



Overall Valuation Trends

September 1, 2022



PANEL

- **Moderator:** Roy D. Williams, CPA, Managing Director & FHA Chief Underwriter, Wells Fargo Multifamily Capital
- **Panelist:** Barbara Williams, Branch Chief, Underwriting Team, HUD Jacksonville
- **Panelist:** Angie Vassey, Appraiser, Multifamily Development, HUD Jacksonville
- **Panelist:** Nelson Pratt, MAI, Appraiser/Market Analyst, Hodges & Pratt

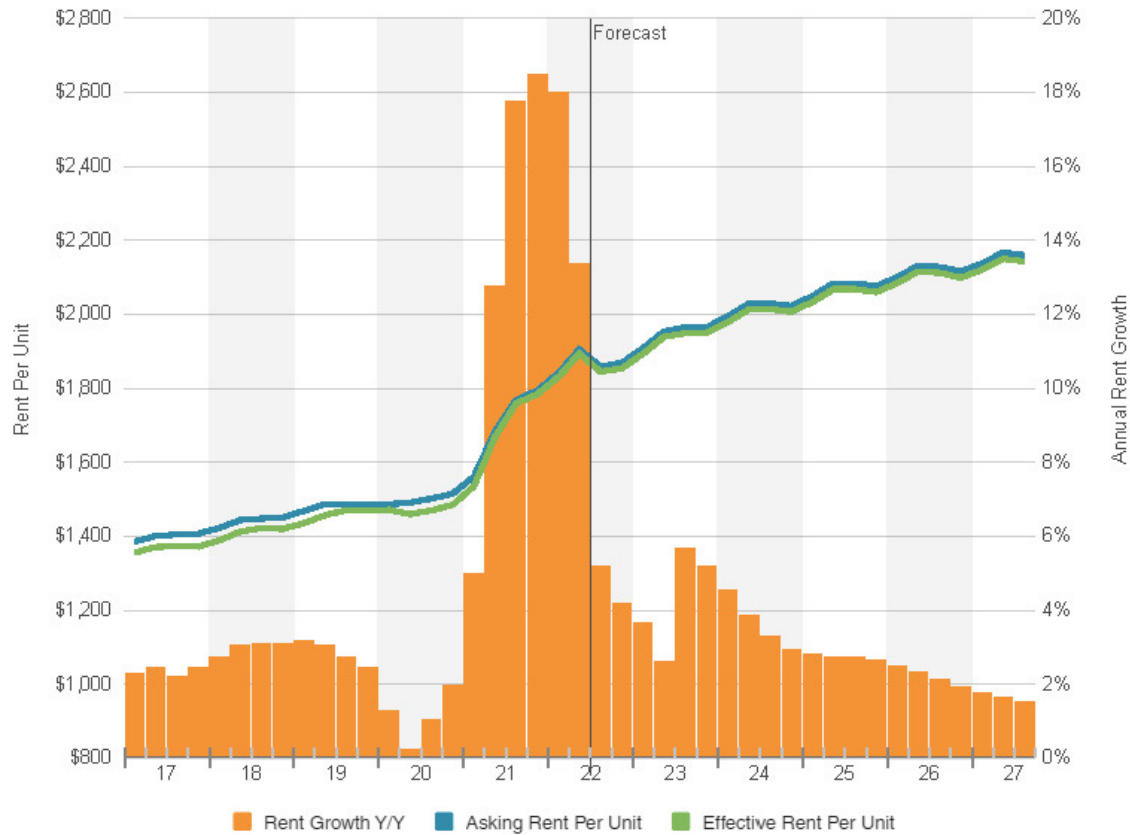


OVERALL VALUATION TRENDS

- Rent Growth – Is it Sustainable?
- Expenses – Current Trends
- Migration Patterns – Will they continue?
- Interest Rate Environment – Potential Impacts
- Cap Rates – What impacts the rate?
- Specifics on the HUD 223(f) & 221(d)(4) programs

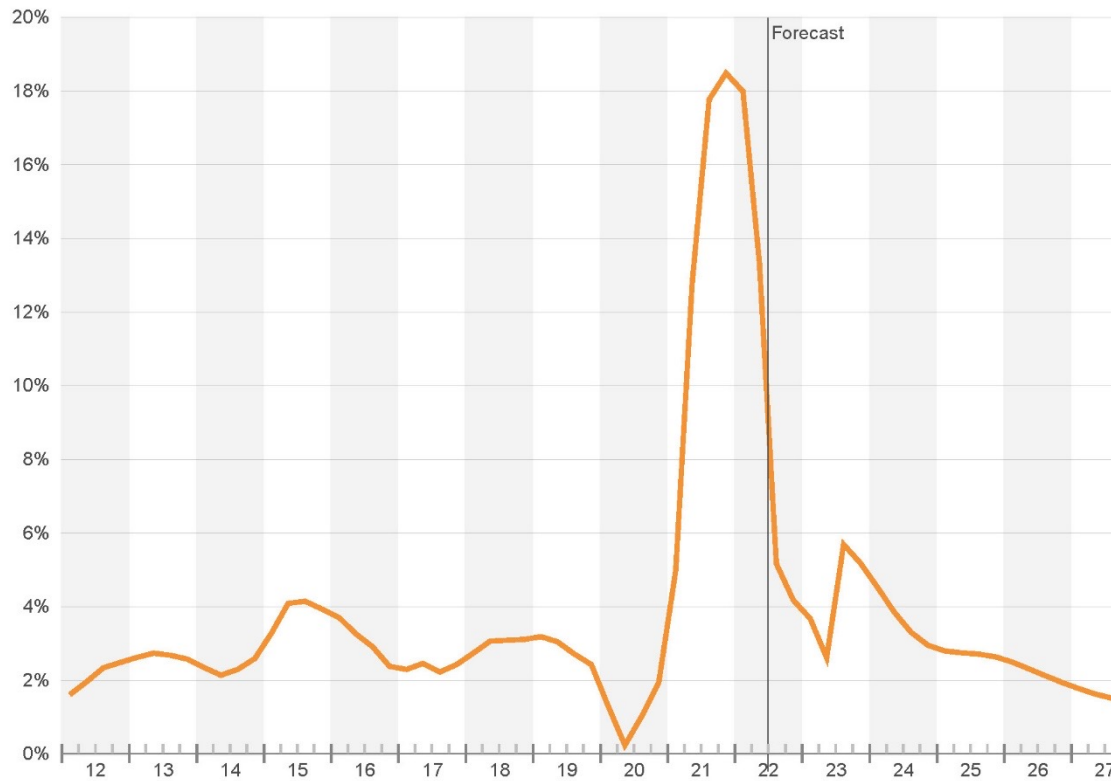
OVERALL TRENDS - RENT GROWTH

Market Rent Per Unit & Rent Growth



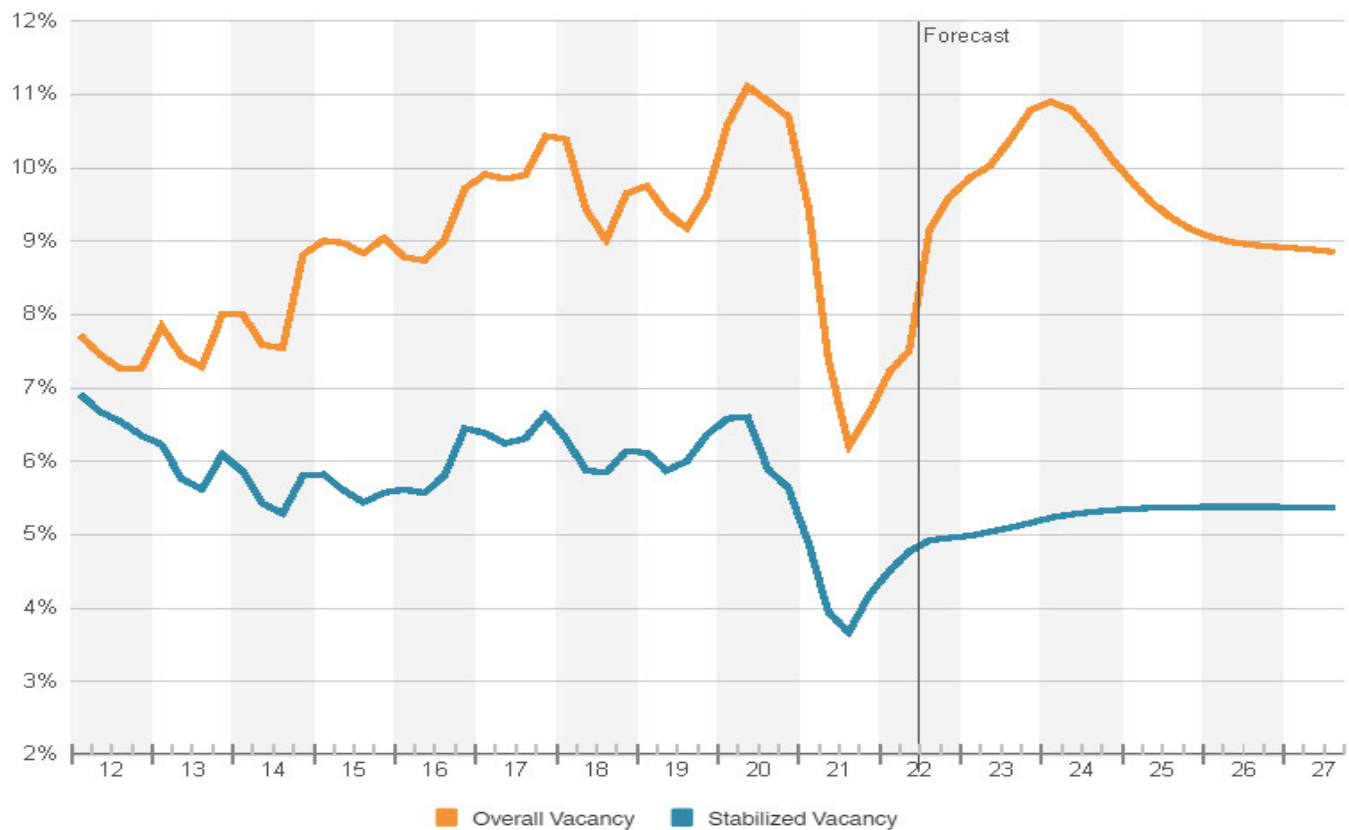
OVERALL TRENDS - RENT GROWTH

Market Rent Growth (YOY)



OVERALL TRENDS - VACANCY

Overall & Stabilized Vacancy





OVERALL TRENDS - RENT GROWTH

- Variance between completion of the third-party reports and assigning to HUD underwriter/Review.
 - What is the best way to handle these variances?
 - Addendum Letter with updated HUD-92273 Forms?
 - Updated Reports?



OVERALL TRENDS – EXPENSES WELLS FARGO COMMERCIAL MORTGAGE SERVICING TRENDS

■ Analysis Overview

- Conventional Multifamily properties (excluding Co-ops, Healthcare, Manufactured Housing, Senior & Student Housing) across securitized portfolios (CMBS and Freddie Mac K)
- 10,360 Financial Statements from 2017 to 2021 reporting years, trying to include properties having all 5 years of financial statements
- Portfolios are fluid with loans paying off and boarding within the reporting year, therefore, Average OpEx/Property and Average OpEx/Unit was used for the analysis in each reporting year

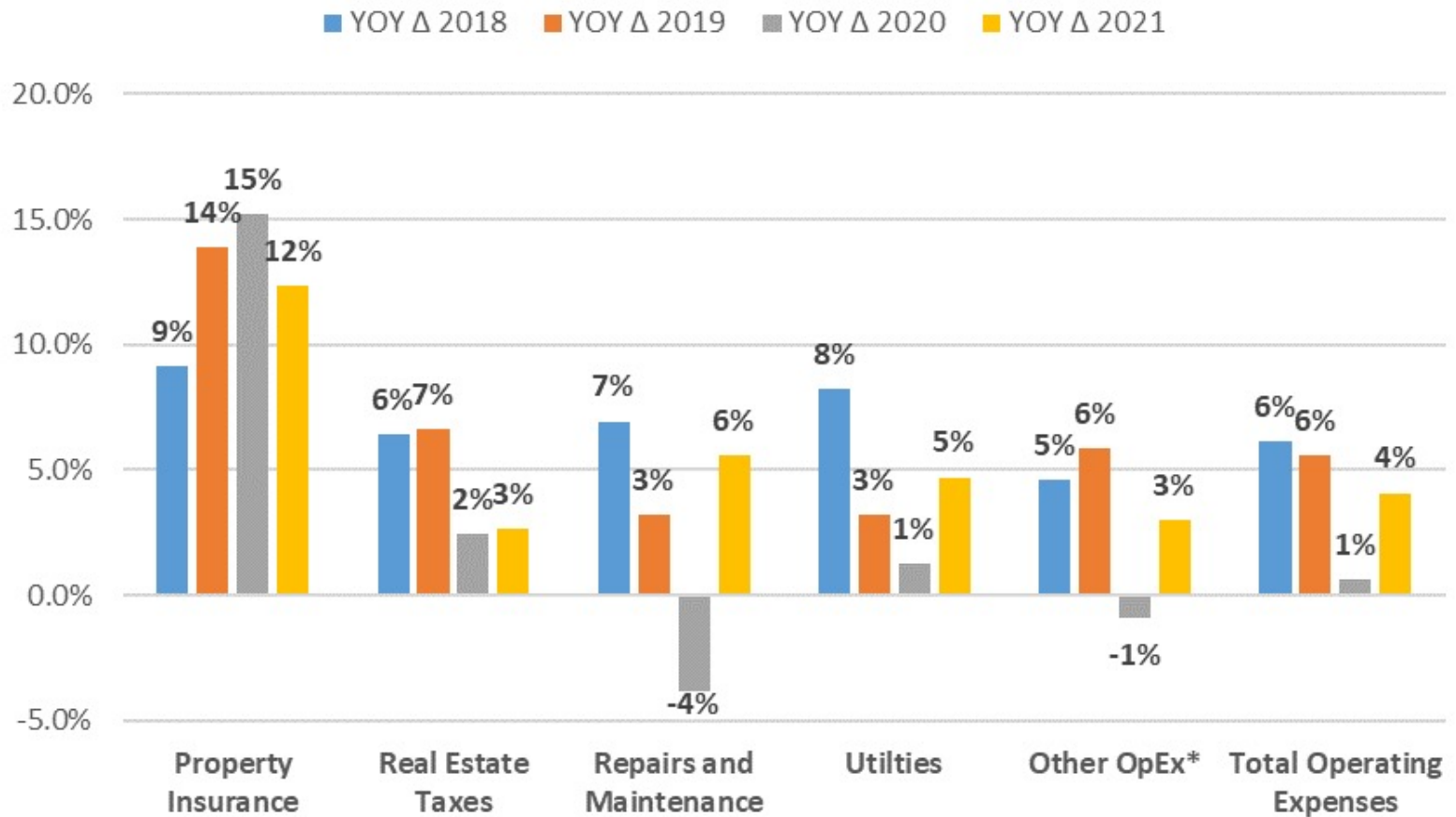
Region	2017	2018	2019	2020	2021
Midwest	427	442	451	441	418
Northeast	365	401	403	398	372
Pacific West	465	485	466	471	436
Plains	363	401	396	399	366
Southeast	365	425	409	411	384
Grand Total	1985	2154	2125	2120	1976



OVERALL TRENDS – EXPENSES

WELLS FARGO COMMERCIAL MORTGAGE SERVICING TRENDS

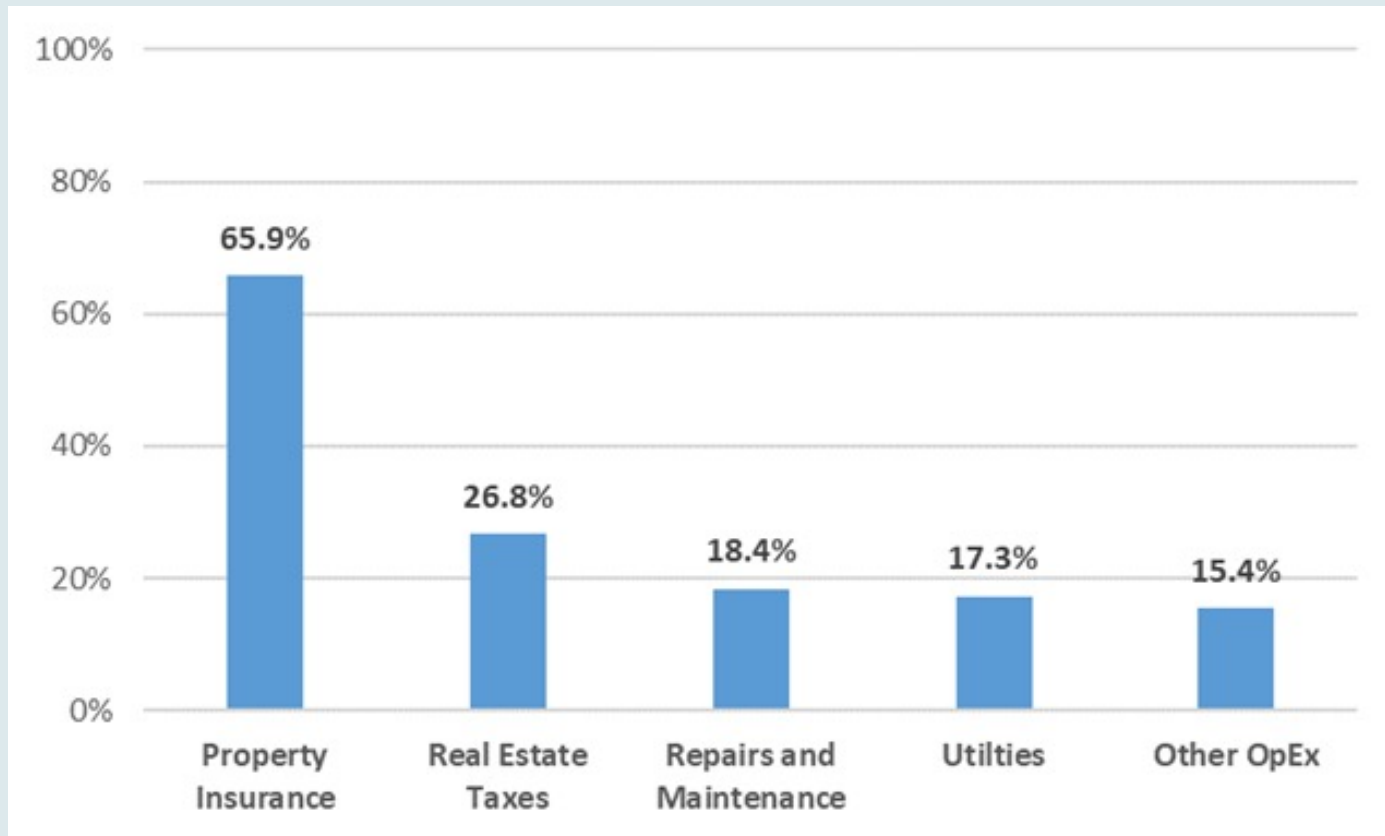
■ Year-over-Year Comparison





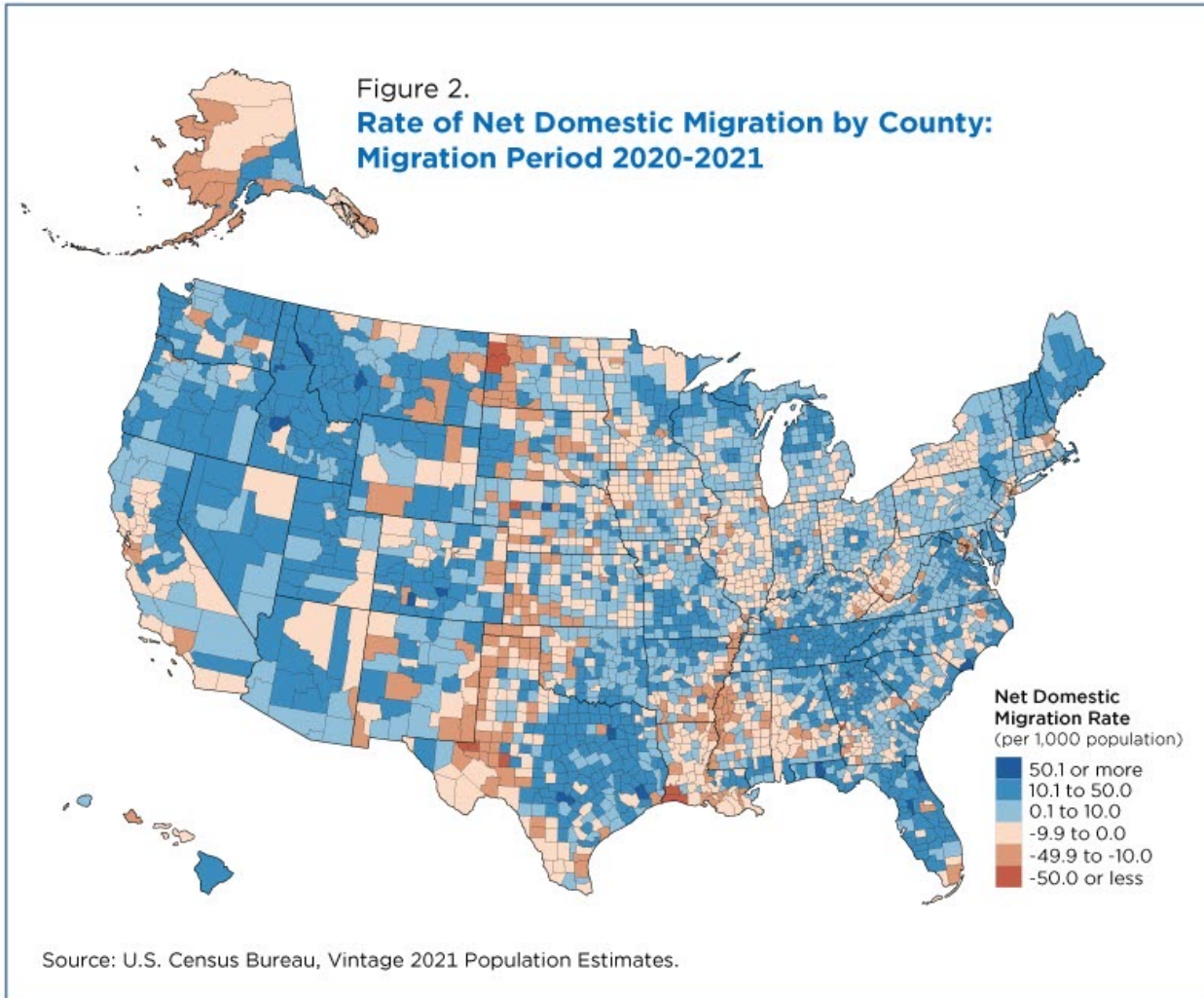
OVERALL TRENDS – EXPENSES WELLS FARGO COMMERCIAL MORTGAGE SERVICING TRENDS

■ 5-Year Change in Expenses – Southeast Region



- *"Other OpEx" includes Payroll & Benefits, G&A, Prof Fees, Advertising & Marketing, Management Fees, Other Expenses

OVERALL TRENDS - MIGRATION





OVERALL TRENDS - MIGRATION

- **Impact of Migration Trends**
 - Rental Rates
 - Absorption
 - Overall Demand
- **2021 U-Haul Report**
 - Tracks one-way moves (2020 ranking in parentheses)
 1. Texas (2)
 2. Florida (3)
 3. Tennessee (1)
 4. South Carolina (15)
 5. Arizona (5)



OVERALL TRENDS – INTEREST RATE ENVIRONMENT

- Increases and impact on underwriting and feasibility of projects Rental Rates
- Potential impact on cap rates
- Impacting those that would consider home ownership, but rising interest rates couple with inflation is putting pressure on them to do so

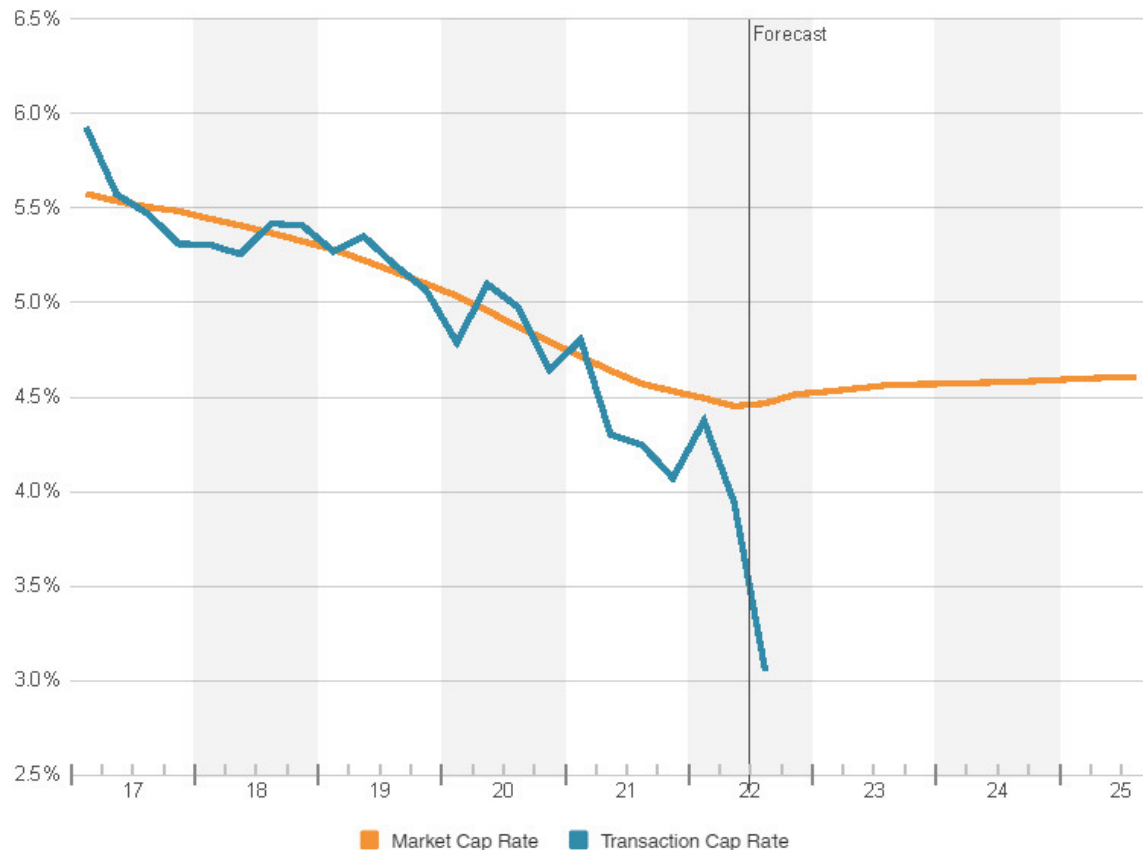


HUD 223(f) APPRAISALS 3-YEAR WAIVERS

- Increase in Volume
- Cash Out Deals
- Sustainability of Rent Growth
- Lack of Historical Operating Data
- Common Issues

HUD 223(f) APPRAISALS CAP RATES

Market Cap Rate & Transaction Cap Rate





HUD 223(f) APPRAISALS CAP RATES

- Impact of Rising Interest Rates
- Variance between In-Place & Proforma NOI
- Assumable Loans vs. New Debt
- Fundamentals of the Overall Rate
 - Function of Risk
 - Tied to the level of underwritten rents, vacancy, & expenses



HUD 221(d)(4) APPRAISALS

- **Timing Between Pre-App & Firm Commitment Applications**
 - **Changes to the Market**
 - **Rental Rates**
 - **Expenses**
 - **Absorption Rates**
 - **Vacancy Rates**
 - **Interest Rates**
 - **Construction Cost**
 - **Land Value**



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