Vermont Department of Taxes
TECHNICAL BULLETIN

TAX: PROPERTY | TB- 32

SUBJECT: Appraisal of multi-family affordable residential rental property | REVISED: July 20, 2006

Replaces previous bulletin issued 5/5/06

REFERENCE: 32 V.S.A. § 3481

The purpose of this bulletin is to define certain terms used in 32 V.S.A. § 3481 with regard to appraisal of multi-family affordable rental property and to explain the application of that section to mixed-use properties where one use is affordable rental housing.

Effective for the grand list of April 1, 2006 and for subsequent grand lists, the law specifies the methodology that will be used for appraising residential rental properties that are subject to a housing subsidy covenant or other legal restriction imposed by a governmental, quasi-governmental, or public purpose entity on rents that may be charged. 2005, No. 75, Secs. 6 and 11(g). Specifically, fair market value of these properties will be determined by an income approach using the following elements:

(A) market rents with utility allowance for the geographic area in which the property is located as determined by the federal office of Housing and Urban Development;
(B) actual expenses incurred with respect to the property as provided by the property owner and certified by an independent third party;
(C) a vacancy rate that is 50 percent of the market vacancy rate as determined by the United States Census Bureau with local review by the Vermont housing finance agency; and
(D) a capitalization rate that is typical for the geographic area determined and published annually prior to April 1 by the division of property valuation and review after consultation with the Vermont housing finance agency.

Definitions As used in this statute, the terms "market rents" and "expenses" have the following meanings:

"Market rents" means the rents determined by the federal office of Housing and Urban Development for the geographic area in which the property is located (HUD rents); and for properties subsidized under 42 U.S.C. § 1437 (commonly referred to as Section 8 New Construction /Substantial Rehabilitation property), 12 U.S.C. § 1701q (commonly referred to as Section 202 property), 42 U.S.C. § 1485 (commonly referred to as Section 515 Rural Development property), 12 U.S.C. § 1715z-1 and 42 U.S.C § 1437f (commonly referred to as Section 236 and 221(d)(3) properties) it means the higher of HUD fair market rents and contract rents. For purposes of this definition, “contract rents” means the amount of federal rental assistance plus any tenant contribution. Market rents also include any other income paid to the owner, such as charges for laundry and parking.

“Expenses” means the operating expenses ordinarily associated with an income appraisal, such as maintenance and repairs, including reasonable reserves for replacement, management costs and supplies. Mortgage payments, including interest or amortization associated with such mortgage payments, capital improvements and depreciation are not expenses.

Mixed-use properties The fair market value of a property that is used both for affordable housing as described above and another purpose shall be determined using the statutory elements (HUD rents, actual expenses and the PVR-published cap rate and vacancy rate) with the addition of the income derived from the non-subsidized portion of the property.

Signed: ______________________________
General Counsel

Approved: ____________________________
Commissioner of Taxes