

## Rent Comparability Studies

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### BACKGROUND

#### Section 9-1

- A. The purpose of a Rent Comparability Study (RCS) is to estimate “market” rents for each Section 8 unit type. “Market Rent” is the rent that a knowledgeable tenant would most probably pay for 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.
- B. As a requirement for renewal under Section 524(a) of MAHRA, most project owners with expiring Section 8 project-based contracts must submit an 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 RCSs 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 OF CHAPTER NINE

#### Section 9-2

This Chapter provides guidance on HUD’s standards for preparing, submitting, and reviewing RCSs. More specifically,

- A. It provides guidance to owners and RCS appraisers for preparing and submitting an RCS. For other rare instances, owners may choose alternatives to RCS, if applicable, when renewing under Option Two of Section 8 renewal options.
- B. It provides guidance to reviewers, including HUD Housing staff, Contract Administrators (CA) or Recap, formerly known as OAHP. Please note that Recap has amended its Operating Guide and will apply the Rent Comparability Grid and policies similar to those in Sections 9-9 through 9-13 of this Guide to Recap’s processes for RCSs.

32 C. Certain sections of this Chapter apply when HUD Notice H 97-14 (AAF Rent  
33 Adjustment Procedures) is applicable, and requires owners of new construction/  
34 substantial rehabilitation projects to submit a HUD Form 92273 - *Estimates of Market*  
35 *Rent by Comparison*. The owners must instead use one of the following two methods:

36 1. Submit the new Rent Comparability Grid (HUD Form 92273-S8) and other  
37 materials required in this Chapter (Appendix 9-2-2). Owners must require RCS  
38 appraisers preparing the reports to do so in accordance with the guidance in  
39 Sections 9-8 through 9-13 of this Chapter, but should follow instructions provided  
40 in HUD Notice H 97-14 to determine which units must be included in the RCS;

41 2. Ask to use non-Section 8 units at the Section 8 project to set the market rent  
42 ceiling instead of performing an RCS if the project meets all of the conditions in  
43 Section 9-6 B of this Chapter for all unit types for which HUD Notice H 97-14  
44 requires a HUD Form 92273 rent comparison. The owner must submit a request  
45 in the format shown in Appendix 9-4, but should delete references to renewals  
46 and instead refer to rent comparisons required by HUD Notice H 97-14 (also  
47 substitute rent comparisons for references to renewals when reading Section 9-6).

48 Other provisions of HUD Notice H 97-14, (e.g., adding initial difference to the rent  
49 resulting from the analysis in Paragraph 1 or 2 above), still apply and HUD Notice H  
50 97-14 determines which units the RCS must cover.

51 *Note: Initial difference is the dollar amount by which the initial Section 8 contract*  
52 *rents exceeded the original comparable rents (or the Fair Market Rents if they were*  
53 *originally used instead of comparables). The owner must submit evidence of the*  
54 *initial difference which existed in the initial contract rents.*

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

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### 58 **\*ROAD MAP TO CHAPTER NINE \***

#### 59 **Section 9-3**

60 The table below provides a road map to the various stakeholders – owners, RCS  
61 appraisers, and reviewers comprising of initial and substantive reviewers. Besides  
62 focusing on the relevant Sections and Appendices highlighted in the table below, HUD  
63 recommends that all preparers and users of RCSs review the entire Chapter Nine and  
64 Appendices to ensure compliance with all requirements for the respective Section 8  
65 contract renewal.

Table for Roadmap to Chapter Nine

Sections	Topic	Primary Stakeholder(s)		
		Owner	RCS Appraiser	RCS Reviewer*
9-1 – 9-3	Background, Applicability & Roadmap of Chapter Nine	✓	✓	✓
9-4 – 9-6	Alternatives to RCS (Using FMRs or Using Non-Section 8 Units)	✓		✓
9-7	Preparing RCSs	✓	✓	
9-8	Appraiser's Qualifications	✓	✓	
9-9 – 9-13	Analyzing Subject Project Selecting Comparable Units Collecting Data on Comps Computing Adjusted Rents Deriving Market Rents		✓	
9-14	Procedure for Mandatory Market Rent Threshold	✓	✓	✓
9-15 – 9-16	HUD/CA Reviews of RCS Initial and Substantive Review			✓
9-17 – 9-18	Communicating Results owner Appeals	✓		✓
9-19	Imposing Sanctions on RCS Appraisers			✓
<b>Appendix</b>	<b>Topic</b>			
9-1	Guidance to RCS Appraisers		✓	
9-2	Guidance to owners	✓		
9-3	Request to Renew Using FMRs as Market Ceiling	✓		✓
9-4	Request to Renew Using Non-Section 8 Units in the Section 8 Project	✓		✓
9-5	Guidance to Reviewers			✓
9-6	Special Project Types		✓	✓
Attachment 1 & 2	Acronyms and Definitions	✓	✓	✓

\* Reviewer includes initial reviewer and substantive reviewer as defined in Section 9-16

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## ALTERNATIVES TO THE RENT COMPARABILITY STUDY

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### Section 9-4

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This Section gives owners three methods of demonstrating how the Section 8 rents proposed at renewal compare to rents charged for other units. The first two methods listed below (A and B) are available to owners only under Option Two for renewal of Section 8 contracts (i.e., renewal with existing rents adjusted by an OCAF or on the basis of a budget). Methods A and B, discussed under Sections 9-5 and 9-6 of this Chapter, are rarely used, but when facts strongly suggest that the proposed rents would be under rents

79 computed in an RCS, methods A and B are provided under Option Two to avoid the  
80 costs, processing times and delays that may be associated with RCSs.

81 A. Comparing proposed Section 8 rents to fair market rents (FMRs), as provided in  
82 Section 9-5.

83 B. Comparing Section 8 rents to rents charged for other units in that Section 8 project, as  
84 provided in Section 9-6.

85 C. Purchasing and submitting an RCS in accordance with Sections 9-7 through 9-13 of  
86 this Chapter.

87 **When Electing Alternatives to RCS:** If the owner elects method A or B, and HUD  
88 approves such election, the FMRs or rents for non-Section 8 units in the Section 8  
89 project, act as a cap or ceiling on rents computed using an OCAF or budget approach.  
90 Rents are not automatically set at FMRs or rent levels charged for other units in the  
91 Section 8 project. Under methods A and B, there will be no RCS to update for budget-  
92 based adjustments or for renewals that occur within the next five years. At any  
93 subsequent renewal, the owner may choose one of the three methods allowed above. The  
94 eligibility requirements and process for using these three alternatives are described in the  
95 Sections below.

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## 97 USING FMRs TO DETERMINE BELOW MARKET STATUS

### 98 Section 9-5

99 A. Fair Market Rents. Fair Market Rents or FMRs represent the 40<sup>th</sup> percentile of an  
100 area's market rents, and are published and updated annually by HUD around early  
101 October and posted at [www.huduser.org/datasets/fmr/html](http://www.huduser.org/datasets/fmr/html). Under this approach,  
102 FMRs create the market rent ceiling that is usually created using an RCS's rents.

103 B. Eligibility. Owners eligible to renew under Chapter Four of this Guide, or Option  
104 Two, may request to renew without an RCS if the current Section 8 gross rent  
105 potential and the proposed Section 8 gross rent potential at renewal are less than 75%  
106 of the FMR potential for the units being renewed. Since the FMRs are inclusive of  
107 utilities, Section 8 gross rent potential must include utilities in order to make the two  
108 figures comparable.

109 C. Owner's Request. To request renewal using this method, an owner must submit the  
110 following no later than 120 days before the expiration of the Section 8 contract:

111 1. **Request to Renew Using FMRs as Market Ceiling** (HUD Form 9630, attached  
112 as Appendix 9-3) – showing a comparison of the current and proposed Section 8  
113 gross rent potential with FMR rent potential.

- 114 a. The proposed Section 8 gross rent potential used in the above comparison  
115 must be the current rent potential, adjusted by the OCAF or budget;
- 116 b. The potential must be the gross potential (contract rent + utilities) to make the  
117 figure comparable to FMRs, which include utilities; and
- 118 c. The Section 8 gross rent potential must be less than 75% of the FMR potential  
119 for the units being renewed under the request.

- 120 2. **Cover Sheet** of the Contract Renewal Request (HUD Form 9624), showing the  
121 current rent potential and identifying all contracts at the project, as well as  
122 indicating which contracts will be renewed.
- 123 3. **Budget Worksheet** (HUD Form 92547-A), if seeking a budget-based adjustment;  
124 or Steps 1 and 2 of the OCAF calculation on HUD Form 9625, if seeking OCAF  
125 driven adjustment.

126 D. HUD/CA processing.

- 127 1. **Due Diligence.** Account Executives who process these requests must be familiar  
128 with the project's condition and amenities. Account Executives must seek a state-  
129 certified appraiser's input as to prevailing rent levels in the subject's market area.  
130 Besides verifying and validating the computations, the Account Executive must  
131 review the following factors in their approval decision:
- 132 a. Are the subject project's units unusually small, have limited appeal or  
133 offer substantially fewer amenities than typically offered in that market?
  - 134 b. Were there RCSs completed on other projects in the subject's area that  
135 often produced market rents which were significantly lower than FMRs?
  - 136 c. Does the project have a prior RCS which concluded that the project's  
137 Section 8 rents were above market?
- 138 2. **Approval/Denial.** Account Executive must approve the request unless, based on  
139 their own due diligence and the input of a state-certified appraiser, they have  
140 reasons to believe that the proposed rents are above market levels, or if the  
141 comparison with FMR levels is erroneous. Staff must make a decision within 20  
142 calendar days after receiving the owner's request. If HUD denies the owner's  
143 request, HUD may issue a short-term renewal to allow the owner a reasonable  
144 period of time to obtain an RCS prepared in accordance with Sections 9-9  
145 through 9-13 of this Chapter. Owners may not appeal HUD/CA's denial of their  
146 requests to use FMRs in lieu of submitting an RCS. Chapter Two of this Guide  
147 provides additional details for setting rent levels in short-term contracts. Staff  
148 must document their decision on the owner's request form and in iREMS.

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## 150 USING RENTS FOR NON-SECTION 8 UNITS 151 IN THE SECTION 8 PROJECT

### 152 Section 9-6

- 153 A. Non-Section 8 Units. Under this method, rents paid by tenants not receiving rental  
154 subsidies, serve as a market rent ceiling that is otherwise created using an RCS's  
155 rents.
- 156 B. Eligibility. If the criteria below are met, and the owner is choosing to renew Section 8  
157 contract using Option Two, the owner may request to use non-Section 8 units at that  
158 Section 8 project to set the market rent ceiling instead of purchasing and submitting  
159 an RCS. The project must meet these criteria *for each unit type* that will be included  
160 in the renewal contract.
- 161 1. The contract(s) is eligible to be renewed under Chapter Four of this Guide.

- 162 2. At least 25% of each unit type being renewed is occupied by tenants who pay the  
163 full rent due the owner and receive no tenant rental assistance. “Tenant rental  
164 assistance” includes project-based Section 8, certificates/vouchers, PRAC/PAC in  
165 a 202/811 project, Rent Supplement, Rental Assistance (RAP), or any comparable  
166 federal/state/other public subsidy. Tenant rental assistance does *not* include  
167 Section 236 interest reduction (IRP) subsidies, other construction/mortgage based  
168 subsidies, or LIHTC / comparable state credits.
- 169 3. For each unit type being renewed, the proposed Section 8 contract rent is no more  
170 than the average rent that tenants not receiving tenant rental assistance pay for  
171 that unit type.
- 172 4. Tenants in units used to compute Paragraph 3’s average have been paying  
173 (*without assistance and for three or more months*) at least the rent levels used in  
174 computing the average. These tenants do not receive rental concessions or rebates,  
175 currently or in the past, and have no business or family relationship with the  
176 project’s ownership or management.
- 177 5. The Section 8 units and the units occupied by tenants not receiving tenant rental  
178 subsidies are nearly identical and would not require adjustments if the units  
179 without tenant rent subsidies were used as comparables in an RCS. “Nearly  
180 identical” means the two sets of units have the same number of bedrooms &  
181 baths; are similar in condition, layout & size; and have the same amenities &  
182 utilities included in the rent.
- 183 6. Occupancy rates in the units occupied by tenants not receiving tenant rental  
184 subsidies are not significantly less than occupancy levels for those unit types in  
185 the project’s market area.
- 186 C. Owner’s Request. To request renewal using rents of non-Section 8 units for Section 8  
187 Project, an owner must submit the following no later than 120 days before the  
188 expiration of the Section 8 contract:
- 189 1. **Request to Renew Using Non-Section 8 Units in the Section 8 Project as a**  
190 **Market Rent Ceiling** (HUD Form 9629, attached as Appendix 9-4).
- 191 2. **Rent Table** comparing current and proposed Section 8 rents with the rents paid  
192 by tenants not receiving tenant rental assistance.
- 193 3. **Cover Sheet** of the Contract Renewal Request (HUD Form 9624), showing the  
194 current rent potential and identifying all contracts at the project, as well as  
195 indicating which contracts will be renewed.
- 196 4. **Budget Worksheet** (HUD Form 92547-A), if seeking a budget-based adjustment;  
197 or Steps 1 and 2 of the OCAF calculation on HUD Form 9625, if seeking OCAF  
198 driven adjustment.
- 199 D. HUD/CA processing. Staff must make a decision on the request within 20 calendar  
200 days after receiving the owner’s request.
- 201 1. **Due Diligence**. Account Executives who process these requests must be familiar  
202 with the project’s condition and amenities. Account Executives must seek a state-  
203 certified appraiser’s input as to prevailing rent levels in the subject’s market area.  
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205 Staff must ensure that the project meets the eligibility conditions and Staff must  
206 also:

- 207 a. Use iREMS/ TRACS to check the data reported in the rent table  
208 attached to the owner’s request.
  - 209 b. Use owner’s rent table to help assess compliance with the occupancy  
210 criterion noted above. A significant vacancy may indicate that the  
211 project is asking too much for these units.
- 212 2. **Approval/Denial.** Account Executive should deny the request only if they have  
213 reasons to believe that the rents paid by non-Section 8 tenants in the project are  
214 significantly higher than rents in the surrounding area or that some of the  
215 eligibility conditions listed above are not met. HUD staff must make an  
216 approve/deny decision on the application within 20 calendar days after receiving  
217 the owner’s request. If HUD denies the owner’s request, HUD may issue a short-  
218 term renewal to allow the owner a reasonable period of time to obtain an RCS.  
219 Owners may not appeal HUD/CA’s denial of their requests to use projects’ non-  
220 Section 8 units in lieu of submitting an RCS. Chapter Two of this Guide provides  
221 additional details for setting rent levels in short-term contracts. Staff must  
222 document their decision on the owner’s request form and in iREMS.

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## 224 PREPARING RENT COMPARABILITY STUDIES

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### 225 Section 9-7

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226 If the owner decides to renew by “purchasing and submitting an RCS”, the owner must  
227 hire an RCS appraiser, and ensure that each RCS:

- 228 1. Is prepared by, or under, the direction of an RCS appraiser that meets the  
229 requirements set forth in Section 9-8A.
- 230 2. Covers at least all unit types that have Section 8 assistance in the contracts being  
231 renewed now. Owners may also include other Section 8 unit types in other contracts  
232 that the owner plans to renew during the next five years. (For projects submitting  
233 RCSs to support AAF requests, Chapter Fifteen determines which units must be  
234 studied.)
- 235 3. Estimates “market” rents for each Section 8 unit type, by adjusting rents of  
236 comparable units to reflect the location, condition, appeal, amenities, and utilities of  
237 the Section 8 units. *Note: RCS Appraisers must estimate market rent without*  
238 *considering the market’s ability to absorb all Section 8 units.*
- 239 4. Is concise, but contains enough information that a person not familiar with the  
240 properties and market areas involved can understand how the RCS appraiser arrived  
241 at his/her adjustments and opinion of market rent. Owners and their RCS appraisers  
242 may consult the sample RCS provided by HUD under Appendix 9-2-2.
- 243 5. Is submitted to HUD/CA no later than 120 days before the expiration of the Section 8  
244 contract. Early submissions are allowed, but owners must not submit more than 180  
245 days before the contract expires. Additionally, no more than 90 calendar days must

246 have elapsed between the date the owner submits the RCS to HUD and the date of the  
247 RCS.

248 6. Includes at least all materials listed under Appendix 9-2-1 (under Owner's Checklist).  
249 Each submittal must include a cover letter from the owner (as shown in Appendix 9-  
250 2-1). To expedite HUD review, the owners and their RCS appraisers must ensure that  
251 all materials are submitted in hard copy reports in the same order as shown in the  
252 owner's checklist.

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## 254 **APPRAISER'S QUALIFICATIONS**

### 255 **Section 9-8**

256 This section provides guidance to owners and RCS appraisers regarding the required  
257 qualifications for an RCS appraiser, and general instructions and requirements that need  
258 to be followed when preparing an RCS.

259 A. In order to qualify, the RCS appraiser must:

260 1. Be a Certified General Appraiser, licensed and in good standing in the state where  
261 the project is located. The license may be temporary or permanent. (Owners can  
262 obtain lists of RCS appraisers meeting this standard at [www.asc.gov](http://www.asc.gov) or from each  
263 state's appraiser regulatory agency.)

264 2. Be currently active and regularly engaged in performing RCSs or appraisals of  
265 multifamily housing.

266 3. Meet all the requirements of the current Competency Provision in the Uniform  
267 Standards of Professional Appraisal Practice (USPAP) and have read all of this  
268 HUD Chapter and Appendices. (Additional or updated information on USPAP  
269 can be obtained at [www.appraisalfoundation.org](http://www.appraisalfoundation.org).)

270 4. Have no prospective or present financial interest in the Section 8 project, its  
271 ownership or management agent entity, or the principals of those entities.

272 5. Not be an employee of the owner, the management agent, or the principals of  
273 those entities or have a business or close personal/family relationship with those  
274 parties that would commonly be perceived to create bias or a conflict-of-interest.

275 6. Not be debarred or suspended from doing business with the Federal Government  
276 and not be under a Limited Denial of Participation (LDP) imposed by the  
277 Regional Center or Program Center having jurisdiction over the Section 8 project.

278 7. Be in compliance with all applicable civil rights laws and statutes.

279 B. In preparing the RCS, the RCS appraiser must:

280 1. Sign and take full responsibility for the report. Appraisal assistants may contribute  
281 to any of the tasks if: 1) they are employed by the same firm as the RCS  
282 appraiser; and 2) the report identifies the roles the assistant RCS appraiser  
283 performed.

284 2. Ensure compliance with this Chapter and its appendices, and with USPAP.



- 285 a. If this Chapter’s requirements go beyond USPAP, RCS appraisers must  
286 consider the Chapter’s requirements to be supplemental standards and  
287 comply with them.
- 288 b. RCS appraisers must comply with the Fair Housing Act and the provisions  
289 of USPAP related to that Act. RCS appraisers may not use or rely on  
290 unsupported conclusions related to the racial, ethnic or religious mix of the  
291 comparable or subject properties or their surrounding areas or upon other  
292 factors prohibited by the Fair Housing Act. RCS appraisers’ opinions,  
293 conclusions and reports must be impartial and objective and not illegally  
294 discriminate or contribute to illegal discrimination through subjective or  
295 stereotypical assumptions. (See USPAP Advisory Opinion #16 for  
296 additional guidance on complying with Fair Housing requirements.)
- 297 3. Collect, update or verify all data within 90 calendar days before the date of the  
298 RCS appraiser’s letter transmitting the RCS to the owner (or to HUD, when HUD  
299 purchases the study pursuant to Section 9-14).
- 300 4. Provide a descriptive analysis following the guidance provided in Sections 9-9  
301 through 9-14, and detailed instructions under Appendix 9-1. The RCS appraisers  
302 must download the electronic versions of Word or Excel files for any table/grids  
303 in the RCS, as provided under Appendix 9-1.

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## ANALYZING THE SUBJECT PROJECT

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### Section 9-9

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307 This section provides guidance to RCS appraisers for inspecting and analyzing the  
308 subject Section 8 project and its surrounding neighborhood. The RCS appraiser must  
309 determine:

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- A. Unit Breakdown
- B. Project’s Condition and Appeal
- C. Project’s Amenities and Services
- D. Scope of Planned Repairs
- E. Neighborhood Characteristics

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316 A. **Unit Breakdown** – RCS appraisers must identify the unit breakdown at the subject  
317 project as *primary* versus *secondary*, as defined in Section 9-9.A.2., below. While  
318 RCS appraisers must estimate a market rent for each Section 8 unit type, a Rent Grid  
319 is required only for each *primary* unit types. For *secondary* unit types, RCS  
320 appraisers need not complete an entire Rent Grid. Instead, they may start with the  
321 market rent for a *primary* unit type and adjust for the minor difference(s). RCS  
322 appraiser must review Section 9-13.C. regarding estimating market rents for primary  
323 and secondary unit types. In order to identify *primary* and *secondary* unit types, the  
324 RCS appraisers must:

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1. Identify all unit types that will be included in the renewal contract and any other  
units the owner elected, per Section 9-7, to include in this study. The RCS  
appraiser must recognize a unit type for each rent level that the owner is seeking  
renewal for.

- 329 2. Label each unit type as a *primary* or *secondary* type using the guidance below.
- 330 a. The RCS appraiser should consider the number of bedrooms and baths, the
- 331 unit size, the structure (e.g., townhouse, elevator, walk-up), and any other
- 332 factors the market would consider as significant differences. If two unit types
- 333 have the same number of bedrooms and the same structure type but the units
- 334 have only slight differences (e.g., a half bath, a few square feet, a view), the
- 335 RCS appraiser must consider the more common unit type to be *primary* and
- 336 the other unit type to be *secondary*.

337 **Example:** Project has 100 3-bedroom, 2-Bath, 1000 square feet units and 30

338 3-bedroom, 1.5 Bath, 900 square feet units. The owner is charging different

339 rents for these two types. The RCS appraiser will label the most common type

340 (the 2 bath, 1000 square feet unit) as *primary* and the other as *secondary*.

- 341 b. If the units being renewed are located on scattered sites, the RCS appraiser
- 342 must determine if separate unit types should be designated for the different
- 343 sites. The RCS appraiser must visit each site and assess the extent of any
- 344 differences in neighborhood, condition, street appeal, services, or market area.
- 345 If units are located in different market areas or other differences suggest that
- 346 separate comparables are appropriate, the RCS appraiser should generally
- 347 create separate unit types for the sites that vary significantly. RCS appraisers
- 348 should use their professional judgment to categorize the unit types as primary
- 349 or secondary.

350 **B. Project's Condition and Appeal** – The RCS appraiser must conduct a visual

351 inspection of the subject project to observe physical characteristics and assess the

352 project's condition. More specifically, the RCS appraiser must:

- 353 1. Inspect at least one unit of each primary unit type, project grounds, and the
- 354 interior and exterior common areas (lobby, laundry rooms, community or dining
- 355 rooms, recreation rooms, parking areas, outdoor play areas). If the units being
- 356 renewed are located on scattered sites, the RCS appraiser must visit each site.
- 357 2. Determine or verify the size of each unit type. Estimate the rentable interior
- 358 square footage of the unit. Do *not* count balconies, mechanical areas, or other
- 359 non-living spaces.
- 360 3. Take color photos of the items listed below. Take additional close-up photos as
- 361 needed to show the project's condition.
- 362 a. subject's exterior, showing location on the site, exterior design, site layout,
- 363 and site amenities
- 364 b. interior of typical units.
- 365 c. interior common areas (e.g., meeting rooms)
- 366 4. Determine and document the project's design, age and structure. Assess the
- 367 project's physical condition and overall appeal. Determine the extent of any
- 368 major renovations made.

369 **C. Project's Amenities and Services** – The RCS appraiser must identify all amenities

370 and services offered at the subject project, and whether they are included in the rent

371 or charged for separately. The RCS appraiser must:

- 372 1. Identify all unit and site amenities and the type of utilities. The RCS appraiser  
373 must consider all characteristics listed on the Rent Grid, and any other  
374 characteristics that would affect the rent a tenant would be willing to pay.
- 375 2. At projects providing **non-shelter services** (e.g., service coordination,  
376 neighborhood networks, the elderly services noted below), the RCS appraiser  
377 must ask the owner/agent to identify which services are included in the rent and  
378 which services require additional payments from tenants. A non-shelter service  
379 provided at the subject project for an additional charge may still warrant  
380 adjustment to the comparables if there is market evidence that availability of that  
381 service has value to tenants in that market. Conversely, a non-shelter service  
382 provided at the subject project for no additional charge may not necessarily  
383 warrant any adjustment to the comparables, if the RCS appraiser does not find  
384 evidence of its value to tenants in that market (Appendix 9-1-2, Page 11, Lines  
385 29-31).
- 386 3. Consider the tenant profile at the subject project. For instance, when preparing an  
387 RCS for **projects designed for the elderly/disabled**, the RCS appraiser must  
388 identify all services provided for elderly/disabled. RCS appraisers must consider  
389 whether emergency call systems, transportation, social or educational activities,  
390 service coordination, meals, laundry or housekeeping are offered. RCS appraisers  
391 must determine which services are actually provided by the project and which are  
392 just accessed through arrangements the project has established with outside  
393 agencies.

394 **D. Scope of Planned Repairs** – The RCS appraiser must review the complete list of  
395 repairs to the subject property planned by the owner during the 12-month period  
396 following the as-of date of the rent study. Each item within the scope of planned  
397 repairs provided by the owner must be evaluated for the impact of that repair item on  
398 marketability and appeal of the subject property to prospective tenants. Typically,  
399 replacement of components that are worn or at the end of their useful lives will not  
400 impact marketability. On the other hand, installation of equipment or systems that  
401 represent upgrades may increase the appeal of the property. Examples would be  
402 installation within living units of features not formerly provided, such as air  
403 conditioning, or kitchen renovations that add features such as dishwashers. Examples  
404 of upgrades not directly impacting living units, but nevertheless having potential  
405 impact on marketability, would be improvements to the on-site parking facilities (e.g.,  
406 providing covered parking at a property formerly offering only open parking, or  
407 adding additional parking spaces) or adding a non-shelter service such as an on-site  
408 childcare facility. The RCS appraiser should take care to distinguish non-replacement  
409 outlays that increase marketability from those that will typically have no impact. An  
410 owner’s plan to install a berm on the site to improve site drainage would be an  
411 example of a repair that is not a mere replacement of a worn-out component, but yet  
412 would not likely impact marketability.

413 If in the RCS appraiser’s judgment, any of the items within the owner’s scope of  
414 planned repairs would impact marketability, a separate set of HUD Form 92273-S8  
415 rent grids must be completed. The RCS would thus contain rent grids representing  
416 both pre-repair (“As-is”) and post-repair (“As-repaired”) assumptions of property  
417 condition and features. It is possible that “dual” rent grids will not be required for  
418 every type of living unit. For example, if kitchen renovations will be completed only

419 for the two-bedroom units, “dual” rent grids would only be required for the two-  
420 bedroom plan.

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422 E. **Neighborhood Characteristics** – The RCS appraiser must assess and describe the  
423 project’s location and surrounding neighborhood near the subject project. The RCS  
424 appraiser must:

425 1. Evaluate and note factors that would impact market rent levels, such as access to  
426 schools, employment and medical centers, transportation, shopping, recreation,  
427 and community services. The RCS appraiser must identify nuisances (e.g., street  
428 noise), crime rates, and other factors affecting the perceived quality of the  
429 neighborhood.

430 2. Identify the project’s market area, such as the geographic area from which the  
431 subject project would draw the majority of its applicants. Identify street or other  
432 boundaries. Consider mobility patterns and natural or man-made barriers (rivers,  
433 freeways, rails, etc.).

434 *Note: Government boundaries like state or county lines often do not establish*  
435 *market area boundaries, as projects often draw from more than one town, county*  
436 *or state.*

437 3. If the units being renewed are located on scattered sites, the RCS appraiser must  
438 assess whether the sites vary significantly on condition, street appeal, services,  
439 neighborhood, or other factors.

440

## 441 **SELECTING COMPARABLE UNITS**

### 442 **Section 9-10**

443 This section provides guidance on the following items for RCS appraisers to ensure that  
444 units and properties selected as comparables accurately represent the rental market for the  
445 subject project.

446 A. Six Point Criteria

447 B. Insufficient Comparables Meeting the Criteria

448 C. Comparables Search Procedure

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450 A. **Six Point Criteria** – For each *primary* unit type identified pursuant to Section 9-9A2  
451 above, the RCS appraiser should attempt to identify comparable units from *five*  
452 different properties. The RCS appraiser should select projects that would compete  
453 with the subject for tenants. The RCS appraiser must exert good faith effort to find  
454 comparable units that meet all of the conditions listed below. If the RCS appraiser  
455 cannot find units that meet all of these criteria, the RCS appraiser may use the  
456 methods discussed in Paragraph B below.

457 The RCS appraiser must evaluate if the units and properties under consideration for  
458 comparables selection:

459 1. Are in the same market area as the subject project.

- 460 2. Are not receiving tenant rental assistance (project-based Section 8, certificates/  
461 vouchers, PRAC/PAC in a 202/811 project, Rent Supplement, Rental Assistance  
462 (RAP), or any comparable federal/state/ other public subsidy). The tenant must be  
463 responsible for the full rent due to the landlord.
- 464 3. Have locations and neighborhood conditions (including crime rates and  
465 accessibility to services, employment, transportation, etc.) similar to the subject's.
- 466 4. Are located in projects that are similar to the subject in terms of project structure  
467 and layout, design, street appeal, age, size and unit mix, unit amenities and  
468 utilities.
- 469 5. Provide services and have project amenities similar to those available at the  
470 subject.
- 471 6. Are not rent restricted or rent controlled by a federal, state, local or other public  
472 program. This category includes LIHTC, HOME, HOPE VI, state/local rent  
473 controlled and rent stabilization units, and all units in 236, BMIR, 202/811, and  
474 Section 515 Rural Development projects.

475 **B. Insufficient Comparables Meeting the Criteria** – HUD recognizes that finding five  
476 comparables meeting all the criteria in Section 9-10A above can be difficult in some  
477 markets. Example: When a subject is the only multifamily complex in a rural town  
478 or is the only project with four bedroom units. When the RCS appraiser exerts good  
479 faith effort and conducts appropriate research but cannot find five comparables that  
480 meet all of the conditions in Section 9-10A, the RCS appraiser may adopt one or  
481 more of the following strategies. The RCS appraiser shall use his/her professional  
482 judgment to decide the pairing and ordering of the alternate strategies listed below,  
483 with the exception of using rent restricted units (option six below), which should only  
484 be used as a last resort.

- 485 1. **Units with No Restrictions:** If a project contains rent restricted units or units  
486 with tenant subsidies, but also has other units with no restrictions or subsidies,  
487 those units that are both unrestricted and unassisted may be used as comparables.  
488 Such mixes will often exist in tax credit, tax-exempt, state-financed, HOPE VI or  
489 Section 221d3/ d4 FHA insured projects.
- 490 2. **Properties with Identity of Interest:** The RCS appraiser may select a  
491 comparable that has the same ownership/management as the subject, or is owned  
492 or managed by a company/individual having an identity-of-interest with the  
493 owner or management agent of the subject project. In such a situation, the RCS  
494 appraiser must disclose the 'identity-of-interest' under the section titled 'Selection  
495 of Comparables' in the RCS report. RCS appraiser must review Handbook  
496 4381.5, Paragraph 2-3 for a definition of the term "identity-of-interest".  
497 Furthermore, the RCS appraiser must take special care to verify the information,  
498 preferably through an unrelated party. For example, to verify the rent at which a  
499 unit is leased according to the on-site management, the RCS appraiser might ask  
500 to see a copy of the lease.
- 501 3. **Comparables from Outside the Market Area:** RCS appraisers must try to  
502 select a market area that is similar to the subject's market area. In assessing  
503 similarity, RCS appraisers should consider rent levels, housing prices,  
504 demographics, job opportunities and other relevant economic indicators. If

505 equally good comparables are available in more than one alternate market area  
506 and those market areas are similar, the RCS appraiser should generally consider  
507 using an alternate that is near the subject. For Section 8 projects in rural areas,  
508 however, HUD recognizes that it will often be necessary to go to distant, alternate  
509 markets that are sometimes of a different character.

510 4. **Dissimilar Comparables:** If similar comparables are not available in the  
511 subject's neighborhood, RCS appraisers can use properties that may be different  
512 from the subject in terms of vintage, construction type, layout, design and/or  
513 services and amenities, but are located in the same market.

514  
515 Alternatively, RCS appraisers may use dissimilar comparables from outside the  
516 subject's market area when comparables in the same category are not available in  
517 the subject's neighborhood. This would include using units with a different  
518 number of bedrooms, units in properties of a different structure type (e.g. high rise  
519 vs. garden) or units in a different housing/service category (e.g., assisted  
520 living/luxury retirement vs. a 202/811). The RCS appraiser must provide market  
521 support for both the decision to use a different number of bedrooms or a different  
522 structure/housing type in the comparable selection process.

523 5. **Fewer Than Five Comparables:** If the above strategies do not produce five  
524 comparables for each unit type, the RCS appraiser can use fewer than five  
525 comparables. However, no unit type may have less than *three* comparables.  
526 Before proceeding with less than five comparables, the RCS appraiser may ask  
527 the Regional Center if it is aware of any comparables the RCS appraiser has not  
528 already identified. As described in 9-10.C.2 below, the RCS appraiser must  
529 discuss why fewer than five comparables were used.

530 6. **Rent Restricted Units:** Adjustments that would need to be made in the Rent  
531 Grid for units that are rent and/or income restricted comparable are inherently  
532 subjective. However, if the RCS appraiser cannot find any comparables other  
533 than rent restricted units that meet conditions 1 through 5 under 9-10 A above, the  
534 RCS appraiser may use the rent restricted units. Rent restricted units should only  
535 be used as comparables when they reasonably represent the market.

536 a. If the RCS appraiser cannot find five unrestricted, very similar units in the  
537 same market area, he/she may supplement the rental analysis with rent-  
538 restricted units that are available in a nearby, similar market area and meet the  
539 requirements of conditions 2 through 5 under 9-10 A.

540 b. The RCS appraiser must clearly disclose the use of rent restricted comparables  
541 and the nature of the rent restriction in the Selecting Comparables narrative  
542 part of the RCS and on the Rent Comparability Grid. (*Note: RCS appraisers*  
543 *may not adjust rents simply to account for the fact that the comparable unit is*  
544 *rent restricted.*)

545 c. While rent restricted units may in some cases reflect market rent (e.g., when  
546 LIHTC units make up a large percent of the multifamily units in a  
547 neighborhood or nearly all units are rent controlled), rent restricted units can  
548 also be below market rent. Therefore, the RCS appraiser may want to discuss  
549 the use of rent restricted units with the owner and HUD appraisal staff before  
550 finalizing the selection of comparables. RCS appraisers hired by HUD/CAs to  
551 prepare studies pursuant to Section 9-14 should be especially careful to avoid

552 selecting rent restricted units that would artificially depress the RCS's rent  
553 conclusions.

554 C. **Comparables Search Procedure** – The RCS appraiser must include a narrative in  
555 the RCS to describe his/her process for identifying the set of comparable properties  
556 for the subject project.

557 1. **Document the Search Process:** The RCS appraiser must note the means used  
558 for comparables selection, whether that be driving the market area, interviewing  
559 the Account Executives and owners, consulting subscription databases, or a  
560 combination of these approaches. For each selected rent comparable, considered  
561 separately, the RCS appraiser must describe those specific characteristics that the  
562 respective comparable shares with the subject project (for e.g., same market area,  
563 similar design and layout) that justify the inclusion of the project in the RCS. For  
564 other potential comparables that were excluded from inclusion, the RCS appraiser  
565 should document the reasons for exclusion. The narrative must provide an overall  
566 assessment of the availability of comparables and the quality of the comparables  
567 selected and state *why* the comparables used were selected. If the unassisted units  
568 in the subject project have the same number of bedrooms and were not used as  
569 comparables, the RCS appraiser must explain why. If there are unassisted  
570 properties in close proximity to the subject project that share the subject project's  
571 basic characteristics (e.g., number of bedrooms) but were not used as  
572 comparables, the RCS appraiser must explain why.

573 2. **Disclose when Insufficient Comparables Exist:** If less than five comparables  
574 were provided for any primary unit type, the RCS appraiser must explain why. If  
575 the RCS appraiser chooses to use comparables that are significantly different to  
576 the subject, the RCS appraiser must describe the research that was performed to  
577 determine that more similar comparables were not available. When comparables  
578 are outside the subject's market area, the RCS appraiser must discuss in the RCS  
579 what research was done that indicated that better comparables were not available  
580 in the subject's market area. In such instances, the RCS appraiser must also  
581 compare the rent levels in the alternate market area with those in the subject's  
582 market area. When using rent-restricted units, the RCS appraiser must discuss in  
583 the RCS what research was done that indicated that no other similar, non-rent  
584 restricted units were available for use as appropriate comparables. The RCS  
585 appraiser must also explain the type of restriction (e.g., LIHTC, local rent control,  
586 etc.) when using rent restricted units as comparables.

587 3. **Select a Variety of Comparables:** In identifying the three to five comparables  
588 for the subject, the RCS appraiser should try to select some comparables that are  
589 superior and some that are inferior to the subject project so that the subject is  
590 within the range of indicators.

591 4. **Special Project Types:** Appendix 9-6 provides guidance on using comparables  
592 drawn from project categories that would not typically be suitable for use as  
593 comparables for multifamily rental housing. Project types discussed include  
594 cooperative housing, certain elderly/disables project types, student housing, and  
595 congregate-care projects. Newly renovated and recently constructed housing is  
596 also cited in Appendix 9-6, because properties from that category are suitable  
597 comparables for the subject project only after the impact of any proposed  
598 rehabilitation to the subject project is considered.

## COLLECTING AND DOCUMENTING DATA ON COMPARABLE UNITS

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### Section 9-11

This section provides guidance on collecting and reporting data on comparables. It covers the following two topics:

- A. Collecting Data on Comparables
- B. Reporting Comparable Data

**A. Collecting Data on Comparables.** For each relevant unit type at the comparable project, the RCS appraiser must collect data on the elements listed in Parts A through E of the Rent Grid in Appendix 9-1-1 and on any other characteristics that would affect the rent a tenant would pay. The RCS 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 RCS appraiser must provide the market data requested in Paragraph 2b below. The RCS appraiser must verify and collect relevant data on comparables using the guidance below.

1. **Verification of Data:** The RCS appraiser must exercise due diligence to independently verify any information on comparables pulled from existing files, Internet research, newspaper ads or apartment guides. The RCS appraiser may use multiple sources if needed to adequately verify the comparables data.
2. **Data on Comparable's Characteristics:** The RCS appraiser must:
  - a. View each comparable's grounds and *exterior* common areas. If access is given, the RCS appraiser should also view *interior* common areas (e.g., lobby, laundry rooms, community or dining rooms, recreation/ fitness areas, business centers).
  - b. Take color photos of each comparable's *exterior*, showing location on the site and exterior design and condition. If the comparable project is in a different market area than the subject, the RCS appraiser must collect market-based data to compare the rent levels in the two markets.
  - c. Obtain the unit's rentable interior square footage, either through inspection or through other sources. The RCS appraiser must exclude balconies, mechanical areas or other non-living spaces. If the square footage available represents an exterior measurement, the RCS 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 9-9 requires on the subject.

*Note: The RCS appraiser is not required to inspect a comparable's unit interiors, but should do so if a unit is available and access is given.*
  - d. Talk with management of the comparable properties to determine overall occupancy rates for those projects, typical and current occupancy levels specific to the unit types 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, the RCS appraiser must determine and document *why*. The RCS appraiser should



642 consider if the rent is too high, or if there are other factors causing the  
643 vacancy. Also, the RCS appraiser must confirm and quantify the  
644 existence/absence of any rent or use restrictions and tenant subsidies.

645  
646 *Note: If the contact person does not provide the unit size or other required*  
647 *information, the RCS appraiser must try to obtain the data from other sources.*  
648 *The RCS appraiser must use his/her professional judgment to determine if the*  
649 *data is sufficient to justify using the unit as a comparable. (Section 9-11.B.3.*  
650 *requires disclosure of data limitations.)*

651 3. **Data on Comparable’s Amenities:** The RCS appraiser must identify services  
652 and amenities available at the comparable(s).

653 a. **Non-Shelter Services.** RCS appraisers must determine if the project provides  
654 non-shelter services (e.g. service coordination, neighborhood networks, the  
655 elderly services noted below), and if so, the RCS appraisers must identify  
656 which services are included in the rent and which are covered by additional  
657 fees residents pay.

658 b. **Elderly/Disabled.** At projects for the elderly/disabled, RCS appraisers must  
659 determine if the project provides emergency call systems, transportation,  
660 social or education activities, service coordination, meals, laundry or  
661 housekeeping

## 662 B. Reporting Comparable Data.

663 1. **Comparable Project Profile:** For each comparable used, the RCS appraiser  
664 must report the data collected in the Comparable Project Profile as required under  
665 Item 10 of Appendix 9-1-3 (Required Contents for an RCS). The Appendix 9-1-4  
666 (Comparable Project Profile) provides a suggested format for reporting the data  
667 collected, but RCS appraisers may use their own formats if those formats include  
668 all of the information listed in Item 10 of Appendix 9-1-3 (Required Contents for  
669 an RCS).

670 2. **Rent Grid:** For each *primary* unit type, the RCS appraiser must report the data  
671 collected by completing the data columns of the Rent Grid shown in Appendix 9-  
672 1-1. The RCS appraiser must complete all lines of the Grid’s data columns, i.e.,  
673 even lines/items for which the RCS appraiser will make no adjustment. All  
674 comparables for one subject unit type must be shown on one grid. RCS appraisers  
675 must review Appendix 9-1-2 for guidance on completing the Rent Grid.

676 3. **Disclosure:** In the Scope of Work Section of the RCS report, the RCS appraiser  
677 must identify any data on comparables that was unobtainable or estimated and all  
678 efforts to obtain that data. RCS appraisers must review Appendix 9-1-3, Item 2  
679 for more detail on what the Scope of Work write-up must cover.

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## COMPUTING ADJUSTED RENTS FOR COMPARABLE UNITS

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### Section 9-12

This section provides guidance to RCS appraisers for deriving an *adjusted rent* for each comparable. RCS appraisers must review the instructions provided in this section and the line-by-line instructions provided in Appendix 9-1-2, before preparing the Rent Grid in Appendix 9-1-1. For computed adjusted rents, RCS appraisers must:

- A. Analyze for differences between subject and comparable
  - B. Adjust the comparable to the subject
  - C. Provide narrative explanations
  - D. Pay particular attention to Special Issues
  - E. Follow the guiding principles when quantifying adjustments
- A. **Analyze for differences between subject and comparable.** To compute the adjusted rent, the RCS appraiser must:
1. Compute an *effective rent* by adjusting the most recently charged rent for factors (e.g., rent concessions) listed in Part A of the Grid.
  2. 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.
  3. 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.** 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:
1. **Inferior** to the subject on a particular characteristic, the RCS appraiser must adjust the comparable upward. The RCS appraiser must 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. For example, if the comparable unit size is 100 square feet smaller than the subject units, and the RCS appraiser estimates the value of incremental square feet to be \$.50 per square foot, \$50 would be entered on Line 13 of HUD Form 92273-S8.
  2. **Superior** to the subject on a particular characteristic, the RCS appraiser must adjust the comparable downward. The RCS appraiser must 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. For example, if the comparable units include patios or balconies and the subject does not, and the RCS appraiser's research shows that at a third project in this market that offers units both, with and without balconies, units with balconies rent for \$15 more, -\$15 would be entered on Line 14 of the HUD Form 92273-S8.
- C. **Provide narrative explanations.** RCS appraisers must provide concise, but professionally complete explanations as to *why* the adjustments were made and *how* the dollar values were derived. The explanations must be clear and convincing to a person not familiar with the properties and market areas involved.

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1. Every line item adjustment on the Rent Grid requires two separate and distinct explanations in the narrative.

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    - a. First, RCS appraisers must explain *why* the adjustment was made. Specifically, the RCS appraisers are required to state the reasons that justify an adjustment, and explain whether the adjustment would be on a total dollar amount basis (generally used for qualitative adjustment characteristics such as “neighborhood” or “location”), or on a dollar amount per the comparison unit (generally used for adjusting unit size differences). **Example:** “Comparables A and B were each adjusted upwards by \$20 for not offering units with either a patio or balcony.”
    - b. Second, RCS appraisers must explain *how* the dollar value was derived. Specifically, the RCS appraisers are required to explain the rationale for the amount of their adjustments. This could be supported through paired comparable analysis, interviews with Account Executives and leasing agents, or prior experience in the subject market. This second component (“how”) of the narrative is required for all adjustments where the amount of adjustment exceeds nominal amount of \$10. **Example:** “The subject and comparables C, D, and E offer either a balcony or a patio, while comparables A and B do not offer that feature in any of their units. The RCS appraiser recently appraised a project in this market that offered units both with and without balconies. Units with balconies commanded an average additional rent of approximately \$20, which provides the basis for the upward adjustment to comparables A and B”.
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2. RCS appraisers shall not just reiterate the entries in the data column. It would be unacceptable for an RCS appraiser to state: “A negative adjustment was made to comparable A for location.” Instead, the RCS appraiser must outline the data and logic used to arrive at the adjustment amount. **Example:** In this situation, the RCS appraiser’s narrative could say, “Comparable A 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 A with those of comparable D, which is in the subject’s neighborhood but otherwise very similar to comparable A. The average value of the superior location was estimated to be \$25.”
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3. For all adjustments exceeding a nominal amount of \$10, the RCS appraiser must present market data to support his/her conclusions. Section 9-12, C1 above shows an example of the two-part explanation needed for adjustments exceeding \$10. For minor adjustments (adjustments not exceeding \$10), the RCS appraiser may state his/her subjective evaluation of why the observed differences would affect rent.
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764 D. **Pay particular attention to Special Issues.** The RCS appraiser must pay special  
765 attention to the detailed guidance for all line items in the Rent Grid, as provided under  
766 Appendix 9-1-2. In particular, there are a few line items that are discussed under  
767 “General Instructions” in Appendix 9-1-2 along with common errors associated with  
768 those line items. The RCS appraiser must pay special attention to the guidance before  
769 making adjustments for those respective line items.

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771 E. **Follow the Guiding Principles when Quantifying Adjustments.**

772 1. Not all differences between the subject and the comparable require adjustments.  
773 The RCS appraisers must adjust only for differences that would affect how much  
774 rent a tenant is willing to pay. If a difference would appear to affect rental value  
775 and no adjustment is made, the RCS appraiser must explain **why**.

776 2. Adjustments must reflect local markets. The RCS appraisers must make  
777 adjustments on what typical renters in the subject’s particular market area will  
778 pay. Swimming pools, floor types, carpets and other special features generally do  
779 not affect value to the extent of their cost. Additionally, tenants in different  
780 markets may value amenities and services differently, so the RCS appraiser must  
781 be aware of sometimes subtle differences in the value of some project features  
782 even within the same community. **Example:** Central air conditioning may be less  
783 valued by tenants in a beachfront project, compared to tenants at another project,  
784 perhaps not far away, but within a valley location with much warmer summertime  
785 temperatures.

786 3. Adjustments often vary by unit type. Even in the same market, renters may value  
787 the same service differently among unit types. **Example:** A second bathroom may  
788 be more valuable in a three-bedroom than in a two-bedroom unit.

789 4. Adjustments levels must reflect rental value, not construction cost or the cost of  
790 providing a service. **Example:** In adjusting for differences like an elevator,  
791 amortizing the cost of the elevator over its useful life is not what a market renter  
792 would do. Any adjustment should reflect only what residents would typically pay  
793 for the convenience of using the elevator rather than climbing stairs. It is thus  
794 imperative that the source of the adjustment be market-derived, from sources such  
795 as paired-comparable analysis or direct interviews with project management  
796 personnel, rather than cost-based.

797 5. Adjustments, whether positive or negative, must be applied consistently. For a  
798 given property feature, RCS appraisers must not make small negative adjustments  
799 to a comparable when it is the subject that lacks that respective feature, while  
800 making large positive adjustments to a comparable when it is the subject, rather  
801 than the comparable, that includes that same feature.

802 6. Do not duplicate adjustments. RCS appraisers must be careful not to adjust for the  
803 same element in more than one place. **Example:** If adjustments are made for  
804 ‘project appeal’ (Line 8) and ‘age’ (Line 7), the RCS appraiser must take care to  
805 ensure that the sum of those lines is not more than the value the tenant would  
806 place on all features covered by those line items.

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## DERIVING ESTIMATED MARKET RENTS

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### Section 9-13

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810 This section provides guidance to RCS appraisers for deriving estimated market rents  
811 based on the Rent Grid prepared for the subject project. The RCS appraiser must:

- 812 A. Derive the estimated market rent
- 813 B. Derive secondary unit's market rent, if applicable
- 814 C. Explain the estimated market rent

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816 **A. Derive the estimated market rent.** For each primary unit type, the RCS appraiser  
817 must analyze the adjusted rents of the comparables computed pursuant to Section 9-  
818 12 and the line-by-line instructions in Appendix 9-1-2. Then, using his/her knowledge  
819 of the comparables, the RCS appraiser determines what point in that range of adjusted  
820 rents best represents the rent the subject project could most probably obtain. The RCS  
821 appraiser must consider: the type, size and number of adjustments made; the quality  
822 of each comparable; whether a comparable's data was estimated or incomplete; and  
823 how the adjusted rents for each unit type relate to each other. The comparables most  
824 similar to the subject should receive more weight. While RCS appraisers may  
825 compute and consider averages and other mathematical-based indices, those  
826 calculations do not allow for exercise of the RCS appraiser's professional judgment  
827 and should not, by themselves, determine market rents. Instead, the RCS appraiser's  
828 estimated market rent may be skewed towards the range of the adjusted rents for the  
829 best suited comparables to the subject project, as opposed to the mean, modal or  
830 median values for the adjusted rents of all comparables.

831 **B. Derive secondary unit's market rent, if applicable.** If *secondary* unit types are  
832 included in the RCS, the RCS appraiser may adjust the market rent of the related  
833 primary unit type to arrive at the secondary unit type's market rent. To do so, the RCS  
834 appraiser may adjust the primary's market rent to reflect the slight differences (e.g.,  
835 half bath) between the secondary and primary type and set the secondary's market  
836 rent at the resulting amount.

837 **C. Explain the estimated market rent.** The RCS appraiser must explain *how* the  
838 market rent (for primary and/or secondary unit types) was derived and *why* it was  
839 derived that way. The RCS appraiser must note which comparables were given the  
840 most weight and why, including which attributes of those respective comparables  
841 resulted in their being weighted more or less than others. If the estimated market rent  
842 is set at the high or low end of the range of adjusted rents, the RCS appraiser must  
843 explain why. Explanations should be concise, while at the same time clear and  
844 convincing. **Example for narrative on estimated market rent:** "Comparable A,  
845 although not as close in distance as the other four comparables, was given a higher  
846 weight than others because leasing agents have observed that prospective tenants  
847 often consider both properties (subject and comparable A) "family-friendly" due to  
848 on-site day care facilities and similar services."

## \*PROCEDURE FOR MANDATORY MARKET RENT THRESHOLD\*

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### Section 9-14

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851 In addition to submitting the Rent Grid and the RCS Report, the RCS appraisers are also  
852 required to follow special procedures for all contracts, as outlined in this section, under  
853 the following topics.

- 854 A. Mandatory market rent threshold
- 855 B. Steps for computing median rent and comparing it to the threshold
- 856 C. When project's median rent exceeds the threshold
- 857 D. Special exceptions under the threshold

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859 A. **Mandatory market rent threshold.** The following requirements will apply for all  
860 contracts where the owner's RCS concludes that the project's median gross rent, as  
861 derived from the RCS, exceeds 140 percent of the "Gross Rent By Zip Code  
862 Tabulation Area" as published by the U. S. Bureau of the Census or other comparable  
863 source as determined by the Department. These requirements do not apply to studies  
864 undertaken as part of the MTM process. All RCS submissions (other than those for  
865 MTM process) to HUD/CA must include the following information:  
866

1	Distribution of RCS Rents and Subject Project's median rent ( <i>see Step 1 below</i> )
2	Screen Shot of Median Gross Rent Estimate for the Project's Zip Code, as per U.S. Bureau of the Census ( <i>see Step 2 below</i> )

867  
868 B. **Steps for Computing Median Rent and comparing it to Threshold.** The RCS  
869 appraiser will follow the steps outlined below for all RCS submissions (except for  
870 those undertaken as part of the MTM process).  
871 Step 1: Compute Subject Project's median rent as determined by the RCS;  
872 Step 2: Determine Median Gross Rent Estimate for the Subject Project's zip code;  
873 Step 3: Compare Project's median rent to 140% of Median Gross Rent.

874  
875 Step 1: Compute Subject Project's median rent as determine by RCS: The RCS  
876 appraiser will compute the median rent for the subject project by identifying the  
877 rental rate in the middle of the distribution of RCS rents for the subject project. The  
878 following examples illustrate and differentiate how to compute the median rent for a  
879 project with odd or even number of units.

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881  
882

# of Bedrooms	Example 1 (Odd # of Units)			Example 2 (Even # of Units)		
	# of Units	RCS \$ Rent	Cumulative # Units	# of Units	RCS \$ Rent	Cumulative # Units
0	8	\$700	8	8	\$700	8
1	5	\$1,200	13	5	\$1,200	13
2	12	\$1,900	25	13	\$1,900	26
Total	25			26		
<b>Median Rent</b>	<b>\$1,200</b>		Rent of 13 <sup>th</sup> unit	<b>\$1,550</b>		Average of rents for 13 <sup>th</sup> & 14 <sup>th</sup> units

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*Example 1 (odd number of units):* The project consists of a total 25 units. The median rent will be the rent of the 13<sup>th</sup> unit, or \$1,200.

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*Example 2 (even number of units):* The project consists of a total of 26 units. The median rent will be obtained by taking simple average of the rents for the 13<sup>th</sup> and 14<sup>th</sup> unit, or average of \$1,200 and \$1,900.

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891

**Step 2: Determine Median Gross Rent Estimate by Subject Project's Zip Code:**

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HUD provides the most recent ACS-5 year estimate at [LINK]. The RCS appraiser must use this file to search by state where the subject project is located, and identify the Median Gross Rent Estimate for the subject project by its' 5 digit zip code.

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**Step 3: Compare Project's median rent to 140% of Median Gross Rent:**

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The RCS appraiser will then compare the median rent determined under Step 1, with the Median Gross Rent for the relevant zip code as determined under Step 2. If the Project's estimated/median rent does not exceed 140% of the Median Gross Rent, *no further action is required*. If the median rent exceeds this threshold, then HUD will use the process described below to establish comparable market rents.

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- C. When Project's median rent exceeds the Threshold.** If the RCS based median rent for the Subject Project exceeds 140% of the Median Gross Rent for the project's zip code, then a HUD commissioned RCS would be required. In such a scenario, HUD will hire an independent third-party appraiser through its Contracting Officer to prepare another RCS for the Subject Project. For RCS submitted that include "as-is" and "past-repair" market rent estimates, if either the "as-is" estimate or the "post-repair" estimate exceeds the threshold, then a HUD study would be required.

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*Funding for HUD Commissioned RCS:* Since HUD-commissioned RCSs will be done for both insured and uninsured properties, contract funds to pay for the studies will come from the sources below:

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- a. FHA Insured: Technical Discipline Contract PAS Code: MTF.

914

- b. Noninsured: Section 8 program funds. PAS Code: CRE

915

*Differences in Comparability Studies:* HUD will compare the gross rent potential for the subject project as determined by the HUD-commissioned RCS versus the owner-contracted RCS, and the final market rent for the subject project will be determined as follows:

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- 919 a. When the HUD comparable gross rent potential is greater than the owner's  
920 comparable gross rent potential, the final comparable market rents will be the  
921 owner's comparable market rents.
- 922 b. When the HUD comparable gross rent potential is less than the owner's  
923 comparable gross rent potential, the final comparable market rents will be  
924 determined by reviewing if the owner's comparable rent potential is:
- 925 i. less than 105% of the HUD comparable rent potential, and if so, the final  
926 comparable market rents will be the owner comparable market rents; or  
927 ii. greater than or equal to 105% of the HUD comparable rent potential, in  
928 which case the final comparable market rents will be 105% of the market  
929 rents as determined by the HUD-commissioned RCS.

930 *iREMS*: HUD reviewers will use iREMS for comparing the owner and HUD  
931 comparability studies, determining the final comparable market rents and determining  
932 final eligibility.

933 *Transparency*: The owner can request a copy of the HUD-commissioned RCS for  
934 information purposes only. There are no negotiations allowed nor is there an appeal  
935 process for differences between the two RCSs. However, if the owner identifies  
936 factual discrepancies, such as errors in square footage or computational errors that  
937 contribute to a large discrepancy in concluded rents, then the owner may notify HUD.  
938 For other issues such as choice of comparables, amount of adjustments or derivation  
939 of concluded rent, the HUD-commissioned RCS will prevail, and cannot be appealed  
940 or questioned by the owner.

941 **D. Special exceptions under the threshold.** One of the primary reasons for utilizing  
942 the U.S. Department of Census based threshold is that it is market-based, and it  
943 allows for greater comprehensiveness and granularity since it is available by zip  
944 codes. However, the threshold has a few limitations. For instance, the Median  
945 Market Rent Estimate does not differentiate rents by dwelling unit size. Although  
946 statistically, 'Median' should depict rental rates in the middle of the distribution of  
947 rents, the threshold does not currently capture the variability in unit sizes and  
948 considers all data from studio apartments to the largest units available in the zip code.  
949 However, HUD's escalation factor of 140% should minimize the effect of this  
950 limitation, and provide greater comfort to owners with properties skewed toward  
951 larger unit sizes. Other limitations of the Census based threshold are described  
952 below, along with specific guidance for when such situations are encountered.

953  
954 *Special Case #1*: When median market rent in a zip code equals or exceeds \$2,000,  
955 the Census Bureau does not report the actual market rent value. Instead, the Bureau  
956 assigns such zip codes a value of '\$2,000+'. If a Subject Project belongs to such a zip  
957 code where the Median Gross Rent is estimated at '\$2,000+', HUD will review if the  
958 owner's comparable gross rent potential:

- 959  
960 i. is less than 140% of \$2,000 (or \$2,800), then no further action is required  
961 and the final comparable market rent is determined by the owner's RCS;  
962 or
- 963 ii. is greater than or equal to 140% of \$2,000 (or \$2,800), but less than 105%  
964 of the current HAP contract rent for the subject project, then the final  
965 comparable market rent is determined by the owner's RCS; or



966                   iii.    is greater than or equal to 140% of \$2,000 (or \$2,800), and greater than or  
967                                   equal to 105% of the current HAP contract rent for the subject project,  
968                                   then a HUD-commissioned RCS would be required.

969                   The examples below illustrate the two stage assessment process described above. As  
970                   illustrated, a new HUD-commissioned RCS will be required if owner's comparable  
971                   gross rent potential exceeds \$2,800 and it also exceeds 105% of the current HAP  
972                   rents.  
973

**For Zip Codes with ACS-based Median Market Rent of \$2,000+**

	<u><b>Example 1</b></u>	<u><b>Example 2</b></u>	<u><b>Example 3</b></u>
<b>RCS Rent submitted by owner</b> ACS-based Median Market Rent for Zip Code	<b>\$2,800</b> \$2,000+	<b>\$3,000</b> \$2,000+	<b>\$3,000</b> \$2,000+
<b>TEST 1:</b> <b>Does RCS Rent Exceed 140% of \$2,000 (or \$2,800) comment</b>	Is \$2,800 > \$2,800?	Is \$3,000 > \$2,800?	Is \$3,000 > \$2,800?
Results of Test 1 If "NO", RCS Rent prevails. If "YES", subjected to Test 2	<b>NO</b> <b>RCS Rent Prevails</b>	<b>YES</b> Subjected to Test 2	<b>YES</b> Subjected to Test 2
Current HAP Rent for the Project		\$2,900	\$2,800
105% of Current HAP Rent for the Project		\$3,045	\$2,940
<b>TEST 2:</b> <b>Does RCS Rent Exceed 105% of Current HAP Rent?</b>		Is \$3,000 > \$3,045?	Is \$3,000 > \$2,940?
Results of Test 2 If "NO", RCS Rent prevails. If "YES", HUD RCS required		<b>NO</b> <b>RCS Rent Prevails</b>	<b>YES</b> <b>HUD RCS Required</b>

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*Special Case #2:* When the Median Gross Rent Estimate is unavailable for a certain zip code, the U.S. Census Bureau reports the value as ‘missing’ or ‘blank’. This may occur for zip codes that belong to national parks, resort areas, or in some rural areas so sparsely populated that there is an insufficient number of rental units available for the Census Bureau to compute and report a Median Gross Rent estimate.

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If the Subject Project belongs to such a zip code, HUD will compare the owner’s gross potential rent with the current HAP contract rents. More specifically, if the owner’s comparable gross potential rent:

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- i. is less than 105% of the current HAP contract rents, then no further action is required and the final comparable market rent is determined by the owner’s RCS; or
- ii. is greater than or equal to 105% of the current HAP contract rents, then a HUD-commissioned RCS would be required.

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**\*HUD/CA REVIEWS OF RENT COMPARABILITY STUDY\***

993

**Section 9-15**

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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 9-14 of this Chapter. When referring to a particular staff position, this Section uses titles typically used at HUD. CAs should translate those to their own position titles.

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1000 This Section also provides categories of reviewers, i.e., *initial reviewers* (comprised of  
 1001 HUD/CA staff), and *substantive reviewers* (who are required to be state-certified  
 1002 appraisers for all reviews conducted by CAs, or HUD appraisers for those completed by  
 1003 HUD's Multifamily Satellite Offices). Such substantive reviewers are also referred to as  
 1004 *RCS review appraisers*. For instances, where HUD's staffing does not permit the  
 1005 availability of a HUD appraiser, a *non-appraiser HUD staff* can complete the substantive  
 1006 review, subject to the minimum requirements and process outlined below.

1007 **A. Minimum qualifications for reviewers.** All RCSs must be reviewed by staff  
 1008 members who possess the requisite knowledge needed for the level of review being  
 1009 performed. Section 9-16 of this Chapter provides guidance on the level of reviews.

1010 1. **Initial Screening:** An initial review for timeliness and completeness may be  
 1011 completed by HUD/CA initial reviewer using the checklist provided under  
 1012 Appendix 9-5-1. While completing this review, the HUD/CA initial reviewer  
 1013 must adhere to the policies and time frames set forth in this Chapter's guidance.  
 1014 The HUD/CA initial reviewer must also have read the Chapter Nine guidance,  
 1015 and successfully completed training on using the initial screening checklist within  
 1016 the preceding 12 months of performing their first Initial Screening review.

1017 2. **Substantive Review:** All substantive reviews conducted by CAs must be  
 1018 completed by a state-certified general appraiser. Substantive reviews completed  
 1019 by HUD staff must ideally be completed by HUD appraisers. However, if  
 1020 staffing does not permit that, a non-appraiser substantive reviewer must meet the  
 1021 following minimum qualifications in order to complete a substantive review:

1022 a. Have a minimum of at least two years' direct multifamily experience. Besides  
 1023 direct experience in HUD multifamily review, other acceptable qualifying  
 1024 experience would be two years' employment in multifamily project  
 1025 management or leasing, multifamily loan or acquisition underwriting, and also  
 1026 multifamily development. This background is necessary to effectively review  
 1027 the RCS facts, reasoning and conclusions; and

1028 b. Have read the Chapter Nine guidance, and successfully completed training on  
 1029 using the reviewer checklists, within the preceding 12 months of performing  
 1030 their first Substantive review.

1031 **B. Process for approving non-appraiser substantive reviewers.** The Regional  
 1032 Director at HUD's Multifamily Satellite Office, must authorize all non-appraiser  
 1033 substantive reviewers performing substantive reviews on RCSs. This individual must  
 1034 also perform ongoing assessment of gaps in skills/training for HUD reviewers in their  
 1035 respective offices. The individual must ensure that:

1036 1. All authorized non-appraiser substantive reviewers meet the minimum  
 1037 qualifications required for performing a substantive review, and receive the  
 1038 necessary training on a periodic basis; and

1039 2. Non-appraiser substantive reviewer has access to a second reviewer at HUD, if  
 1040 needed (as per Section 9-16.C.), when an RCS triggers a second review for a  
 1041 certain line item(s).

- 1042 C. **Timing requirements.** An initial screening review using the checklist in Appendix  
1043 9-5-1 must be completed within 10 calendar days of the date of receipt of an RCS  
1044 from the owner. HUD/CA initial reviewer may contact the RCS appraiser directly  
1045 unless the owner has specifically objected to that in the owner’s cover letter (as  
1046 required under Section 9-7). The HUD/CA initial reviewer must follow up with the  
1047 owner or RCS appraiser, by email or other forms of written correspondence, if:
- 1048 1. The owner’s submission is incomplete. The RCS appraiser or the owner must  
1049 submit the missing items within 7 calendar days of the HUD/CA initial reviewer’s  
1050 request.
  - 1051 2. More than 90 calendar days elapsed between the RCS appraiser’s transmittal  
1052 letter and the date the owner submitted the RCS to HUD. Under this scenario, the  
1053 HUD/CA initial reviewer must return the RCS and ask the owner to have the RCS  
1054 appraiser update the data to comply with Section 9-8.
- 1055 D. **Record Keeping.** All categories of reviewers must retain the RCS submission,  
1056 subsequent correspondence with the owner, and review materials and documentation,  
1057 for a minimum of a 3-year period. This includes review materials of RCSs that were  
1058 previously submitted by RCS appraisers, and deemed inadequate and/or incomplete.

## 1059 **\*INITIAL AND SUBSTANTIVE REVIEW\***

### 1060 **Section 9-16**

1061 This section provides guidance to initial and substantive reviewers for performing a  
1062 comprehensive review of the RCS. It covers guidance on the following items:

1063 A. Initial Review

1064 B. Substantive Review

1065 C. Field Visit

1066 A. **Initial Review.** HUD/CA initial reviewers performing an initial screening of the  
1067 RCSs for completeness and timeliness check must utilize the ‘Initial Screening’  
1068 checklist provided under Appendix 9-5-1. The HUD/CA initial reviewer must sign  
1069 and retain the completed checklist, and a copy must be provided to the substantive  
1070 reviewer informing him/her that the RCS is determined to be complete and ready for  
1071 a substantive review.

1072 B. **Substantive Review.**

1073 1. **Purpose of a Substantive Review.** The purpose of a substantive review is to  
1074 assess and evaluate whether the RCS appraiser’s selection of comparables,  
1075 adjustments, and rent conclusions are reasonable. The substantive reviewer may  
1076 not agree with every detail of the RCS, but must conclude that the suggested  
1077 market rents presented in the RCS are reasonably supported by market facts. The  
1078 RCS should contain sufficient information to convince a person unfamiliar with  
1079 the market areas or properties involved, that the RCS conclusions are reasonable.

1080 2. **Compliance with USPAP.** Policing compliance with USPAP should not be the  
1081 focus of a substantive reviewer, unless the substantive reviewer identifies

1082 significant problems in the research, facts, reasoning or conclusions noted in the  
1083 RCS report. Substantive reviewers are not required to check for compliance with  
1084 USPAP when performing a substantive review.

1085 3. **Scope of a Substantive Review.** The key focus for a substantive reviewer should  
1086 be to ensure that the RCS is reasonable, consistent with facts and standard  
1087 appraisal practice, and complies with the guidance provided in Sections 9-9  
1088 through 9-13. The tools and checklists provided under Appendix 9-5-2 through 9-  
1089 5-6, and discussed in detail below, should facilitate the substantive review  
1090 process.

1091 a. **Detailed Screening Checklist.** Appendix 9-5-2 provides a ‘Detailed  
1092 Screening’ checklist incorporating key questions that a substantive reviewer  
1093 must assess and evaluate when reviewing an RCS. These key questions  
1094 incorporate requirements under Sections 9-9 through 9-11, with respect to  
1095 analyzing the subject project, comparables selection and data collection.  
1096 Substantive reviewers must document any concerns or conclusions in the  
1097 checklist when reviewing the RCS.

1098 b. **Rent Grid analysis Checklist.** All substantive reviewers must complete the  
1099 ‘Rent Grid Analysis’ checklist (Appendix 9-5-3) using guidance provided  
1100 under ‘Notes for Rent Grid Analysis and Triggers for Second Review’  
1101 (Appendix 9-5-4). The purpose of these checklists is to ensure that the  
1102 concluded market rent is appropriate and reasonable. Substantive reviewers  
1103 are not expected to challenge minor differences in RCS adjustments,  
1104 particularly if correcting those perceived flaws would not affect the rent an  
1105 owner will receive, or the estimated market rent shown on the rent grid. For  
1106 example, if the owner is seeking a \$20 red increase, and it is clear that the  
1107 market rent increase will exceed \$20 even if adjustments were revised, then it  
1108 would not be cost effective to spend extensive time analyzing adjustments that  
1109 are reasonably close.

1110 c. **Triggers for Second Review for Non-Appraiser Reviewers:** In cases where  
1111 an RCS includes line item adjustments that are identified as triggers under  
1112 Appendix 9-5-4, and if the substantive reviewer is a non-appraiser HUD staff,  
1113 HUD requires that a second reviewer also review and sign-off on the specific  
1114 trigger items. The second reviewer must meet the minimum qualification  
1115 requirements (as described under Section 9-15.A.) and is required to provide  
1116 input on the appropriateness and reasonableness of only the specific line item  
1117 that triggered a second review, as opposed to the entire RCS. If the first and  
1118 second reviewers do not reach consensus, then the trigger item will be  
1119 reviewed by an RCS review appraiser, whose opinion will prevail as to what  
1120 revisions, if applicable, need to be made to the RCS. Please note that seeking  
1121 a second reviewer’s input is not a requirement if the first or second  
1122 substantive reviewer is an RCS review appraiser (state-certified).

1123 d. **Issues/Certification Memo.** Once the substantive reviewer has completed  
1124 the detailed screening and rent grid analysis, the substantive reviewer must  
1125 also complete a certification (Appendix 9-5-5). If the substantive reviewer  
1126 has questions or needs additional clarification, they can use the sample

1127 provided in Appendix 9-5-6 for preparing an issues memo for the owner  
1128 and/or RCS appraiser.

1129 C. **Field Visits.** While most RCS reviews usually only require a desk review,  
1130 substantive reviewers may recommend a field review if they believe a site visit is  
1131 needed to accurately assess the RCS. If required, all field reviews must be conducted  
1132 by an RCS review appraiser. A substantive reviewer must consider recommending a  
1133 field visit when:

- 1134 1. The desk review raises major questions.
- 1135 2. The substantive reviewer is largely unfamiliar with the market area, the subject  
1136 project or the comparables.
- 1137 3. The substantive reviewer is considering challenging adjustments for condition,  
1138 appeal, neighborhood or other factors that can change quickly.

1139

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## COMMUNICATING RESULTS OF HUD/CA REVIEWS

1141

### Section 9-17

1142 HUD/CA must convey the results of their substantive review within 30 calendar days  
1143 after receiving a complete RCS package from the owner.

1144 A. **Approval:** If HUD/ CA substantive reviewer agree with the RCS appraiser's market  
1145 rent conclusions, they must document that agreement on the reviewer's certification  
1146 (Appendix 9-5-5) and notify the Account Executive that the market rents in the RCS  
1147 are acceptable for use in further processing of the renewal.

1148 B. **Questions and/or Clarifications:** If aspects of the RCS are unclear or unconvincing,  
1149 the HUD/CA substantive reviewer must ask the RCS appraiser for additional  
1150 information or explanation, if the owner's cover letter permits HUD/CA to reach the  
1151 RCS appraiser directly. If the issues are minor and HUD/CA expect easy resolution,  
1152 the substantive reviewer may call the RCS appraiser. If concerns are many, more  
1153 significant, or complicated HUD/CA must send the RCS appraiser an email /fax/hard  
1154 copy of a letter stating the concerns highlighted in the Reviewer's Issues Memo  
1155 (sample provided in Appendix 9-5-6), and giving the RCS appraiser up to 10 calendar  
1156 days to respond. (*HUD/CA must copy the owner contact on any written*  
1157 *correspondence.*) The RCS appraiser must send the requested information to  
1158 HUD/CA and copy the owner.

1159 Within 10 calendar days after final information was due from the owner or RCS  
1160 appraiser, HUD/CA must either: 1) accept the study and proceed as described in  
1161 Section 9-17.A. above; or 2) draft a decision letter to the owner.

1162 C. **Decision Letter:** If the RCS appraiser's response does not resolve the substantive  
1163 reviewer's concerns, the substantive reviewer will draft a decision letter challenging  
1164 the RCS. If the substantive reviewer is a non-appraiser, an RCS review appraiser  
1165 must also be engaged to review the subject's RCS prior to issuance of such a letter. If  
1166 the RCS review appraiser also concludes that the rejection is warranted, then the  
1167 substantive reviewer may issue the decision letter that either a) tells the owner the  
1168 study must be redone and resubmitted; or b) challenges the study's rent conclusions  
1169 and suggests an alternate rent. Any alternate rents must be developed by a RCS

1170 review appraiser and be consistent with this Chapter's procedures and USPAP. The  
1171 decision letter must tell the owner how the RCS review appraiser arrived at the  
1172 suggested market rent. The decision letter must also:

- 1173 1. be signed by the Regional Office Director or designee;
- 1174 2. clearly state the reasons the RCS is challenged;
- 1175 3. list the owner's options; and
- 1176 4. provide a firm deadline for the owner to respond.

1177  
1178 **D. Owner's Response:** The owner has 10 calendar days after the date of decision letter  
1179 to advise HUD in writing if he/she chooses to (i) accept HUD's alternate rents, (ii)  
1180 resubmit a new study, or (iii) appeal HUD's decision.

1181 If the owner chooses to appeal or resubmit an RCS, HUD/ CA may prepare a short  
1182 term renewal at the then-current rents, to allow time for processing the appeal. Any  
1183 rent increases as a result of the appeal, will be made retroactively. Submission of a  
1184 new study restarts processing. If the owner chooses to appeal, the owner must follow  
1185 the process outlined under Section 9-18 below.

1186

## 1187 **OWNER APPEALS**

### 1188 **Section 9-18**

1189 If the owner chooses to appeal HUD's decision letter, the owner must follow the steps  
1190 provided below. There is no appeal process for HUD-commissioned RCSs, as described  
1191 under Section 9-14. All appeals, when eligible, are reviewed and decided by HUD staff  
1192 at the appropriate Regional Center, as opposed to HUD headquarters.

#### 1193 **A. First Level Appeal.**

- 1194 1. Subsequent to submitting the owner's letter indicating an appeal of HUD's  
1195 decision, owner must prepare and submit a written statement of his/her reasons  
1196 for appeal and any data that supports his/ her objections. This written statement  
1197 must be delivered via email/fax/mail to the Program Center Director within 20  
1198 calendar days after the date of HUD/CA's initial decision letter (or 10 calendar  
1199 days after the date of owner's response) as provided by Section 9-17 above.
- 1200 2. In addition to the written statement, the owner may also request a meeting, or a  
1201 conference call with the RCS review appraiser. If such a request is made, a  
1202 meeting or a conference call must be held within 15 calendar days of the date of  
1203 the owner's appeal. The owner, the RCS appraiser, the RCS review appraiser, and  
1204 the Program Center Director/designee must participate. The Program Center  
1205 Director and RCS review appraiser should consider if a field visit is needed to  
1206 accurately process the appeal as discussed in Section 9-16-.C. above. In some  
1207 instances, the Director and RCS review appraiser may ask for additional  
1208 information from the owner and the RCS appraiser. This information must be  
1209 submitted by the owner within 10 calendar days after the date of the meeting or  
1210 conference call.
- 1211 3. The RCS review appraiser and Program Center Director will review the owner's  
1212 appeal in conjunction with any supplemental information submitted by the owner,

1213 and issue a letter reporting the results of the review within 15 calendar days after  
1214 the latest of: the date the owner submitted the basis for the first appeal; the date of  
1215 any meeting/conference call conducted per Paragraph A2; or the date by which  
1216 owner submits additional information requested by HUD per Paragraph A2.  
1217 HUD's letter in response to the owner's first appeal must be signed by the  
1218 Program Center Director, and it may accept the RCS with supplemental  
1219 information submitted by the owner, reject owner's first appeal and require  
1220 resubmission of a new RCS study, or propose HUD's alternate rents for the  
1221 project.

1222 4. The owner may either accept or submit a second appeal on the Program Center  
1223 Director's decision.

#### 1224 **B. Second Level Appeal.**

1225 1. If the owner chooses to pursue a second level appeal, the owner must submit a  
1226 written statement of his/her reasons for a second appeal and any data that supports  
1227 his/her objections to the Program Center Director's decision letter in response to  
1228 the owner's first appeal. The submission must be received within 15 calendar  
1229 days after the date of the Program Center Director's decision letter on the first  
1230 appeal, and must be addressed to the Regional Center Director and copy the  
1231 Program Center Director. The owner may also request a short-term renewal if the  
1232 contract has expired or if expiration is imminent.

1233 2. The Regional Center Director will determine if the appeal has potential merit and,  
1234 if so, issue a short term renewal at then-current rents, to allow time to process the  
1235 appeal. Any rent increases as a result of the second appeal will be made  
1236 retroactively. The Regional Center Director may contact the owner, the RCS  
1237 appraiser, or the Program Center Director and/or the RCS review appraiser for  
1238 clarification or additional information.

1239 3. The Regional Center Director must issue a decision letter to the owner within 15  
1240 calendar days after the date of the owner's second appeal to the Regional Center.  
1241 The letter must clearly state the basis for HUD's decision.

## 1242 **IMPOSING SANCTIONS ON APPRAISERS**

### 1243 **Section 9-19**

1244 If, after the substantive review and communication, discussion or appeal pursuant to  
1245 Section 9-17 or 9-18, a CA or Program Center Director still concludes that the RCS  
1246 appraiser's work is seriously deficient, the CA/ Program Center Director should consider:

- 1247 A. reporting material deficiencies in the appraiser's work product to the state's real  
1248 estate appraisal regulatory authority; and  
1249 B. imposing or recommending imposition of HUD's administrative sanctions [Limited  
1250 Denial of Participation (LDP), suspension or debarment].  
1251