

Moderate Rehab Best Practices: Appraisals

The purpose of this document is to provide seller/servicers and appraisers of Moderate Rehabilitation Loans best practices and guidance to ensure successful loan submission and processing. This document is not all-inclusive of all details required. Please refer to the appraisal sections of the Freddie Mac *Multifamily Seller/Service Guide* (Guide) [Chapter 60](#).

Appraiser Roles and Responsibilities

- The appraiser must conclude two values of the property based on all applicable approaches to value:
 - As-Is Value
 - As-If Renovated and Stabilized Today Hypothetical Market Value (As-If Stabilized Today Value)
- ❖ **BEST PRACTICE:** As-Is Value and As-If Stabilized Today Value are imperative to the credit and underwriting analysis of the deal.
- The appraiser must be provided with the Pre-Construction Analysis Report prior to the appraiser's initial submission to the Seller/Service. If a final Pre-Construction Analysis Report is not available, a draft report is acceptable; a final Pre-Construction Analysis Report should always be provided to the appraiser as soon as possible. The appraiser must provide their opinion on the planned renovations, the time needed for renovation and stabilization, and specific elements of the renovation that would affect value.
 - See [Moderate Rehab Best Practices: Property Condition Due Diligence](#)

As-Is Value

- This is the market value of the property as of the day of the appraiser's inspection assuming no rehabilitation work is done. Standard appraisal approaches and industry best practice per the Guide Chapter 60 apply.
- This value provides a baseline to determine how much additional value the rehabilitation project might generate.

As-If Renovated and Stabilized Today Hypothetical Market Value (As-If Stabilized Today Value)

- This value assumes that all planned renovations are complete, and the property is stabilized as of the date of the appraiser's inspection.
 - This value removes impacts of projected income and expenses based on considerations of time and market volatility.
- The value should not simply add the renovation budget total to the As-Is Value, as this simple math might not necessarily be indicative of actual market value.
 - The appraiser must analyze the effects of the renovation on the different approaches to value. For example, by installing new stainless steel energy saving appliances, the rent might increase, utility expense might decrease, and replacement reserves might increase, causing an impact to the appraiser's Income Approach, and indicative of a change in market value.

- ❖ **BEST PRACTICE:** The appraiser must provide rents, property taxes, expenses and capitalization rates from properties that have recently experienced renovations similar to the subject or are comparable to the proposed renovated property.
- ❖ **BEST PRACTICE:** The appraiser must provide separate sales and rent comparables for the As-Is Value and the As-If Stabilized Today Values, as the rehabilitation might promote the property into a higher class of property.

Green Up® and Green Up Plus®

- Requirements of the Freddie Mac Multifamily Green Up/Green Up Plus offering can be applied to a Moderate Rehabilitation loan. **Additional Green values do not need to be provided by the appraiser.**
- The green improvements must be identified and material impacts to value as part of the overall project.

If you have any questions, please contact the [Multifamily Appraisals team](#).