

Rent Comparability Studies

BACKGROUND APPLICABILITY AND OVERVIEW

Section 9-1

As a requirement for renewal under Section 524(a) of MAHRA, most project Owners with expiring Section 8 project-based contracts must submit a RCS at initial renewal to demonstrate that current rents are at or below comparable market rents.

Beginning with the date of the initial renewal of the expiring Section 8 project-based contract, the RCS will start a maximum five-year “life cycle” before a new RCS is required. In general, any contract that renews during the five year life cycle can only be renewed for a term that does not exceed the remaining life of the RCS. An exception is when the owner submits a new RCS when requesting permission to mark rents up to market.

APPLICABILITY

Section 9-2

- A. This Chapter applies to all RCSs required by this Guide regardless of who [HUD Housing staff, Contract Administrator (CA) or OAHP, formally known as OMHAR] reviews the RCS.
- B. The Office of Affordable Housing Preservation (OAHP, formally known as the Office of Multifamily Housing Assistance and Restructuring (OMHAR) has agreed to amend its Operating Guide and will apply the Rent Comparability Grid and policies similar to those in Sections 9-7 through 9-16 of this Guide to RCSs OAHP processes or purchases.
- C. When HUD Notice H 97-14 (AAF Rent Adjustment Procedures) requires Owners of new construction/ substantial rehabilitation projects to submit a HUD 92273, Estimates of Market Rent by Comparison, Owners instead must either:

1. Submit the new Rent Comparability Grid (HUD 92273-**S8**) and other materials required by Section 9-14 of this Chapter. Owners must require appraisers preparing the reports to do so in accordance with the guidance in Sections 9-7 through 9-13 of this Chapter, but should follow instructions provided in HUD Notice H 97-14 to determine which units must be included in the RCS.

or

2. Ask to use non-Section 8 units at the Section 8 project to set the market rent ceiling instead of performing a RCS if the project meets all of the conditions in Section 9-6A 2 through 6 of this Chapter for all unit types for which HUD Notice H 97-14 requires a HUD 92273 rent comparison. The Owner must submit a request in the format shown in Appendix 9-6, but should delete references to renewals and instead refer to rent comparisons required by HUD Notice H 97-14 (also substitute rent comparisons for references to renewals when reading Section 9-6).

Other provisions of HUD Notice H 97-14 (e.g., adding initial difference to the rent resulting from the analysis in Paragraph 1 or 2 above) still apply and HUD Notice H 97-14 determines which units the RCS must cover.

- D. This Chapter does *not* apply to market rent analyses required in development processing of applications for FHA insurance.

OVERVIEW OF CHANGES

Section 9-3

This Chapter gives HUD staff, Section 8 contract administrators (CAs), and appraisers guidance on HUD's standards for preparing, submitting and reviewing RCSs. More specifically, this Chapter:

- A. Sets forth HUD's expectations regarding scope of appraiser's research and selection of comparable units. These topics are addressed in Sections 9-7 through 9-13. The selecting comparables portion provides answers to questions such as: Can comparables be selected from outside the project's market area? Do government boundaries (e.g., state or county lines) affect market area definitions? May unassisted units in partially assisted projects be used as comparables? May tax credit (LIHTC) or other rent restricted units be used as comparables? This Chapter provides specific guidance on each of these questions and, hopefully, will standardize practice so that RCSs will be treated similarly around the country.
- B. Standardizes the content of the RCS. Sections 9-14 through 9-16 set forth content requirements. These requirements include clear, convincing narratives that explain what appraisers should do on key points (e.g., selecting comparables, adjusting rents, deriving market rents from adjusted rents).

C. Clarifies how the Uniform Standards of Professional Appraisal Practice (USPAP) relate to the appraiser's preparation and HUD's / CA's review of RCSs. The main references to USPAP are contained in Section 9-7 A5 and Section 9-20.

D. Provides a form, the Rent Comparability Grid ("Rent Grid"), for valuing and documenting adjustments to comparables' rents and provides detailed guidance on valuing adjustments. The new Rent Grid (HUD 92273- S8) is shown in Appendix 9-2 and a sample completed Grid is included in Appendix 9-3's Sample RCS.

1. The Rent Grid retains the basic structure of the HUD 92273, but reorders lines to make the analysis more logical. When prepared in Excel, the Grid automatically performs any calculation required on the form and displays a summary of adjustments that helps appraisers catch loading errors and gives reviewers a quick picture of the volume, level and direction of the adjustments.

Note: This Rent Grid replaces the HUD 92273, Estimate of Market Rents by Comparison, for purposes of Section 8 renewal processing, but the HUD-92273 will continue to be used for development processing as the Multifamily Accelerated Processing (MAP) program becomes operational. Later, Housing will explore applying the new form to market rent analyses used in development processing.

2. Section 9-12 provides general guidance on valuing adjustments and specific guidance on valuing differences in utility, unit size and non-shelter services (e.g., elderly services, neighborhood networks, service coordination). In addition, Appendix 9-8's instructions for preparing the Rent Grid provide detailed guidance for each line of the Grid.

E. Permits some projects to demonstrate that rents are less than market without doing a RCS (i.e., selecting comparables and adjusting for differences between the comparables and the Section 8 project). Only Owners renewing under Option Two (Chapter Four, using current rents adjusted by OCAF/ budget) may, at their option, ask to use these alternate methods.

1. Owners may ask to renew without an RCS if the contract's current gross rent potential and proposed OCAF/ budget based renewal rent potential is less than 75% of FMR. (*See policies and procedures in Section 9-5.*)
2. Owners of projects only partially-assisted with Section 8 may ask to use the non-Section 8 units in the Section 8 project to set the market rent ceiling if: a) the proposed OCAF/ budget-based rent for each Section 8 unit type being renewed does not exceed the average rent charged for nearly identical, non-Section 8 units at the Section 8 project; and b) the project meets all criteria set forth in Section 9-6 of this Chapter.

- F. Provides detailed procedures for CAs and HUD staff to follow in checking the timeliness, completeness and substance of RCSs. These procedures are in Sections 9-17 through 9-20 of the Chapter.
- G. Requires that all HUD offices and Section 8 contract administrators give Owners an opportunity to appeal the decisions HUD / the CA makes on RCSs. Given the significant financial impact that RCS conclusions have, HUD believes that all offices should share the reasoning underlying their decisions and give Owners an opportunity to discuss and appeal those decisions. *(See Section 9-21 for appeal procedures).*

ALTERNATIVES TO THE RENT COMPARABILITY STUDY

Section 9-4

This Section gives Owners three methods of demonstrating how the Section 8 rents proposed at renewal compare to rents charged for other units. The methods are listed below. Options A and B are provided to avoid the costs, processing times and delays associated with RCSs when facts strongly suggest that the proposed rents would be under rents computed in a RCS.

- A. Comparing proposed Section 8 rents to fair market rents (FMRs), as provided in Paragraph 9-5.
- B. Comparing Section 8 rents to rents charged for other units in that Section 8 project, as provided in Paragraph 9-6.
- C. Purchasing and submitting a RCS in accordance with Sections 9-7 through 9-16 of this Chapter.

Note: Owners may elect Option A or B, but HUD may not require Owners to use those options. The FMRs or rents for non-Section 8 units in the Section 8 project act as a cap or ceiling on rents computed using an OCAF or budget approach. Rents are not automatically set at FMRs or rent levels charged for other units in the Section 8 project.

USING FMRs TO DETERMINE BELOW MARKET STATUS

Section 9-5

- A. Eligibility. Owners eligible to renew under Chapter Four of this guide may request to renew without a RCS if the current Section 8 gross rent potential and the proposed Section 8 gross ***rent potential*** at renewal are less than 75% of the FMR ***potential*** for the units being renewed. Since the FMRs represent the 40th percentile of area market rents collected in HUD's phone surveys, rents under the limit used here should almost

always be below the typical market rent for the area. Any exceptions to this normal conclusion can be captured by the control imposed in Paragraph B1 below.

1. The Section 8 renewal potential used in the above comparison must be the current rent potential found in the Contract Renewal Request Form and OCAF Worksheet (Attachment 3 of this guide) and adjusted by the OCAF or the budget. The potential must be the gross potential (contract rent + utilities) to make the figure comparable to FMRs, which include utilities.
2. To request renewal using this FMR comparison, an Owner must submit a request using the format in Appendix 9-7. The Owner also must submit only the following parts of the Contract Renewal Request Form and OCAF Worksheet found at Attachment 3 of this Guide:

- The **first** page of Attachment 3's **Cover Sheet** identifying all contracts at the project and indicating which contracts will be renewed.
- If seeking a budget-based adjustment, a Budget Worksheet (Form HUD 92547-A).
- If seeking an OCAF driven adjustment, Steps 1 and 2 of the OCAF calculation.

Note: Since Appendix 9-7 will impose the market rent ceiling, don't impose a market rent ceiling on Line O of the OCAF worksheet. Instead, to compute the increase factor on Line N of Step 2, divide the adjusted potential (Line N) by the current Section 8 potential for the expiring contracts (Line E of Step 1).

3. Use the form in Appendix 9-7 to compare the proposed OCAF/ budget adjusted rents and FMR rent levels. The FMRs create the market rent ceiling that is usually created using an RCS' rents. The proposed rent potential must be less than 75% of the FMR potential for the units being renewed. (FMRs are updated annually around early October and are posted on HUD's Internet @ www.huduser.org/datasets/fmr/html.)
4. If an Owner elects this FMR method, there will be no RCS to update for budget-based rent adjustments or for renewals that occur within the next five years as discussed in Chapter Two. Budget-based rent adjustments made during multiple year contracts will be processed as described in Chapter Four, Section 4-4 A-2, but the market ceiling will be set by 75% of the FMRs in effect at the time the adjustment is processed. At any subsequent renewal, the Owner must choose one of the three methods allowed in Section 9-4 above.

- B. HUD/CA processing. Staff should make a decision on the request within 20 calendar days after receiving the Owner's request. Project managers may process these requests, but they should be familiar with the property's condition and amenities and must seek an appraiser's input as to prevailing rent levels in the subject market area.

1. Field staff should approve the request unless they have reason to believe that the proposed rents are over market. The field might challenge the request if, for example:
 - The units are unusually small, have limited appeal or offer substantially fewer amenities than typically offered in that market.
 - or
 - RCSs completed on other projects in the subject's area often produced market rents that were significantly lower than FMRs.
 - or
 - A previous RCS on this project concluded that the project's Section 8 rents were above market.
2. If HUD denies the Owner's request, HUD may issue a short-term renewal to allow the Owner a reasonable period of time to obtain a RCS prepared in accordance with Sections 9-7 through 9-16 of this Chapter. Owners may not appeal HUD/CA's denial of their requests to use FMRs in lieu of submitting a RCS. *(See Section 2-4 for guidance on setting rent levels in short-term contracts.)*
3. Staff should document their decision on the Owner's request form and in REMS.

USING RENTS FOR NON-SECTION 8 UNITS IN THE SECTION 8 PROJECT

Section 9-6

- A. Eligibility. If the criteria below are met, the Owner may request to use non-Section 8 units at that Section 8 project to set the market rent ceiling instead of purchasing and submitting a RCS. The project must meet these criteria **for each unit type** that will be included in the renewal contract.
 1. The contract(s) is eligible to be renewed under Chapter Four of this Guide.
 2. At least 25% of each unit type being renewed is occupied by tenants who pay the full rent due the Owner and receive no tenant rental assistance. "Tenant rental assistance" includes project-based Section 8, certificates/vouchers, PRAC/PAC in a 202/811 project, Rent Supplement, Rental Assistance (RAP), or any comparable federal/state/other public subsidy. Tenant rental assistance does *not* include Section 236 interest reduction (IRP) subsidies, other construction/mortgage based subsidies, or LIHTC / comparable state credits.
 3. For each unit type being renewed, the proposed Section 8 contract rent is no more than the average rent tenants not receiving tenant rental assistance pay for that unit type.

4. Tenants in units used to compute Paragraph 3's average have been paying (*without assistance and for three or more months*) at least the rent levels used in computing the average. These tenants did and do not receive rental concessions or rebates and have no business or family relationship with the project's Ownership or management.
5. The Section 8 units and the units occupied by tenants not receiving tenant rental subsidies are nearly identical and would not require adjustments if the units without tenant rent subsidies were used as comps in a RCS. "Nearly identical" means the two sets of units have the same number of bedrooms & baths; are similar in condition, layout & size; and have the same amenities & utilities included in the rent.
6. Occupancy rates in the units occupied by tenants not receiving tenant rental subsidies are not significantly less than occupancy levels for those unit types in the project's market area.

B. Owner Request.

1. To request a renewal that limits OCAF/ budget adjusted rents to rents paid by tenants not receiving tenant rental assistance at the Section 8 project, an Owner must submit a request in the format shown in Appendices 9-6 and 9-7. The Owner also must submit the parts of the Contract Renewal Request Form and OCAF Worksheet found as Attachment 3 of this Guide that are listed in Section 9-5A2 above.
2. If an Owner elects this method, there will be no RCS to update for budget-based rent adjustments or for renewals that occur within the next five years as discussed in Chapter Two . Budget-based rent adjustments made during multiple year contracts will be processed as described in Chapter Four, Section 4-4 A-2, but the market ceiling will be set by computing the average rent paid by tenants not receiving rental subsidies at the time the adjustment is processed. At any subsequent renewal, the Owner must choose one of the three methods allowed in Section 9-4 above.

C. HUD/CA processing. Staff should make a decision on the request within 20 calendar days after receiving the Owner's request. Project managers may process these requests, but they should be familiar with the property's condition and amenities and must seek an appraiser's input as to prevailing rent levels in the subject market area.

1. Field staff should approve the request unless they have reason to believe that the rents paid by tenants not receiving rental subsidies are significantly higher than rents in the surrounding area or that some of the eligibility conditions listed above are not met. Staff should:
 - Use REMS/ TRACS to check the data reported in the rent table attached to the Owner's request.
 - Use Columns J and I of the Owner's rent table to help assess compliance with the occupancy criterion in Section 9-6A6 above. A significant vacancy may indicate that the project is asking too much for these units.

2. If HUD denies the Owner's request, HUD may issue a short-term renewal to allow the Owner a reasonable period of time to obtain the RCS. Owners may not appeal HUD/CA's denial of their requests to use projects' non-Section 8 units in lieu of submitting a RCS. (See Section 2-4 for guidance on setting rent levels in short-term contracts.)
3. Staff should document their decision on the Owner's request form and in REMS.

PREPARING RENT COMPARABILITY STUDIES

Section 9-7

A. Each RCS must:

1. Be prepared by or under the direction of an appraiser that meets the qualifications set forth in Section 9-8 below.
2. Cover at least all unit types that have Section 8 assistance in the contracts being renewed now. Owners may also include other Section 8 unit types in other contracts that the Owner plans to renew during the next five years. (For projects submitting RCSs to support AAF requests, Chapter Fifteen determines which units must be studied.)
3. Estimate "market" rents for each Section 8 unit type, by adjusting rents of comparable units to reflect the location, condition, appeal, amenities, and utilities of the Section 8 units. "Market Rent" is the rent that a knowledgeable tenant would most probably pay for the Section 8 units as of the date of the appraiser's report if the tenants were not receiving rental subsidies and rents were not restricted by HUD or other government agencies. **Note:** Appraisers should estimate market rent without considering the market's ability to absorb all Section 8 units.
4. Be concise, but contain enough information that a person not familiar with the properties and market areas involved can understand how the appraiser arrived at his/her adjustments and opinion of market rent. At a minimum, the RCS must include the materials listed in Appendix 9-10.
5. Be prepared in accordance with this Chapter and with the Uniform Standards of Professional Appraisal Practice ("USPAP"). (Standards are available at www.appraisalfoundation.org.)
 - a. If this Chapter's requirements go beyond USPAP, appraisers should consider the Chapter's requirements to be supplemental standards and comply with them.
 - b. If this Chapter's requirements conflict with USPAP, appraisers must comply with HUD's requirements and may invoke USPAP's Jurisdictional Exception Rule for the parts on which HUD and USPAP requirements conflict. Jurisdictional Exception is justified by *The Preserving Affordable Housing for Senior Citizens and Families into the 21st Century Act of 1999* (Title V of the Year 2000 HUD-VA Appropriations Act.) Section 524(a)(5) of Title V directs that "The Secretary [of

HUD] shall prescribe the method for determining comparable market rent by comparison with rents charged for comparable properties...”.

- c. Appraisers should review State laws and State real estate appraisal regulatory board rulings and determine whether the RCS is a consultation or an appraisal and comply with the appropriate parts of USPAP. HUD will accept RCSs prepared under Standards 1 and 2 (for appraisals) or Standards 4 and 5 (for consulting services).
- B. In preparing the RCS, the appraiser must take the actions listed below and further described in the rest of this Chapter. The appraiser must have collected, updated or verified all data within 90 calendar days before the date of the appraiser’s letter transmitting the RCS to the Owner (or to HUD, when HUD purchases the study on mark-up-to-market or other cases.)
1. Inspect and analyze the subject Section 8 property and its surrounding neighborhood as discussed in Section 9-9.
 2. Select comparable units in accordance with Section 9-10
 3. Collect and document data on the comparable units as discussed in Section 9-11. Report the data on the Rent Grid shown in Appendix 9-2 and on a Comparable Property Profile. *(See Section 9-11C and sample profile in Appendix 9-4)*
 4. Compare each comparable to the subject and adjust each comparable’s rent to reflect the rental value tenants in the subject’s market area would assign to differences between the comparable and the subject. To value the adjustments, follow the general instructions in Section 9-12 and the Line-by-Line instructions in Appendix 9-8. Enter the adjustments on the Rent Grid included in Appendix 9-2.
 5. Use the comparables adjusted rents to derive an estimated market rent for each Section 8 unit type as directed in Section 9-13. (This rent was formerly called the “correlated” rent.)

Note: *Appraisers must comply with the Fair Housing Act and the provisions of USPAP related to that Act. Appraisers may not use or rely on unsupported conclusions related to the racial, ethnic or religious mix of the comparable or subject properties or their surrounding areas or upon other factors prohibited by the Fair Housing Act. Appraisers’ opinions, conclusions and reports must be impartial and objective and not illegally discriminate or contribute to illegal discrimination through subjective or stereotypical assumptions. (See USPAP Advisory Opinion #16 for additional guidance on complying with Fair Housing requirements.)*

- C. The project Owner must review the appraiser’s report and submit it as directed in Section 9-16 of this Chapter. No more than 90 calendar days should have elapsed between the date the Owner submits the RCS to HUD and the date of the RCS.

APPRAISER'S QUALIFICATIONS

Section 9-8

A. The appraiser must:

1. Be a Certified General Appraiser, licensed and in good standing in the state where the property is located. The license may be temporary or permanent. (Owners can obtain lists of appraisers meeting this standard at www.asc.gov or from each state's appraiser regulatory agency.)
2. Be currently active and regularly engaged in performing RCSs or appraisals of multifamily housing.
3. Meet all the requirements of the Competency Provision in the Uniform Standards of Professional Appraisal Practice (USPAP) and have read all of this HUD Chapter. (Attachment 1b contains the USPAP 2000 version of the Competency Rule. Additional or updated information on USPAP can be obtained at www.appraisalfoundation.org.)
4. Have no prospective or present financial interest in the Section 8 property, its Ownership or management agent entity, or the principals of those entities.
5. Not be an employee of the Owner, the management agent, or the principals of those entities or have a business or close personal/family relationship with those parties that would commonly be perceived to create bias or a conflict-of-interest.
6. Not be debarred or suspended from doing business with the Federal Government and not be under a Limited Denial of Participation (LDP) imposed by the HUB or Program Center having jurisdiction over the Section 8 project.

- B. The Appraiser must sign and take full responsibility for the report, but appraisal assistants may contribute to any of the tasks if: 1) they are employed by the same firm as the appraiser; and 2) the report identifies the roles the assistant appraiser performed.

ANALYZING THE SUBJECT PROPERTY

Section 9-9

A. Identify Primary and Secondary Unit Types.

1. Identify all unit types that will be included in the renewal contract and any other units the Owner elected, per Section 9-7A2, to include in this study. Recognize a unit type for each rent level the Owner is seeking following renewal.

2. Use the guidance in the rest of this Paragraph to label each unit type as a ***primary*** or ***secondary*** type. **Note:** Appraisers must estimate a market rent for each Section 8 unit type, but comparables and a Rent Grid will be required only for primary unit types. Appraisers may derive the market rent for a similar, secondary type by adjusting the market rent derived on the primary type's Rent Grid. (*See Section 9-13C.*)
 - a. Consider the number of bedrooms and baths, the unit size, the structure (e.g., townhouse, elevator, walk-up), and any other factors the market would consider as significant differences. If two unit types have the same number of bedrooms and the same structure type but the units have only slight differences (e.g., an half bath, a few square feet, a view), consider the more common unit type to be *primary* and the other unit type to be *secondary*.

Example: Project has 100 3-bedroom, 2-Bath, 1000 sq. ft. units and 30 3-bedroom, 1.5 Bath, 900 sq. ft units. The Owner is charging different rents for these two types. Label the most common type (the 2 bath, 1000 sq. ft unit) *primary* and the other *secondary*.
 - b. If the units being renewed are located on scattered sites, the appraiser must determine if separate unit types are needed for different sites. The appraiser must visit each site and assess the extent of any differences in neighborhood, condition, street appeal, services, or market area. If units are located in different market areas or other differences suggest that separate comparables are needed, the appraiser should generally create separate unit types for the sites that vary significantly. Appraisers should use their professional judgment to categorize the unit types as primary or secondary.

B. Inspect and Photograph the Subject Property.

1. Inspect: at least one unit of each primary unit type; project grounds; and the interior and exterior common areas (lobby, laundry rooms, community or dining rooms, recreation rooms, parking areas, outdoor play areas). If the units being renewed are located on scattered sites, visit each site.
2. Take color photos of the items listed below. Take additional close-up photos as needed to show the property's condition.
 - subject's exterior, showing location on the site, exterior design, site layout, and site amenities
 - interior of typical units.
 - interior common areas (e.g., meeting rooms)

C. Determine and document project characteristics, condition and appeal. The appraiser must:

1. Determine and document the project's design, age, and structure. Assess the project's physical condition and overall appeal. Determine the extent of any major renovations made.
 2. Identify all unit and site amenities and the type of utilities. The appraiser must consider all characteristics listed on the Rent Grid in Appendix 9-2 and any other characteristics that would affect the rent a tenant would be willing to pay.
 - a. **Projects designed for the elderly/ disabled.** Appraisers should identify *all* services provided for elderly/ disabled. Appraisers should consider whether emergency call systems, transportation, social or educational activities, service coordination, meals, laundry or housekeeping are offered. Appraisers should determine which services are actually provided by the project and which are just accessed through arrangements the project has established with outside agencies.
 3. Identify which services are included in the rent and any charges collected in addition to rent for services/ amenities. At projects providing **non-shelter services** (e.g., *service coordination, neighborhood networks, the elderly services noted above*), the appraiser should ask the Owner/ agent to identify which services HUD/CA has authorized to be paid from rental income and which are paid from other sources. Other sources could include fees paid by tenants, other project funds (e.g. residual receipts), or grants from HUD or other agencies/businesses. [*See Section 9-12-6C4 for guidance on how funding source may affect valuing adjustments.*]
 4. Determine or verify the size of each unit type. Estimate the rentable interior square footage of the unit. Do **not** count balconies, mechanical areas, or other non-living spaces.
- D. Assess and describe the surrounding neighborhood. Assess the project's location, noting factors that would impact market rent levels. Consider access to schools, employment and medical centers, transportation, shopping, recreation, and community services. Identify nuisance (e.g., street noise), crime rates, and other factors affecting the perceived quality of the neighborhood.
- E. Identify the project's market area -- i.e., the geographic area from which the subject property would draw the majority of its applicants. Identify street or other boundaries. Consider mobility patterns and natural or man-made barriers (rivers, freeways, rails, etc).
- NOTE:** Government boundaries like state or county lines usually do not establish market area boundaries as projects often draw from more than one town, county or state.
- F. If the units being renewed are located on scattered sites, assess whether the sites vary significantly on condition, street appeal, services, neighborhood, or other factors.

SELECTING COMPARABLE UNITS

Section 9-10

- A. Strive for Five Comparables Meeting Six Criteria. For each *primary* unit type identified pursuant to Section 9-9A2 above, the appraiser must attempt to identify comparable units from **five** different properties. The appraiser should select projects that would compete with the subject for tenants. The Appraiser must exert good faith effort to find comparable units that meet **all** of the conditions listed below. If the appraiser cannot find units that meet all of these criteria, the appraiser may use the methods discussed in Paragraphs B & C below.
1. Are in the same market area as the subject property
 2. Are **not** receiving tenant rental assistance (project-based Section 8, certificates/ vouchers, PRAC/PAC in a 202/811 project, Rent Supplement, Rental Assistance (RAP), or any comparable federal/state/ other public subsidy). The tenant must be responsible for the full rent due the landlord.
 3. Have locations and neighborhood conditions (including crime rates and accessibility to services, employment, transportation, etc.) similar to the subject's.
 4. Are located in projects that are similar to the subject in terms of project structure and layout, design, street appeal, age, size and unit mix, unit amenities and utilities.
 5. Provide services and have project amenities similar to those available at the subject.
 6. Are not rent restricted or rent controlled by a federal, state, local or other public program. This category includes LIHTC, HOME, HOPE VI, state/local rent controlled and rent stabilization units, and all units in 236, BMIR, 202/811, and Section 515 Rural Development projects. (**Important:** See Section 3-4B below for additional guidance on using rent restricted units.)

Important:

- If a property contains rent restricted units or units with tenant subsidies but also has other units with no restrictions or subsidies, those units that are both unrestricted and unassisted may be used as comparables. Such mixes will often exist in tax credit, tax-exempt, state-financed, HOPE VI or Section 221d3/ d4 FHA insured projects.
- If the subject project has unassisted units that have the same number of bedrooms as a Section 8 unit type and are very similar to the subject, those unassisted units generally should be used as a comparable. (*If they aren't used, the appraiser must explain why in the selecting comparables narrative required by Section 9-14 through 9-16 of this Chapter.*)
- If the appraiser selects comparables that he/she knows have the same Ownership/management as the subject or are owned or managed by a company/individual having an identity-of-interest with the Owner or management agent of the subject property, this must be disclosed in the Selection of Comparables Section of the RCS report. (*See Handbook 4381.5,*

Paragraph 2-3 for a definition of the term “identity-of-interest”.) Furthermore, the appraiser should take special care to verify the information, preferably through an unrelated party. For example, to verify that a unit is leased at the rent on-site management verbally gives, the appraiser might ask to see a copy of the lease.

B. Rent-Restricted Units:

1. If the appraiser cannot find five properties that meet all of the six conditions above, but can find rent restricted units that meet conditions 1 through 5, the appraiser may use the rent restricted units. Rent restricted units should only be used as comparables when they reasonably represent the market.
2. The appraiser may also use rent restricted units if less than five unrestricted, very similar units are available in the same market place but rent restricted units, that meet criteria A2-5, are available in a nearby, similar market area.
3. The appraiser must clearly disclose the use of rent restricted comparables and the nature of the rent restriction in the Selecting Comparables narrative part of the RCS and on the Rent Comparability Grid. (*Note: Appraisers may not adjust rents because the comparable unit is rent restricted.*)
4. While rent restricted units may in some cases reflect market rent (e.g., when LIHTC units make up a large percent of the multifamily units in a neighborhood or nearly all units are rent controlled), rent restricted units can also be below market rent. Therefore, the appraiser may want to discuss the use of rent restricted units with the Owner and HUD appraisal staff before finalizing the selection of comparables. Appraisers hired by HUD/CAs to prepare studies for mark-up-to-market requests should be especially careful to avoid selecting rent restricted units that would artificially depress the RCS’s rent conclusions.

C. When five strong comparables don’t exist. HUD recognizes that finding five comparables meeting all of the criteria in Section 9-10A above can be difficult in some markets. **Example:** when the subject is the only multifamily complex in a rural town or is the only property with four bedroom units. When the appraiser exerts good faith effort and conducts appropriate research but cannot find five comparables that meet all of the conditions in Section 9-10A, the appraiser may adopt one or more of the following strategies.

- Use rent restricted comparables as discussed in Section 9-10B.
- Select comparables from outside the market area.

Note: Appraisers should try to select a market area that is similar to the subject’s market area. In assessing similarity, appraisers should consider rent levels, housing prices, demographics, job opportunities and other relevant economic indicators. If equally good comparables are available in more than one alternate market area and those market areas are similar, the appraiser should generally consider using an alternate that is near the subject. For Section 8 projects in rural areas, however, HUD recognizes that it will often be necessary to go to distant, alternate markets that are sometimes of a different character.

- Use comparables located in the same market, but less similar to the subject.
- If the above strategies do not produce five comparables for each unit type, use only three or four comparables for a unit type.

Note: No unit type may have less than three comparables. Before proceeding with less than five comparables, the appraiser may ask the local HUD office if it is aware of any comparables the appraiser has not already identified.

1. The appraiser shall use his/ her professional judgment to decide the pairing and ordering of the alternate strategies listed above.
2. If the appraiser adopts any of these alternate strategies, the appraiser must:
 - Disclose that he/she did so in the Selecting Comparables narrative part of the RCS.
 - Document what research was done to conclude that no other similar, non-rent restricted units or no units in the subject's market area were appropriate comparables.
 - Provide market-based data to support adjustments for physical or market area differences resulting from relying on less similar comparables or going outside the subject's market area.
 - Try to select some comparables that are superior and some that are inferior to the subject so that the subject is within the range of indicators.
 - Use units with a different number of bedrooms, units in properties of a different structure type (e.g. high rise vs. garden) or units in a different housing/service category (e.g., assisted living/luxury retirement vs. a 202/811) only when comparables in the same category are not available in the same market area. The appraiser must provide market support for both the decision to use a different number of bedrooms or a different structure/housing type and for any adjustments made for these differences.

D. Housing for Elderly/ Disabled. Many Section 8 elderly housing projects provide services that are greater than traditional rentals would provide but less than assisted living facilities provide. The mix of services varies widely among projects. Appraisers should attempt to locate comparables that offer the same level of services as the subject. Appraisers should select comparables with significantly higher service levels only if they can make market-based adjustments for significant differences in service levels. For example, a complex that offers meals, transportation, assistance with dressing and medication, and 24 hour nursing oversight should be used as a comparable for a 202/ other elderly Section 8 project that offers transportation and activities only if more comparable rentals are not available.

COLLECTING AND DOCUMENTING DATA ON COMPARABLE UNITS

Section 9-11

A. Collecting Data. For each unit type, the appraiser must collect data on the elements listed in Parts A through E of the Rent Grid in Appendix 9-2 and on any other characteristics that would affect the rent a tenant would pay. The appraiser must also identify any services that are provided for additional fees and that a tenant would consider in selecting a rental. If the comparable is located outside of the subject's market area, the appraiser must provide the market data requested in Paragraph A4 below. The appraiser must:

1. Independently verify any information pulled from existing files, Internet research, newspaper ads or apartment guides.
2. View each comparable's grounds and *exterior* common areas. If access is given, also view *interior* common areas (e.g., lobby, laundry rooms, community or dining rooms, recreation/ fitness areas, business centers). **Note:** The appraiser is not required to inspect a comparable's unit interiors, but should do so if a unit is available and access is given.
3. Take color photos of each comparable's *exterior*, showing location on the site and exterior design and condition.
4. If the comparable project is in a different market area than the subject, the appraiser must collect market-based data to compare the rent levels in the two markets.
5. Obtain the unit's rentable interior square footage. Balconies, mechanical areas or other non-living spaces should be excluded. If the square footage available represents an exterior measurement, the appraiser must use his/ her professional judgment to convert the square footage to an interior measurement that can be compared with the interior measurements Section 9-9C4 requires on the subject.
6. Talk with management to obtain overall occupancy rates for the project, typical and current occupancy levels specific to the unit type used as a comparable, and whether any unit type is particularly difficult to rent. If the comparable's occupancy rate for a unit type included in the RCS is not typical of the comparable's market, determine why. Is the rent too high or are other factors causing the vacancy? Also confirm and quantify the existence/ absence of any rent or use restrictions and tenant subsidies.

***Note:** If the contact person does not provide the unit size or other required information, the appraiser must try to obtain the data from other sources. The appraiser must use his/her professional judgment to determine if the data is sufficient to justify using the unit as a comparable. (Section 9-11C2 requires disclosure of data limitations.)*

B. Identifying Non-Shelter Services. Appraisers should determine if the project provides non-shelter services. At projects for the elderly/ disabled, appraisers should take special care to determine if the project provides emergency call systems, transportation, social or educational activities, service coordination, meals, laundry or housekeeping.

Appraisers should determine which services are actually provided by the project and which are just accessed through arrangements the project has established with outside agencies. Appraisers should also identify which services are included in the rent and which are covered by additional fees residents pay.

C. Reporting Comparable Data.

1. For each **primary** unit type, the appraiser must report the data collected by completing the **data** columns of the Rent Grid shown in Appendix 9-2 and the Comparable Property Profile required by Section 9-14A and Item 10 of Appendix 9-10.
 - a. The appraiser must complete all lines of the Grid's data columns - i.e., even lines/items for which the appraiser will make no adjustment. All comparables for one unit type must be shown on one grid. *(See Section 9-15 for more guidance on using this Grid.)*
 - b. Appendix 9-4 provides a suggested format for the Comparable Property Profile, but appraisers may use their own formats if those formats include all of the information listed in Item 10 of Appendix 9-10.
2. In the Scope of Work Section of the RCS report, the appraiser must identify any data that was unobtainable or estimated and all efforts to obtain data. *(See Appendix 9-10, Item 2 for more detail on what the Scope of Work write-up must cover.)*

COMPUTING ADJUSTED RENTS FOR COMPARABLE UNITS

Section 9-12

The appraiser must use the Rent Grid in Appendix 9-2 to derive an **adjusted rent** for each comparable. Before doing so, appraisers should review the instructions in this paragraph and the line-by-line instructions provided in Appendix 9-8.

- A. To compute the adjusted rent, the appraiser must:
- Compute an **effective rent** by adjusting the most recently charged rent for factors (e.g., rent concessions) listed in Part A of the Grid.
 - Determine which differences between the subject and the comparable unit would affect the amount of rent a typical applicant would be willing to pay in the subject's market area.
 - For each difference tenants would value, adjust the comparable's rent by the amount tenants in the subject's market area would typically pay for that difference. Adjustments must be displayed in dollar amounts.

B. Adjust the *comparable to the subject*.

1. The goal is to determine what rent the comparable would obtain if the comparable were nearly identical to the subject. Thus, if the comparable is:

- ***Inferior*** to the subject on a particular characteristic, adjust the comparable upward. Enter the adjustment as a positive value to indicate that residents of the comparable would pay more if the comparable had the subject's characteristic.
- ***superior*** to the subject on a particular characteristic, adjust the comparable downward. Enter the adjustment as a negative value to indicate that residents of the comparable would pay less if the comparable had the subject's characteristic.

Example: If the subject has a washer/dryer hook-up in the unit and the comparable does not and the appraiser determines that a typical renter would pay \$xx/month more for a unit with a washer/dryer hook-up, then the adjustment would be entered as a positive \$xx.

2. Appraisers must provide concise, but professionally complete explanations as to ***why*** the adjustments were made and ***how*** the dollar values were derived. If the data shows that a comparable differs from the subject significantly but no adjustment is made, appraisers must explain why. The explanations must be clear and convincing to a person not familiar with the properties and market areas involved.

- a. Do not just reiterate the entries in the data column. **Example:** Do not just say: "A negative adjustment was made to comparable 1 for location.". Instead, outline the data and logic used to arrive at the adjustment amount. Say something like:

Comparable #1 was adjusted downward to reflect its location in a more desirable neighborhood that consists primarily of single-family homes, has little crime and has good access to shopping. The adjustment was estimated by comparing the rents at Comparable #1 with those of Comparable #4, which is in the subject's neighborhood but otherwise very similar to Comparable #1. The average value of the superior location was estimated to be \$25.

- b. For all large adjustments and for items that are particularly quantitative (e.g., utilities), the appraiser must present market data to support his/ her conclusions. For minor adjustments (generally in the \$5 to \$10 range), the appraiser may state his/ her subjective evaluation of why the observed differences would affect rent.

C. Special Concerns

1. Rent Restricted/ Comparables. No adjustment may be made for the fact that a rent is restricted as defined in Section 9-10.
2. Comparables Outside the Subject's Market Area. If a comparable is located in a different market area than the subject, the appraiser must adjust for any *significant* differences in rent levels between the two areas. Line 10 of the Rent Grid provides space for the adjustment.

3. Utility Adjustments. If a utility (*heat for example*) is included in the rent at both the subject and the comparable, a prospective tenant would probably perceive these as equal choices even if the energy sources (gas, electric, or oil) differed and no adjustment would usually be needed. But, if a utility is included in the subject's rent but not the rent of the comparable (*or vice versa*), the appraiser must estimate the *rental value* of that utility and adjust accordingly.
- a. For properties with typical utility costs, the "rental value" is probably close to what prospective tenants would expect to pay. However, for properties with unusually low utilities, prospective tenants initially may overestimate utility costs, putting rental value slightly above actual cost. For properties with unusually high utilities, the reverse may be true. Prospective tenants initially may underestimate utility outlays, causing rental value to be less than utility costs they actually incur following move-in.
 - b. If a utility is:
 - excluded from the comparable rent but included in the subject rent, enter a **positive** adjustment that reflects the amount prospective tenants would reasonably expect to pay for that utility at the **comparable**.
 - included in the comparable rent but not the subject rent, enter a **negative** adjustment that reflects what prospective tenants would reasonably expect to pay for that utility at the **subject**. [Since tenants make housing choices based upon total shelter cost (rent + utilities), estimated outlays for utilities reduce, dollar for dollar, the amount a prospective tenant is willing to pay for rent.]
 - c. The appraiser may use any reasonable method to value expected utility outlays, but must identify the method used and explain how the dollar adjustment was derived. Some data sources commonly used to value utility adjustments are listed below. Appraisers should use data that reflects the characteristic of the property on which the adjustment is based -- i.e., the subject or comparable as bolded in paragraph b above.
 - Regional utility allowances published by independent public agencies
 - data gathered from utility providers
 - data gathered from tenants and landlords
 - a HUD/ CA approved utility allowance if the type of service and building attributes considered in developing the utility allowance are similar to the comparable being adjusted.
4. Non-Shelter Services. If a project is seeking to mark up or down to market rent, appraisers must value adjustments as directed in Paragraph **4a** below. For other projects requesting an OCAF or budget-based rent adjustment, appraisers must value adjustments as directed in Paragraph **4b** below. Paragraph 4a applies to projects requesting OAHF lites, projects seeking to mark-up-to-market, and exception projects renewing under option two.

Note: *If compliance with Paragraph 4a produces a market rent below the eligibility for marking up to market or an Owner wishes to see the RCS before making a final decision on whether to*

request to mark up, appraisers may need to value adjustments pursuant to both Paragraph a and b below. See Section 9-13D below for guidance on how to present dual adjustment methods on the Rent Grid.

- a. Marking-to-Market Projects. (See applicability at end of Paragraph 4 above.) When comparing these projects with their comparables, appraisers may value the *availability* of any service regardless of funding source, but should recognize the value of services *actually provided* only for services that HUD/ CA has authorized to be paid from rental income. **Example:** If meals are provided but paid by tenant charges, the project's residual receipts or outside grants, the appraiser may recognize the value tenants place on having access to meals but not the value of actually supplying the meals.

Note: While the cost factor (OCAF) or budget will drive the rent levels on other projects that submit RCSs, on mark-to-market projects the market rent will drive or set the level of the renewed Section 8 rent. If services not authorized to be paid from rental income were valued in developing the market rent, Section 8 subsidies would end up paying for non-shelter services that Section 8 is not allowed to cover.

- b. Projects Requesting OCAF/ Budget-Based Rents. Appraisers should assess the value of *all* services offered, regardless of whether the service is paid by the project, the tenant or other sources.
 - Even services offered for a charge may have value as the market generally values the *availability*.
 - Generally, services included in the rent or funded from sources other than tenant charges should be more valuable than services offered to residents for an extra charge.
 - On these under-market projects, the project's budget or the applicable OCAF drives the rent levels and HUD rules on use of project funds and budget approvals determine which services may be paid from rental income. Hence, valuing all services will not result in the misuse of Section 8 as it would in the marking-to-market projects discussed above. Valuing all services is consistent with USPAP's directive to consider rental value to tenants and will ensure that the market rent ceiling does not inappropriately hold rents to less than amounts authorized through HUD's budget rent procedures.

D. Concepts to Keep in Mind when Valuing Adjustments.

1. Not all differences between the subject and the comp require adjustments. Adjust only for differences that would affect how much rent a tenant is willing to pay. If a difference would appear to affect rental value and no adjustment is made, explain why you didn't adjust.
2. Adjustments must reflect local markets. Base adjustments on what typical renters in the *subject's* particular market area will pay. Tenants in different markets may value amenities and services differently. **Examples:**

- Tenants in the Northeast might pay less for a swimming pool than renters in the South would.
 - Tenants in colder regions are more conscious of heating costs and might pay more if heat were included in the rent than tenants in warmer climates would.
3. Adjustments often vary by unit type. Even in the same market, renters may value the same service differently among unit types. A second bathroom may be more valuable in a three-bedroom than in a two-bedroom unit. Similarly, 50 additional square feet may be valued differently in a 550 sq. ft, one bedroom unit than in an 800 sq. ft, two-bedroom unit.
 4. Adjustments levels must reflect rental value, not construction cost or the cost of providing a service. **Example:** In adjusting for differences like an elevator, amortizing the cost of the elevator over its useful life is not what a market renter would do. Any adjustment should reflect only what residents would typically pay for the convenience of using the elevator rather than climbing stairs.
 5. Adjustments, whether positive or negative, must be applied consistently. Don't make small negative adjustments when an amenity is superior while making large adjustments when the same feature is inferior.
 6. Do not duplicate adjustments. Appraisers should be careful not to adjust for the same element in more than one place. **Example:** If adjustments are made for project appeal (Line 8) and age (Line 7), the appraiser should take care to ensure that the sum of those lines is not more than the value the tenant would place on all features covered by those lines.

DERIVING ESTIMATED MARKET RENTS (FORMERLY CALLED “CORRELATED RENT”)

Section 9-13

For each primary unit type, the appraiser must analyze the adjusted rents computed pursuant to Section 9-12 and determine, using his/her knowledge of the comparables, what point in that range of adjusted rents best represents the rent the subject could most probably obtain. The appraiser must enter this amount on Line 46 of the Rent Grid.

- A. The appraiser must consider: the type, size and number of adjustments made; the quality of each comparable; whether a comparable's data was estimated or incomplete; and how the adjusted rents for each unit type relate to each other. Better comparables should receive more weight. While appraisers may compute and consider averages and other mathematical formulas, those calculations do not allow for exercise of the appraiser's professional judgment and should not, by themselves, determine market rents.
- B. The appraiser must explain **how** the market rent was derived and **why** it was derived that way. If the appraiser weights some comparables more than others or sets the

market rent at the very high end of the range of adjusted rents, the appraiser must explain why. Explanations should be brief, but understandable and convincing. The explanation should be included as comments for Line 46 of the Rent Comparability Grid.

- C. Primary vs. Secondary Unit Types. If **secondary** unit types are included in the RCS, the appraiser may adjust the market rent of the related primary unit type to arrive at the secondary unit type's market rent. To do so, the appraiser may adjust the primary's market rent to reflect the slight differences (e.g., half bath) between the secondary and primary type and set the secondary's market rent at the resulting amount. The appraiser must explain **how and why** the adjustment was made. These comments should be presented immediately following Line 46's comments on derivation of market rent. (**Note:** See Section 9-9A2 for guidance on classifying unit types as primary or secondary.)
- D. Marking-to-Market Projects with Non-shelter Services. If an Owner is considering marking rents to market under any vehicle to which Section 9-12C- 4a applies, the appraiser should first prepare the Rent Grid in accordance with Section 9-12C4a's instructions on valuing adjustments. If the resulting rents indicate the project may not be eligible to mark up or the Owner wishes to see what market rent would be under Section 9-12 C4b's rules for OCAF/ budget requests, the appraiser need not complete a new grid. The appraiser may adjust the rent derived for marking up using the techniques described above for primary and secondary units. The appraiser must explain **how and why** the additional adjustments were made. These comments should be presented immediately following Line 46's comments on derivation of market rent.

CONTENT OF THE RENT COMPARABILITY STUDY

Section 9-14

- A. Each RCS must include at least the materials listed below. Each item below must cover the topics or data identified in Appendix 9-10 at the end of this Chapter. An appraiser should provide information that goes beyond Appendix 9-10 if such information is needed for HUD to understand the appraiser's conclusions.
- Appraiser's Transmittal Letter
 - Scope of Work
 - Description of Subject Property (*including color photographs*)
 - Identification of the Subject's Market Area
 - Description of Neighborhood
 - Narrative Describing Selection of Comparables
 - Locator Map for Subject and Comparables

- Rent Comparability Grid for Each Primary Unit Type
 - Narrative Explaining Adjustments and Market Rent Conclusions (*one set of explanations for each Rent Grid*)
 - Comparable Property Profiles (*each including a color photograph*)
 - Appraiser's Certification
 - Copy of Appraiser's License (*only if relying upon a temporary license*)
- B. To expedite HUD review, appraisers must order material in hard copy reports in the same order as Appendix 9-10 and present material in the format (e.g., grid/ table vs. narrative) noted in that Appendix.
- C. Narratives required by Appendix 9-10 should be concise but contain enough information that a person not familiar with the properties and market areas involved can understand how the appraiser arrived at his/her conclusions. Appendix 9-3 provides a sample RCS.
- D. To expedite preparation, the appendices to this Chapter provide Word or Excel files for any table/ grid requested in the Appendix. Appraisers may download electronic versions of these files @www.hud.gov/fha/mfh/exp/rentcomp.html. The Rent Grid may also be downloaded @ www.hudclips.org.

PREPARING THE RENT COMPARABILITY GRID (“RENT GRID”)

Section 9-15

Appraisers must use the Rent Grid (HUD 92273-S8) shown in Appendix 9-2 to document both the characteristics of the subject and the comparables and the adjustments made for differences between a comparable and the subject. Entries on the Rent Grid must comply with guidance provided in Sections 9-7 through 9-13 (*especially Section 9-12*) and in Appendix 9-2's line-by-line instructions.

- A. A Rent Grid is required only for each **primary** unit type. For any **secondary** unit types, appraisers need not complete an entire grid. Instead, appraisers may start with the market rent for a primary type and adjust for the minor difference(s) between the secondary type and the related primary type. Appraisers must explain **why** adjustments were made and **how** they were made. The explanation should be presented immediately following the Line 46 explanation of how the market rent for the primary unit type was derived.
- B. While appraisers may manually type entries onto a hard copy form, appraisers are encouraged to use the Excel file in Appendix 9-2 as it: a) automates all calculations; and b) lets appraisers copy project-level data that stays constant across unit types. The Excel

version is available as Form HUD-92273-S8 on HUD's website at the addresses noted in Section 9-14D.

NOTE: Owner Responsible for Completeness of RCS. *The Owner must ensure that the RCS includes all information required by Appendix 9-10. Section 9-14B1 requires Owners to certify that they have checked the RCS for completeness.*

SUBMITTING THE RCS TO HUD

Section 9-16

- A. The Owner must submit the RCS to HUD (or the Section 8 Contract Administrator (CA) if there is one) no later than 120 days before the expiration of the Section 8 contract. Early submissions are allowed, but Owners should not submit more than 180 days before the contract expires. Owners should submit the RCS along with the other information required in this guide.
- B. The submittal must include a cover letter in which the Owner:
 1. States that he/she has reviewed the content of the RCS and concluded that the RCS includes all material required by Appendix 9-10.
 2. States that the appraiser's narratives and Rent Grid accurately describe the subject project and properly treat non-shelter services and their funding sources as required by Section 9-12.
 3. Identifies any identity-of-interest existing between principals of the subject's Ownership or management agent entity and the principals that manage/ own the projects used as comparables. (*See Handbook 4381.5, Paragraph 2-3 for a definition of the term "identity-of-interest".*)
 4. Certifies that: a) neither the selection of the appraiser nor the appraiser's compensation was/is contingent upon the appraiser reporting a predetermined rent or direction in rent; and b) to the best of the Owner's knowledge, the appraiser meets Section 9-8A's conditions regarding absence of financial, employment, and family relationships.
 5. Certifies that the fee paid for the RCS is the only compensation the appraiser will receive for the RCS work and there is no side agreement or other consideration.
 6. Identifies whom HUD/CA should contact at the agent/ Owner's office if staff have questions on the RCS and gives the email and phone number of the contact. **Note:** HUD/CA will send its decision letter to this contact unless the Owner directs otherwise.

7. States whether HUD/CA may talk with the appraiser directly and copy the appraiser on written materials.

HUD/CA REVIEWS OF RENT COMPARABILITY STUDY

Section 9-17

This Section gives Housing staff and Section 8 Contract Administrators (CAs) guidance on how to review RCSs prepared and submitted in accordance with Sections 9-7 through 9-16 of this Chapter. (Sections 9-4 through 9-6 provide procedures for reviewing Owner requests to use FMRs or the Section 8 project's non-Section 8 units in lieu of performing a RCS.) When referring to a particular staff position, this Section uses titles typically used at HUD. Contract Administrators should translate those to their own position titles.

- A. While Field Offices and CAs may develop their own worksheets for completing these reviews, both Housing staff and CAs must adhere to the policies and time frames set forth in this Section.
- B. A State-certified general appraiser should oversee all RCS processing and ensure that all staff involved in processing have read and understand this Chapter. While Program Assistants (PAs) or Project Managers (PMs) may screen the RCS for compliance with timeliness and content requirements, ideally a HUD/CA appraiser should complete all substantive reviews of the RCS's facts, reasoning and conclusions. If staffing does not permit that, the Director of Multifamily may authorize PMs to assist with the substantive reviews if the conditions below are met.
 1. Rejections are issued only after a State-certified general appraiser has reviewed the study and concluded that the rejection is warranted. Rejections are decision letters that either: a) tell the Owner the study must be redone and resubmitted; or 2) challenge the study's rent conclusions and suggest an alternate rent.
 2. PMs have read and understand this Chapter.
 3. PMs are allowed to independently accept an RCS's rent conclusions only:
 - a. after the HUD/ CA appraiser has reviewed the PM's processing of several cases and found the PM's work to be acceptable.
 - b. If the Director requires the PM to seek appraiser input on "exceptional" cases. The Director and appraiser may establish the list of factors that would trigger appraiser input. It is suggested that appraiser input be required when:
 - less than 5 comparables are used or comparables are rent restricted units, located outside of the subject's market area, or significantly dissimilar to the

subject (e.g., different number of bedrooms, structure type or level of services).

- adjustments are unusually large or not commonly made in the applicable market area, the adjustments don't meet the general rules in Section 9-12, or the RCS appraiser did not adjust for differences that the PM reasonably expects would require an adjustment.
 - the explanation of how market rent was derived from adjusted rents is not convincing or the market rent is set very near the top of the range of adjusted rents.
4. HUD/CA appraisers should retain review of RCSs submitted by RCS appraisers who have previously submitted inadequate RCSs.

SPECIAL PROCEDURES FOR MARK-UP-TO-MARKET PROJECTS

Section 9-18

Since Chapter Three requires two RCSs on projects seeking to Mark-Up-to-Market and establishes final rents by comparing the results of those studies, review procedures for these projects vary slightly from reviews required on other projects.

- A. CA/HUD staff must complete Section 9-19's completeness and timeliness checks on both the Owner submitted and the HUD-purchased study, but Section 9-20's substantive review is required only on the study HUD purchases.
- B. Section 9-20C's communications are between the contract appraiser and CA/HUD staff. Staff need not send Owners copies of written correspondence questioning the contract appraiser's work.
- C. Owners seeking to Mark-Up-to-Market may not appeal HUD's determination of renewal rents.

INITIAL SCREENING FOR COMPLETENESS AND TIMELINESS

Section 9-19

- A. Within 10 calendar days, the PM/CA should determine:
 - 1. Is the date on the RCS appraiser's cover letter within 90 calendar days of the date the Owner submitted the study to HUD? Did the RCS appraiser update data within

90 calendar days prior to the date of his/her report? (*Data collection dates should be discussed in the Scope of Work Section of the appraiser's report.*)

2. Has the Owner submitted all information required by Section 9-16?
3. Has the appraiser included all items required by Section 9-14 and do those materials contain all of the information required by Appendix 9-10? Be sure to check for these items:
 - Did the appraiser sign the appraiser certification, fill in blanks and enter the license information requested on the bottom of the form?
 - Are names of contacts at the comparables and the subject included?
 - Is the market area identified and a locator map included?
 - Are photos of interior and exterior of the *subject* included? Photos of exterior of all *comparables*?
 - Was selection of comparables explained? If applicable, was justification for using fewer than 5 comparables, rent restricted units, units outside of subject's market area or units significantly dissimilar to the subject (e.g., different number of bedrooms, structure type or level of services) included? Was justification for not using similar unassisted units in project as a comparable included, if applicable?
 - Is a Rent Grid included for at least every primary Section 8 unit type? If Grids were included only for primary unit types, did the appraiser include an explanation of how market rent was derived for any secondary unit types?
 - Is an explanation of adjustments provided for each Rent Grid?
 - Did the appraiser explain how market rent was derived from adjusted rents?
- B. If more than 180 calendar days elapsed between the date the RCS appraiser updated the data and the date the Owner submitted the report to HUD/CA, staff should return the report to the Owner and ask the Owner to have the appraiser update the data. Note: Staff should not return reports when either the Owner or the RCS appraiser exceeded the 90 day timeframe Section 9-7C imposes on the Owner or Section 9-7B imposes on the appraiser, but the data is no older than 180 days.
- C. If the submission is incomplete, within 10 calendar days after receipt staff should ask the RCS appraiser (by phone or email) to submit missing items within 7 calendar days. If the appraiser does not submit the missing items within the 7 days, staff should write (hard copy/ email) the Owner contact and advise that the report will not be processed until the items are submitted. Note: The Owner contact should be specified in the Owner letter required by Section 9-16. Staff may contact the RCS

appraiser directly unless the Owner has specifically objected to that in the Owner certification required by Section 9-16.

SUBSTANTIVE REVIEW

Section 9-20

The HUD/CA appraiser, or the PM working in coordination with the appraiser, must determine if the RCS appraiser's selection of comparables, adjustments, and rent conclusions are reasonable. The HUD/CA appraiser is not required to agree with every detail of the RCS, but only be convinced that the suggested market rents are reasonably supported by market facts. The RCS should contain sufficient information to convince a person unfamiliar with the market areas or properties involved.

Note: Policing compliance with USPAP should not be the focus of HUD/ CA's review. HUD/CA appraisers should be concerned about a RCS's compliance with USPAP only if they find significant problems in the research, facts, reasoning or conclusions noted in the report. Staff should not check for completeness of USPAP clauses just for the sake of doing so.

- A. Listed below are key questions staff should answer. Staff should document any concerns or conclusions.
1. Do the facts presented in the appraiser's narratives and grid accurately depict the subject? Note: Section 9-16B requires the Owner to certify to the accuracy of these facts.
 2. Does HUD/ CA have any data on comparables that differs significantly from data the RCS appraiser presented on comparables? If an appraiser has submitted incorrect facts on other reports or HUD/CA questions the facts, HUD/CA may wish to verify the facts with the contact persons identified in the RCS.
 3. Is the appraiser's definition of the market area reasonable?
 4. Does the appraiser's explanation of how comparables were selected cover all points required by Section 9-10 and Appendix 9-10's Narrative on Selecting Comparables? If applicable, is justification for using fewer than five comparables, rent restricted units, units outside of subject's market area or units significantly dissimilar to the subject (e.g., different number of bedrooms, structure type or level of services) convincing? Is justification for not using similar unassisted units in the subject as a comparable convincing?

5. If comparables were selected from outside the subject's market, did the appraiser adequately describe how the two markets' rent levels compare? If the rent levels differed, did the appraiser make a reasonable adjustment in Part B of the Rent Grid?
6. Are other adjustments in Parts A through E of the Rent Grids reasonable - i.e., consistent with the facts, standard appraisal practice, and Section 9-12? (Pay special attention to extremely large adjustments and adjustments in Parts A and B of the Grids.)
 - a. Staff should not challenge minor differences between the RCS adjustments and values the HUD/ CA appraiser would assign if they were doing the RCS. Appraisal is not a science and two reasonable, informed estimates may differ slightly.
 - b. Staff should not spend significant time reviewing and challenging adjustments if correcting the perceived flaws would not affect the rent an Owner will receive (*now or in next few years*) or the estimated market rent shown on the grid. Example: Current contract rent is \$450, the Owner is seeking a \$20 increase and it's clear the market rent will be well above the \$20 even if adjustments were revised. In this case, it would not be cost effective to spend extensive time analyzing or challenging adjustments that are reasonably close.
 - c. For projects with non-shelter services, staff should assess whether the RCS appraiser complied with Section 9-12C4's guidance on valuing adjustments. Did the appraiser consider the funding source and whether services were actually provided or just accessed through the project? For marking-to-market projects, did the appraiser value service delivery only for services the HUD /CA has authorized to be paid from the project's rental income as directed in Section 9-12C4a?
7. If the facts indicate an adjustment is needed but no adjustment is shown, did the RCS appraiser adequately explain why an adjustment was not made?
8. Is the estimated market rent for each primary unit type within the range of adjusted rents? Did the appraiser convince you that the market rent was an appropriate point in the range?
9. If the appraiser adjusted the market rent of a primary unit type to arrive at the market rent for a secondary unit type, is the appraiser's explanation of the adjustment reasonable?
- B. Field Visits. While HUD/CA reviews usually only require a desk review, HUD/CA appraisers may conduct a field review if they believe a site visit is needed to accurately assess the RCS. Appraisers may wish to consider site visits when:
 1. The desk review raises major questions.

2. The reviewing appraiser is not familiar with the market area, the subject project or the comparables.
 3. The reviewing appraiser is considering challenging adjustments for condition, appeal, neighborhood or other factors that can change quickly and that appraiser has not visited the property recently.
- C. Communicating Results of HUD/CA Reviews. HUD/CA should convey the results of their substantive review within 30 calendar days after receiving a complete package from the Owner.
1. If HUD/ CA staff agree with the appraiser's market rent conclusions, they should document that agreement on any office review form and notify the PM that the market rents in the RCS are acceptable for use in further processing of the renewal.
 2. If aspects of the RCS are unclear or unconvincing, the HUD/CA staff should ask the appraiser for additional information or explanation. If the issues are minor and staff expect easy resolution, staff may call the appraiser. If concerns are many, more significant or complicated, staff should send the appraiser an email / fax/ hard copy letter stating the concerns and giving the appraiser 7 to 10 calendar days to respond. (*Copy the Owner contact on any written correspondence except on mark-up-to-market cases.*) The RCS appraiser should send the information to HUD and copy the Owner.
 3. If the appraiser's response does not resolve the HUD/ CA staff's concern, staff may talk with or write the appraiser / Owner again. (*Copy the Owner contact on any written correspondence except on mark-up-to-market cases.*)
 4. Within 10 calendar days after final information was due from the Owner/ appraiser, HUD/CA staff must either: 1) accept the study and proceed as described in Item C1 above; or 2) draft a decision letter challenging the RCS.
 - a. The decision letter must be signed by the Program Center Director, clearly state the reasons the RCS is challenged, and list the Owner options and deadline cited in subparagraph 4b below. The letter may reject the study completely and require resubmission of a new study or present alternate rents. Any alternate rents must be developed by a HUD/CA appraiser and be consistent with this Chapter's procedures and USPAP. The letter must tell the Owner how the appraiser arrived at the suggested market rent.
 - b. The Owner may accept the letter's rents, resubmit a new study, or appeal HUD's decision. Within 10 calendar days after the date of HUD/CA's letter, the Owner must advise HUD in writing of his/her choice. Submission of a new study restarts processing.

- c. If the Owner appeals or will resubmit an RCS, HUD/ CA may prepare a short term renewal to allow time for processing the appeal.

OWNER APPEALS

Section 9-21

- A. If an Owner decides to appeal, the Owner must note that choice as required by Section 9-20 C4b above and must then submit a written statement of his/her reasons for appeal and any data that supports his/ her objections. The Owner may request a meeting, but must still submit the written data. The reasons and data must be submitted within 15 calendar days after the date of HUD/CA's initial decision letter. The letter must be delivered, via email/fax/ mail, to the Program Center Director.
- B. If the Owner requests a meeting, HUD/CA should hold the meeting or a conference call within 15 calendar days of the date of the Owner's appeal. The Owner, the RCS appraiser, the HUD/CA appraiser that reviewed the RCS, and the Program Center Director/ designee should participate. The Director and HUD/CA appraiser should consider if a field visit is needed to accurately process the appeal. (*See Section 9-20B for more on field visits.*)
- C. The Program Center Director should issue a letter reporting the results of the Agency's review of the appeal. HUD/CA may accept the RCS, reject the study completely and require resubmission of a new study, or propose alternate rents. The Program Center should issue the letter within 15 calendar days after the latest of: the date the Owner submitted the basis for the appeal; the date of any meeting/ conference call conducted per Paragraph B; or the date by which Owner agrees to submit additional information requested by HUD.
- D. The Owner may accept/ appeal the Program Center Director's decision on the first level appeal. The Owner must submit a written statement of his/her reasons for appeal and any data that supports his/ her objections. The submission must be received within 15 calendar days after the Program Center Director's decision letter and must be addressed to the HUB Director and copy the Program Center Director. The Owner may also request a short-term renewal if the contract has expired or if expiration is imminent.
 1. The HUB Director will determine if the appeal has potential merit and, if so, issue a short term renewal to allow time to process the appeal. The HUB Director may contact the Owner, the RCS appraiser, or the Program Center Appraiser for clarification or additional information.
 2. The HUB Director should issue a decision letter to the Owner within 15 calendar days after the date the Owner appealed to the HUB. The letter must clearly state the basis for HUD's decision.

Note:

- No appeals are allowed on projects seeking to mark-up-to-market.
- If an Owner claims to have rents under market but the HUD/ CA review concludes that rents are over market, HUD/ CA should follow the procedures in Items 1 through 3 of Section 9-20C above before referring cases to OAHP.

IMPOSING SANCTIONS ON APPRAISERS

Section 9-22

If, after the substantive review and communication, discussion or appeal pursuant to Section 9-20 or 9-21, a CA or Program Center Director still concludes that the appraiser's work is seriously deficient, the CA/ Program Center Director should consider:

- reporting egregious violations or repeated technical violations of USPAP to the state's real estate appraisal regulatory authority; and
- imposing or recommending imposition of HUD's administrative sanctions [Limited Denial of Participation (LDP), suspension or debarment].

Appraiser Certification

Project Name: _____

FHA Project No : _____

By my signature below, I certify that, to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective financial interest in the above property, its ownership or management agent entity, or the principals of those entities. I am not an employee of those principals or entities and I have no business or close personal/family interest with those parties that commonly would be perceived to create bias or a conflict of interest.
4. I have no bias with respect to the property that is the subject of this report or to the ownership or management parties involved with this assignment.
5. My engagement in and compensation for this assignment were and are not contingent upon the reporting of a predetermined rent or direction in rent. My fee is my only compensation for this rent study assignment. There are no other side agreements or considerations.
6. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice and all applicable HUD procedures for performing Rent Comparability Studies for Section 8 contracts.
7. _____ inspected the interior and exterior of the subject property. _____ inspected the exteriors of the properties used as comparables in this report.
8. No one provided significant professional assistance to the person signing this report except the persons listed here: _____ . If anyone is listed here, his/her contribution is identified in the Scope of Work section of this report.
9. I am a certified general appraiser, licensed and in good standing with the state appraiser regulatory agency where the subject property is located and I meet all of the appraiser qualifications required in HUD's rent comparability procedures.
10. I am not debarred or suspended from doing business with the Federal Government. I also am not under a Limited Denial of Participation (LDP) imposed by the HUD Multifamily HUB or Program Center having jurisdiction over the Section 8 project. Any LDPs in effect now or in the past three years were imposed by the following HUD offices:
_____.

Warning: If you knowingly make a false statement on this form, you may be subject to civil penalties under Section 1001 of Title 18 of the United States Code. In addition, any person who knowingly and materially violates any required disclosure of information, including intentional non-disclosure, is subject to civil money penalty not to exceed \$10,000.00 for each violation.

Appraiser's Name: _____ **Signature:** _____ **Date:** _____

Permanent License No: _____ **Issuing State:** _____ **Expires:** _____

Did you prepare the RCS under a temporary license? ____ *If so, attach a copy of the temporary license.*

Rent Comparability Grid

Unit Type →

Subject's FHA #:

| Subject | | Comp #1 | | Comp #2 | | Comp #3 | | Comp #4 | | Comp #5 | | |
|--|------------------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|
| | Project Name | Data | Project Name | Project Name | Project Name | Project Name | Project Name | Project Name | Project Name | Project Name | Project Name | |
| | Street Address | on | Street Address | Street Address | Street Address | Street Address | Street Address | Street Address | Street Address | Street Address | Street Address | |
| | City County | Subject | City County | City County | City County | City County | City County | City County | City County | City County | City County | |
| A. | Rents Charged | | Data | \$ Adj | Data | \$ Adj | Data | \$ Adj | Data | \$ Adj | Data | \$ Adj |
| 1 | \$ Last Rent / Restricted? | | | | | | | | | | | |
| 2 | Date Last Leased (mo/yr) | | | | | | | | | | | |
| 3 | Rent Concessions | | | | | | | | | | | |
| 4 | Occupancy for Unit Type | | % | | % | | % | | % | | % | |
| 5 | Effective Rent & Rent/ sq. ft | ▼ | | | | | | | | | | |
| <i>In Parts B thru E, adjust only for differences the subject's market values.</i> | | | | | | | | | | | | |
| B. | Design, Location, Condition | | Data | \$ Adj | Data | \$ Adj | Data | \$ Adj | Data | \$ Adj | Data | \$ Adj |
| 6 | Structure / Stories | | | | | | | | | | | |
| 7 | Yr. Built/Yr. Renovated | | | | | | | | | | | |
| 8 | Condition /Street Appeal | | | | | | | | | | | |
| 9 | Neighborhood | | | | | | | | | | | |
| 10 | Same Market? Miles to Subj | | | | | | | | | | | |
| C. | Unit Equipment/ Amenities | | Data | \$ Adj | Data | Adj | Data | \$ Adj | Data | \$ Adj | Data | \$ Adj |
| 11 | # Bedrooms | | | | | | | | | | | |
| 12 | # Baths | | | | | | | | | | | |
| 13 | Unit Interior Sq. Ft. | | | | | | | | | | | |
| 14 | Balcony/ Patio | | | | | | | | | | | |
| 15 | AC: Central/ Wall | | | | | | | | | | | |
| 16 | Range/ refrigerator | | | | | | | | | | | |
| 17 | Microwave/ Dishwasher | | | | | | | | | | | |
| 18 | Washer/Dryer | | | | | | | | | | | |
| 19 | Floor Coverings | | | | | | | | | | | |
| 20 | Window Coverings | | | | | | | | | | | |
| 21 | Cable/ Satellite/Internet | | | | | | | | | | | |
| 22 | Special Features | | | | | | | | | | | |
| 23 | | | | | | | | | | | | |
| D | Site Equipment/ Amenities | | Data | \$ Adj | Data | \$ Adj | Data | \$ Adj | Data | \$ Adj | Data | \$ Adj |
| 24 | Parking (\$ Fee) | | | | | | | | | | | |
| 25 | Extra Storage | | | | | | | | | | | |
| 26 | Security | | | | | | | | | | | |
| 27 | Clubhouse/ Meeting Rooms | | | | | | | | | | | |
| 28 | Pool/ Recreation Areas | | | | | | | | | | | |
| 29 | Business Ctr / Nbhd Netwk | | | | | | | | | | | |
| 30 | Service Coordination | | | | | | | | | | | |
| 31 | Non-shelter Services | | | | | | | | | | | |
| 32 | | | | | | | | | | | | |
| E. | Utilities | | Data | \$ Adj | Data | \$ Adj | Data | \$ Adj | Data | \$ Adj | Data | \$ Adj |
| 33 | Heat (in rent?/ type) | | | | | | | | | | | |
| 34 | Cooling (in rent?/ type) | | | | | | | | | | | |
| 35 | Cooking (in rent?/ type) | | | | | | | | | | | |
| 36 | Hot Water (in rent?/ type) | | | | | | | | | | | |
| 37 | Other Electric | | | | | | | | | | | |
| 38 | Cold Water/ Sewer | | | | | | | | | | | |
| 39 | Trash /Recycling | | | | | | | | | | | |

Rent Comparability Study

On

ABC Village Apartments

100 Main Street
Smithville, State

Date of Report

April 15, 2000

Prepared For

ABC Village Associates

P.O. Box 2255
Smithville, State 55555-2255

Prepared By

Appraisal Services International

123 Allen Street, Suite 456
Smithville, State 55555

Appraisal Services International

123 Allen Street, Suite 456
Smithville, State 55555

(000) 555-1111 (phone)
(000) 555-2222 (facsimile)
joe@appraiserserv.com

April 15, 2000

Mr. Owner
ABC Village Associates
P.O. Box 2255
Smithville, State 55555-2255

Re: ***Rent Comparability Study / ABC Village Apartments***
Section 8 Contract Number: PA0000999992 FHA No. 1233566

Dear Mr. Owner:

Attached is the Rent Comparability Study (RCS) you requested for ABC Village Apartments.

The purpose of the study was to estimate the market rents for units that will be assisted under the renewed Section 8 contract. Market rent is the rent that a knowledgeable tenant would most probably pay for the Section 8 units as of the date of this report, if the tenants were not receiving rental subsidies and rents were not restricted by HUD or other government agencies. The following table lists the market rent I concluded for each Section 8 unit type.

| Unit Type | # Units | Size (Sq. Ft) | <i>Estimated Market</i> | | Prepared Grid? (Y/N) |
|-------------------|----------------|----------------------|-------------------------|-------------------|-----------------------------|
| | | | Rent | \$/ Sq. Ft | |
| Efficiency | 7 | 450 | \$485 | \$1.08 | Y |
| Efficiency | 3 | 500 | \$505 | \$1.01 | N |
| Total | 10 | | | | |

The RCS was prepared in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and the supplemental standards of HUD Notice H 00-12.

Market Rents were defined and estimated in accordance with Section 3 of Notice H 00-12 and the report was prepared in accordance with Section 4 of the Notice H 00-12. I understand that HUD/the Section 8 Contract Administrator (CA) and the project owner will use my estimate of market rents to determine: 1) the owner's options for renewing the project's Section 8 contracts; and 2) the maximum rents allowed under any renewal contract.

Should you have any questions or require more information, please contact me directly at the phone number or e-mail address listed above.

Sincerely,

[Joseph Jones](#)

Joe Jones
ST Certified General Appraiser #CG2222

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Appraiser's Transmittal Letter

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| 3 | Description of Neighborhood |
| 3 | How Comparable Properties were Selected |
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| 6 | Rent Comparability Grid for Primary Unit Type |
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Exhibits

Color Photographs of Subject

Additional Photos of Comparables

Scope of Work

This Rent Comparability Study was completed in accordance with the requirements set forth in HUD's Notice H 00-12.

Joe Jones, a State certified general appraiser employed by Appraisal Services International (ASI), oversaw and supervised all data collection and analysis. Sharon Allen, an associate at ASI, performed some of the research under Joe Jones's supervision. The following actions were taken to complete this RCS.

- On March 13, 2000, Joe Jones and Sharon Allen inspected the interior and exterior of the subject property to determine the property's physical and functional characteristics. Jones & Allen inspected two small efficiency units, one large efficiency unit, interior common areas (lobby and community room), and exterior grounds. Ms. Sue Hancock, the on-site property manager, accompanied Jones & Allen on all inspections. Ms. Allen measured the interior of the units and interviewed Ms. Hancock to determine the rental rates, services, and amenities offered to tenants of the subject property.
- Ms. Allen researched comparable apartment rental activity in the subject township and competing locations. The research included pulling data from internet sites, local newspapers and rental publications, town records, owners and managers of local apartment properties, local real estate brokers, fellow appraisers, and files of Appraiser Services International.
- During the weeks of March 13 and 20, Jones & Allen inspected the exterior of each comparable property. For three of the comparables (*Holland Apartments*, *BCD Village Apartments* and *Glen Park*), Jones & Allen also inspected interior common areas and a model unit. At the other two comps (*Park Village* and *Lebanon Apts*) access was denied or no models were available, but Jones & Allen did view on-site photos of these units' interiors.
- During the site inspections or in separate phone interviews, Ms. Allen talked with the managers of the comparable properties to confirm all data and to collect additional information about each comparable, including size, age, and amenities, occupancy rates and general market information. The property manager provided floor plans or other information describing the size of comparable units after Sharon Allen explained that the interior size was needed.
- Ms. Allen completed the data & adjustment columns of the Rent Comparability Grid using the instructions in Attachment 2b and Sections 3 and 4 of Notice H 00-12. Mr. Jones reviewed all entries, modified some, and derived an estimated market rent for each unit type.

Description of Subject Property

ABC Village Apartments is a 5-story, brick elevator building located at 100 Main Street, Smithville, State. The site is located on a level, rectangular corner lot with 100 feet of frontage on Main Street and 200 feet of frontage on High Street in the Central Business District of Smithville, in the county of Gloucester. The corner lot provides excellent visibility and access.

The table below describes the unit mix for *all* 50 units at the property. This RCS applies only to the 10 efficiency units, as these are the only units in the complex that receive Section 8 subsidy. The market rent for the one-bedroom units is \$595. The property is occupied by elderly residents. Elderly are drawn to the complex because of its central location and the services it provides.

| Unit Type | # Units | Interior Size (SF) | # Pjt- Based Sec 8 units | # Other Rent Restricted Units | # Units Not Rent Restricted |
|------------------|----------------|---------------------------|---------------------------------|--------------------------------------|------------------------------------|
| 0/1 | 7 | 450 | 7 | 0 | 0 |
| 0 / 1 | 3 | 500 | 3 | 0 | 0 |
| 1/ 1.5 | 40 | 600 | 0 | 0 | 40 |
| | 50 | | 10 | 0 | 40 |

The building was originally constructed in 1950 as a manufacturing facility and was converted to its present use in 1980. Renovations at conversion were extensive and the building has been well maintained since the renovation. Occupancy for the subsidized units has consistently been near 100 %. Occupancy for the market-rate units has been just slightly lower, at 93% to 95% for the last three years.

Each efficiency unit contains a galley-style kitchen, a bathroom, and a living/bedroom area. The two groups of efficiency units are identical except for a difference in size: seven units contain 450 square feet and three contain 500 square feet. All units are carpeted, with linoleum flooring in the kitchens and bathrooms. Each unit contains a stove, refrigerator, garbage disposal, and small patio or balcony. The units have central air conditioning. Gas heat and hot water are included in the rent. Tenants pay for electricity, including air conditioning.

Each unit has an emergency call system that, if activated, will alert the manager's office and a 24-hour call service. If the manager does not respond to the emergency, the service will. Three days per week, a van makes scheduled trips to the grocery store, the shopping mall and the senior center. Tenants requiring transportation to doctor appointments may request a ride on the remaining two weekdays. ABC Village also offers well-organized social activities and gives tenants the use of a lounge, a television area, and a large, sunny meeting room with tables and chairs for game activities.

The building is accessed by key only, and tenants may call a 24-hour maintenance line in case of accidental lockout or maintenance emergency. An on-site manager is at the property six days a week during the hours of 9:00 am to 6:00 p.m. The complex has a coin operated laundry facility

with five washers and dryers and a small, paved parking lot for 20 cars. Parking is offered at an additional charge of \$20 per month. There are no other amenities that require a charge in addition to rent.

Ms. Sue Hancock, the property manager, confirmed the above data. She is employed by Smithville Managers Inc. and her telephone number is (000)-555-3333.

Definition of the Subject's Market Area

Smithville is located in the northeast section of Gloucester County at the junction of Interstates 80 and 180. Smithville is the county seat of Gloucester County and a commercial and residential center for the surrounding towns. The market area for Smithville includes the Gloucester County towns within a fifteen-mile radius (*Bainbridge, Lexington, Upton, Newbury, and Barre*) and two Orange County towns within a ten-mile radius (*Exeter and Cypress Lakes*). This is the area from which the subject would normally draw its applicants.

Description of Neighborhood

The subject neighborhood is located in the central business district of Smithville, which is in the northeastern section of the city and near the historic Highlands area. The neighborhood contains a mix of professional and town offices, upscale boutiques, churches, older single-family homes that have been gentrified, and some older apartment buildings that were renovated between ten and twenty years ago. Property values in the area are generally growing and most properties are well kept. Access to Interstates 80 and 180 is less than five minutes from the subject property.

A senior center is within seven blocks of the complex. A small grocery store and a drug store are on the same block as the subject complex and a larger grocery store is three miles away (accessed by the van service.) A shopping mall and medical center are also within ten miles and van service is provided to them. There is no apparent crime in the area, nor are there any other significant negative influences.

How Comparable Properties Were Selected

The appraiser researched rental housing in the market area and identified ten market-rate apartment properties that appeared similar in age, condition and location. Six of them did not contain efficiency units.

The four that do provide efficiencies are Lebanon Apartments, BCD Village, Holland Apartments, and Park View Apartments. *Lebanon Apartments* and *BCD Village* are elderly projects, located within one mile of the subject and offering amenities similar to those at the subject. *Holland Apartments* is 75-unit family complex in Smithville (six miles away). It offers mostly one and two bedroom units and has only three efficiencies. *Park View* is located in

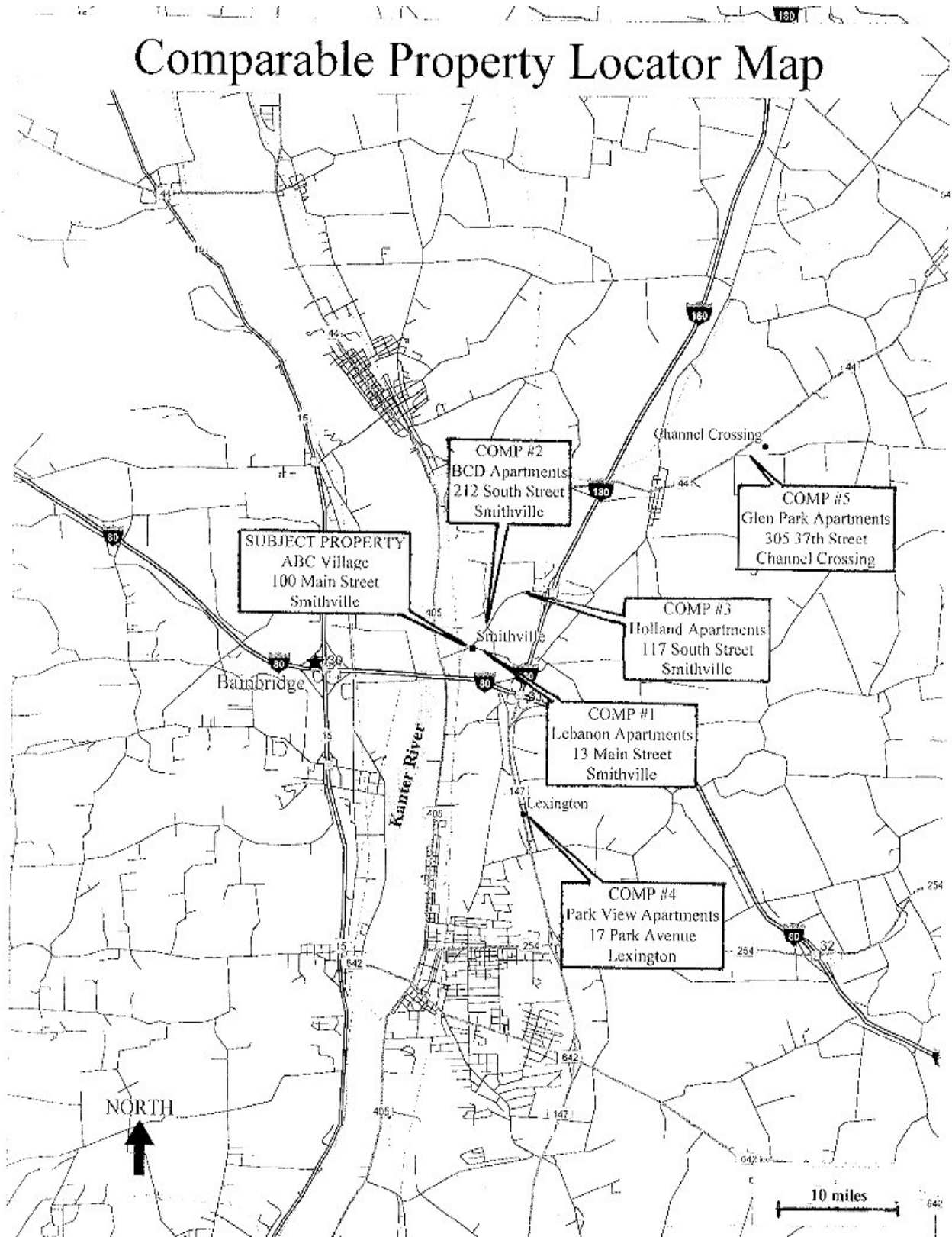
Lexington about 13 miles from the subject. It was renovated in 1999 through the use of low income housing tax credits. It is a mixed income property, offering 30 efficiency units at market rents and 30 one-bedroom tax credit units to elderly residents earning less than 60% of median income. The property is in the rent up phase.

The appraiser conducted additional research to identify other comparable efficiencies that were outside the market area, contained rent restrictions or were less similar to the subject. Brokers, property managers and owners were consulted as well as staff at the senior center. Additional efficiencies were found at *Glen Park* -- a 50-unit, market-rate, elderly property located in Channel Crossing, a town 30 miles away and outside the market area. *Glen Park* is very similar to the subject property. It was built and renovated in the same time period, serves a similar population, and offers similar amenities. Ten of its units are efficiencies. The remaining units consist of 25 one-bedroom units and 15 two-bedroom units.

Generally, the appraiser believes that the comparables are of good quality. While one of the comparables (*Glen Park*) is outside of the market area and, thus, does not meet all of the target criteria in the HUD notice, all comparables are otherwise similar to the subject and the appraiser is confident that the adjustments made adequately valued the differences.

Based on information provided to the appraiser, none of the selected comparables are owned or managed by the entities having an identity - of - interest with the owner or management of the subject property.

Comparable Property Locator Map



OMB Approval # 2502-0507 (exp 7/01)

Rent Comparability Grid

Unit Type → efficiency

Subject's FHA #: 12335666

| Subject | | Comp #1 | | Comp #2 | | Comp #3 | | Comp #4 | | Comp #5 | |
|--|--|-------------------|---------------|--------------------------------|---------------|-------------------|---------------|---------------------|---------------|-------------------------|---------------|
| ABC Village Apartments | | Lebanon Apts | | BCD Village Apts | | Holland Apts | | Park View Apts | | Glen Park | |
| 100 Main Street | | 13 Main Street | | 212 South Street | | 117 South Street | | 17 Park Ave | | 305 37th Street | |
| Smithville, ST | | Smithville, State | | Smithville, State | | Smithville, State | | Lexington, State | | Channel Crossing, State | |
| Rents Charged | | Data | \$ Adi | Data | \$ Adi | Data | \$ Adi | Data | \$ Adi | Data | \$ Adi |
| 1 \$ Last Rent / Restricted? | | \$505 | N | \$500 | N | \$415 | N | \$525 | N | \$525 | N |
| 2 Date Last Leased (mo/vr) | | Dec-99 | | Feb-00 | | Feb-00 | | Mar-00 | | Jan-00 | |
| 3 Rent Concessions | | | | | | | | 1 month free (\$44) | | | |
| 4 Occupancy for Unit Type | | 93% | | 93% | | 66% | | 82% | | 95% | |
| 5 Effective Rent & Rent/sq ft | | \$505 | 1.01 | \$500 | 0.91 | \$415 | 0.83 | \$481 | 0.88 | \$525 | 1.17 |
| <i>In Parts B thru E, adjust only for differences the subject's market values.</i> | | | | | | | | | | | |
| Design Location Condition | | Data | \$ Adi | Data | \$ Adi | Data | \$ Adi | Data | \$ Adi | Data | \$ Adi |
| 6 Structure / Stories | | E/5 | | E/4 | | E/3 | | G/2 | \$15 | E/7 | |
| 7 Yr Built/Yr Renovated | | 1950/80 | | 1970/90 (\$15) | | 1950/80 | | 1978/99 (\$30) | | 1958/75 | |
| 8 Condition /Street Appeal | | G | | G | | G | | F | \$20 | G | |
| 9 Neighborhood | | G | | G | | G | | E | (\$15) | G | |
| 10 Same Market? Miles to Subj | | | | Y/1-2 | | Y/1 | | Y/6 | | N/30 | (\$35) |
| Unit Equipment/ Amenities | | Data | \$ Adi | Data | \$ Adi | Data | \$ Adi | Data | \$ Adi | Data | \$ Adi |
| 11 # Bedrooms | | 0 | | 0 | | 0 | | 0 | | 0 | |
| 12 # Baths | | 1 | | 1 | | 1 | | 1 | | 1 | |
| 13 Unit Interior Sq. Ft. | | 450 | (\$20) | 500 | (\$40) | 550 | (\$20) | 550 | (\$40) | 450 | |
| 14 Balcony/ Patio | | Y | | Y | | N | \$10 | N | | N | \$10 |
| 15 AC: Central/ Wall | | C | | C | | C | | N | \$10 | C | |
| 16 Range/ Refrigerator | | RF | | RF | | RF | | RF | | RF | |
| 17 Microwave/ Dishwasher | | N | (\$5) | D | (\$5) | D | (\$5) | D | (\$5) | N | |
| 18 Washer/Drvr | | L | \$5 | HU | \$5 | N | \$10 | L | | WD | (\$15) |
| 19 Floor Coverings | | C | | C | | V | \$5 | C | | C | |
| 20 Window Coverings | | B | | B | | B | | B | | D | |
| 21 Cable/ Satellite/Internet | | C | | C | | C | | C | | C, S, I | (\$5) |
| 22 Special Features | | N | | N | | N | | N | | N | |
| Site Eminent/ Amenities | | Data | \$ Adi | Data | \$ Adi | Data | \$ Adi | Data | \$ Adi | Data | \$ Adi |
| 24 Parking (\$ Fee) | | L/\$20 | G/\$55 (\$5) | N | \$5 | L/\$0 | (\$20) | G/\$65 | (\$5) | L/\$0 | (\$20) |
| 25 Extra Storage | | Y | | Y | | Y | | Y | | N | \$15 |
| 26 Security | | Y | | Y | | Y | | N | \$10 | N | \$10 |
| 27 Clubhouse/ Meeting Rms | | MR | | MR | | MR | | Y | \$5 | MR | \$5 |
| 28 Pool/ Recreation Areas | | N | | N | | N | (\$15) | R | (\$10) | N | |
| 29 Business Ctr / Nbhd Netwk | | N | | N | | N | | N | | N | |
| 30 Service Coordination | | N | | N | | N | | Y | | N | |
| 31 Non-shelter Services | | EC/T | \$10 | EC/T | | N | \$20 | N | \$20 | EC/T | |
| Utilities | | Data | \$ Adi | Data | \$ Adi | Data | \$ Adi | Data | \$ Adi | Data | \$ Adi |
| 33 Heat (in rent?/ type) | | Y/gas | N/gas \$25 | Y/gas | | Y/elec | | N/gas \$25 | | Y/gas | |
| 34 Cooline (in rent?/ type) | | N/elec | | N/elec | | N/elec | | N/elec | | N/elec | |
| 35 Cooking (in rent?/ type) | | N/elec | | N/elec | | N/elec | | N/elec | | Y/elec | (\$5) |
| 36 Hot Water (in rent?/ type) | | Y/gas | N/gas \$10 | Y/gas | | Y/elec | | N/gas \$10 | | Y/gas | |
| 37 Other Electric | | N | | N | | N | | N | | Y | (\$20) |
| 38 Cold Water/ Sewer | | Y | | Y | | Y | | Y | | Y | |
| 39 Trash /Recycling | | Y | | Y | | Y | | Y | | Y | |
| Adjustments Recan | | Pos | Neg | Pos | Neg | Pos | Neg | Pos | Neg | Pos | Neg |
| 40 # Adjustments B to D | | 2 | 4 | 4 | 2 | 5 | 4 | 4 | 8 | 5 | 2 |
| 41 Sum Adjustments B to D | | \$15 | (\$45) | \$30 | (\$45) | \$75 | (\$60) | \$50 | (\$125) | \$45 | (\$55) |
| 42 Sum Utility Adjustments | | \$35 | | | | | | \$35 | | | (\$25) |
| | | Net | Gross | Net | Gross | Net | Gross | Net | Gross | Net | Gross |
| 43 Net/ Gross Adjmts B to E | | \$5 | \$95 | (\$15) | \$75 | \$15 | \$135 | (\$40) | \$210 | (\$35) | \$125 |
| Adjusted & Market Rents | | Adi. Rent | | Adi. Rent | | Adi. Rent | | Adi. Rent | | Adi. Rent | |
| 44 Adjusted Rent (5+ 43) | | \$510 | | \$485 | | \$430 | | \$441 | | \$490 | |
| 45 Adj Rent/Last rent | | | 101% | | 97% | | 104% | | 92% | | 93% |
| 46 Estimated Market Rent | | \$485 | \$1.08 | ← Estimated Market Rent/ Sq Ft | | | | | | | |

Joe Jones / /
Appraiser's Signature Date

Attached are explanations of:

- a. why & how each adjustment was made
- b. how market rent was derived from adjusted rents
- c. how this analysis was used for a similar unit type

Grid was prepared: Manually Using HUD's Excel form

HUD 92273 - S8

Explanation of Adjustments and Market Rent Conclusions

ABC Apartments

Primary Unit Type- Efficiency - Small

A Rent Comparability Grid was prepared for the primary unit type with 450 sq. ft. The market rent for the 450-sq. ft. unit was adjusted to create a market rent for the secondary, 500-sq. ft. unit. The only difference in these unit types is their size.

Line 1. Last Rented / Restricted? All of the units are currently rented at the rates shown on the grid. Rents range from \$415 to \$525. No unit used in the analysis has any rent restrictions. However, *Park View* is a mixed-income property with half of the units set-aside for tax credit residents. The unit used in this analysis is market rate.

Line 2. Date Last Leased. The Grid shows the effective date of the leases most recently signed. Effective dates range from December 1999 to March 2000. No adjustments were necessary.

Line 3. Rent Concessions. *Park View* is currently offering one month of free rent with a 12-month lease. The adjustment was derived by dividing the Line 1 rent by 12 months to arrive at a \$44 adjustment. The complex has undergone a substantial renovation and is currently in lease up. The new owner does not anticipate any vacancy problems, but wanted to offer concessions to quickly fill the units.

Line 4. Occupancy for Unit Type. According to data collected, the market area has historically maintained an occupancy level between 90 percent and 95 percent for efficiency units over the past several years. The comparables' current occupancy rates range from 66% to 95%. *Park View's* low 82% occupancy is due to its recent substantial renovation. Since the appraiser does not believe the rent level contributed to the *Park View* vacancies, no adjustment has been made. *Holland* has an overall occupancy rate of 94%, but a 66% occupancy rate in the efficiency apartments. There are only three efficiencies and one unit is vacant. The tenant vacated two months ago. The unit is being renovated and is not available for occupancy. Therefore, no adjustment was made.

Line 6. Structures / Stories. The subject, *Lebanon*, *BCD Village*, and *Glen Park* are elevator-buildings. *Holland* is a three-story walk up and *Park View* is a garden apartment complex. Area brokers reported that: 1) rents on units in buildings with elevators are consistently higher than rents for similar units in buildings without an elevator, regardless of which floor the unit is on; and 2) rents on similar units in buildings without elevators are typically not affected by which floor the unit is on. These brokers noted that tenants found elevator buildings more attractive for several reasons – increased availability of common areas; possibility of views; sense of increased security; and convenient access to upper-level units. Typically, elevator buildings can command an additional \$10 to \$20 rent. A \$15 adjustment was made to buildings without elevators.

Line 7. Yr. Built/Yr. Renovated - The subject and three of the comparables (*Holland*, *Glen Park*, and *BCD Village*) are 1950's vintage, with renovations completed between

1975 and 1985. These properties are similar in condition and utility and have a similar effective age. No adjustments were made to these properties. *Park View* was built in 1978 and was substantially renovated last year, with new exterior siding and windows and interior finishes including carpeting, flooring, and appliances. A \$30 adjustment was made to *Park View* to reflect the almost-new condition of this comparable as compared to the subject's 20-year-old renovations. *Lebanon* was constructed 20 years after the subject, with renovations completed ten years ago. Based on our analysis of the rental data, a \$15 adjustment was made to reflect the more modern utility and unit finishes of this comparable.

Line 8. Condition / Street Appeal. The subject and four of the comparables are in good condition and have good street appeal. *Holland's* exterior shows signs of deferred maintenance, including neglected landscaping. Based on our analysis of the rental data, a \$20 adjustment was made to reflect the inferior appeal of this property.

Line 9. Neighborhood. The subject, *Lebanon*, and *BCD Village* are located in the CBD of Smithville, a congested area with surrounding land used for light industry and businesses. *Glen Park* is located in a similar neighborhood in Channel Crossing. *Park View* is located about 13 miles from the subject, outside the city limits and surrounded by residential properties. Rents for properties in the residential areas as compared to the city locations have been consistently higher. Based on our analysis of the rental data, a \$15 negative adjustment was made to *Park View* to reflect the market preference for residential areas.

Line 10. Same Market? Miles to Subject. *Glen Park* is the only comparable that is outside the market. It is located in Channel Crossing about 30 miles north of Smithville on State Route 44. Channel Crossing is a suburb of the state capital (Gotham) and has higher property values than Smithville. To arrive at an adjustment, the Appraiser interviewed local brokers and apartment owners that have direct experience with both markets. The market data provided by brokers and managers indicated that rents in Channel Crossing are \$30 to \$50 higher than in the subject market area. The appraiser found that generally a \$40 to \$50 difference existed in larger units (two bedroom) and a \$30 to \$40 difference existed in smaller units (efficiencies and one bedrooms). Hence, a \$35 adjustment was made to *Glen Park* to reflect the difference for efficiencies between the two markets. (This adjustment is also consistent with the \$34 difference in fair market rents for the two communities.)

Line 13. Unit Square Footage. Four of the five comparables are larger than the subject. To value the size differences between the subject and these comparables, the appraiser reviewed the indicated rents after adjustments for all characteristics except size. The appraiser concluded that there is a value of \$20 for each 50 square feet above the subject's 450 square feet. Thus, a \$20 negative adjustment was made to *Holland* and *Lebanon*, and a \$40 negative adjustment was made to *Park View* and *BCD Village*.

Line 14. Balcony / Patio. A \$10 adjustment was made to comparable properties that lacked balconies.

Line 15. AC: Central/Wall. The subject has central air conditioning, as do three of the comparables. *Holland* does not provide air conditioning, but tenants may install their

own window units. According to local property managers, tenants consider it worth \$10 per month not to have the nuisance of installing a window unit. *Glen Park* has wall units provided, but no adjustment has been made because there is no evidence of a marketable difference in rent between central air and wall units in efficiencies in this market.

Line 17. Microwave/Dishwasher. *Park View, Lebanon, Holland,* and *BCD Village* all have dishwashers and the subject does not. In efficiency units in this market, tenants place a minimal value on these amenities. Therefore, a nominal negative adjustment of \$5 was made to the comparables for this amenity.

Line 18. Washer/Dryer. The subject has a coin-operated laundry facility. *Park View* provides stacked, washer-dryer units. Based on the appraiser's analysis of the data, renters appear willing to pay a \$15 premium for in-unit washer/dryer combinations. *Lebanon* has hook-ups available in each unit and does *not* have a common laundry. In this market, elderly renters generally prefer common laundries to hook-ups. *BCD Village* has no laundry facilities at all. The Appraiser made a \$5 adjustment at *Lebanon* and a \$10 adjustment at *BCD Village* to reflect the inferior services.

Line 19. Floor Covering. All but two of the comparables have carpeting like the subject. Those comparables that have only vinyl floors were allocated a positive \$5 adjustment to reflect the inferior floor covering.

Line 20. Window Coverings. *Glen Park* has drapes and the subject has blinds. Since the market does not recognize a rent differential between blinds and drapes, no adjustment was made.

Line 21. Cable / Satellite / Internet. All of the comparables and the subject have either cable or satellite service available. All the properties require that the tenants pay for their own cable/satellite service. Since *Park View* also has internet service in all the units, a nominal \$5 negative adjustment was made.

Line 24. Parking. Parking in the Central Business District is limited and parking on the street is difficult. As a result, owners of neighborhood parking lots typically charge \$20-\$30 per month. Winter and summer conditions are harsh enough to make garage parking valuable and garage parking typically costs \$60-\$70 per month.

- a. The subject offers limited lot parking for \$20. *BCD Village* has no parking available, and tenants who need parking typically pay \$20 per month to park in a lot several blocks away. *Lebanon Apts* and *Park View Apts* have no lot parking, but offer garage parking for \$55 and \$65, respectively. *Holland Apts* and *Glen Park* have lot parking available at no cost.
- b. Comparables were adjusted to reflect whether parking was available and how its cost and quality compared to parking at the subject. Since tenants at *BCD Village* pay the same parking fee as tenants at the subject but the parking is less convenient, a small upward adjustment of \$5 was made to reflect the inferior access to parking. A net, downward adjustment of \$5 was made to *Lebanon Apts* and *Park View Apts* -- a negative \$10 adjustment for the convenience of having highly desirable, on-site garage parking plus a positive \$5 for the lack of on-site,

lot parking. *Holland Apts* and *Glen Park* were adjusted downward \$20, to reflect the fact that their lot parking is free.

Line 25. Extra Storage. The subject and four of the comparables have extra storage space available outside the living unit. Since the efficiency apartments are small, this extra storage space is desirable. Typically, these spaces are about half the size of the smallest storage units available in self-storage facilities in the market area for \$30 per month. Assuming that about half of the tenants would value this amenity, a positive \$15 adjustment is made for the lack of storage at *Glen Park*.

Line 26. Security. The subject, *Holland* and *Lebanon* have electronic entry systems. *Park View* has limited security with dead bolts on the doors. *Glen Park* does not have a secured entrance. Based on conversations with local brokers and property managers and an analysis of the market data, the appraiser concluded that a \$10 adjustment is warranted to reflect the appeal to the market of the subject's entry system. Crime is not a problem in the area.

Line 27. Clubhouse / Meeting Rooms. Since *Glen Park* and *Park View* have no community meeting rooms, a nominal \$5 adjustment was made.

Line 28. Pool / Recreation Areas. *Park View* has a fitness room with weights and aerobic equipment. *Holland*, the family project, has a swimming pool. *Park View* was adjusted negatively by \$10 to reflect the fitness room and *Holland* was adjusted by \$15 to reflect the swimming pool amenity. The adjustments were based on data collected from property managers.

Line 31. Non-Shelter Services. The subject property offers several amenities geared to its elderly tenancy: emergency call system, community sitting and meeting room, and limited transportation. Two comparables (*Holland* and *Park View*) have no elderly services. *Glen Park*, *BCD Village* and *Lebanon* have pull cords in each unit, and *Glen Park* and *BCD Village* also offer limited transportation for residents. The property manager at *Glen Park* reported that, based on his experience leasing units at another complex that does not offer elderly services, elderly tenants requiring these elderly services will typically pay up to \$50 additional rent for the emergency services and the availability of transportation. Based on this information and the fact that only a portion of the market would value these services, the appraiser estimated that the market overall would place a \$10 value on the pull cords and a \$10 value for the availability of transportation. Positive adjustments were made accordingly to *Lebanon*, *Holland*, and *Park View*.

Line 33. Heat. Heat is included in the rent at the subject and three of the comparables. At *Lebanon* and *Park View*, residents pay their own heat. Gas is the heat source at both of these complexes. The Smithville Housing Authority's published utility allowances estimate gas heat for efficiencies in this market to be \$25. The Appraiser confirmed, with local brokers and the property manager at *Lebanon*, that \$25 per month was a reasonable estimate of the amount tenants would expect to pay for gas heat in this market. Based on this information, a positive \$25 adjustment was made to *Lebanon* and *Park View*.

Line 35. Cooking. At the subject property and four of the comparables, electricity used for cooking is not included in the rent. Tenants must pay for this separately. However, at **Glen Park**, all utilities are included in the rent. The Appraiser made a negative \$5 adjustment at **Glen Park** because, in his judgment, a knowledgeable tenant would expect to pay slightly less if electricity for cooking was not included in the rent. This adjustment is consistent with utility allowances published by the housing authorities in both Smithville and Channel Crossing.

Line 36. Hot Water. The cost of heating hot water is included in the rent at the subject and three of the comparables. At **Lebanon** and **Park View**, tenants pay for hot water. Gas is the heat source at both of these complexes. The Smithville Housing Authority's published utility allowances estimate gas hot water for an efficiency in this market to be \$10. The Appraiser confirmed, with local brokers and the property manager at Lebanon, that \$10 per month was a reasonable estimate of the amount tenants would expect to pay for gas hot water in this market. Based on this information, a positive \$10 adjustment was made to **Lebanon** and **Park View**.

Line 37. Other Electric. At the subject property, the electric utility charges associated with lights and plugs are not included in the rent. Tenants must pay for this separately. This is also the case at four of the comparables. However, at **Glen Park** all utilities, including electricity for lights and plugs, are included in the rent. According to the utility allowances published by the housing authorities in Smithville and Channel Crossing, the cost of electricity for lights and plugs is typically \$20 per month. The appraiser made a negative \$20 adjustment at **Glen Park** to indicate that tenants would typically be willing to pay \$20 less if they were required to pay directly for other electric.

Line 46. Conclusion of Market Rent, Primary Unit Type.

- a. The adjusted rents range from \$430 to \$510. **Lebanon** and **BCD Village** are the best comparables, because they are most similar to ABC Village Apartments. Both complexes are located in the subject's neighborhood within a mile of the subject, lease to the elderly and offer elderly services, and are elevator buildings with comparable street appeal. Therefore, greatest weight was placed on Lebanon and BCD Village.
- b. **Glen Park** is a good comparable except for the fact that it is outside the subject's market area. Less weight was placed on it for this reason.
- c. Minimal weight was given to **Holland** and **Park View**, which are outside the subject's neighborhood and are not elevator buildings. Further, Holland is a family complex and Park View required the most adjustments (*primarily because it just recently completed renovation, is still in lease up, lacks elderly amenities, and is located in a more desirable location*).

The Appraiser concluded the market rent for the 450 square foot efficiency units to be \$485, which is \$1.08 per square foot.

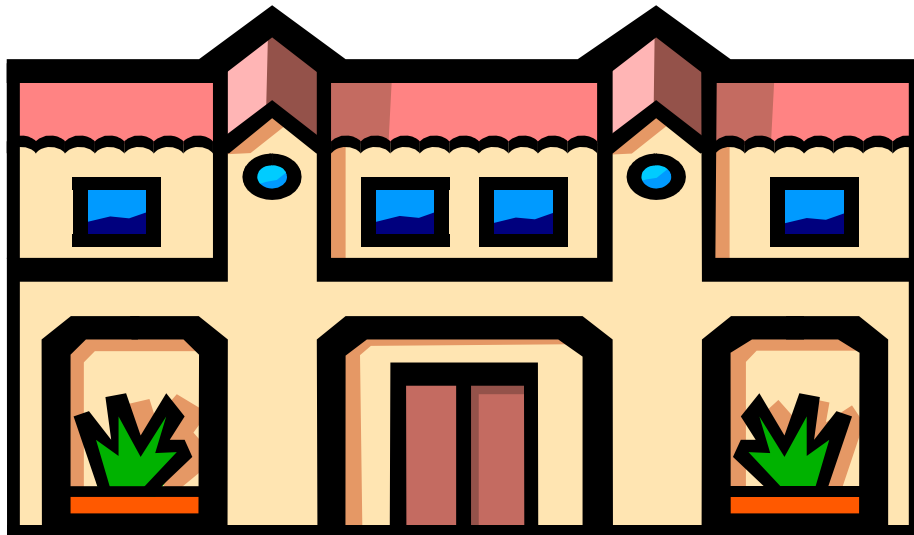
Conclusion of Market Rent, Secondary Unit Type. Since the two unit types would be identical except for the 50 square foot difference in size, a separate grid was not prepared. A rental conclusion for 500 sq. ft. units was obtained by adjusting the primary, 450 sq. ft unit by the appropriate square foot adjustment (\$20 for 50 square feet, as

computed in Comment #13 above). The Appraiser concluded market rent for the larger, 500 sq. ft. efficiency units to be \$505 -- the primary unit's \$485 rent plus the \$20 adjustment. This is \$1.01 per square foot.

Lebanon Apartments
 13 Main Street
 Smithville, ST 00012

Management Agent: **XXX Management**
 Contact: **Ira Menzer**
 Contact Phone: **(000) 555-4444**

County: **Gloucester**
 Cross Street: **Broad and Main Street**
 Neighborhood: **Highlands**



| Unit Type | No. of Units | Used as Comp in RCS? (Y/N) | Average Rent | Interior Size (SF) | Any Rent Restrictions? (Y/N) |
|-----------|--------------|----------------------------|--------------|--------------------|------------------------------|
| 0 / 1 | 3 | Y | \$505 | 500 | N |
| 1 / 1 | 45 | N | | | |
| 2 / 1.5 | 2 | N | | | |

Total Units: 50

Project Occupancy: 93%

Charges in Addition to Rent: Garage parking available for \$55

Subsidies and Restrictions at Project: None

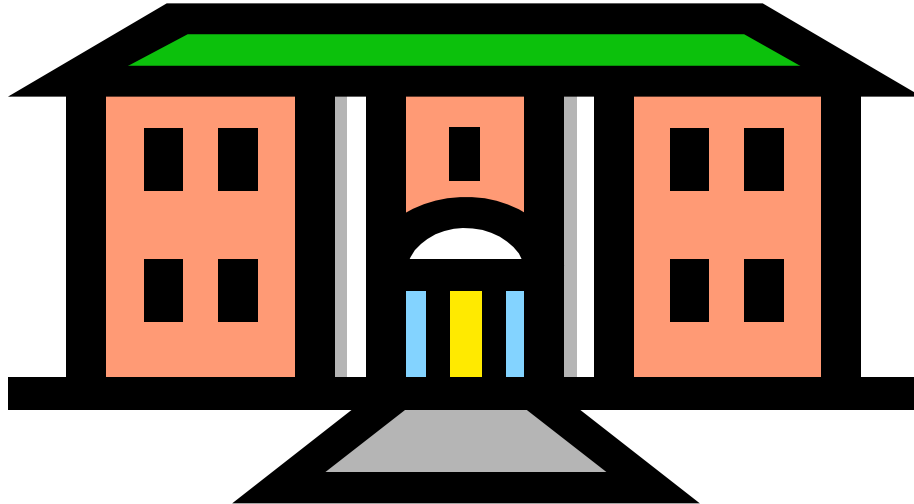
Other Comments: Elderly project

Date Information Verified: 3 / 22 / 00

BCD Apartments
 212 South Street
 Smithville, ST 00012

Management Agent: **ABC Management**
 Contact: **Betty Smith**
 Contact Phone: **(000) 555-6666**

County: **Gloucester**
 Cross Street: **South and Main Street**
 Neighborhood: **Highlands**



| Unit Type | No. of Units | Used as Comp in RCS? (Y/N) | Average Rent | Interior Size (SF) | Any Rent Restrictions? (Y/N) |
|------------------|---------------------|-----------------------------------|---------------------|---------------------------|-------------------------------------|
| 0 / 1 | 25 | Y | \$500 | 550 | N |
| 1 / 1 | 25 | N | | | |

Total Units: 50

Project Occupancy: 93%

Charges in Addition to Rent:

Subsidies and Restrictions at Project: None

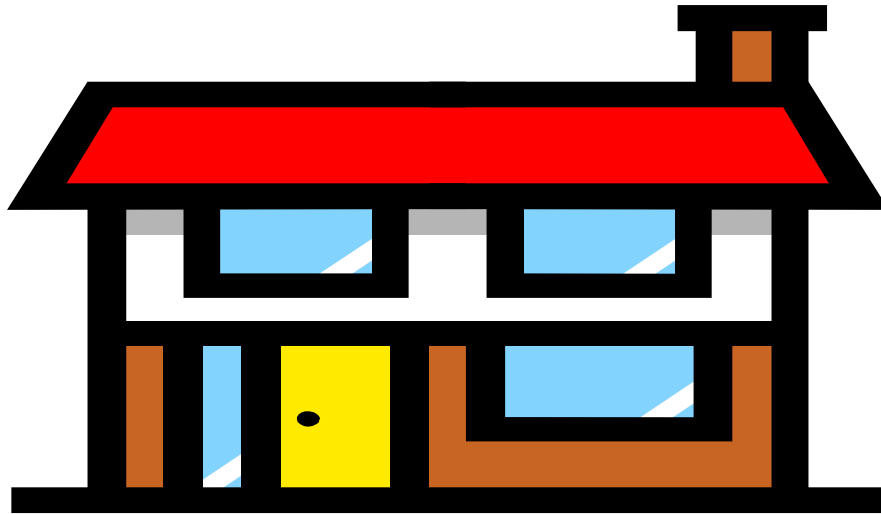
Other Comments:

Date Information Verified: 3 / 18 / 00

Holland Apartments
 117 South Street
 Smithville, ST 00012

Management Agent: **XXX Management**
 Contact: **Ira Menzer**
 Contact Phone: **(000) 555-4444**

County: **Gloucester**
 Cross Street: **Broad and Marginal Way**
 Neighborhood: **Mixed commercial & residential**



| Unit Type | No. of Units | Used as Comp in RCS? (Y/N) | Average Rent | Interior Size (SF) | Any Rent Restrictions? (Y/N) |
|-----------|--------------|----------------------------|--------------|--------------------|------------------------------|
| 0 / 1 | 3 | Y | \$415 | 500 | N |
| 1 / 1 | 48 | N | | | |
| 2 / 1.5 | 24 | N | | | |

Total Units: 75

Project Occupancy: 94%

Charges in Addition to Rent:

Subsidies and Restrictions at Project: None

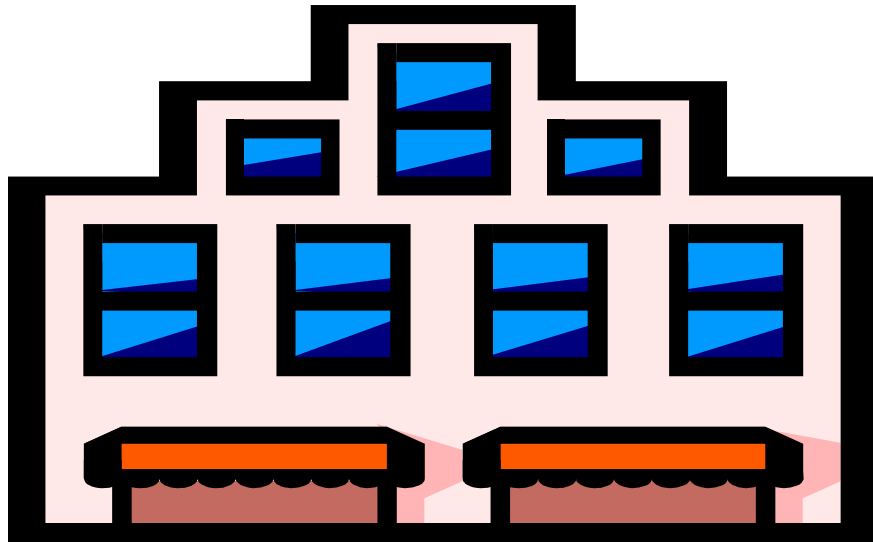
Other Comments:

Date Information Verified: 3 / 22 / 00

Park View Apartments
 17 Park Avenue
 Lexington, ST 00456

Management Agent: **123 Management**
 Contact: **Janet Spence**
 Contact Phone: **(000) 555-5555**

County: **Gloucester**
 Cross Street: **Main Street at Maple Ave**
 Neighborhood: **Residential**



| Unit Type | No. of Units | Used as Comp in RCS? (Y/N) | Average Rent | Interior Size (SF) | Any Rent Restrictions? (Y/N) |
|-----------|--------------|----------------------------|--------------|--------------------|------------------------------|
| 0 / 1 | 30 | Y | \$525 | 550 | N |
| 1 / 1 | 30 | N | | | |

Total Units: 60

Project Occupancy: 80%

Charges in Addition to Rent: Garage parking available for \$65

Subsidies and Restrictions at Project: One-bedroom units are restricted to households earning less than 60% of median income. Rent is based on requirements of low-income housing tax-credit regulations.

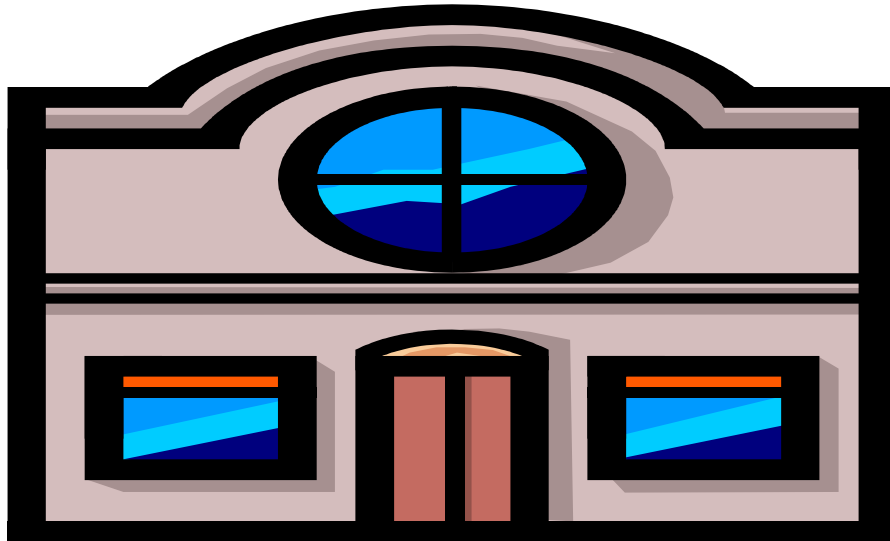
Other Comments: Elderly project

Date Information Verified: 3 / 20 / 00

Glen Park
 305 37th Street
 Channel Crossing, ST 00123

Management Agent: **XYZ Management**
 Contact: **John Adams**
 Contact Phone: **(000) 666-5555**

County: **Jefferson**
 Cross Street: **Pleasant Avenue and 37th**
 Neighborhood: **Park East**



| Unit Type | No. of Units | Used as Comp in RCS? (Y/N) | Average Rent | Interior Size (SF) | Any Rent Restrictions? (Y/N) |
|-----------|--------------|----------------------------|--------------|--------------------|------------------------------|
| 0 / 1 | 10 | Y | \$525 | 450 | N |
| 1 / 1 | 25 | N | | | |
| 2/1 | 15 | N | | | |

Total Units: 50

Project Occupancy: 98%

Charges in Addition to Rent:

Subsidies and Restrictions at Project: None

Other Comments: Elderly project

Date Information Verified: 3 / 29 / 00

Appraiser Certification***Project Name:*** ABC Village Apts***FHA Project No :*** 12335666***By my signature below, I certify that, to the best of my knowledge and belief:***

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective financial interest in the above property, its ownership or management agent entity, or the principals of those entities. I am not an employee of those principals or entities and I have no business or close personal/family interest with those parties that commonly would be perceived to create bias or a conflict of interest.
4. I have no bias with respect to the property that is the subject of this report or to the ownership or management parties involved with this assignment.
5. My engagement in and compensation for this assignment were and are not contingent upon the reporting of a predetermined rent or direction in rent. My fee is my only compensation for this rent study assignment. There are no other side agreements or considerations.
6. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice and all applicable HUD procedures for performing Rent Comparability Studies for Section 8 contracts.
7. Joe Jones & Sharon Allen inspected the interior and exterior of the subject property. Sharon Allen inspected the exteriors of the properties used as comparables in this report.
8. No one provided significant professional assistance to the person signing this report except the persons listed here: Sharon Allen, Assistant Appraiser. If anyone is listed here, his/her contribution is identified in the Scope of Work section of this report.
9. I am a certified general appraiser, licensed and in good standing with the state appraiser regulatory agency where the subject property is located and I meet all of the appraiser qualifications required in HUD's rent comparability procedures.
10. I am not debarred or suspended from doing business with the Federal Government. I also am not under a Limited Denial of Participation (LDP) imposed by the HUD Multifamily HUB or Program Center having jurisdiction over the Section 8 project. Any LDPs in effect now or in the past three years were imposed by the following HUD offices. None

Warning: If you knowingly make a false statement on this form, you may be subject to civil penalties under Section 1001 of Title 18 of the United States Code. In addition, any person who knowingly and materially violates any required disclosure of information, including intentional non-disclosure, is subject to civil money penalty not to exceed \$10,000.00 for each violation.

Appraiser's Name: Joe Jones**Signature:** Joseph Jones**Date:** 4/15/00**Permanent License No:** CG2222**Issuing State:** ST**Expires:** 4/15/01**Did you prepare the RCS under a temporary license?** No *If so, attach a copy of the temporary license.*

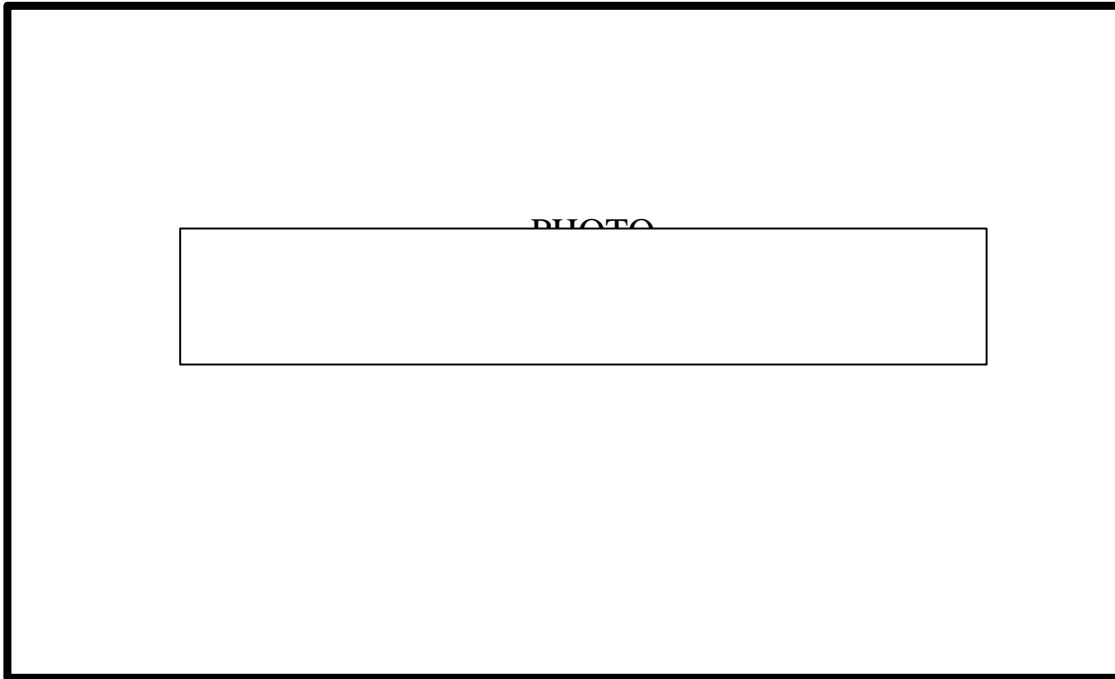
Subject Photos

Additional Photos of Comps

Property Name
 Address
 City/Town, State Zip Code

Management Agent:
Contact:
Contact's Phone:

County:
Cross Street:
Neighborhood:



| Unit Type | No. of Units | Used as Comp in RCS? (Y/N) | Average Rent | Interior Size (SF) | Any Rent Restrictions? (Y/N) |
|-----------|--------------|-------------------------------|--------------|-----------------------|---------------------------------|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |

Total Units: ____

Project Occupancy: ____%

Charges in Addition to Rent:

Subsidies and Restrictions at Project:

Other Comments:

Date Information Verified: __/__/__

Reserved for future use.

***Request to Renew Using Non-Section 8 Units in the Section 8 Project
as a Market Rent Ceiling***

Project Name: _____ **Section 8 contract No (s):** _____
FHA Project No: _____

I am asking to renew the above Section 8 contract(s) under Option 2 (Chapter Four of this Guide), using the non-Section 8 units in that project as a market rent ceiling instead of performing a traditional rent comparability study. The top half of the attached table compares the current and proposed Section 8 rents with the rents paid by tenants not receiving tenant rental assistance. The bottom half of the table shows how the proposed Column D rents were computed. The applicable OCAF or budget worksheet is attached to the table.

I certify that:

1. The above contract(s) is eligible to be renewed under Option 2 of this Guide.
2. At least 25% of each unit type being renewed is occupied by tenants who pay the full rent due the owner and receive no tenant rental assistance. "Tenant rental assistance" includes project-based Section 8, certificates / vouchers, PRAC/PAC in a 202/811 project, Rent Supplement, Rental Assistance (RAP), or any comparable federal/state/ other public subsidy.
3. For each unit type being renewed, the proposed Section 8 contract rent is no more than the average rent tenants not receiving rental assistance pay for that unit type. The average rent for each unit type is shown on the attached table. Units and rents used to compute the average rent are identified on the attached rent roll.
4. Units used to compute Paragraph 3's average rent have been paying (*without assistance and for three or more months*) at least the rent levels used in computing the average. These units do not receive rental concessions or rebates and tenants in these units have no business or family relationship with the project's ownership or management.
5. The Section 8 units and the units occupied by tenants not receiving tenant rental subsidies are nearly identical. They have the same number of bedrooms & baths; are similar in condition, layout & size; and have the same amenities & utilities included in the rent.

6. Occupancy rates in the units occupied by tenants not receiving tenant rental subsidies are not significantly less than occupancy levels for those unit types in the project's market area.

Warning: If you knowingly make a false statement on this form, you may be subject to civil penalties under Section 1001 of Title 18 of the United States Code. In addition, any person who knowingly and materially violates any required disclosure of information, including intentional non-disclosure, is subject to civil money penalty not to exceed \$10,000 for each violation.

Owner Name

Owner Signature

Date

This is a sample. See next page for a blank form.

Request to Renew Using FMRs as Market Ceiling

Project Name: _____

Project No: _____

Contract No(s): _____

I am requesting to renew the above Section 8 contract(s) under Option 2 using 75% of FMRs as a market rent ceiling instead of performing a Rent Comparability Study. I believe both the current and proposed Section 8 rents are below market rents for similar units in the Section 8 project's market area.

FMRs used below are from FMR schedule effective **October 1,1999** for **Boulder-Longmont, CO PMSA**, the county or MSA where project is located. Proposed rents were calculated using the OCAF/ budget procedures from Attachment 4 of Notice 99-36. The OCAF/ budget worksheet is attached.

Increase factor from 99-36's Attmt 4: 1.0199

Complete columns 1-4, 6 and 9. Spreadsheet will compute the

| 1 | | 2 | 3 | 4 | | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
|----------------|------------|---------|---------------------|------------------------------|-------------------|-------------------------|--------------------------|-------|-------------------------|--------------------------|-----------------------|----|----|
| Units Renewing | | | Sec 8 Contract Rent | | | | Sec 8 Gross Rent | | | | Sec 8 Gross Potential | | |
| Unit Type | # of Units | Sq. Ft. | Current | Proposed (col 4 x factor) | Utility Allowance | Current (Cols 4 + 6) | Proposed (Cols 5 + 6) | FMR | Current (Cols 2 x 7) | Proposed (Cols 2 x 8) | FMR (Cols 2 | | |
| 1 BD/1 B | 5 | 500 | 465 | 474 | 25 | 490 | 499 | 629 | 2,450 | 2,496 | 3,14 | | |
| 2 BD/1 B | 5 | 600 | 560 | 571 | 41 | 601 | 612 | 806 | 3,005 | 3,061 | 4,06 | | |
| 2 BD/1.75 B | 5 | 650 | 610 | 622 | 62 | 672 | 684 | 1,123 | 3,360 | 3,421 | 5,61 | | |
| | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |
| | | | | | | | | | | | | | |

| | | | | | | | | | | | | |
|---|--|--|--|--|--|--|--|--|-------------------------|----------------|----------------|-----------------|
| Both current & proposed potential must be < 75% of FMR potential. | | | | | | | | | Total | \$8,815 | \$8,978 | \$12,145 |
| | | | | | | | | | Total/ FMR Pot'l | 69% | 70% | \$9,500 |

I certify this table is accurate to the best of my knowledge and belief.

Warning: If you knowingly make a false statement on this form, you may be subject to civil penalties under Section 1001 of Title 18 of the United States Code. In addition, any person who knowingly and materially violates any required disclosure of information, including intentional non-disclosure, is subject to civil money penalty not to exceed \$10,000.

Owner Name

Owner Signature

Date

Completing the Rent Comparability Grid (HUD 92273-S8)


Important: Before preparing the Rent Grid, read the guidance provided in Chapter Nine of this Guide, pay special attention to the information contained in Sections 9-12 and 9-13. If you are using HUD's Excel worksheet, be sure to read the notes to Excel users on the next page before you set up your Rent Grids or start loading data.

General Instructions

1. **Prepare a separate Rent Grid** for each *primary* Section 8 unit type. See Section 9-9A2 for guidance on classifying unit types as primary or secondary. Complete a data and an adjustment column for each comparable. Show all comparables for one unit type on one grid. Enter the comparable's name and address at the top of each column.
2. **Data Columns.** Complete all lines of the Grid's data columns – i.e., even lines/characteristics for which you will make no adjustment. Use the letter codes listed in the line-by-line instructions below. Use blank lines to add other characteristics that would affect the rent a property could command in the subject's market area.
3. **Adjustment Columns.** Not all of the characteristics will affect rents. Local market conditions will dictate if, when and how much of an impact each characteristic will have upon rent. Make adjustments only for differences in characteristics that would affect the amount of rent tenants in the *subject's* market area are willing to pay.
 - a. The goal is to determine what rent the comparable could obtain if it were more like the subject. Thus, if the comparable is:
 - *inferior* to the subject on a particular characteristic, adjust the comparable upward -- i.e., enter the adjustment as a *positive value* to indicate that residents of the comparable would pay *more* if the comparable looked more like the subject on that characteristic.
 - *superior* to the subject, adjust the comparable downward -- i.e., enter the adjustment as a *negative value* to indicate that residents of the comparable would pay *less* if the comparable looked more like the subject on that characteristic.
 - b. Leave adjustment entries blank (*not zero*) if local renters would not pay for the difference shown on that line. Display adjustments in dollar amounts. If you are using Excel, precede negative adjustments with a minus sign and Excel will format the entry in red type and parentheses. If you are typing on hard copy, enclose negative values in parentheses.
4. **Narrative Explanations.**
 - a. Attach a narrative explaining *why* each adjustment was made and *how* the dollar value of the adjustment was derived. Prepare a separate set of explanations for each Grid. If an explanation applies to more than one comparable, you may refer back to that explanation rather than repeating it each time (e.g., the location adjustment for comp #Y was estimated for the same reason and in the same way as for comp #X).
 - b. If the data columns show a comparable differs significantly from the subject project but you did not adjust, explain why.

- c. Be sure to include the *two additional narrative* explanations required for the estimated market rent, Line 46 of the instructions. These include an explanation of how: 1) market rent was derived from the comparables' adjusted rents; and 2) a primary unit type's market rent was adjusted to derive a market rent for a secondary unit type.

If you are using the Excel version of the Rent Grid ...

- The worksheet is protected and cells containing formulas are locked. If you try to enter data in a formula cell, you will receive an error message telling you the cells are locked and cannot be changed.
- The tab key will move you horizontally within the print area of the worksheet. It will let you skip locked, formula cells and stop only at cells designed to receive data. As you enter adjustments, Excel will automatically compute any counts, sums or percentages requested on the form.  **Note:** The Tab Key will navigate as described only if the Excel settings are configured to: 1) *not* check the Transition Navigation Keys box; and 2) check the "Microsoft Excel Menus" button. Go to Tools-Options-Transition Tab to check settings.
- As you scroll horizontally to the right, columns will shift left and be hidden behind Column C's row labels. This keeps line labels next to the data cells, making it easier to accurately load data. To view the hidden columns, just scroll back to the left. Similarly, as you scroll down, rows will move up and disappear under the column headings. To bring the rows back into view, just scroll up.
- The "Create New Grid" button allows you to simultaneously add a new unit type worksheet, label the tab at the bottom of the worksheet, and fill in the Unit Type box at the top of the worksheet. You can enter different names/ labels for the tab and the unit type box on top.

IMPORTANT: If you use the **Create New Grid** button, the resulting worksheet will contain all of the data that was on the worksheet containing the button. You will need to edit any data that is not appropriate for the new unit type. So, decide how you want to use the button. For example, you could:

1. Load just the project names and other identifying header data that will apply to most unit types and then use the Create New Grid button to create a worksheet for each unit type. You could then load amenity and adjustment entries either individually on each sheet, by copying specific cells from one worksheet to another, or by clicking the control key and selecting multiple worksheets. When you use the control key option, data is entered simultaneously in the same cell location on all of the worksheets you selected.
2. Fully complete one unit type worksheet, use the Create Grid button to add another worksheet, and edit the resulting worksheet to change data that is not appropriate for the new unit type. Be careful! Don't forget to check any copied data.

Part A: Rents Charged (lines 1 through 5)

Before the rents for comparable units can be adjusted for differences from the subject, they must be adjusted for conditions at the comparable property itself. This section makes adjustments that are primarily internal to each individual comparable and produces an effective rent. Subsequent sections adjust each comparable's effective rent by comparing the comparable to the subject property.

Line 1. \$ Last Rent/Restricted? In the “data” column, enter the rent at which this unit type was last leased. This must be a rent that was actually paid; do not enter an asking rent which has not yet been achieved. In the adjustments column, enter “Y” if the unit is rent restricted and “N” if it is not. Rent restricted units include those that are subject to rent control, rent stabilization or other restrictions on the unit rent. (Example: LIHTC, HOME, HOPE VI, and 236/BMIR/ Rural Development Section 515 units). *Identify the specific reason for a yes answer in the narrative explanation of adjustments.*

Note: No dollar adjustments may be made on this line. Rent restricted units should be used as comparables only when they reasonably represent market rents.

Line 2. Date Last Leased. In the data column, enter the date (*month/ year*) that unit type was most recently leased. This should be the date the most recent lease for the rent on Line 1 became effective. Make an adjustment here only if the rental market has changed significantly between the date on this line and the date of your analysis. This adjustment may be needed when the comparable is at full occupancy and has had no turnover for an extended period. If market conditions have not changed, do not adjust ... even if considerable time has elapsed since Line 1's rent became effective.

Line 3. Rent Concessions. Is the comparable offering rent or renewal concessions? Enter “Y” or “N”. Enter a negative adjustment to reflect the value of the concession. Prorate the concession over the typical lease period for the market. For example, make a (\$33) adjustment for one month free on a 12-month lease, at \$400 /month.

Line 4. Occupancy % for Unit Type. Consider *only* the unit type represented by the comparable. Enter the approximate percent of units *in that type* that are occupied as of your data collection date. Do *not* enter occupancy for all unit types at the comparable. If the comparable's occupancy rate for the unit type under consideration is not typical of the comparable's market, determine if the occupancy differential is due to the rent being set too high/ too low ... or to other factors.

- a. If the occupancy gap is due to factors other than Line 1's rent level (e.g. condition or location), do *not* make an adjustment. Adjust only if the occupancy gap is clearly due to the rent level used on Line 1. If the comparable's occupancy for the unit type being studied is significantly lower than the typical occupancy rate for that unit type, adjust negatively to indicate that the rent is too high. If the comparable's occupancy for the unit type being studied is significantly higher than the typical occupancy rate for that unit type, make a positive adjustment.

- b. If the property manager/ other contact for a comparable is unwilling or unable to provide occupancy rates *by unit type*, the appraiser should report overall occupancy for the comparable and note in the Item 4 explanation that the occupancy rate is project-wide. If only overall occupancy is reported, an occupancy adjustment may be made only if the unit mix is such that the appraiser can still conclude that the occupancy for the unit type is significantly different than market occupancy levels for that unit type. **Example:** If a project has 99% occupancy and 100 units (50 one bedrooms, 50 two bedrooms), one could still conclude that the two - bedroom units being studied were at least 98% occupied. The appraiser must explain how he/ she arrived at that conclusion.

Line 5. Effective Rent and Rent/ Sq. Ft. Enter the sum of lines 2, 3, and 4. This yields an effective rent after age of the lease, occupancy, and rental concessions are taken into account. If you are using Excel, the form will automatically calculate the total rent. After you enter the unit size in Part C, the form will also display the effective rent per square foot. **Note:** If you are typing on hard copy, enter the rent / sq. ft in the adjustment column of each comparable. Divide the effective rent on Line 5 by the unit size on Line C13.

Part B. Design, Location, Condition (lines 6 through 10)

This section allows for comparison of the comparable to the subject in terms of design, materials, condition, location, and appeal. The total adjustments in this section should not exceed the value a typical renter would place on these characteristics in the aggregate.

Line 6. Structure/ Stories. Enter the type of structure. Use “E” for Elevator, “G” for Garden, “WU” for other walk-up, and “T” for townhouse. Follow the letters with a slant bar and the number of stories. For example, enter “WU/3” for a three-story walk-up. Try to select comparables that have the same structure type as the subject.

Line 7. Year built/Year renovated. Enter the year the property was built. If it has been renovated, follow with a slant bar and the year the property was renovated. For example, 1939/70 would indicate that the property was built in 1939 and renovated in 1970. Adjust on this line if the effective age (*the age indicated by the utility/ quality of the structure and major equipment*) affects rental value. Consider if basic structures and major equipment have been replaced and whether baths and kitchens have been renovated.

Line 8. Condition/ Street Appeal. Enter “E” for excellent, “G” for good, “F” for fair, or “P” for poor. If the design of the building or the street appeal of the property would affect the rents it can command, adjust appropriately. Consider the overall appearance of the property -e.g., are grounds clean? landscaping well maintained? paint or siding in good shape? layout on site appealing (open space, shrubbery, etc)? especially appealing exterior architecture? Would the comparable’s condition/street appeal cause applicants to pay more or less than they would pay at the subject? *Take care not to duplicate adjustments made on line 7. Adjustments made on lines 7 and 8 should not add to more than a tenant would pay if factors on Lines 7 and 8 were considered collectively.*

Line 9. Neighborhood. Enter “E” for excellent, “G” for good, “F” for fair, or “P” for poor. The entry should reflect the market’s reaction to location features that affect rental values -- e.g., neighborhood desirability; nuisances such as street noise; nearby land uses; crime volume; and access (time/distance) to schools, transportation, shopping, recreation, and medical and employment centers.

- The Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA) specifically requires that neighborhood (including risk of crime), location and access be considered.
- HUD FHEO guidelines prohibit negative adjustments based solely on the racial, ethnic, religious mix of properties or their surrounding areas or other discriminatory criteria. Adjustments must be based on objective, quantifiable factors.

Line 10. Same Market? Miles to Subject? Is the comparable in the same market area as the subject? Enter “Y” or “N”. Follow the entry with a slant bar, and the distance between the comparable and the subject in miles. If the comparable is in a different market area, collect quantitative data to compare the rent levels in the two market areas. Adjust for any significant difference in rental costs between the two market areas and explain how you computed the adjustment. If the comparable is in a different market area and you don’t adjust, explain why.

Part C. Unit Equipment/Amenities (lines 11 through 23)

This section details specifics about the unit and its equipment and amenities. Use the blank line to add unit amenities or equipment that aren’t listed but significantly affect the rent a tenant would pay. Total adjustments made for this Part should not exceed the value a typical renter would place on all unit amenities.

Line 11. # Bedrooms. Enter the number of bedrooms in the unit. Use “0” for efficiencies. If a comparable and the subject have a different number of bedrooms, explain why you selected a comparable of a different bedroom type in the Selecting Comparables narrative required by Section 4 of the Notice.

Line 12. # Baths. Enter the number of bathrooms in the unit. Use decimals to represent partial baths. For example, enter 1.5 to indicate one full bath and one bath with a toilet and sink, but no tub or shower stall.

Line 13. Unit Interior Sq. Ft. Enter the rentable *interior* square footage of the unit. Do not include balconies, mechanical areas or other non-living spaces. Explain: a) how the square footage of the subject was derived and how it corresponds to the square footage of the comparables; and b) the method used to determine the size adjustment.

Note: Adjust only if and to the extent the subject’s market values a size difference. Some markets may not value small size differences and a difference in size may not increase the market value of a larger unit to the same degree that it might a smaller unit. For example, a difference of 50 sq.ft. might command a higher rent in a 500 sq. ft., 1-bedroom unit, than in an 800-sq. ft., two-bedroom unit.

Line 14. Balcony/Patio. Does the unit have a balcony or a patio? Enter “Y” or “N”.

Line 15. AC: Central/Wall. The entry should reflect the type of cooling equipment in the unit, using “C” for central, “W” for wall unit, or “N” for none. Adjust only for the value of having AC equipment and for differences in the type of equipment (wall, central, etc.). Do not adjust for the cost of running the air conditioner; adjust for that on Line 34.

Line 16. Range /Refrigerator. Enter “R” for range, “F” for refrigerator, or “RF” if the unit has both appliances. If neither is present, enter “N”.

Line 17. Microwave/ Dishwasher. Enter “M” for microwave, “D” for dishwasher, or “MD” if the unit has both appliances. If neither is present, enter “N”.

Line 18. Washer/Dryer. If there is a washer/dryer hookup in the unit but the landlord supplies neither appliance, enter “HU.” If the appliances are provided in the unit, enter “W” for washer, “D” for dryer or “WD” for both. If there is a common laundry area in the property, enter “L”. If the property offers no laundry facilities, hookup, or appliances in the unit, enter “N”.

Line 19. Floor Coverings. Indicate the predominant floor covering in the unit, using “V” for vinyl, “W” for wood, and “C” for carpet.

Line 20. Window Coverings. If the unit is rented with window treatments, enter “B” for blinds or “S” for shades or “D” for drapes. If the unit is rented without window coverings of any kind, enter “N” for none.

Line 21. Cable/Satellite/Internet. Enter “C” for cable TV, “S” for satellite TV, and “I” for Internet access. If the property has more than one of these amenities, enter all the corresponding letters. For example, “CSI” would indicate a property that offers all of these amenities. Consider whether the property merely offers *access* to the services or whether it offers the service itself *as part of the rent*. If only access is offered, adjust based on market value attributable to availability of the service. If the service is included in the base rent, reflect the value of both access to and provision of the service.

Line 22. Special Features. Use this line to adjust for items that are valued in the project’s market but not listed above - e.g., views, fireplaces, vaulted ceiling. Enter “VW” for view, “F” for fireplace, or “VC” for vaulted ceiling. If the unit has safety bars, ramps, or other features to improve access for disabled or elderly, enter “A”.

Lines 23. Blank line. Use this line to add a unit amenity that isn’t listed but significantly affects the rent a tenant would pay. Describe the amenity on the line provided and make dollar adjustments as appropriate.

Part D. Site Equipment/Amenities (lines 24 through 32)

This section details specifics about the property and its amenities. Use the blank to add site amenities that aren’t listed but affect the rent a tenant would pay. Total adjustments

in this Part should not exceed the total value a typical renter would place on all amenities in this Part.

Line 24. Parking (\$ Fee). Enter “L” for lot parking, “G” for garage, and “CP” for covered parking, followed by a slant bar and the amount of the additional charge, if any, the tenant pays for the service. In there is no charge, enter “0”. Adjustments for the presence of a garage or carport should relate to local market demand for parking at similar unit/project types. *Adequacy* of parking at the subject or comparable properties must also be considered in the adjustment. If on-site parking is inadequate, comment on the availability and adequacy of on-street parking. What constitutes adequate parking will vary according to the location of the property and the type of tenancy. If tenants pay for parking outside of rent, adjust based upon the market value of having the parking available. If the parking is included in the rent, reflect the value of the parking itself.

Line 25. Extra Storage. Enter “Y” or “N” indicating whether tenants are provided with additional storage space. This may include extremely large or functional closets or outside storage. Before adjusting for any storage inside the unit, be sure that any adjustment for unit size did not already capture that value.

Line 26. Security. Does the property offer security features such as locked doors with intercom or security guards? Enter “Y” or “N”. Consider whether lack of security has a negative influence on the rent. Describe any security in your comments on Item 26.

Line 27. Clubhouse/Meeting Rooms/Dining Rooms. Enter “C” for clubhouse, “MR” for meeting rooms, and “DR” for dining room. If the property has none, enter “N”

Line 28. Pool/Recreation Areas. Enter “P” for pool, “E” for exercise rooms, or “R” for other recreation facilities such as playgrounds, volleyball or basketball courts. Be sure to describe the type of recreation facilities in your narrative description of adjustments.

Line 29. Business Center/Neighborhood Network. If the property has a business center offering office services such as copying and faxing, enter “BC.” If the property has a HUD sponsored Neighborhood Network, enter “NNW”. Enter “N” for neither. **Important:** Before completing this line, see Section 9-12C4 of this Chapter for guidance on valuing non-shelter amenities.

Line 30. Service Coordination. Does the property have a service coordinator that helps residents access social services, health care or resources for meeting other needs? Enter “Y” or “N”. **Important:** Before completing this line, see Paragraph 3-6C4 of the Notice for guidance on valuing non- shelter amenities.

Line 31. Non-Shelter Services. Enter “M” for meals, “T” for transportation, “EC” for emergency call systems, “H” for housekeeping, and “L” for laundry service ... or “N” for none. Write in and fully describe (in your adjustment explanations) any other services provided for the elderly or disabled. **Important: Before completing this line, see Section 9-12C4 of this Chapter for guidance on valuing non-shelter amenities.** That paragraph discusses valuing access to services vs. valuing actual delivery of service and precludes certain adjustments for mark-to-market projects.

Lines 32. Blank. Use this blank line to add a site equipment or amenity that isn't listed but significantly affects the rent a tenant would pay. Describe these on the lines provided and make dollar adjustments as appropriate.

Part E. Utilities (lines 33 through 39)

- a. For each line in this part, enter “Y” if the service is included in the rent and “N” if it isn't. Follow the Y or N entry with a slant bar and the energy source for the utility addressed on that line. If the property does not have a utility listed here, leave the space blank. “Other Electric” on line 37 includes the cost of electricity for things not listed separately on the form (e.g., lights and outlets).
- b. If a utility is:
 - excluded from the comparable rent but included in the subject rent, enter a ***positive*** adjustment that reflects the amount prospective tenants would reasonably expect to pay for that utility at the ***comparable***.
 - included in the comparable rent but not the subject rent, enter a ***negative*** adjustment that reflects what prospective tenants would reasonably expect to pay for that utility at the ***subject***.
- c. See Section 9-12C3 of this Chapter for more guidance on valuing differences in utilities.

Part F. Adjustments Recap (lines 40 through 43)

This section calculates both the number and dollar value of adjustments, both before and after utility adjustments. If you are using Excel, the form will automatically calculate these items. If you are typing on hard copy, compute these manually.

Line 40 # of Adjustments B through D. Enter the ***total number*** of positive and, separately, negative adjustments you made to each comparable for items *in Parts B through D*.

Line 41. Sum of Adjustments B through D. Enter the ***total dollar amount*** of positive and, separately, negative adjustments you made to each comparable for items *in Parts B through D*.

Line 42. Sum of Utility Adjustments. Enter the ***total dollar amount*** of positive and, separately, negative adjustments you made to each comparable for the *utility items* in Part E of the form.

Line 43 Net/Gross Adjustments B to E. For ***net*** adjustments, add the four entries (positive and negative) on Lines 41 and 42. For the ***gross*** adjustments, add the positive entries on Lines 41 and 42 to the ***absolute value*** of the negative entries on those lines. (See sample completed Grid in Appendix 9-3 for an example.)

Part G. Adjusted Rents (lines 44 through 45)

If you are using Excel, the form will automatically calculate these items. If you are typing on hard copy, compute these manually.

Line 44. Adjusted Rent. Add the *net adjustments* (Line 43) to the *Effective Rent* (Line 5) to derive an adjusted rent for each comparable.

Line 45. Adjusted Rent/Last rent. Divide the *Adjusted Rent* (Line 44) by the *Last Rent* (Line 1) and express the answer as a percent. [This shows the impact of all adjustments made for all Parts of the form. The previous totals in Part F did not include the adjustments in Part A.]

Line 46. Estimated Market Rent. Using your professional judgment, determine what point in the range of adjusted rents best represents the rent a knowledgeable applicant would most probably pay for that unit type at the subject. Enter that amount. Excel will divide that rent by the square footage shown for the subject in Part C. Do this manually if you are typing on hard copy. ***Be sure to explain the points listed below. Present these explanations immediately after your Item 46 comments. Studies without these explanations will be rejected.***

- **how the estimated market rent was derived from comparables' adjusted rents.** Explain *how* the estimated market rent was derived and *why* it was derived that way. Note which comparables were given the most weight and why. If the estimated market rent is set at the high or low end of the adjusted rents' range, explain why.
- **how the estimated market rent derived on the Grid was adjusted to estimate a market rent for a similar, secondary unit type.** Explain what adjustments were made and why. (*Note: See Section 9-9A2 of this Chapter for guidance on classifying unit types as primary or secondary.*)

Bottom of form: Be sure to sign and date the form. Also indicate whether you prepared the Grid in Excel (*with the computer running the calculations using HUD's formulas*) or by manually entering the data and calculations. If you used another approach (e.g., imported to Lotus), note that on bottom of the grid or at the end of your Grid comments.

Public reporting burden for this rent study is estimated to average 28 hours per study. This includes time for reviewing instructions, research and data collection and preparing the report. The 1997 Housing Act (MAHRA) and the HUD 2000 or 1997 Appropriations Act requires this information. The information is used to ensure that Section 8 rents do not exceed market limits imposed by statutes. This information is considered non-sensitive and does not require special protection. HUD may collect this information and you are required to complete this form only if it displays a valid OMB number.

USPAP 2006 COMPETENCY RULE¹

Prior to accepting an assignment or entering into an agreement to perform any assignment, an appraiser must properly identify the problem to be addressed and have the knowledge and experience to complete the assignment competently; or alternatively:

- 1. disclose the lack of knowledge and/or experience to the client before accepting the assignment;**
- 2. take all steps necessary or appropriate to complete the assignment competently; and**
- 3. describe the lack of knowledge and or experience and the steps taken to complete the assignment competently in the report.**

Comment: Competency applies to factors such as, but not limited to, an appraiser's familiarity with a specific type of property, a market, a geographic area, or an analytical method. If such a factor is necessary for an appraiser to develop credible appraisal assignment results, the appraiser is responsible for having the competency to address that factor, or for following the steps outlined above to satisfy this Competency Rule.

The background and experience of appraisers varies widely, and a lack of knowledge or experience can lead to inaccurate or inappropriate appraisal practice. The COMPETENCY RULE requires an appraiser to have both the knowledge and the experience required to perform a specific appraisal service competently.

If an appraiser is offered the opportunity to perform an appraisal service but lacks the necessary knowledge or experience to complete it competently, the appraiser must disclose his or her lack of knowledge or experience to the client before accepting the assignment and then take the necessary or appropriate steps to complete the appraisal service competently. This may be accomplished in various ways including, but not limited to, personal study by the appraiser; association with an appraiser reasonably believed to have the necessary knowledge or experience; or retention of others who possess the required knowledge or experience.

In an assignment where geographic competency is necessary, an appraiser preparing an appraisal in an unfamiliar location must spend sufficient time to understand the nuances of the local market and the supply and demand factors relating to the specific property type and the location involved. Such understanding will not be imparted solely from a consideration of specific data such as demographics, costs, sales, and rentals. The necessary understanding of local market conditions provides the bridge between a sale and a comparable sale or a rental and a comparable rental. If an appraiser is not in a position to spend the necessary amount of time in a market area to obtain this understanding, affiliation with a qualified local appraiser may be the appropriate response to ensure development of credible assignment results.

Although this rule requires an appraiser to identify the problem and disclose any deficiency in competence prior to accepting an assignment, facts or conditions uncovered during the course of an assignment could cause an appraiser to discover that he or she lacks the required knowledge or experience to complete the assignment competently. At the point of such discovery, the appraiser is obligated to notify the client and comply with items 2 and 3 of the rule.

¹ Uniform Standards Of Professional Appraisal Practice, page 11 (Appraisal Foundation, 2006)

Required Contents for Rent Comparability Study

See Appendix 9-3 for a Sample RCS.

1. Transmittal Letter signed by the Appraiser. Address to project owner and date as of the date you gave the report to the owner. Include:

- ☞ appraiser's name, company name, address, telephone, fax number and email address (*These may be included in letterhead or body of letter.*)
- ☞ project name, FHA/other project number of the Section 8 project
- ☞ table of estimated market rent for each unit type included in the study. Use table format shown below. In last column, enter “Y” for yes if you prepared a Rent Grid for that unit type. Enter “N” for No for secondary unit types for which you did not prepare a grid, but instead adjusted the primary type’s estimated rent.

| | | | <i>Estimated Market</i> | | |
|------------------|----------------|----------------------|-------------------------|-------------------|-----------------------------|
| Unit Type | # Units | Size (Sq. Ft) | Rent | \$/ Sq. Ft | Prepared Grid? (Y/N) |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| Total | | | | | |

- ☞ statement that market rents were defined and estimated in accordance with Sections 9-7 through 9-13 of this Chapter and the report was prepared in accordance with Sections 9-14 through 9-16 of this Chapter.
- ☞ appraiser’s acknowledgment of how his / her report will be used: *Suggested language* -- I understand that HUD/the Section 8 Contract Administrator (CA) and the project owner will use my estimate of market rents to determine: 1) the owner’s options for renewing the project’s Section 8 contracts; and 2) the maximum rents allowed under any renewal contract.

2. Scope of Work. Acknowledge that all work was done in accordance with the requirements set forth in this notice. Provide a narrative describing:

- ☞ dates, number and types of inspections, and how unit sizes were verified.
- ☞ how rent, condition and amenity data were collected and verified. Note interviews, records reviewed, Internet sites used, etc. Indicate time period during which data was collected.
- ☞ any data that was unobtainable or estimated and all efforts to obtain that data.

any assistance from assistant appraisers.

3. Description of Subject Property. Address the items listed below. **Note:** If the units being renewed are located on scattered sites and those sites differ significantly on condition, services, street appeal or other factors listed below, note those differences.

- property name and address (street, city, county, cross streets) and neighborhood name if applicable).
- site characteristics and improvements: number of buildings and their design (construction material, structure type), number of units; topography and density; and access to site.
- unit mix for all units in the project, not just the Section 8 units. Use the table format below. Include all revenue-producing units in the project & group them by major unit types (e.g., # bedrooms/ # baths). (See Section 9-10A 6 for a definition of rent restricted units.).

| Unit Type | # Units | Interior Size (SF) | # Pjt- Based Sec 8 units | # Other Rent Restricted Units | # Units Not Rent Restricted |
|-----------|--------------|--------------------|--------------------------|-------------------------------|-----------------------------|
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | | | | | |
| | Total | | Total | Total | Total |

- condition: age of property, state of repair, any recent/ planned rehab or refurbishing.
- schedule of charges collected in addition to rent.
- 3 to 5 labeled, color photos of exterior and interior (See Section 9-9B for more on photos. Place photos at the end of the RCS or in the body of RCS’s description of the subject.).
- population or occupancy group targeted for this project (e.g., elderly), if any.
- summary of unit design and amenities.
- summary of project service/ site amenities: parking, recreational facilities, community areas, security, service coordination, neighborhood networks, transportation, meal services, social or educational activities, emergency call systems, laundry or housekeeping, and any other amenities for elderly or disabled.
- name and phone number of contact person with whom you verified or collected information on the subject property

4. Identification of the Subject’s Market Area. Identify the geographic area from which the subject would normally draw its applicants.

5. Description of Neighborhood. Discuss the project's location noting factors that would impact market rent level. Cover at least the factors listed below. **Note:** If the units being renewed are located on scattered sites and those sites differ significantly on the factors listed below, note those differences.

- ☐ property types (multifamily, single family, commercial) and rural/ suburban /urban nature of community.
- ☐ access to schools, recreation, transportation, shopping, medical and employment centers, community services or other features tenants at subject would seek
- ☐ nuisance (e.g., street noise), crime rates, and other factors affecting the perceived quality of the neighborhood.

6. Narrative Describing Selection of Comparables.

- ☐ Provide an overall assessment of the availability of comparables and the quality of the comparables selected and state *why* the comparables used were selected. If the unassisted units in the subject project have the same number of bedrooms and were not used as comparables, explain why. If less than five comparables were provided for any primary unit type, say so and explain why.
- ☐ Identify any comparables that are significantly dissimilar to the subject (e.g., different number of bedrooms, different structure type, different level of services). Describe what research was performed to determine that more similar comparables were not available.
- ☐ Identify any comparables that are outside the subject's market area. Describe what research was performed to determine that better comparables were not available in the subject's market area. Compare the rent levels in the alternate market area with those in the subject's market area.
- ☐ Identify any rent restricted units used as comparables. Explain the type of restriction (e.g., LIHTC, local rent control, etc.).
- ☐ Identify any comparables that are owned or managed by companies having an identity-of interest with the owner or management agent of the subject property.

7. Locator Map.

- ☐ Identify subject property and each comparable.
- ☐ Clearly mark major roadways and natural or man-made barriers (e.g., rivers, freeways, railways, etc).

8. Rent Comparability Grid (Appendix 9-2)

- ☐ Complete one grid for each primary unit type using instructions in Appendix 9-8 and guidance in Section 9-15 of this Chapter.
- ☐ Show all comparables for one unit type on one grid. Fill in all lines of the Grid's data columns, even if no adjustment is made on a line.

9. Narrative Explaining Adjustments and Market Rent Conclusions for Each Rent Grid. Review the guidance in Sections 9-12 and 9-13 and the line-by-line

instructions in Appendix 9-8 before preparing this narrative. Be sure you explain the items listed below.

Note: Prepare a separate set of explanations for each grid. If an explanation applies to more than one comparable, you may refer back to that explanation rather than repeating it each time (e.g., the location adjustment was estimated for the same reason and in the same way as for comparable #X).

- ☞ **Adjustments made / not made:** For each adjustment, briefly explain *why* the adjustment was made and *how* you arrived at the dollar value of the adjustment. If data columns show a comparable differs significantly from the subject project but no adjustment was made, explain why.
- ☞ **How market rent was derived from comparables' adjusted rents.** Explain *how* the market rent was estimated and *why* it was derived that way. Note which comparables were given the most weight and why. If some comparables were weighted more heavily than others were or the estimated market rent is set at high end of adjusted rents' range, explain why.
- ☞ **How market rent for a primary unit was used to derive a market rent for a similar, secondary unit type.** Explain *what* adjustments were made and *why*. Put these comments immediately following Line 46's comments. (*Note: See Section 9-9A2 for guidance on classifying unit types as primary or secondary*).

10. Comparable Property Profiles. Provide a one-page, table/ grid profile of each comparable property used in the RCS. Profile each property only once, regardless of the number of unit types for which the property was used. The profile must include at least the items listed below. Appendix 9-4 *provides a sample profile, but appraisers may create their own table / grid formats.*

- ☞ *property name and address* (street, city, county, cross streets) and neighborhood name
- ☞ *name and phone number of contact person with whom* you verified or collected information on the property and the date you did so.
- ☞ a *color photo* (at least 3" by 5") of the project's exterior. (Interior photos may be included if available, but they are not required).
- ☞ A *rent and unit mix table*. Include *all units* in the project and group them by major unit types (e.g., # bedrooms/ # baths). Indicate which unit types are used as comparables in the RCS.

