



## Fortress Multifamily Valuation Process Guide

*NOTE: This document outlines Fortress's general internal review process and is only intended to be used as guidance, as it does not contain a complete or comprehensive list of valuation requirements. Information in this guidance may be modified or supplemented at any time, and from time to time, without notice, at the discretion of PeerStreet. Any loan submitted to Fortress is subject to Fortress's final review and approval in its sole discretion.*

### **DEFINITION OF MARKET VALUE**

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is *the consummation of a sale as of a specified date and the passing of title from seller to buyer* under conditions whereby: (1) buyer and seller are typically motivated; (2) both parties are well informed or well advised, and each acting in what he considers his own best interest; (3) a reasonable time is allowed for exposure in the open market; (4) payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; (5) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale. Source: OCC 12 CFR Part 34.

### **VALUATION CHEAT SHEET**

<b><u>Lender Valuation</u></b>	<b><u>PS Value Ok</u></b>
<p>Loans greater than or equal to \$2,500,000</p> <ul style="list-style-type: none"> <li>MAI appraisal required</li> </ul> <p>Loans under \$2,500,000</p> <ul style="list-style-type: none"> <li>Commercial valuations from a Fortress-preferred vendor are acceptable unless the complexity of deal warrants a full appraisal (determined on a case-by-case basis)</li> <li>Appraisals prepared by a licensed appraiser in the state of the subject collateral are accepted</li> </ul> <p>Must include (i) sales comparison and income approaches to value, (ii) documentation of an interior and exterior inspection, and (iii) insurable value.</p>	<p>Less than 6 months old on the day we wire.</p> <p>Analyst has reviewed and confirmed it is a valid report.</p> <p>Approved Vendors*: Colliers, Integra, CBRE, Bowery, Appraisal Nation, Boxwood Means and LRES</p> <p>*If FSC receives an appraisal that is not from an approved vendor, but is lower than FSC concluded value - FSC, at its discretion, may use the more conservative value (even if it is not from approved vendors). FSC reserves the right to adjust the final value conclusion.</p>



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## **FOUR (4) PRIMARY STEPS IN THE VALUATION PROCESS**

### 1. Appraisal

- Confirm vendor is either approved or a reputable entity, or both
  - If not recognizable, then google/look at website for additional information on quality
- Review report for quality and methodology(ies)
- See appraisal review document for detailed steps (PS generated)

### 2. Costar

- Run underwriting report
- Valuation
  - Confirm comps in appraisal to co-star comps.
    - Understand any differences in comp selection between the two reports
    - Make sure comps are closest to subject property
    - Per door, SF, Cap rate, GRM metrics
  - Compare costar ave value to appraisal and analyze material variance
- Rent Confirmation
  - Owns Apts.com and data feeds daily
    - Select props as close to subject as possible
    - Look at asking rents for same unit mix as subject (i.e. studios, 1BR, 2BR, 3BR etc)
    - Try and ID concessions in the market
  - As needed, look at other renter sites for data
    - Zillow rentals, trulia rentals, realtor.com

### 3. Broker calls, if necessitated

- Call for general market intel of immediate area
- Ask if know's property or area specifically
- Any comments positive or negative about subject property or area
- Get market reports etc on area, if possible, and save to the central folder for future use.



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4. Other, if necessitated

- Site visit
  - Try and arrange a visit by a PS employee or closely related party
  - Look for anything inconsistent with appraisal or info rec'd
  - Look for occupancy, cars
  - Review adjacencies for material impacts to subject
  - Condition of property, roof, grounds
  - Try and gain access and walk building etc.
  - Check with RM/GM on whether a property tour can be arranged by the borrower (this is CBC if the necessity arises)
  - Talk to neighbors, if around, and ask about property.
- Google property address and look for anything out of the ordinary negatively impacting collateral or immediate area (large environmental issue, high crime etc) that hasn't been addressed anywhere else (i.e. appraisal).
- Overall market and submarket market intel - job growth, house appreciation, population growth etc.



## DETAILED STEPS IN REVIEWING VALUATIONS

### **Executive Summary (Generally):**

- Vendor qualifications and whether approved by PeerStreet
- Address and legal parcel Match
- Commissioning Party
  - Must be PS or Originator
- Review Subject and Comparable photos
  - Is this an indication of current condition?
  - Does the appraiser provide commentary on the property conditions?
    - Is the commentary consistent with the photos?
  - Does it appear that the agent/appraiser actually walked through it and took photos?
- “As-Is” and if necessary “As-Stabilized / As-Complete” Valuation if there is a construction reserve
- Date of Valuation (date of the actual report)
- Analysis of prior transfers/purchase price noted in the Property History/Prior Ownership section?
  - Compared to title company data bases, datatree, REIS or Costar?
  - Is current value higher than recent transfer/purchase price?
    - If so, why?
- Did the appraiser make general or extraordinary assumptions that are unreasonable?
- Property Condition:
  - Were any adverse conditions or deferred maintenance noted?
    - Check birds-eye-view typically provided in report or check Google Earth
    - Do units appear renovated or upgraded?
- Assessment of condition
  - Look for the assumption of condition
    - Does it match the comps?
  - Does condition seem to match what value provider wrote about property in other places?
  - Is a renovation budget in the appraisal the same as lender provided appraiser
    - If yes, does it match the budget in our file?
- Pictures of subject
  - Does it appear to be occupied?
  - Do the pictures confirm the stated condition of the property?
  - Are the pictures time-stamped so they align with the appraisal date (not supplied earlier)?
  - Do the photos show any potential environmental concern (proximity to gas station)?

### Income Approach:

- Gross potential rent conclusion:
  - In-place vs market rents
    - Does the appraiser make a supportable rental income conclusion
    - Is this conclusion supported by the market rents in the area



- Should the appraiser utilize a blended rental income approach
      - Blended rental income approach
    - Does the appraiser have a rent roll?
      - If yes, does it match the rent roll in our file?
      - Are units month to month?
      - If zero occupancy, could it be leased right away?
      - Does % of projected occupancy align with submarket comps?
      - Can the submarket absorb new units?
  - Vacancy and Economic Vacancy - supported by costar, REIS or submarket data
    - Does the appraiser account for or discuss concessions, bad debt, or other income items?
      - Do related appraisal assumptions make sense?
  - Expenses
    - Does the appraiser provide expense comps, do they make sense?
    - Does the appraiser account for the following:
      - Fixed expenses:
        - Real Estate Taxes (RET)
          - Do RET reflect the new basis of the property?
        - Insurance
        - Utilities
        - Fuel (assets with boilers)
        - Water Sewer
        - Management Fee
      - Operational Expenses:
        - Repair and Maintenance
        - Payroll and Benefits
        - General and Administrative
        - Reserve Replacement
  - Cap Rate - is the cap rate supported by sale comps and appraiser analysis?
  - Gross Rent Multiplier - is the GRM supported by comps in the market
- Sale Comps Approach:
  - Number units
    - Did the appraiser list whether they entered all units or only a sample?
  - Square feet (Total SF, lot size, GBA/NRA)
  - Unit mix and total unit count
  - Build date or average age of the building structures
  - Proximity
    - Does it seem reasonable based on submarket
  - Comparables date of sale
    - Are sale dates within the last year?
  - Pictures
    - Do pictures of comps seem to line up with the condition of the subject?
  - Comp Choice
    - Do the comps selected make sense?



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- Are total/net adjustments greater than +/- 10%?
  - Do those comps make sense?
- Do the unadjusted and adjusted comps bracket the concluded value?
- Does our understanding of the loan as presented by the originator match up with what we see in valuation condition, pictures, comments, etc.?