces. Discuss if the site and/or existing improvements (including the parking) are in compliance with the zoning regulations that impact the site. Discuss any other legal restrictions (binding agreements, covenants, easements, transferable development rights), and/or other regulations (historic designations or local comprehensive plans) that would impact the value of the site under private ownership.
- 2.5 **IMPROVEMENTS** - This description may be by narrative or schedule form and shall include dimensions, square foot measurements, and where appropriate, a statement of the method of measurement used in determining rentable areas such as full floor, multi-tenancy, etc. Briefly describe the exteriors and interiors of any existing improvements. Include age, condition, quality, functional utility (or inutility), gross building area, net rentable area, usable area, joint use spaces, core factors, number of stories, adequacy of parking, and any other relevant characteristics. Describe if the asset's leasing quality is considered to be Class A, B, or C (or lower) by market participants. State and photograph any deferred maintenance observed during the inspection of the building. Discuss and quantify any immediate capital costs that a private purchaser would incur.
- 2.6 **HISTORY** - State briefly when the City of Baltimore took possession of the property and, if possible, cite the deed book and page of the transaction. Include a copy of the deed in the report, if possible. State the purpose for which the improvements were designed, dates of original construction and major renovation and/or additions.
- 2.7 **REAL ESTATE TAXES.** Estimate the real estate tax assessment under private ownership. State the tax rate and give the dollar amount of the tax estimate. Future trends or prospective changes in the level of taxes should be discussed.

### PART III - ANALYSES AND CONCLUSIONS

- 3.1 **ANALYSIS OF HIGHEST AND BEST USE.** Describe the highest and best use of the site "as if vacant" and "as improved", using standard appraisal guidelines of physically possible uses, legally permitted uses, financially feasible uses, and maximally productive uses. The analysis should tie the highest and best use to the analyses used in the descriptions of the regional and neighborhood markets, the site, and the existing improvements. In the "as if vacant" analysis, include a discussion of the size as well as the type of any buildings that represent the highest and best use. Determine whether the existing improvements represent the highest and best use of the site, including if they represent a viable interim use or a special purpose use. Address whether any opportunities to increase income and/or value of the existing improvements are observed.
- 3.2 **LAND VALUE.** The appraiser's opinion of the value of the land shall be supported by confirmed sales of comparable lands. Differences shall be weighed and explained to show how the sales indicate the value of the land being appraised.

Adjustments should be made from the sales to the subject, either in dollar amounts or percentages for all applicable elements of comparison. Provide adequate summary descriptions of comparable land sales, including location maps. Comparable sales used should be confirmed by someone having personal knowledge of the terms and conditions of the sale as well as the motivation of the principals. Reference to public records and revenue stamps does not confirm the terms and conditions of a sale. Tie the land valuation to the highest and best use analysis. **All appraisals must include a section estimating the market value of the asset's underlying land.**

3.3 VALUE ESTIMATED BY COST APPROACH. The Cost Approach may be used to estimate the market value of properties that are not frequently exchanged in the market, such as special use properties. It is particularly important when a lack of market activity limits the usefulness of the Sales Comparison Approach and when properties are not amenable to valuation by the Income Capitalization Approach. Since these characteristics pertain to some of Baltimore City's Government-owned properties, the Cost Approach may be a viable method of valuation.

This shall be in the form of computational data, arranged in sequence, beginning with reproduction or replacement cost. The dollar amounts of physical deterioration and functional and external obsolescence, or the omission of same, shall be explained in narrative form. The reader should be able to follow the appraiser's logic to his/her conclusion of value.

3.3.1 Identify and describe the source used to estimate the replacement cost (or reproduction cost). The quantity survey or unit-in-place methods of estimating replacement/reproduction cost are preferred for most properties.

3.3.2 Describe and quantify direct and indirect costs.

3.3.3 Describe and estimate entrepreneurial profit.

3.3.4 Explain and quantify all applicable types of accrued depreciation, including physical deterioration and functional and external obsolescence. Include deferred maintenance costs. Discuss whether the accrued depreciation is curable or incurable. If partial or complete demolition is considered a reasonable estimate of cost should be calculated and included.

3.3.5 Discuss the asset's economic life and effective age.

The Cost Approach may not be applicable to the valuation of all City of Baltimore assets. **If the City of Baltimore grants omission of the Cost Approach, at a minimum, the market value of the site is to be estimated, the economic life and effective age of the improvements are to be quantified, and any applicable forms of obsolescence and/or depreciation are to be discussed. The elimination of the Cost Approach does not relieve the appraiser of the obligation to provide an estimate of the rent required to justify new construction as delineated in Section 20 which immediately follows.**

3.4 VALUE ESTIMATED BY INCOME CAPITALIZATION APPROACH. This shall include adequate factual data (a) estimated gross economic market rent; (b) allowance for vacancy and credit losses; (c) an itemized estimate of total anticipated expenses including reserves for replacement; and (d) net operating income. Capitalization of net income shall be at the rate prevailing for the subject property's type and location. The capitalization technique, method and rate used shall be

explained in narrative form supported by an explanation of sources of rates and factors. The reader should be able to follow the appraiser's logic to his/her conclusion of value.

Although the Fee Simple interest in the property is to be appraised, a comparison analysis is to be done regarding the anticipated market derived income and expenses evaluated against the actual income the property is generating under current city ownership based on lease's impacting the property. This commitment will be considered in the analysis of the property's anticipated occupancy.

Describe the current and expected occupancy levels, including expirations of leases, if applicable. Estimate future vacancy and credit loss in relation to the risk reflected in capitalization rates used and the condition of the market in respect to existing vacancy rates for similar properties.

Describe current rents, current tenant(s), and current and forecasted income and expenses.

Estimate the minimum rent required to justify new construction. (If preferred, this may be discussed in the Highest and Best Use Section.)

Discuss supply and demand in the market, including the subject's competitive position. Explain the key functional and economic issues, both positive and negative, relating to the subject property.

Describe and analyze market rents (including escalations, concessions, length of the initial lease and the number and length of any renewal options, lease terms and conditions, tenant improvement allowances, expenses and any expense stops, etc.). Compare the market rents to the rents generated under current city ownership based on any lease's impacting the property.

Describe and analyze expenses in comparable properties, including fixed (ad valorem taxes and insurance), and variable (management, administration, utilities, cleaning, repairs and maintenance). Discuss the projected expense ratio of the subject property as if owned by a private owner, as compared to the expenses generated as currently owned by the city government.

Each rent comparable shall be weighed and explained in relation to the subject, and adjustments are to be made from the comparable to the subject. The rent comparables should be adjusted in relation to the subject for physical attributes such as location, age/condition, parking, quality/aesthetics, access/visibility, core factors, and efficiency ratios. Describe the adjustments applied.

Discuss and quantify any immediate capital costs that a private purchaser would incur. Analyze any capital investments that are proposed by purchaser.

Develop a stabilized operating statement, addressing stabilized capital reserves. The appraiser's conclusion should be based on comparison with similar rentals.

Estimate the value of the property using the Direct Capitalization method. Explain and support the overall capitalization rate used. Ideally, capitalization rates should be developed from the sale of similar properties, preferably in the market of the subject property. The source data for any mortgage and equity rates used should be included.

If applicable, estimate the value of the property using the discounted cash flow analysis technique. Discuss anticipation of change of the subject property and support anticipated changes. Explain and support the discount and exit capitalization rates used.

- 3.5 VALUE ESTIMATE BY SALES COMPARISON APPROACH. All sales used shall be confirmed by the buyer, seller, broker, or other persons having knowledge of the price, terms, and conditions of sale. Each comparable shall be weighed and explained in relation to the subject from this approach. Adjustments should be made from the sale to the subject, either in dollar amounts or percentages for all applicable elements of comparison. The comparable sales should be adjusted in relation to the subject property for market and property conditions, location, core factors, efficiency ratios and other appropriate factors. The reader should be able to follow the appraiser's logic to his/her conclusion of value.
- 3.6 RECONCILIATION AND FINAL ESTIMATED VALUE. The appraiser shall interpret the foregoing estimates and shall state his/her reason why one or more of the conclusions reached in items (19), (20), and (21) are indicative of the market value of the property. Discuss the appropriateness and reliability of each approach and logically explain the derivation of the final estimated value. **Pure "averaging" is not defensible.**

#### PART IV - EXHIBITS AND ADDENDA

(These items may be located within the appropriate sections of the body of the report.)

- 4.1 PLOT PLAN AND TAX MAP
- 4.2 FLOOR PLANS
- 4.3 COMPARATIVE DATA MAP(s): The production appraiser must show the geographic location of the appraised property and the comparative data analyzed.
- 5.2 OTHER PERTINENT EXHIBITS. The production appraiser must include a copy of the Scope of Work identified in the accepted contract of work. The production appraiser must also complete and include the City of Baltimore – Narrative Market Value Appraisal Report Summary of Significant Conclusions and Scope of Work Reporting Requirements Checklist with the report indicating that the appropriate information required in the report has been included, and identifying the pages where such information is located.
- 5.3 QUALIFICATIONS. (Include the qualifications of all appraisers and analysts significantly contributing to the value(s) reported.)

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