



OFFICE OF HOUSING

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-8000

**SPECIAL ATTENTION OF:**  
Regional Center and Satellite Office  
Directors, Account Executives; PBCAs;  
Owners; and Management Agents

**TRANSMITTAL**  
**Section 8 Renewal Policy Guidebook**  
**Issued: December 1, 2016**  
**Effective: March 1, 2017**

**A. Purpose.**

This transmittal updates Chapter 9 of the Section 8 Renewal Policy guidebook. The revisions are being published on December 1, 2016. This guidance will apply to any Rent Comparability Study signed by the appraiser on or after March 1, 2017.

**B. Explanation of Changes.**

Chapter 9 was completely reorganized and updated. The changes:

1. Reorganize Chapter 9 to identify the responsibilities of each business partner (owners, appraisers and reviewers) in one place.
2. Highlight provisions unique to RCSs when prepared for an AAF rent determination (See Section 9-2.C)
3. Clarify that the option to use FMRs or rents in non-section 8 units to determine the market rent are only available for Option Two contracts. (See Section 9-4)
4. Clarify that the options described in Section 9-4 can only be used by the owner upon approval by HUD. (See Section 9-5.D)
5. Provide more precise instructions on why and how adjustments to the rent grid are made. (See Section 9-12.C)
6. Increase the documentation that appraisers must provide if an adjustment on the rent grid exceeds a nominal amount or a percentage of the unadjusted rent of the comparable, whichever is greater. (See Section 9-12.C)
7. Provide clearer qualifications for HUD reviewers. (See Section 9-15.A)
8. Establish triggers for a second review if the substantial review is undertaken by a non-appraiser. (See Section 9-16.3.c.)

Filing Instructions:

Remove:	Insert:
Chapter 9 dated August 8, 2015	Chapter 9 Guide dated December 1, 2016

# Chapter Nine

## 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 a RCS at initial renewal to demonstrate that current rents are at or below comparable “market” rents. Beginning with the date of the initial renewal of the expiring Section 8 project-based contract, the RCSs start a maximum five-year “life cycle,” after which a new RCS is required.

### 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 when renewing under Option Two of Section 8 renewal options.
- B. It provides guidance to reviewers, including HUD Asset Management staff, Contract Administrators (CA) or The Office of Recapitalization (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.

C. Certain sections of this Chapter apply when HUD Notice H 02-10 (Section 8 Project-Based Rent Adjustments Using the Annual Adjustment Factor) is applicable, and requires owners of new construction/ substantial rehabilitation projects to submit a HUD Form 92273 - **Estimates of Market Rent by Comparison**. Instead of following the instructions in this Guide, owners must use one of the following two methods:

1. Submit the new Rent Comparability Grid (HUD Form 92273-S8) and other materials required in this Chapter (Appendix 9-2-2). Owners must require RCS appraisers preparing the reports to do so in accordance with the guidance in Sections 9-8 through 9-13 of this Chapter, but should follow instructions provided in HUD Notice H 97-14 to determine which units must be included in the RCS.
2. Ask to use non-Section 8 units at the Section 8 project to set the market rent ceiling instead of performing an RCS if the project meets all of the conditions in Section 9-6.B of this Chapter for all unit types for which HUD Notice H 97-14 requires a HUD Form 92273 rent comparison. The owner must submit a request in the format shown in Appendix 9-4, but should delete references to renewals and instead refer to rent comparisons required by HUD Notice H 97-14 (also substitute rent comparisons for references to renewals when reading Section 9-6).

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

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

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

## ROAD MAP TO CHAPTER NINE

### Section 9-3

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

Sections	Topic	Primary Stakeholder(s)		
		Owner	RCS Appraiser	RCS Reviewer*
9-1 – 9-3	Background, Applicability and Roadmap to 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 and 2	Acronyms and Definitions	✓	✓	✓

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

## ALTERNATIVES TO THE RENT COMPARABILITY STUDY

### Section 9-4

This Section gives owners three methods of demonstrating how the Section 8 rents proposed at renewal compare to rents charged for other units. The 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 computed in an RCS, methods A and B are provided under Option Two to avoid the costs and processing time that may be associated with RCSs.

- A. Comparing proposed Section 8 rents to fair market rents (FMRs), as provided in Section 9-5.
- B. Comparing Section 8 rents to rents charged for other units in that Section 8 project, as provided in Section 9-6.
- C. Purchasing and submitting an RCS in accordance with Sections 9-7 through 9-13 of this Chapter.

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

## USING FMRs TO DETERMINE BELOW MARKET STATUS

### Section 9-5

- A. Fair Market Rents. Fair Market Rents or FMRs represent the 40<sup>th</sup> percentile of an area's market rents in most cases, and are published and updated annually by HUD around early October and posted at [www.huduser.org/datasets/fmr.html](http://www.huduser.org/datasets/fmr.html). Under this approach, FMRs create the market rent ceiling that is usually created using an RCS's rents.
- B. Eligibility. Owners eligible to renew under Chapter Four of this Guide, or Option Two, may request to renew without an RCS if the current Section 8 gross rent potential and the proposed Section 8 gross rent potential at renewal are less than 75 percent of the FMR potential for the units being renewed. Since the FMRs are inclusive of utilities, Section 8 gross rent potential must include utilities in order to make the two figures comparable.
- C. Owner's Request. To request renewal using this method, an owner must submit the following no later than 120 days before the expiration of the Section 8 contract:

1. **Request to Renew Using FMRs as Market Ceiling** (HUD Form 9630, see Appendix 9-3) showing a comparison of the current and proposed Section 8 gross rent potential with FMR rent potential.
  - a. The proposed Section 8 gross rent potential used in the above comparison must be the current rent potential, adjusted by the OCAF or budget;
  - b. The potential must be the gross potential (contract rent + utilities) to make the figure comparable to FMRs, which include utilities; and
  - c. The Section 8 gross rent potential must be less than 75 percent of the FMR potential for the units being renewed under the request.
2. **Cover Sheet** of the Contract Renewal Request (HUD Form 9624), showing the current rent potential and identifying all contracts at the project, as well as indicating which contracts will be renewed.
3. **Budget Worksheet** (HUD Form 92547-A), if seeking a budget-based adjustment; or Steps 1 and 2 of the OCAF calculation on HUD Form 9625, if seeking OCAF driven adjustment.

D. HUD processing.

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

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

### Section 9-6

- A. Non-Section 8 Units. Under this method, rents paid by tenants not receiving rental subsidies, serve as a market rent ceiling that is otherwise created using an RCS's rents.
- B. Eligibility. If the criteria below are met, and the owner is choosing to renew Section 8 contract using Option Two, the owner may request to use non-Section 8 units at that Section 8 project to set the market rent ceiling instead of purchasing and submitting an RCS. The project must meet these criteria *for each unit type* that will be included in the renewal contract.
1. The contract(s) is eligible to be renewed under Chapter Four of this Guide.
  2. At least 25 percent of each unit type being renewed is occupied by tenants who pay the full rent due the owner and receive no tenant rental assistance. "Tenant rental assistance" includes project-based Section 8, certificates/vouchers, PRAC/PAC in a 202/811 project, Rent Supplement, Rental Assistance (RAP), or any comparable federal/state/other public subsidy. Tenant rental assistance does *not* include Section 236 interest reduction (IRP) subsidies, other construction/mortgage based subsidies, or LIHTC / comparable state credits.
  3. For each unit type being renewed, the proposed Section 8 contract rent is no more than the average rent that tenants not receiving tenant rental assistance pay for that unit type.
  4. Tenants in units used to compute Paragraph 3's average have been paying (**without assistance and for three or more months**) at least the rent levels used in computing the average. These tenants have no business or family relationship with the project's ownership or management. If units are occupied pursuant to a lease providing for rent concessions, the effective rent must take all concessions into account.
  5. The Section 8 units and the units occupied by tenants not receiving tenant rental subsidies are nearly identical and would not require adjustments if the units without tenant rent subsidies were used as comparables in an RCS. "Nearly identical" means the two sets of units have the same number of bedrooms and baths; are similar in condition, layout and size; and have the same amenities and utilities included in the rent.
  6. Occupancy rates in the units occupied by tenants not receiving tenant rental subsidies are not significantly less than occupancy levels for those unit types in the project's market area, because a low occupancy rate for the subject's unassisted units would imply that the rents are above market. The occupancy levels should take into account the overall market. For instance, if the overall market is running well above 90 percent occupancy, while the subject's unassisted units are 20 percent vacant, then the occupancy level is considered significantly less than the market.



- C. **Owner's Request.** To request renewal using rents of non-Section 8 units for Section 8 Project, an owner must submit the following no later than 120 days before the expiration of the Section 8 contract:
1. **Request to Renew Using Non-Section 8 Units in the Section 8 Project as a Market Rent Ceiling** (HUD Form 9629, see Appendix 9-4).
  2. **Rent Table** comparing current and proposed Section 8 rents with the rents paid by tenants not receiving tenant rental assistance.
  3. **Cover Sheet** of the Contract Renewal Request (HUD Form 9624), showing the current rent potential and identifying all contracts at the project, as well as indicating which contracts will be renewed.
  4. **Budget Worksheet** (HUD Form 92547-A), if seeking a budget-based adjustment; or Steps 1 and 2 of the OCAF calculation on HUD Form 9625, if seeking OCAF driven adjustment.
- D. **HUD processing.** Staff must make a decision on the request within 20 calendar days after receiving the owner's request.
1. **Due Diligence.** Account Executives who process these requests must be familiar with the project's condition and amenities. Account Executives must seek a state-certified appraiser's input as to prevailing rent levels in the subject's market area. Staff must ensure that the project meets the eligibility conditions and Staff must also:
    - a. Use iREMS/ TRACS to check the data reported in the rent table attached to the owner's request.
    - b. Use owner's rent table to help assess compliance with the occupancy criterion noted above. A significant vacancy may indicate that the project is asking too much for these units.
  2. **Approval/Denial.** Account Executives should deny the request only if they have concluded that the rents paid by non-Section 8 tenants in the project are significantly higher than rents in the surrounding area or that some of the eligibility conditions listed above are not met. HUD staff must make an approve/deny decision on the application within 20 calendar days after receiving the owner's request. If HUD denies the owner's request, HUD may issue a short-term renewal to allow the owner a reasonable period of time to obtain an RCS. Owners may not appeal HUD's denial of their requests to use projects' non-Section 8 units in lieu of submitting an RCS. Chapter Two of this Guide provides additional details for setting rent levels in short-term contracts. Staff must document their decision on the owner's request form and in iREMS.

## PREPARING RENT COMPARABILITY STUDIES

### Section 9-7

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

1. Is prepared by, or under, the direction of an RCS appraiser that meets the requirements set forth in Section 9-8A.
2. Covers at least all unit types that have Section 8 assistance in the contracts being renewed now. Owners may also include other Section 8 unit types in other contracts the owner plans to renew during the next five years.
3. Estimates “market” rents for each Section 8 unit type, by adjusting rents of comparable units to reflect the location, condition, appeal, amenities, and utilities of the Section 8 units. **Note: RCS Appraisers must estimate market rent without considering the market’s ability to absorb all Section 8 units.**
4. Is concise, but contains enough information that a person not familiar with the properties and market areas involved can understand how the RCS appraiser arrived at his/her adjustments and opinion of market rent. Owners and their RCS appraisers may consult the sample RCS provided by HUD under Appendix 9-2-2.
5. Is submitted to HUD/CA no later than 120 days before the end of the five-year life cycle of the RCS or contract renewal in cases where the contract is being terminated early and renewed. Early submissions are allowed, but owners must not submit more than 180 days before the end of the RCS’s life cycle or early contract termination. Additionally, no more than 90 calendar days must have elapsed between the date the owner submits the RCS to HUD and the date of the RCS.
6. Includes at least all materials listed under Appendix 9-2-1 (under Owner’s Checklist). Each submittal must include a cover letter from the owner (as shown in Appendix 9-2-1). To expedite HUD review, the owners and their RCS appraisers must ensure that all materials are submitted in electronic copy reports in the same order as shown in the owner’s checklist.
7. Complies with Standard 1 and Standard 2 of Uniform Standards of Professional Appraisal Practice (USPAP). The RCS is a type of appraisal because it is for a specific subject project, and the problem to be solved in the assignment is a value opinion. The value type is market rent. Since an RCS is an appraisal, the RCS appraiser must comply with Standards 1 and 2.

## APPRAISER'S QUALIFICATIONS

### Section 9-8

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

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

1. Be a Certified General Appraiser, licensed and in good standing in the state where the project is located. The license may be temporary or permanent. (Owners can obtain lists of RCS appraisers meeting this standard at [www.asc.gov](http://www.asc.gov) or from each state's appraiser regulatory agency.)
2. Be currently active and regularly engaged in performing RCSs or appraisals of multifamily housing and demonstrate continuing education relating to multifamily housing, market studies, or advanced market analysis and/or separating non-real property features within a property.
3. Meet all the requirements of the current Competency Provision in USPAP and have read all of this HUD Chapter and Appendices. (Additional or updated information on USPAP can be obtained at [www.appraisalfoundation.org](http://www.appraisalfoundation.org).)
4. Have no prospective or present financial interest in the Section 8 project, its ownership or management agent entity, or the principals of those entities.
5. Not be an employee of the owner, the management agent, or the principals of those entities or have a business or close personal/family relationship with those parties that would commonly be perceived to create bias or a conflict-of-interest.
6. Not be debarred or suspended from doing business with the Federal Government and not be under a Limited Denial of Participation (LDP) imposed by the Regional Center or Program Center having jurisdiction over the Section 8 project.
7. Be in compliance with all applicable civil rights laws and statutes.

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

1. Sign and take full responsibility for the report. Appraisal assistants may contribute to any of the tasks if: 1) they are employed by the same firm as the RCS appraiser; and 2) the report identifies the roles the assistant RCS appraiser performed. There is no specific restriction on the role contributed by an assistant, including inspection of the subject property and comparables.
2. Ensure compliance with this Chapter and its appendices, and with USPAP.
  - a. If this Chapter's requirements go beyond USPAP, RCS appraisers must consider the Chapter's requirements to be supplemental standards and comply with them.

- b. RCS appraisers must comply with the Fair Housing Act. RCS appraisers may not use or rely on unsupported conclusions related to the comparable or subject properties or their surrounding areas or upon any factors prohibited by the Fair Housing Act. RCS appraisers' opinions, conclusions and reports must be impartial and objective and not illegally discriminate or contribute to illegal discrimination through subjective or stereotypical assumptions. The Fair Housing act explicitly prohibits person engaging in the business of furnishing real estate appraisals to take race, color, religion, national origin, sex, disability or familial status into consideration.
3. Collect, update or verify all data within 90 calendar days before the date of the RCS appraiser's letter transmitting the RCS to the owner (or to HUD, when HUD purchases the study pursuant to Section 9-14).
4. Provide a descriptive analysis following the guidance provided in Sections 9-9 through 9-14, and detailed instructions under Appendix 9-1. The RCS appraisers must download the electronic versions of Word or Excel files for any table/grids in the RCS, as provided under Appendix 9-1.

## ANALYZING THE SUBJECT PROJECT

### Section 9-9

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

- A. Unit Breakdown
  - B. Project's Condition and Appeal
  - C. Project's Amenities and Services
  - D. Scope of Planned Repairs
  - E. Neighborhood Characteristics
- A. **Unit Breakdown** – RCS appraisers must identify the unit breakdown at the subject project as **primary** versus **secondary**, as defined in Section 9-9.A.2, below. While RCS appraisers must estimate a market rent for each Section 8 unit type, a Rent Grid is required only for each primary unit types. For secondary unit types, RCS appraisers need not complete an entire Rent Grid. Instead, they may start with the market rent for a primary unit type and adjust for the minor difference(s). The RCS appraiser must review Section 9-13.C regarding estimating market rents for primary and secondary unit types. In order to identify primary and secondary unit types, the RCS appraisers must:
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.
  2. Label each unit type as a primary or secondary type using the guidance below.

- a. The RCS appraiser should consider the number of bedrooms and baths, the unit size, the structure (e.g., townhouse, elevator, walk-up), and any other factors the market would consider as significant differences. While the RCS appraiser should be allowed some discretion regarding designation of *primary* and *secondary* units, certain categories of differences must be recognized as significant to renters, and should always trigger the process of designating the more common unit type to be *primary* and the other unit type to be *secondary*. Categories of differences that would require the break-out of *primary* and *secondary* units include the same unit size threshold as used to compare the subject to the comparables, the number of bedrooms and bathrooms (including additional toilet or shower/bath fixtures), and unit configuration (e.g., stacked versus townhome, or walk-up versus elevator-served).

**Example:** Project has 100 3-bedroom, 2-Bath, 1000 square foot units and 30 3-bedroom, 1.5 Bath, 900 square foot units. The owner is charging different rents for these two types. The RCS appraiser will label the most common type (the 2 bath, 1000 square foot unit) as primary and the other as secondary.

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

**B. Project's Condition and Appeal** – The RCS appraiser must conduct a visual inspection of the subject project to observe physical characteristics and assess the project's condition. More specifically, the RCS appraiser must:

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

C. **Project's Amenities and Services** – The RCS appraiser must identify all amenities and services offered at the subject project, and whether they are included in the rent or charged for separately. The RCS appraiser must:

1. Identify all unit and site amenities and the type of utilities. The RCS appraiser must consider all characteristics listed on the Rent Grid, and any other characteristics that would affect the rent a tenant would be willing to pay.
2. At projects providing **non-shelter services** (e.g., service coordination, neighborhood networks, the elderly services noted below), the RCS appraiser must ask the owner/agent to identify which services are included in the rent and which services require additional payments from tenants. A non-shelter service provided at the subject project for an additional charge may still warrant adjustment to the comparables if there is market evidence that availability of that service has value to tenants in that market. Conversely, a non-shelter service provided at the subject project for no additional charge may not necessarily warrant any adjustment to the comparables, if the RCS appraiser does not find evidence of its value to tenants in that market. However, the RCS appraiser may give consideration to the value provided to the tenants at the specific project within the context of the specific occupancy of that project; in that case – perhaps involving a service that is so specialized that it is not found elsewhere in the subject market, the RCS appraiser can cite market evidence from other multifamily markets. (Appendix 9-1-2, Page 11, Lines 29-31).
3. Consider the tenant profile at the subject project. For instance, when preparing an RCS for **projects designed for the elderly/disabled**, the RCS appraiser must identify all services provided for elderly/disabled. RCS appraisers must consider whether emergency call systems, transportation, social or educational activities, service coordination, meals, laundry or housekeeping are offered. The foregoing list is not all-inclusive as there could be other non-shelter services offered such as health and wellness monitoring and mental health counselling. RCS appraisers must determine which services are actually provided by the project and which are just accessed through arrangements the project has established with outside agencies. The RCS appraiser must assess each of these services for its rental value and whether an equivalent service can be found at unassisted properties, regardless of whether the owner or another party is paying for and/or delivering the service to residents. The RCS appraiser must consult the direction provided in Section 9-9.C.2 for how to consider non-shelter services.

D. **Scope of Planned Repairs** – If the owner is anticipating an increase in rents based on repairs to be commenced in the following 12 months, the RCS appraiser must review the complete list of repairs to the subject property planned by the owner during the 12-month period following the as-of date of the rent study. Each item within the scope of planned repairs provided by the owner must be evaluated for the impact of that repair item on marketability and appeal of the subject property to prospective tenants. Typically, replacement of components that are worn or at the end of their useful lives will not impact marketability. On the other hand, installation of equipment or systems that represent upgrades may increase the appeal of the property. Examples would be installation within living units of features not formerly provided, such as air conditioning, or kitchen renovations that add features such as dishwashers. Examples of upgrades not directly impacting living units, but nevertheless

having potential impact on marketability, would be improvements to the on-site parking facilities (e.g., providing covered parking at a property formerly offering only open parking, or adding additional parking spaces) or adding a non-shelter service such as an on-site childcare facility. The RCS appraiser should take care to distinguish non-replacement outlays that increase marketability from those that will typically have no impact. An owner's plan to install a berm on the site to improve site drainage would be an example of a repair that is not a mere replacement of a worn-out component, but yet would not likely impact marketability.

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

If the RCS appraiser receives a list of repairs to the subject property planned by the owner during the 12-month period following the as-of date of the rent study, but the appraiser determines that the listed repairs would not affect market rent, the RCS must contain an affirmative statement to that effect.

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

1. Evaluate and note factors that would impact market rent levels, such as access to schools, employment and medical centers, transportation, shopping, recreation, and community services. The RCS appraiser must identify nuisances (e.g., street noise), crime rates, and other factors affecting the perceived quality of the neighborhood.
2. Identify the project's market area, such as the geographic area from which the subject project would draw the majority of its applicants. Identify street or other boundaries. Consider mobility patterns and natural or man-made barriers (rivers, freeways, rails, etc.).

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

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

## SELECTING COMPARABLE UNITS

### Section 9-10

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

- A. Six Point Criteria
- B. Insufficient Comparables Meeting the Criteria
- C. Comparables Search Procedure

- A. **Six Point Criteria** – For each primary unit type identified pursuant to Section 9-9.A.2 above, the RCS appraiser should attempt to identify comparable units from *five* different properties. The RCS appraiser should select projects that would compete with the subject for tenants. The RCS appraiser must exert good faith effort to find comparable units that meet all of the conditions listed below. If the RCS appraiser cannot find units that meet all of these criteria, the RCS appraiser may use the methods discussed in Paragraph B below.

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

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

- B. **Insufficient Comparables Meeting the Criteria** – HUD recognizes that finding five comparables meeting all the criteria in Section 9-10.A above can be difficult in some markets. Example: When a subject is the only multifamily complex in a rural town or is the only project with four bedroom units. When the RCS appraiser exerts good faith effort and conducts appropriate research but cannot find five comparables that meet all of the conditions in Section 9-10A, the RCS appraiser may adopt one or more of the following strategies. The RCS appraiser shall use his/her professional judgment to decide the pairing



and ordering of the alternate strategies listed below, with the exception of using rent restricted units (option six below), which should only be used as a last resort.

- a. **Units with No Restrictions:** If a project contains rent restricted units or units with tenant subsidies, but also has other units with no restrictions or subsidies, those units that are both unrestricted and unassisted may be used as comparables. Such mixes will often exist in tax credit, tax-exempt, state-financed, HOPE VI or Section 221d3/ d4 FHA insured projects.
- b. **Properties with Identity of Interest:** The RCS appraiser may select a comparable that has the same ownership/management as the subject, or is owned or managed by a company/individual having an identity-of-interest with the owner or management agent of the subject project. In such a situation, the RCS appraiser must disclose the 'identity-of-interest' under the section titled 'Selection of Comparables' in the RCS report. RCS appraiser must review Handbook 4381.5, Paragraph 2-3 for a definition of the term "identity-of-interest". Furthermore, the RCS appraiser must take special care to verify the information, preferably through an unrelated party. For example, to verify the rent at which a unit is leased according to the on-site management, the RCS appraiser might ask to see a copy of the lease.
- c. **Comparables from Outside the Market Area:** RCS appraisers must try to select a market area that is similar to the subject's market area. In assessing similarity, RCS appraisers should consider rent levels, housing prices, demographics, job opportunities and other relevant economic indicators. If equally good comparables are available in more than one alternate market area and those market areas are similar, the RCS appraiser should generally consider using an alternate that is near the subject. For Section 8 projects in rural areas, however, HUD recognizes that it will often be necessary to go to distant, alternate markets that are sometimes of a different character.
- d. **Dissimilar Comparables:** If similar comparables are not available in the subject's neighborhood, RCS appraisers can use properties that may be different from the subject in terms of vintage, construction type, layout, design and/or services and amenities, but are located in the same market. Alternatively, RCS appraisers may use similar comparables from outside the subject's market area when comparables in the same category are not available in the subject's neighborhood. The RCS appraiser must provide market support for the comparable selection process.
- e. **Fewer Than Five Comparables:** If the above strategies do not produce five comparables for each unit type, the RCS appraiser can use fewer than five comparables. However, no unit type may have less than **three** comparables. Before proceeding with less than five comparables, the RCS appraiser may ask the Regional Center if it is aware of any comparables the RCS appraiser has not already identified. As described in 9-10.C.2 below, the RCS appraiser must discuss why fewer than five comparables were used.
- f. **Rent Restricted Units:** Adjustments that would need to be made in the Rent Grid for units that are rent and/or income restricted comparable are inherently subjective. However, if the RCS appraiser cannot find any comparables other than rent restricted

units that meet conditions 1 through 5 under 9-10.A above, the RCS appraiser may use the rent restricted units. Rent restricted units should only be used as comparables when they reasonably represent the market.

- a. If the RCS appraiser cannot find five unrestricted, very similar units in the same market area, he/she may supplement the rental analysis with rent-restricted units that are available in a nearby, similar market area and meet the requirements of conditions 2 through 5 under 9-10.A.
  - b. The RCS appraiser must clearly disclose the use of rent restricted comparables and the nature of the rent restriction in the Selecting Comparables narrative part of the RCS and on the Rent Comparability Grid. **(Note: RCS appraisers may not adjust rents simply to account for the fact that the comparable unit is rent restricted.)**
  - c. While rent restricted units may in some cases reflect market rent (e.g., when LIHTC units make up a large percent of the multifamily units in a neighborhood or nearly all units are rent controlled), rent restricted units can also be below market rent. Therefore, the RCS appraiser may want to discuss the use of rent restricted units with the owner and HUD appraisal staff before finalizing the selection of comparables. RCS appraisers hired by HUD/CAs to prepare studies pursuant to Section 9-14 should be especially careful to avoid selecting rent restricted units that would artificially depress the RCS's rent conclusions.
  - d. Special Project Types: Appendix 9-6 provides guidance on using comparables drawn from project categories that would not typically be suitable for use as comparables for multifamily rental housing. Project types discussed include cooperative housing, certain elderly/disabled project types, student housing, and congregate-care projects. Newly renovated and recently constructed housing is also cited in Appendix 9-6, because properties from that category are suitable comparables for the subject project only after the impact of any proposed rehabilitation to the subject project is considered.
- C. **Comparables Search Procedure** – The RCS appraiser must include a narrative in the RCS to describe his/her process for identifying the set of comparable properties for the subject project.
- a. **Document the Search Process:** The RCS appraiser must note the means used for comparables selection, whether that be driving the market area, interviewing the Account Executives and owners, consulting subscription databases, or a combination of these approaches. For each selected rent comparable, considered separately, the RCS appraiser must describe those specific characteristics that the respective comparable shares with the subject project (for e.g., same market area, similar design and layout) that justify the inclusion of the project in the RCS. For other potential comparables that were excluded from inclusion, the RCS appraiser should document the reasons for exclusion. The narrative must provide an overall assessment of the availability of comparables and the quality of the comparables selected and state **why** the comparables used were selected. If the unassisted units in the subject project have the same number of bedrooms and were not used as comparables, the RCS appraiser must explain *why*. If there are unassisted

properties in close proximity to the subject project that share the subject project's basic characteristics (e.g., number of bedrooms) but were not used as comparables, the RCS appraiser must explain *why*.

**Example:** The nearest one-bedroom units to the subject are clustered just one mile away, along Oceanview Boulevard. However, these are mostly large, luxury units, with many amenities and ocean views. Rather than make numerous large adjustments to most of the property comparison features at those buildings, the RCS appraiser instead selected comparables more similar to the subject and located farther away, but still within the geographic radius shopped by renters considering living in the subject neighborhood.

- b. **Disclose when Insufficient Comparables Exist:** If less than five comparables were provided for any primary unit type, the RCS appraiser must explain why. If the RCS appraiser chooses to use comparables that are significantly different from the subject, the RCS appraiser must describe the research that was performed to determine that more similar comparables were not available. When comparables are outside the subject's market area, the RCS appraiser must discuss in the RCS what research was done that indicated that better comparables were not available in the subject's market area. In such instances, the RCS appraiser must also compare economic indicators in the alternate market area with those in the subject's market area. When using rent-restricted units, the RCS appraiser must discuss in the RCS what research was done that indicated that no other similar, non-rent restricted units were available for use as appropriate comparables. The RCS appraiser must also explain the type of restriction (e.g., LIHTC, local rent control, etc.) when using rent restricted units as comparables.
- c. **Select a Variety of Comparables:** In identifying the three to five comparables for the subject, the RCS appraiser should try to select some comparables that are superior and some that are inferior to the subject project so that the subject is within the range of indicators.

## COLLECTING AND DOCUMENTING DATA ON COMPARABLE UNITS

### 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 (HUD-92273-S8) 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). The RCS appraiser must take color photos of each comparable's **exterior**, showing location on the site and exterior design and condition.
  - b. If the comparable project is in a different market area than the subject, the RCS appraiser must collect market-based data to compare economic indicators and 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 consider if the rent is too high, or if there are other factors causing the vacancy. Also, the RCS appraiser must confirm and quantify the existence/absence of any rent or use restrictions and tenant subsidies.

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

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

- a. **Non-Shelter Services.** RCS appraisers must determine if the project provides non-shelter services (e.g. service coordination, neighborhood networks, the elderly services noted below), and if so, the RCS appraisers must identify which services are included in the rent and which are covered by additional fees residents pay. If the comparable offers the service for an additional fee, the RCS appraiser needs to value the availability of the service only. However, if the provision or cost of the service is included in the rent, then the RCS appraiser must value both the availability of the service and the service itself.
- b. **Elderly/Disabled.** At projects for the elderly/disabled, RCS appraisers must determine if the project provides emergency call systems, transportation, social or education activities, service coordination, meals, laundry, housekeeping, or other services.

## **B. Reporting Comparable Data.**

1. **Comparable Project Profile:** For each comparable used, the RCS appraiser must report the data collected in the Comparable Project Profile as required under Item 10 of Appendix 9-1-3 (Required Contents for an RCS). The Appendix 9-1-4 (Comparable Project Profile) provides a suggested format for reporting the data collected, but RCS appraisers may use their own formats if those formats include all of the information listed in Item 10 of Appendix 9-1-3.
2. **Rent Grid:** For each primary unit type, the RCS appraiser must report the data collected by completing the data columns of the Rent Grid shown in Appendix 9-1-1. The RCS appraiser must complete all lines of the Grid's data columns, i.e., even lines/items for which the RCS appraiser will make no adjustment. All comparables for one subject unit type must be shown on one grid. RCS appraisers must review Appendix 9-1-2 for guidance on completing the Rent Grid.
3. **Disclosure:** In the Scope of Work Section of the RCS report, the RCS appraiser must identify any data on comparables that was unobtainable or estimated and all efforts to obtain that data. RCS appraisers must review Appendix 9-1-3, Item 2 for more detail on what the Scope of Work write-up must cover.

## **COMPUTING ADJUSTED RENTS FOR COMPARABLE UNITS**

### **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.
1. Every line item adjustment on the Rent Grid requires two separate and distinct explanations in the narrative.
    - 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 management agents 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 a nominal amount (a dollar amount or percent of unadjusted rent of the comparable, is defined in Appendix 9-1-2). **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”.
  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.”
  3. For all adjustments exceeding a nominal amount (a dollar amount or percent of unadjusted rent of the comparable, is defined in Appendix 9-1-2), the RCS appraiser must present market data to support his/her conclusions. Section 9-12.C.1 above shows an example of the two-part explanation needed for adjustments exceeding the nominal amount. For minor adjustments (adjustments not exceeding the nominal amount), the RCS appraiser may state his/her subjective evaluation of why the observed differences would affect rent.
- D. **Pay particular attention to Special Issues.** The RCS appraiser must pay special attention to the detailed guidance for all line items in the Rent Grid, as provided under Appendix 9-1-2. In particular, there are a few line items that are discussed under “General Instructions” in Appendix 9-1-2 along with common errors associated with those line items. The RCS appraiser must pay special attention to the guidance before making adjustments for those respective line items.

#### E. Follow the Guiding Principles when Quantifying Adjustments.

1. Not all differences between the subject and the comparable require adjustments. The RCS appraisers must adjust only for differences that would affect how much rent a tenant is willing to pay. If a difference would appear to affect rental value and no adjustment is made, the RCS appraiser must explain **why**.
2. Adjustments must reflect local markets. The RCS appraisers must make adjustments on what typical renters in the subject's particular market area will pay. Swimming pools, floor types, carpets and other special features generally do not affect value to the extent of their cost. Additionally, tenants in different markets may value amenities and services differently, so the RCS appraiser must be aware of sometimes subtle differences in the value of some project features even within the same community. **Example:** Central air conditioning may be less valued by tenants in a beachfront project, compared to tenants at another project, perhaps not far away, but within a location with much warmer summertime temperatures.
3. Adjustments often vary by unit type. Even in the same market, renters may value the same service differently among unit types. **Example:** A second bathroom may be more valuable in a three-bedroom than in a two-bedroom unit.
4. Adjustments levels must reflect rental value, not construction cost or the cost of providing a service. **Example:** In adjusting for differences like an elevator, amortizing the cost of the elevator over its useful life is not what a market renter would do. Any adjustment should reflect only what residents would typically pay for the convenience of using the elevator rather than climbing stairs. It is thus imperative that the source of the adjustment be market-derived, from sources such as paired-comparable analysis or direct interviews with project management personnel, rather than cost-based.
5. Adjustments, whether positive or negative, must be applied consistently. For a given property feature, RCS appraisers must not make small negative adjustments to a comparable when it is the subject that lacks that respective feature, while making large positive adjustments to a comparable when it is the subject, rather than the comparable, that includes that same feature.
6. Do not duplicate adjustments. RCS appraisers must be careful not to adjust for the same element in more than one place. **Example:** If adjustments are made for 'project appeal' (Line 8) and 'age' (Line 7), the RCS appraiser must take care to ensure that the sum of those lines is not more than the value the tenant would place on all features covered by those line items.



## DERIVING ESTIMATED MARKET RENTS

### Section 9-13

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

- A. Derive the estimated market rent
  - B. Derive secondary unit's market rent, if applicable
  - C. Explain the estimated market rent
- A. **Derive the estimated market rent.** For each primary unit type, the RCS appraiser must analyze the adjusted rents of the comparables computed pursuant to Section 9-12 and the line-by-line instructions in Appendix 9-1-2. Then, using his/her knowledge of the comparables, the RCS appraiser determines what point in that range of adjusted rents best represents the rent the subject project could most probably obtain. The RCS appraiser must consider: the type, size and number of adjustments made; the quality of each comparable; whether a comparable's data was estimated or incomplete; and how the adjusted rents for each unit type relate to each other. The comparables most similar to the subject should receive more weight. While RCS appraisers may compute and consider averages and other mathematical-based indices, those calculations do not allow for exercise of the RCS appraiser's professional judgment and should not, by themselves, determine market rents. Instead, the RCS appraiser's estimated market rent may be skewed towards the range of the adjusted rents for the best suited comparables to the subject project, as opposed to the mean, mode, or median values for the adjusted rents of all comparables.
- B. **Derive secondary unit's market rent, if applicable.** If **secondary** unit types are included in the RCS, the RCS appraiser may adjust the market rent of the related primary unit type to arrive at the secondary unit type's market rent. To do so, the RCS appraiser may adjust the primary's market rent to reflect the slight differences (e.g., half bath) between the secondary and primary type and set the secondary's market rent at the resulting amount.
- C. **Explain the estimated market rent.** The RCS appraiser must explain **how** the market rent (for primary and/or secondary unit types) was derived and **why** it was derived that way. The RCS appraiser must note which comparables were given the most weight and why, including which attributes of those respective comparables resulted in their being weighted more or less than others. If the estimated market rent is set at the high or low end of the range of adjusted rents, the RCS appraiser must explain why. Explanations should be concise, while at the same time clear and convincing. **Example for narrative on estimated market rent:** "Comparable A, although not as close in distance as the other four comparables, was given a higher weight than others because leasing agents have observed that prospective tenants often consider both properties (subject and comparable A) "family-friendly" due to on-site day care facilities and similar services."

## PROCEDURE FOR MANDATORY MARKET RENT THRESHOLD

### Section 9-14

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

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

A. **Mandatory market rent threshold.** The following requirements will apply for all contracts where the owner's RCS concludes that the project's median rent for the assisted units, as derived from the RCS, exceeds 140 percent of the "Median Gross Rent By Zip Code Tabulation Area" as published by the U. S. Bureau of the Census or other comparable source as determined by the Department. These requirements do not apply to studies undertaken as part of the Mark-To-Market (MTM) process. All RCS submissions (other than those for MTM process) to HUD/CA must include a distribution of RCS Rents and Subject Project's median rent (as explained in Step 1 below under Section 9-14.B).

B. **Steps for Computing Median Rent and Comparing it to the Threshold.** The RCS appraiser will follow the steps outlined below for all RCS submissions (except for those undertaken as part of the MTM process):

- Step 1: Compute Subject Project's median rent as determined by the RCS;
- Step 2: Identify the 140 percent Median Gross Rent for the Subject Project's zip code;
- Step 3: Compare Project's median rent to 140 percent of Median Gross Rent.

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

Example 1 (Odd # of Units)				Example 2 (Even # of Units)		
# of Bedrooms	# 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> and 14 <sup>th</sup> units		

*Example 1 (project has odd number of total assisted units):* The project consists of a total 25 units. The median rent will be computed by averaging the first and the last unit in the distribution, i.e.  $(1+25)/2 =$  the rent of the 13<sup>th</sup> unit, or \$1,240.

*Example 2 (project has an even number of total assisted 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, resulting in a median rent of \$1,550.

**Step 2: Identify the 140 percent Determine Median Gross Rent Threshold by Subject Project's Zip Code:**

HUD provides the most recent ACS-5-year estimate at [http://portal.hud.gov/hudportal/HUD?src=/program\\_offices/housing/mfh/mfhsec8](http://portal.hud.gov/hudportal/HUD?src=/program_offices/housing/mfh/mfhsec8). The RCS appraiser must use this file to search by zip code where the subject project is located, and identify the 140 percent Median Gross Rent threshold for the subject project by its' 5-digit zip code. In those rare cases where the subject project to be evaluated lies within multiple zip codes either because of the scattered site configuration of the property or simply because a zip code boundary happens to be separate living units within the same property due to its large size and straddling location, the Median Gross Rent Estimate that is the larger of the figures for the two respective zip codes will apply to all assisted living units within the subject project being evaluated

**Step 3: Compare Project's median rent to 140 percent of Median Gross Rent:** 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 assisted units' estimated/median rent does not exceed 140 percent of the Median Gross Rent, a HUD commissioned RCS would not be required for the purposes of mandatory market rent threshold requirements. If the median rent exceeds this threshold, then HUD will use the process described below to establish comparable market rents.

- C. When Project's median rent exceeds the Threshold.** If the RCS based median rent for the Subject Project's assisted units exceeds 140 percent 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 "post-rehab" market rent estimates, if either the "as-is" estimate or the "post-repair" estimate exceeds the threshold, then a HUD study would be required.

**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:

- a. FHA Insured: Technical Discipline Contract PAS Code: MTF.
- b. Noninsured: Section 8 program funds. PAS Code: CRE

**Differences in Comparability Studies:** HUD or the PBCA will review the HUD-commissioned RCS with the same vigor as the owner-contracted RCS, and if the HUD-commissioned RCS is found to be consistent with the requirements of this Chapter, 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:

- a. When the HUD comparable gross rent potential is greater than the owner's comparable gross rent potential, the final comparable market rents will be the owner's comparable market rents.
- b. When the HUD comparable gross rent potential is less than the owner's comparable gross rent potential, the final comparable market rents will be determined by reviewing if the owner's comparable rent potential is:
  - i. less than 105 percent of the HUD comparable rent potential, and if so, the final comparable market rents will be the owner comparable market rents; or
  - ii. greater than or equal to 105 percent of the HUD comparable rent potential, in which case the final comparable market rents will be 105 percent of the market rents as determined by the HUD-commissioned RCS.

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

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

- D. **Special exceptions under the threshold.** One of the primary reasons for utilizing the U.S. Department of Census based threshold is that it is market-based, and it allows for greater comprehensiveness and granularity since it is available by zip codes. However, the threshold

has a few limitations. For instance, the Median Market Rent Estimate does not differentiate rents by dwelling unit size. Although statistically, ‘Median’ should depict rental rates in the middle of the distribution of rents, the threshold does not currently capture the variability in unit sizes and considers all data from studio apartments to the largest units available in the zip code. However, HUD’s escalation factor of 140 percent should minimize the effect of this limitation, and provide greater comfort to owners with properties skewed toward larger unit sizes. Other limitations of the Census based threshold are described below, along with specific guidance for when such situations are encountered.

*Special Case #1:* When median gross market rent in a zip code equals or exceeds \$2,000, the Census Bureau does not report the actual market rent value. Instead, the Bureau assigns such zip codes a value of ‘\$2,000+’ (or \$2,800+ with the 140% escalation factor). If a Subject Project belongs to such a zip code where the Median Gross Rent is estimated at ‘\$2,000+’, HUD will review if the owner’s comparable gross rent potential:

- i. is less than 140 percent of \$2,000 (or \$2,800), 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 140 percent of \$2,000 (or \$2,800), but less than 105 percent of the current HAP contract rent for the subject project, then the final comparable market rent is determined by the owner’s RCS; or
- iii. is greater than or equal to 140 percent of \$2,000 (or \$2,800), and greater than or equal to 105 percent of the current HAP contract rent for the subject project, then a HUD-commissioned RCS would be required.

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

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

	<b><u>Example 1</u></b>	<b><u>Example 2</u></b>	<b><u>Example 3</u></b>
<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>YES</b>	<b>YES</b>
Current HAP Rent for the Project	<b>RCS Rent Prevails</b>	Subjected to Test 2	Subjected to Test 2
105% of Current HAP Rent for the Project		\$2,900	\$2,800
		\$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>

*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’ (or “\*\*”) on the HUD published Median Gross Rent Excel spreadsheet). 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.

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:

- i. is less than 105 percent 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 percent of the current HAP contract rents, then a HUD-commissioned RCS would be required.

## HUD/CA REVIEWS OF RENT COMPARABILITY STUDY

### Section 9-15

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.

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

- A. **Minimum qualifications for reviewers.** All RCSs must be reviewed by staff members who possess the requisite knowledge needed for the level of review being performed. Section 9-16 of this Chapter provides guidance on the level of reviews.
1. **Initial Screening:** An initial review for timeliness and completeness may be completed by HUD/CA initial reviewer using the checklist provided under Appendix 9-5-1. While completing this review, the HUD/CA initial reviewer must adhere to the policies and time frames set forth in this Chapter's guidance. The HUD/CA initial reviewer must also have read the Chapter Nine guidance within the preceding 12 months of performing their first Initial Screening review.
  2. **Substantive Review:** All substantive reviews conducted by CAs must be completed by a state-certified general appraiser. Substantive reviews completed by HUD staff should ideally be completed by HUD appraisers. However, if HUD staffing does not permit that, a non-appraiser substantive reviewer from HUD staff must meet the following minimum qualifications in order to complete a substantive review:
    - a. Have a minimum of two years' direct multifamily experience. Besides direct experience in HUD multifamily review, other acceptable qualifying experience would be two years' employment in multifamily project management or leasing, multifamily loan or acquisition underwriting, and also multifamily development. This background is necessary to effectively review the RCS facts, reasoning and conclusions; and
    - b. Have read the Chapter Nine guidance within the preceding 12 months of performing their first Substantive review.
- B. **Process for approving non-appraiser substantive reviewers.** The Regional Director at HUD's Multifamily Satellite Office, must authorize all non-appraiser substantive reviewers performing substantive reviews on RCSs.
- C. **Timing requirements.** An initial screening review using the checklist in Appendix 9-5-1 must be completed within 10 calendar days of the date of receipt of an RCS from the owner.

HUD/CA initial reviewer may contact the RCS appraiser directly unless the owner has specifically objected to that in the owner's cover letter (as required under Section 9-7). The HUD/CA initial reviewer must follow up with the owner or RCS appraiser, by email or other forms of written correspondence, if:

1. The owner's submission is incomplete. The RCS appraiser or the owner must submit the missing items within 7 calendar days of the HUD/CA initial reviewer's request.
2. More than 90 calendar days elapsed between the RCS appraiser's transmittal letter and the date the owner submitted the RCS to HUD. Under this scenario, the HUD/CA initial reviewer must return the RCS and ask the owner to have the RCS appraiser update the data to comply with Section 9-8.

D. **Record Keeping.** All categories of reviewers must retain the RCS submission, subsequent correspondence with the owner, and review materials and documentation, for a minimum of a 3-year period. This includes review materials of RCSs that were previously submitted by RCS appraisers, and deemed inadequate and/or incomplete.

## INITIAL AND SUBSTANTIVE REVIEW

### Section 9-16

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

A. Initial Review

B. Substantive Review

C. Field Visit

A. **Initial Review.** HUD/CA initial reviewers performing an initial screening of the RCSs for completeness and timeliness check must utilize the 'Initial Screening' checklist provided under Appendix 9-5-1. The HUD/CA initial reviewer must sign and retain the completed checklist, and a copy must be provided to the substantive reviewer informing him/her that the RCS is determined to be complete and ready for a substantive review. If found incomplete, the initial reviewer must contact the owner or the owner's appraiser to obtain the missing material before the package is forwarded to the substantive reviewer.

B. **Substantive Review.**

1. **Purpose of a Substantive Review.** The purpose of a substantive review is to assess and evaluate whether the RCS appraiser's selection of comparables, adjustments, and rent conclusions are reasonable. The substantive reviewer may not agree with every detail of the RCS, but the substantive reviewer's approval of the RCS means that the substantive reviewer has concluded that the suggested market rents presented in the RCS are reasonably supported by market facts. The RCS should contain sufficient information to



convince a person unfamiliar with the market areas or properties involved, that the RCS conclusions are reasonable.

2. **Compliance with USPAP.** Policing compliance with USPAP should not be the focus of a substantive reviewer, unless the substantive reviewer identifies significant problems in the research, facts, reasoning or conclusions noted in the RCS report. Substantive reviewers are not required to check for compliance with USPAP when performing a substantive review.
3. **Scope of a Substantive Review.** The key focus for a substantive reviewer should be to ensure that the RCS is reasonable, consistent with facts and standard appraisal practice, and complies with the guidance provided in Sections 9-9 through 9-13. The tools and checklists provided under Appendix 9-5-2 through 9-5-6, and discussed in detail below, should facilitate the substantive review process.
  - a. **Detailed Screening Checklist.** Appendix 9-5-2 provides a ‘Detailed Screening’ checklist incorporating key questions that a substantive reviewer must assess and evaluate when reviewing an RCS. These key questions incorporate requirements under Sections 9-9 through 9-11, with respect to analyzing the subject project, comparables selection and data collection. Substantive reviewers must document any concerns or conclusions in the checklist when reviewing the RCS.
  - b. **Rent Grid Analysis Checklist.** All substantive reviewers must complete the ‘Rent Grid Analysis’ checklist (Appendix 9-5-3) using guidance provided under ‘Notes for Rent Grid Analysis and Triggers for Second Review’ (Appendix 9-5-4). The purpose of these checklists is to ensure that the concluded market rent is appropriate and reasonable. Substantive reviewers are not expected to challenge minor differences in RCS adjustments, particularly if correcting those perceived flaws would not affect the rent an owner will receive, or the estimated market rent shown on the rent grid. For example, if the owner is seeking a \$20 rent increase, and it is clear that the market rent increase will exceed \$20 even if adjustments were revised, then it would not be cost effective to spend extensive time analyzing adjustments that are reasonably close.
  - c. **Triggers for Second Review for Non-Appraiser Reviewers:** In cases where an RCS includes line item adjustments that are identified as triggers under Appendix 9-5-4, and if the substantive reviewer is a non-appraiser HUD staff, HUD requires that a second reviewer also review and sign-off on the specific trigger items. The second reviewer must meet the minimum qualification requirements (as described under Section 9-15.A.) and is required to provide input on the appropriateness and reasonableness of only the specific line item that triggered a second review, as opposed to the entire RCS. If the first and second reviewers do not reach consensus, then the trigger item will be reviewed by an RCS review appraiser, whose opinion will prevail as to what revisions, if applicable, need to be made to the RCS. Please note that seeking a second reviewer’s input is not a requirement if the first or second substantive reviewer is an RCS review appraiser (state-certified).

- d. **Issues/Certification Memo.** Once the substantive reviewer has completed the detailed screening and rent grid analysis, the substantive reviewer must also complete a certification (Appendix 9-5-5). If the substantive reviewer has questions or needs additional clarification, they can use the sample provided in Appendix 9-5-6 for preparing an issues memo for the owner and/or RCS appraiser.
  - C. **Field Visits.** While most RCS reviews usually only require a desk review, substantive reviewers may recommend a field review if they believe a site visit is needed to accurately assess the RCS. If required, all field reviews must be conducted by an RCS review appraiser. A substantive reviewer must consider recommending a field visit when:
    - 1. The desk review raises major questions.
    - 2. The substantive reviewer is largely unfamiliar with the market area, the subject project or the comparables.
    - 3. The substantive reviewer is considering challenging adjustments for condition, appeal, neighborhood or other factors that can change quickly.
- Note: If not acting as the review appraiser, HUD staff may review the RCS and communicate concerns to the review appraiser. However, the review appraiser makes the final determination of market rents.**

## COMMUNICATING RESULTS OF HUD/CA REVIEWS

### Section 9-17

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

- A. **Approval:** If the HUD/ CA substantive reviewer agrees with the RCS appraiser's market rent conclusions, they must document that agreement on the reviewer's certification (Appendix 9-5-5) and notify the Account Executive that the market rents in the RCS are acceptable for use in further processing of the renewal.
- B. **Questions and/or Clarifications:** If aspects of the RCS are unclear or unconvincing, the HUD/CA substantive reviewer must ask the RCS appraiser for additional information or explanation, if the owner's cover letter permits HUD/CA to reach the RCS appraiser directly. If the issues are minor and HUD/CA expect easy resolution, the substantive reviewer may call the RCS appraiser. If concerns are many, more significant, or complicated, HUD/CA must send the RCS appraiser an email /fax/hard copy of a letter stating the concerns highlighted in the Reviewer's Issues Memo (sample provided in Appendix 9-5-6), and give the RCS appraiser up to 10 calendar days to respond. **(HUD/CA must copy the owner contact on any written correspondence.)** The RCS appraiser must send the requested information to HUD/CA and copy the owner.

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

**C. Decision Letter:** If the RCS appraiser's response does not resolve the substantive reviewer's concerns, the substantive reviewer will draft a decision letter challenging the RCS. If the substantive reviewer is a non-appraiser, an RCS review appraiser must also be engaged to review the subject's RCS prior to issuance of such a letter. If the RCS review appraiser also concludes that the rejection is warranted, then the substantive reviewer may issue the decision letter that either, a) tells the owner the study must be redone and resubmitted; or b) challenges the study's rent conclusions and suggests an alternate rent. Any alternate rents must be developed by a RCS review appraiser and be consistent with this Chapter's procedures and USPAP. The decision letter must tell the owner how the RCS review appraiser arrived at the suggested market rent. The decision letter must also:

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

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

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

## OWNER APPEALS

### Section 9-18

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

#### A. First Level Appeal.

1. Subsequent to submitting the owner's letter indicating an appeal of HUD's decision, owner must prepare and submit a written statement of his/her reasons for appeal and any data that supports his/ her objections. This written statement must be delivered via email to the Regional Center or Satellite Office Asset Management Division Director within 20 calendar days after the date of HUD/CA's initial decision letter (or 10 calendar days after the date of owner's response) as provided by Section 9-17 above.
2. In addition to the written statement, the owner may also request a meeting, or a conference call with the RCS review appraiser. If such a request is made, a meeting or a

conference call must be held within 15 calendar days of the date of the owner's appeal. The owner, the RCS appraiser, the RCS review appraiser, and the Regional Center or Satellite Office Asset Management Division Director/designee must participate. The Regional Center or Satellite Office Asset Management Division Director and RCS review appraiser should consider if a field visit is needed to accurately process the appeal as discussed in Section 9-16-.C above. In some instances, the Regional Center or Satellite Office Asset Management Division Director and RCS review appraiser may ask for additional information from the owner and the RCS appraiser. This information must be submitted by the owner within 10 calendar days after the date of the meeting or conference call.

3. The RCS review appraiser and the Regional Center or Satellite Office Asset Management Division Director will review the owner's appeal in conjunction with any supplemental information submitted by the owner, and issue a letter reporting the results of the review within 15 calendar days after the latest of: the date the owner submitted the basis for the first appeal; the date of any meeting/conference call conducted per Paragraph A.2; or the date by which owner submits additional information requested by HUD per Paragraph A.2. HUD's letter in response to the owner's first appeal must be signed by the Regional Center or Satellite Office Asset Management Division Director, and it may accept the RCS with supplemental information submitted by the owner, reject owner's first appeal and require resubmission of a new RCS study, or propose HUD's alternate rents for the project.
4. The owner may either accept or submit a second appeal.

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

1. If the owner chooses to pursue a second level appeal, the owner must submit a written statement of his/her reasons for a second appeal and any data that supports his/her objections to the Regional Center or Satellite Office Asset Management Division Director's decision letter in response to the owner's first appeal. The submission must be received within 15 calendar days after the date of the Regional Center or Satellite Office Asset Management Division Director's decision letter on the first appeal, and must be addressed to the Regional Center Office Director and copy the Regional Center or Satellite Office Asset Management Division Director. The owner may also request a short-term renewal if the contract has expired or if expiration is imminent.
2. The Regional Center Director will determine if the appeal has potential merit and, if so, issue a short term renewal at then-current rents, to allow time to process the appeal. Any rent increases as a result of the second appeal will be made retroactively. The Regional Center or Satellite Office Director may contact the owner, the RCS appraiser, or the Regional Center or Satellite Office Asset Management Division Director and/or the RCS review appraiser for clarification or additional information.
3. The Regional Center Director must issue a decision letter to the owner within 15 calendar days after the date of the owner's second appeal. The letter must clearly state the basis for HUD's decision.

## **IMPOSING SANCTIONS ON APPRAISERS**

### **Section 9-19**

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

- A. Reporting material deficiencies in the appraiser's work product to the state's real estate appraisal regulatory authority; and
- B. Imposing or recommending imposition of HUD's administrative sanctions (Limited Denial of Participation (LDP), suspension or debarment).



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## **Appendix 9-1**

### **Guidance for RCS Appraisers**

- 9-1-1: Link to HUD Form 92273-S8
- 9-1-2: Instructions for completing the HUD Form 92273-S8
- 9-1-3: Required Content for Rent Comparability Study
- 9-1-4: Comparable Project Profile
- 9-1-5: RCS Appraiser's Certification
- 9-1-6: Sample for RCS Appraiser's Transmittal Letter
- 9-1-7: Special Exceptions under Mandatory Rent Threshold



**Link to HUD Form 92273-S8**

[Rent Grid \(HUD 92273-S8\)](#)

## Instructions for Completing the HUD Form 92273-S8

**Rent Grid:** RCS appraisers must use the Rent Grid (HUD 92273-S8) for preparing an RCS to estimate “market” rents for the subject project. A Rent Grid provides a tool for documenting the characteristics of the subject and the comparables, and the adjustments made for differences between a comparable and the subject. The Rent Grid is comprised of seven parts, and this Appendix includes “line-by-line instructions” for populating each data column under the forty-six line items on the Rent Grid.

RCS appraisers must review and comply with the guidance provided in Sections 9-8 through 9-13 of Chapter Nine, and the instructions provided below before preparing a Rent Grid:

- A. General Instructions
- B. Instructions for HUD’s Excel Based Rent Grid
- C. Line by Line Instructions

### **A. GENERAL INSTRUCTIONS**

1. **Prepare a separate Rent Grid for each *primary* Section 8 unit type.** The RCS appraiser should review Section 9-9.A for guidance on classifying unit types as primary or secondary. For any secondary unit types, RCS appraisers need not complete a separate rent grid.
2. **Complete all lines of the Rent Grid.** The RCS appraiser must show all comparables for one unit type on one Rent Grid. The RCS appraiser must enter the comparable’s name and address at the top of each column, fill in all lines of the Grid’s data columns, even if no adjustment is made on a line. The RCS appraiser must use the specific letter codes listed in line items 8 and 9 under Section C of this Appendix. If a project has other characteristics that would affect the rent that the project could command in the subject’s market area, then the RCS appraiser may use blank lines (Lines 22 and 23) to capture these other characteristics.
3. **Make adjustments to comparable’s rents.** Not all of the characteristics will affect rents. Local market conditions will dictate if, when and how much of an impact each characteristic will have upon rent. The RCS appraiser is required to make adjustments only for differences in characteristics that would affect the amount of rent that prospective tenants in the subject’s market area are willing to pay. The RCS appraiser must display all adjustments in dollar amounts. The RCS appraiser may leave adjustment entries blank (not zero) if local tenants would not pay for the difference shown on that line.
4. **Provide narrative explanations.** The RCS appraiser must attach a narrative explaining *why* each adjustment was made and *how* the dollar value of the adjustment was derived for all adjustments exceeding a *nominal amount* (as defined in Section 9-12.C.2).
  - a. The RCS appraiser must prepare a separate set of explanations for each Grid. If an

- explanation applies to more than one comparable, the RCS appraiser may refer back to that explanation rather than repeating it each time. For example, the location adjustment for Comparable Y was estimated for the same reason and in the same way as for Comparable X.
- b. The RCS appraiser must include the following two additional narrative explanations, if applicable, for the estimated market rent (Line 46 of the instructions): 1) how the market rent was derived from the comparables' adjusted rents; and 2) how a primary unit type's market rent was adjusted to derive a market rent for a secondary unit type.
5. **Pay particular attention to special issues.** The following are some of the issues and errors that are commonly noted by substantive reviewers. RCS appraisers must pay special attention to the guidance in this Appendix when making adjustments for these line items. The issues listed below are not in any order of occurrence or importance.

Line Item	Topic	Common RCS Review Issues
#1	Rent Restricted	RCS shows dollar adjustment made for the fact that a rent is restricted.
#4	Occupancy percent	RCS shows adjustment made for occupancy differential due to factors other than the project's rent level.
#8-9	Condition/Street Appeal/Neighborhood	RCS shows large dollar adjustments for Lines 8 and 9, which makes the reviewer question if the respective comparable is similar enough. Also, RCS appraiser uses rating levels such as "G+" or "G-", as opposed to complying with the five-point scale provided in this Appendix.
#10	Comparables from outside the subject's market area	RCS shows adjustment for comparables in a different market area, when market evidence indicates that the difference in rent levels is not significant between the two market areas.
#13	Unit Interior Square Feet	RCS shows unit size adjustments for size differences of less than 10 square feet. Or, RCS shows adjustments for unit size differences without a corresponding narrative supporting the methodology used for deriving the adjustment amount.
#29-31	Non-Shelter Services	The total net adjustments for these line items exceeds the larger of \$50 or 5 percent of the comparable's unadjusted rent, without supporting market-based evidence regarding the value of these services.
#33-39	Utilities	The RCS shows an adjustment amount for these line items that exceeds the respective published housing authority allowance for that category.

## B. Instructions for HUD's Excel-based Rent Grid

**Before using HUD's Excel based Rent Grid, which can be downloaded at the link provided under Appendix 9-1-1, RCS appraisers must review the following instructions.**

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

If the "*Create New Grid*" button is used, the resulting worksheet will contain all of the data that was on the worksheet containing the button. The RCS appraiser may edit any data that is not appropriate for the new unit type. For example, the RCS appraiser could:

- a. Load just the project names and other identifying header data that will apply to most unit types and then use the "*Create New Grid*" button to create a worksheet for each unit type. The RCS appraiser could then load amenity and adjustment entries either individually on each sheet, by copying specific cells from one worksheet to another, or by clicking the control key and selecting multiple worksheets. When the control key option is used, data is entered simultaneously in the same cell location on all of the selected worksheets.
- b. Fully complete one unit type worksheet, use the "*Create New Grid*" button to add another worksheet, and edit the resulting worksheet to change data that is not

appropriate for the new unit type. *The RCS appraiser must not forget to check any copied data.*

4. **Sign and Date the Form.** After completing the Rent Grid, the RCS appraiser must sign and date the form. The RCS appraiser must also indicate whether the Grid was prepared in Excel (with the computer running the calculations using HUD's formulas). If the RCS appraiser used another approach (such as manual entry of data, which is discouraged by HUD), the RCS appraiser must note that on the bottom of the grid or at the end of narrative comments.

### **C. LINE BY LINE INSTRUCTIONS FOR PREPARING A RENT GRID**

The guidance below provides line by line instructions to RCS appraisers for completing a Rent Grid. This guidance is organized by the seven parts (A through G) of a Rent Grid, covering forty-six line items.

#### ***Part A: Rents Charged (lines 1 through 5)***

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

**Line 1. \$ Last Rent/Restricted?** In the "data" column, the RCS appraiser must enter the rent at which this unit type was last leased. This must be a rent that was actually paid; the RCS appraiser must not enter an asking rent which has not yet been achieved. In the adjustments column, the RCS appraiser must enter "Y" if the unit is rent restricted and "N" if it is not. Rent restricted units include those that are subject to rent control, rent stabilization or other restrictions on the unit rent. (e.g., LIHTC, HOME, HOPE VI, and 236/BMIR/Rural Development Section 515 units). The RCS appraiser must identify the specific reason for a yes answer in the narrative explanation of adjustments. Using a comparable from an affordable/restricted project should be only a "last resort," as adjustments that would need to be made to line items 2 through 39 for a restricted comparable are inherently subjective. However, rent restricted units could be used as comparables when they reasonably represent market rents. Using a comparable from other categories of project types, such as independent or assisted living facilities or master-planned retirement communities, for an age-restricted Section 8 project, may be difficult to justify because tenants at those types of projects choose them over conventional apartment projects due to the non-shelter services offered at such facilities. In particular, a comparable property that offers a daily meal or meals included in the monthly rent poses specific challenges with regard to determining appropriate rent adjustments.

**Line 2. Date Last Leased.** In the data column, the RCS appraiser must enter the date (month/year) that unit type was most recently leased. This should be the date the most recent lease for the rent on Line 1 became effective. The RCS appraiser should make an adjustment here only if

the rental market has changed significantly between the date on this line and the date of the RCS appraiser's analysis. Adjustments here should be infrequent, as the RCS appraiser should be using only recent lease transactions to begin with. This adjustment may be needed when the comparable is at full occupancy and has had no turnover for an extended period. If market conditions have not changed, the RCS appraiser should not adjust even if considerable time has elapsed since Line 1's rent became effective.

**Line 3. Rent Concessions.** The RCS appraiser should evaluate if the comparable is offering initial rent or renewal concessions. The RCS appraiser must enter "Y" or "N", and may enter a negative adjustment to reflect the value of the concession, as appropriate. The RCS appraiser must prorate the concession over the lease period. For example, the RCS appraiser would make a (\$33) adjustment for one month free on a 12-month lease (requiring 11 monthly rent payments), at \$400 /month. If the free month is instead offered as an add-on before or after 12 months of payments, the adjustment in this example would be less (\$31).

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

1. If the occupancy gap is due to factors other than Line 1's rent level (e.g. condition or location), the RCS appraiser must not make an adjustment. The RCS appraiser should adjust only if the occupancy gap is clearly due to the rent level used on Line 1. If the comparable's occupancy for the unit type being studied is significantly lower than the typical occupancy rate for that unit type, the RCS appraiser should adjust negatively to indicate that the rent is too high. If the comparable's occupancy for the unit type being studied is significantly higher than the typical occupancy rate for that unit type, the RCS appraiser should make a positive adjustment.
2. If the property manager/other contact for a comparable is unwilling or unable to provide occupancy rates by unit type, the RCS appraiser should report overall occupancy for the comparable and note in the explanation for Line Item #4 that the occupancy rate is project-wide. If only overall occupancy is reported, an occupancy adjustment may be made only if the unit mix is such that the RCS appraiser can still conclude that the occupancy for the unit type is significantly different than market occupancy levels for that unit type. *Example:* If a project has 99 percent occupancy and 100 units (50 one-bedrooms, 50 two-bedrooms), it could still be concluded that the two-bedroom units being studied are at least 98 percent occupied. The RCS appraiser must explain how he/she arrived at that conclusion.
3. The occupancy adjustment is subjective, and thus it is not expected to be frequently used. Often, unusually low occupancy may have other explanations. For example, a low occupancy project may still be in initial absorption, or may be re-absorbing after a renovation or other unusual event. Conversely, an unusually high occupancy rate may be due to factors such as a high proportion of long-term tenants at below-market rates or the

presence of Section 8 voucher tenants, even if new rental transactions there are being done at market rates. The use of an occupancy adjustment should thus be reserved for the specific situation where management is marketing units consistently at unusually low or high rental rates over a sustained period of time as a matter of policy, with measurable impacts on project occupancy.

**Line 5. Effective Rent and Rent/ Sq. Ft.** The RCS appraiser must enter the sum of lines 2, 3, and 4. This yields an effective rent after age of the lease, occupancy, and rental concessions are taken into account. Excel based Rent Grids will automatically calculate the total rent. After the RCS appraiser enters the unit size in Part C, the form will also display the effective rent per square foot.

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

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

**Line 6. Structure/ Stories.** The RCS appraiser must enter the type of structure using recognized codes such as “E” for Elevator, “G” for Garden, “WU” for other walk-up, and “T” for townhouse. The RCS appraiser can select other categories as dictated by market conditions, but must explain the significance of other categories and codes, if different from the aforementioned recognized codes. For example, in some markets, renters in low-rise buildings may value apartments with private exterior entrances over a shared entry/or shared stairway, even if the units are stacked. In such cases, the RCS appraiser must identify the categories and codes used in the adjustments. Codes such as “WU-Pvt” (private entrance) or “WU-Shrd” (shared entrance) could be used.

The RCS appraiser must follow the letters with a slant bar and the number of stories. For example, the RCS appraiser should enter “WU/3” for a three-story walk-up. The RCS appraiser should try to select comparables that have the same structure type as the subject. If the comparables have a different configuration than the subject, adjustment may be warranted based on market preferences. For instance, the RCS appraiser may make an adjustment for configuration differences such as townhome versus a stacked unit. The RCS appraiser must explain the basis for any adjustment exceeding the larger of \$10 or 2 percent of the comparable’s unadjusted rent.

**Line 7. Year built/Year renovated.** The RCS appraiser must enter the year the project was built. If it has been renovated, the RCS appraiser should follow with a slant bar and the year the project was renovated. For example, 1939/70 would indicate that the project was built in 1939 and renovated in 1970. The RCS appraiser must make adjustments on this line if the effective age (the age indicated by the utility, quality of the structure, and major equipment) affects rental value. The RCS appraiser must consider if basic structures and major equipment have been replaced and whether baths and kitchens have been renovated. Typically, the RCS appraiser should not make any adjustments for age differences of just a few years. When the RCS appraiser chooses to make an adjustment, the amount for each year of age difference should

typically be less than \$5 per year or 1 percent of the unadjusted rent. Alternatively, the RCS appraiser could make one adjustment for multiples of a fixed number of years of age difference. For *example*, each multiple of three years of age difference between the subject and the comparable would be assigned a certain dollar amount of adjustment.

**Line 8. Condition/Street Appeal.** It is mandatory for the RCS appraiser to rate the subject and each comparable according to a five-point scale: Excellent, Good, Average, Fair, or Poor. *No other classifications are acceptable.* For the subject, and every comparable, the RCS appraiser must enter “E” for excellent, “G” for good, “A” for average, “F” for fair, or “P” for poor. If the design of the building or the street appeal of the project would affect the rents it can command, the RCS appraiser must adjust appropriately. The RCS appraiser should consider the overall appearance of the project, such as whether or not the grounds are clean, whether or not the landscaping is well maintained, and whether or not the paint and siding are in good condition. Other considerations would be whether the architecture of the buildings and layout of the site are appealing (open space, shrubbery, etc.). In summary, the RCS appraiser must evaluate whether the comparable’s condition/street appeal could cause tenants to pay more or less than they would pay at the subject.

An adjustment of more than the larger of \$20 or 4 percent of unadjusted rent for each level of rating difference would require that the RCS appraiser provide specific explanation in the narrative to support the amount of adjustment. *Example:* a positive adjustment for an “Average” rated comparable versus an “Excellent” rated subject, should not exceed \$40, or 8 percent of the unadjusted comparable rent, whichever is larger.

Due to the potential for overlap between adjustment parameters, if the RCS appraiser has made an adjustment on Line 7 for Year Built/Renovated for a comparable, the RCS appraiser must explain if the adjustment exceeds \$15 or 3 percent of unadjusted rent, whichever is larger, for each level of rating difference for Line 8 for that same comparable.

***Note:** Take care not to duplicate adjustments made on line 7. Adjustments made on lines 7 and 8 should not add to more than the adjustment that would be made if the project characteristics referenced on Lines 7 and 8 were considered as a single adjustment.*

**Line 9. Neighborhood.** The RCS appraiser must rate the subject and each comparable according to a five-point scale: Excellent, Good, Average, Fair, or Poor. *No other classifications are acceptable.* For the subject, and every comparable, the RCS appraiser must enter “E” for excellent, “G” for good, “A” for average, “F” for fair, or “P” for poor. The entry should reflect the market’s reaction to location features that affect rental values. For example, neighborhood desirability; nuisances such as street noise; nearby land uses; crime volume; and access (time/distance) to schools, transportation, shopping, recreation, and medical and employment centers. The Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA) specifically requires that neighborhood (including risk of crime), location and access be considered.

An adjustment of more than \$20 or 4 percent of unadjusted rent, whichever is larger, for each level of rating difference would require that the RCS appraiser provide specific explanation in the narrative to support the amount of adjustment. For *Example*, a positive adjustment for an



“Average” rated comparable versus an “Excellent” rated subject, should not exceed \$40, or 8 percent of the unadjusted comparable rate, whichever is larger.

The RCS appraiser must note that HUD FHEO guidelines prohibit negative adjustments based solely on the racial, ethnic, religious mix of projects or their surrounding areas or other discriminatory criteria. RCS appraiser’s adjustments must be based on objective, quantifiable factors.

**Line 10. Same Market? Miles to Subject?** The RCS appraiser must enter “Y” or “N”, depending on whether the comparable is located in the same market area as the subject. The RCS appraiser must follow the entry with a slant bar, and the distance between the comparable and the subject in miles. If the comparable is in a different market area, the RCS appraiser must collect quantitative data to compare the rent levels in the two market areas. The RCS appraiser must adjust for any significant difference in rental costs between the two market areas and explain how he/she computed the adjustment. If the comparable is in a different market area and the RCS appraiser chooses to not adjust it for the different market location, the RCS appraiser must explain *why*.

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

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

**Line 11. # Bedrooms.** The RCS appraiser must enter the number of bedrooms in the unit. The RCS appraiser can use “0” for efficiencies. If a comparable and the subject have a different number of bedrooms, the RCS appraiser must explain in the narrative why he/she selected a comparable of a different bedroom type.

**Line 12. # Baths.** The RCS appraiser must enter the number of bathrooms in the unit. The RCS appraiser may use decimals to represent partial baths. *Example:* The RCS appraiser may enter 1.5 to indicate one full bath and one bath with a toilet and sink, but no tub or shower stall.

**Line 13. Unit Interior Sq. Ft.** The RCS appraiser must enter the rentable interior square footage of the unit. The RCS appraiser should not include balconies, mechanical areas or other non-living spaces, unless the comparable unit size measurements include those areas and it is not possible to adjust the comparables. The RCS appraiser must explain: a) how the square footage of the subject was derived and how it corresponds to the square footage of the comparables; and b) the method used to determine the size adjustment. The method used to determine the size adjustment must be market-based, the ideal being a property in that market that offers similar plans with regard to number of bedrooms and bathrooms, but differing with regard to square footage. Given the lack of precision and standardization in the way that unit sizes are measured, RCS appraisers should not adjust for size differences of less than 10 square feet. *Example:* a difference of 50 square feet in the case of a 500 square foot one-bedroom might be worth a different amount to prospective tenants than a 50 square foot difference in the case of an 800-square foot, two-bedroom unit.

***Note:** Even for size differences exceeding 10 square feet, the RCS appraiser should adjust only if, and to the extent, the subject's market values a size difference. Some markets may not value small size differences and a difference in size may not increase the market value of a larger unit to the same degree that it might for a smaller unit.*

**Line 14. Balcony/Patio.** The RCS appraiser should consider if the unit has a balcony or a patio, and enter “Y” or “N”, as appropriate. While an adjustment greater than a nominal amount may be justified in certain markets (e.g., resort area, warm climate), the RCS appraiser must explain the basis for any adjustment that exceeds \$10 or 2 percent of unadjusted rent of the comparable, whichever is larger.

**Line 15. AC: Central/Wall.** The RCS appraiser should use this line item to reflect the type of cooling equipment in the unit, using “C” for central, “W” for wall unit, or “N” for none. The RCS appraiser is required to adjust only for the value of having AC equipment and for differences in the type of equipment (wall, central, etc.). The RCS appraiser should not adjust for the cost of running the air conditioner, which should be captured under Line 34 below. Adjustment for type of AC will typically be nominal (not exceeding \$10 or 2 percent of unadjusted rent, whichever is larger). The RCS appraiser must explain the basis for dollar amount chosen that exceeds the nominal amount, in the underlying narrative, and whether the RCS appraiser utilized a paired comp analysis or interviewed knowledgeable sources.

**Line 16. Range /Refrigerator.** The RCS appraiser must enter “R” for range, “F” for refrigerator, or “RF” if the unit has both appliances. If neither is present, the RCS appraiser must enter “N”. It is not uncommon in some markets for tenants to need to provide their own refrigerator; the corresponding adjustment should not exceed the monthly cost of a rental.

**Line 17. Microwave/ Dishwasher.** The RCS appraiser must enter “M” for microwave, “D” for dishwasher, or “MD” if the unit has both appliances. If neither is present, the RCS appraiser must enter “N”. The adjustments here should be nominal, typically not exceeding the higher of \$10 or 2 percent of the unadjusted rent, for each item.

**Line 18. Washer/Dryer.** If there is a washer/dryer hookup in the unit but the owner supplies neither appliance, the RCS appraiser must enter “HU.” If the appliances are provided in the unit, the RCS appraiser must enter “W” for washer, “D” for dryer or “WD” for both. If there is a common laundry area in the project, the RCS appraiser must enter “L”. If the project offers no laundry facilities, hookup, or appliances in the unit, the RCS appraiser must enter “N”. The adjustment for a unit where the owner provides hookups, but not the washer-dryer machines, should not exceed the monthly cost of the machine rental.

**Line 19. Floor Coverings.** The RCS appraiser must indicate the predominant floor covering in the unit, using “V” for vinyl, “W” for wood, “WC” for wood composite product, and “C” for carpet. The RCS appraiser is required to only adjust for type of floor covering if there is market evidence, based on the experience of property managers and leasing agents, that one type of floor covering is more valued in the project's market than other types.

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

required to only adjust for type of owner-provided window covering, if there is market evidence, based on the experience of property managers and leasing agents, that one type of window covering is more valued in the project's market than other types.

**Line 21. Cable/Satellite/Internet.** The RCS appraiser must enter "C" for cable TV, "S" for satellite TV, and "I" for Internet access. If the project has more than one of these amenities, the RCS appraiser must enter all the corresponding letters. For example, "CSI" would indicate a project that offers all of these amenities. The RCS appraiser should consider whether the project merely offers *access* to the services or whether it offers the service itself *as part of the rent*. If only access is offered, the RCS appraiser must adjust based on market value attributable to availability of the service. If the service is included in the base rent, the RCS appraiser should reflect the value of both access to and provision of the service. If the owner provides access to the service but tenant pays the monthly cost of said service, the amount of adjustment should not exceed the published monthly fees. The RCS appraiser should insert the additional cost to the tenant after the letter code for the respective service. *Example 1:* The property provides no-cost cable TV and internet: "CI/\$0". *Example 2:* The property provides no-cost cable TV, but internet at a charge of \$40: "C/\$0, I/\$40". *Example 3:* The property provides both cable TV and internet, as a bundle, for an additional cost of \$50: "CI/\$50".

**Line 22. Special Features.** The RCS appraiser should use this line to adjust for items that are valued in the project's market, based on the experience of property managers and leasing agents, but not listed above. For example, views, fireplaces, vaulted ceiling, partial ceramic tile flooring (in entryway, kitchen, or bath). The RCS appraiser must enter "VW" for view, "F" for fireplace, "VC" for vaulted ceiling, or "CT" for ceramic tile. If the unit has safety bars, ramps, or other features to improve access for elderly or persons with disabilities, the RCS appraiser should enter "A".

**Lines 23. Blank line.** The RCS appraiser should use this line to add a unit amenity that is not listed but significantly affects the rent a tenant would pay. The RCS appraiser must describe the amenity on the line provided and make dollar adjustments as appropriate.

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

*This section details specifics about the project and its amenities. The RCS appraiser should use the blank line #32 to add site amenities that are not listed but affect the rent a tenant would pay. Total adjustments in this Part should not exceed the total value a typical tenant would place on all amenities in this Part.*

**Line 24. Parking (\$ Fee).** The RCS appraiser must enter "L" for lot parking, "G" for garage, and "CP" for covered parking, followed by a slant bar and the amount of the additional charge, if any, the tenant pays for the service. Properties that offer choices for type of parking such as lot parking or garages, will show a code and dollar amount for each type of parking offered. If there is no charge, the RCS appraiser should enter "0".

Next, the RCS appraiser must adjust for the magnitude of the difference between the parking ratio at each comparable versus the subject property. The impact of parking charges on the average base rental rate for living units at the respective property depends on the percentage of

total tenant households that have parking available; the parking fee at a property that has only one space for each ten apartments has much less impact on average rents than a property that has nine spaces for each ten apartments. The RCS appraiser should create a weighting factor by dividing the smaller parking ratio into the larger ratio. That figure should show the magnitude of the difference in parking availability between each comparable and the subject, so if the comparable has a ratio of 0.40 ratio of spaces to living units, and the subject property has a ratio of 0.80, the weight factor would be 50 percent.

Finally, the RCS appraiser must weigh the extra value of one type of parking over another. If it is determined that covered parking is worth \$20 more to tenants in this market than open lot parking, that cost must be weighted for the parking ratio at that respective property; if that property has 7 spaces for every ten living units, the weighted value of covered parking there is \$14 (note that the weighting factor to the type of parking is based on the parking ratio at that property only).

A graphic presentation of parking adjustments, using a chart or table, will typically be helpful if more than just a few simple adjustments are being made.

*Example:* The subject property charges \$25 for monthly parking and has twice as many apartments as parking spaces, thus indicating a 0.50 parking ratio. The only parking offered is in an open lot. Comparable A charges \$40 for monthly parking and has three apartments for every two parking spaces, indicating a 0.67 parking ratio. Comparable A likewise offers only open parking spaces. The weighting for parking availability between the subject property and Comparable A is  $0.50/0.67$ , or 75 percent. The net adjustment for Comparable A is  $0.75 \times \$15$ , or \$11; the adjustment is positive because the parking rate at the subject property is cheaper. Comparable B charges \$60 for monthly parking but has four apartments for every parking space, indicating a 0.25 parking ratio. The weight between the subject property and Comparable B is  $0.25/0.50$ , or 50 percent. The net adjustment for Comparable B is  $0.50 \times \$35$ , or \$18. The adjustment is once again positive because the parking rate at the subject property is cheaper. But an additional adjustment is needed for Comparable B because all the parking is covered, compared to only open lot parking at the subject property. The RCS appraiser also identified another apartment complex nearby that offers both open lot parking and covered parking. The difference in cost is \$15, which would be the incremental value of covered parking. The RCS appraiser further adjusts the \$15 by applying the 0.25 parking ratio, resulting in a “net” value of \$4 for covered parking. Therefore, the final adjustment for Comparable B parking is \$14 (or \$18 less \$4).

**Line 25. Extra Storage.** The RCS appraiser must enter “Y” or “N” indicating whether tenants are provided with additional storage space. This may include extremely large or functional closets or outside storage. Before adjusting for any storage inside the unit, the RCS appraiser must ensure that any adjustment for unit size did not already capture that value. Also, when adjusting for this line item, RCS appraisers must distinguish between *availability* of storage versus *cost* of storage. An adjustment based on *cost* rather than *availability* would be the case where the subject project offers ancillary storage for no charge while the comparables charge for a similar sized storage unit. The RCS appraiser should indicate the cost of storage by inserting the cost after the letter code. For example, a comparable that offers storage lockers for a \$20 fee can be represented by “Y/\$20, versus a comparable that offers free storage can be represented by “Y/\$0”.

*Example:* If the subject offers no ancillary storage while Comparable A offers storage units at market rents, then Comparable A needs to be adjusted downwards if tenants value the convenience of on-site storage.

**Line 26. Security.** The RCS appraiser must enter “Y” or “N”, and must describe and evaluate the subject’s security features, such as locked exterior doors with intercom, on-site security guards, secured site access, and exterior/corridor lighting. Only those features that tenants value and thus impact rent must be compared to the comparables and appropriately adjusted.

**Line 27. Clubhouse/Meeting Rooms/Dining Rooms.** The RCS appraiser must enter “C” for clubhouse, “MR” for meeting rooms, and “DR” for dining room. If the project has none, the RCS appraiser should enter “N”.

**Line 28. Pool/Recreation Areas.** The RCS appraiser must enter “P” for pool, “E” for exercise rooms, or “R” for other recreation facilities such as playgrounds, volleyball or basketball courts. The RCS appraiser must be sure to describe the type of recreation facilities in the underlying narrative description of adjustments. If any adjustment amount here exceeds the higher of \$10 or 2 percent of unadjusted rent of the comparable, which is possible in some resort or warm climate markets, the RCS appraiser must explain the basis for all adjustments made under this line item.

**Important Note for Lines 29, 30, 31, and 32:** Appraisers must assess the value of *all* non-shelter services offered, and whether or not the services are paid by the project, the tenant or other sources. More specifically, the RCS appraisers must note the following:

1. Even services offered for a charge may have value if the market values the *availability*.
2. Generally, services *included in the rent* or funded from sources other than tenant charges should be more valuable than services offered to residents for an extra charge. Accordingly, if one comparable offers a local shuttle bus service as part of concierge services, but charges residents for each use, while the subject project offers the same service without cost to the tenants, an appropriate upward adjustment to the comparable would be the average amount paid monthly per tenant to the property for the shuttle service (for those comparables that do not offer the service at all, an even larger total adjustment would be indicated, as the total adjustments would include the *cost* of the service, plus the value of having the service *available* to begin with). It should be stressed that the cost borne by any property owner to provide a non-shelter service, no matter what the source of funding, has no bearing on the amount of adjustment, or whether or not an adjustment needs to be made.
3. RCS appraisers must explain the basis and rationale for any adjustments made under Lines 29, 30, 31 and 32. If the *total net adjustments* for Lines 29, 30, 31 and 32, exceeds the larger of \$50 or 5 percent of the comparable’s unadjusted rent, the RCS appraiser must also support the overall adjustment with market-based evidence regarding the value of these services.
4. In some cases, non-shelter services may be provided out of a single common area facility. A single space used to provide more than one service has no bearing on whether an adjustment is warranted or not; the consideration is exclusively based on the value of each respective service to residents.

**Line 29. Business Center/Neighborhood Network.** If the project has a business center offering office services such as copying and faxing, the RCS appraiser must enter “BC.” If the project has a HUD sponsored Neighborhood Network, the RCS appraiser must enter “NNW”, or “N” for neither. RCS appraisers must review the “**Important Note**” above pertaining to Lines 29, 30, 31 and 32.

**Line 30. Service Coordination.** The RCS appraiser must identify if the project has a service coordinator who helps residents access social services, health care or resources for meeting other needs, and enter “Y” or “N” on this line item accordingly. RCS appraisers must review the “**Important Note**” above pertaining to Lines 29, 30, 31 and 32.

**Line 31. Non-Shelter Services.** The RCS appraiser must enter “M” for meals, “T” for transportation, “EC” for emergency call systems, “H” for housekeeping, and “L” for laundry service, “ED” for educational classes, “AS” for after school care, “SP” for summer programs, or “N” for none. The RCS appraiser must record and fully describe (in the accompanying narrative explanations) any other services provided for the elderly or persons with disabilities. RCS appraisers must review the “**Important Note**” above pertaining to Lines 29, 30, 31 and 32.

**Lines 32. Neighborhood Networks (non-HUD).** The RCS appraiser should populate this line to capture features such as Neighborhood Networks-type programs or other types of social support programs provided by sources other than HUD. RCS appraisers must review the “**Important Note**” above pertaining to Lines 29, 30, 31 and 32.

### ***Part E. Utilities (lines 33 through 39)***

**Lines 33 through 39.** Since tenants make housing choices based upon total shelter cost (rent + utilities), estimated outlays for utilities reduce, dollar for dollar, the amount a prospective tenant is willing to pay for rent. If a utility is included in the subject’s rent, but not in the rent of the comparable (or vice versa), the RCS appraiser must estimate the *rental value* of that utility and adjust accordingly. For projects with typical utility costs, the ‘*rental value*’ is probably close to what prospective tenants would expect to pay. However, for projects with unusually low utility costs, prospective tenants initially may overestimate utility costs, putting rental value slightly above actual cost. For projects with unusually high utility costs, the reverse may be true. Prospective tenants initially may underestimate utility outlays, causing rental value to be less than utility costs they actually incur following move-in.

For lines 33 through 39, the RCS appraiser must enter “Y” if the service is included in the rent and “N” if it is not. The RCS appraiser must follow the Y or N entry with a slant bar and the energy source for the utility addressed on that line. If the project does not have a utility listed here, the RCS appraiser may leave the space blank. “Other Electric” on line 37 includes the cost of electricity for things not listed separately on the form (e.g., lights and outlets).

When making adjustments on lines 33 through 39, the RCS appraiser must consider if a utility is:

1. excluded from the comparable rent but included in the subject rent, the RCS appraiser must enter a positive adjustment that reflects the amount prospective tenants would reasonably expect to pay for that utility at the comparable.

2. included in the comparable rent but not the subject rent, the RCS appraiser must enter a negative adjustment that reflects what prospective tenants would reasonably expect to pay for that utility at the subject. Since tenants make housing choices based upon total shelter cost (i.e., rent + utilities), estimated outlays for utilities reduce the amount a prospective tenant is willing to pay for rent.
3. included in the rent at both the subject and the comparable, a prospective tenant would probably perceive these as equal choices even if the energy sources (gas, electric, or oil) differ, and no adjustment would usually be needed by the RCS appraiser. However, if the RCS appraiser has evidence that the type of utility affects tenant preferences and rents, then the RCS appraiser may consider adjustments for tenant preferences. *Example:* Tenants may prefer gas over electric heat in severely cold locations. Such adjustments, when applicable, should not exceed a nominal amount of \$10 or 2 percent of unadjusted rent of the comparable, whichever is larger; the RCS appraiser needs to explain any adjustment exceeding that nominal amount.

The RCS appraisers may use any reasonable method to value expected utility outlays, but must identify the *method used* and explain *how the dollar adjustment* was derived. Some data sources commonly used to value utility adjustments are listed below.

1. Regional Utility allowances published by independent public agencies. When using this source as the basis of adjustment in any utility item, RCS appraisers must be mindful that such published allowances typically represent the very high end of a reasonable range for each respective utility item.
2. Data gathered from utility providers.
3. Data gathered from tenants and landlords.
4. A HUD/CA approved utility allowance if the type of service and building attributes considered in developing the utility allowance are similar to the comparable being adjusted.

### ***Part F. Adjustments Recap (lines 40 through 43)***

*This section calculates both the number and dollar value of adjustments, both before and after utility adjustments. HUD's Excel form automatically calculates these items.*

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

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

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

**Line 43 Net/Gross Adjustments B to E.** Excel calculates the net adjustments, which is the addition of the four entries (positive and negative) on Lines 41 and 42. This line also shows the gross adjustments, which is obtained by adding the positive entries on Lines 41 and 42 to the absolute value of the negative entries on those lines.

### ***Part G. Adjusted Rents (lines 44 through 45)***

*HUD's Excel form automatically calculates these items, except for Line 46. RCS appraisers do not need to compute entries for Lines 44 and 45 manually.*

**Line 44. Adjusted Rent.** Excel computes this line by adding the net adjustments (Line 43) to the *Effective Rent* (Line 5) to derive an adjusted rent for each comparable.

**Line 45. Adjusted Rent/Last Rent.** Excel computes this line by dividing the Adjusted Rent (Line 44) by the Last Rent (Line 1) and expresses the answer as a percent. This shows the impact of all adjustments made for all Parts of the form. The totals in Part F do not include the adjustments in Part A.

**Line 46. Estimated Market Rent.** In this line, the RCS appraisers will determine, using their professional judgment, the point in the range of adjusted rents that best represents the rent a knowledgeable tenant would most probably pay for that unit type at the subject. HUD's Excel form will divide that rent by the square footage shown for the subject in Part C to compute estimated market rent per square foot. When entering the estimated market rent, the RCS appraiser must explain the points listed below. The RCS appraiser is required to present these explanations immediately after his/her comments on Item 46. RCSs without these explanations will be rejected by the substantive reviewer.

1. **How the estimated market rent was derived from comparables' adjusted rents.** The RCS appraiser must explain *how* the estimated market rent was derived and *why* it was derived that way. He/she must note which comparables were given the most weight and why, including which attributes of those respective comparables resulted in their being weighted more or less than others. If the estimated market rent is set at the high or low end of the adjusted rents' range, the RCS appraiser must explain *why*. *Example:* The narrative may note that a comparable located within the same master-planned community deserves proportionately more weight than another comparable which is only slightly farther from the subject, but is located in a different school district. Alternatively, the RCS appraiser may support his/her estimation by stating that comparable A that may not be as close in distance as other four comparables, was given a higher weight than others because leasing agents have observed that prospective tenants often consider both projects (subject and comparable A) "family-friendly" due to on-site day-care facilities and similar services.
2. **How the estimated market rent was derived for a secondary unit type.** When a subject has primary and secondary units, the RCS appraisers may start with the market rent for a primary type and adjust for the minor difference(s) between the secondary type and related primary type. RCS appraisers must explain *why* adjustments were made and *how* they were made in deriving rents for a secondary unit type.



## Required Contents for Rent Comparability Study

### [View Sample RCS](#)

- A. **Transmittal Letter signed by the RCS appraiser.** The RCS appraiser must address the Transmittal Letter to the project owner, and the letter must be dated as of the date it is submitted along with the RCS to the owner. A sample transmittal letter is included under Appendix 9-1-6. This letter must include the following five components:
1. RCS appraiser's name, company name, address, telephone, fax number (optional), and email address.
  2. Project name, FHA/other project number of the Section 8 project.
  3. Table of estimated market rent for each unit type included in the study. The RCS appraiser should use table format shown below. In last column, the RCS appraiser should enter "Y" for yes if a Rent Grid was prepared for that unit type, or enter "N" for No, if a grid was not prepared for secondary unit types, but instead the RCS appraiser adjusted the primary type's estimated rent.

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

4. A statement that market rents were defined and estimated in accordance with Sections 9-9 through 9-13 of this Chapter and the RCS report was prepared in accordance with Sections 9-8 through 9-14 of this Chapter.

5. An acknowledgment of how his/her report will be used. *Suggested language* – “I understand that HUD/the Section 8 Contract Administrator (CA) and the project owner will use my estimate of market rents to determine: 1) the owner’s options for renewing the project’s Section 8 contracts; and 2) the maximum rents allowed under any renewal contract.”
- B. **Scope of Work.** The RCS appraiser must acknowledge that all work was done in accordance with the requirements set forth in this notice, and provide a narrative describing:
1. Dates, number and types of inspections, and how unit sizes were verified.
  2. How rent, condition and amenity data were collected and verified. The RCS appraiser should also note all interviews completed, records reviewed, and internet sites used. The RCS appraiser should indicate time period during which data was collected.
  3. Any data that was unobtainable or estimated and all efforts to obtain that data.
  4. Any assistance from assistant RCS appraisers.
- C. **Description of Subject Project.** The RCS appraiser must address the items listed under this section by creating a chart or table similar to the template shown below. If the units being renewed are located on scattered sites and those sites differ significantly on condition, services, street appeal or other factors listed below, the RCS appraiser must need to create a separate chart for each site:
1. *Project name and address* (street, city, county, cross streets) and neighborhood name if applicable).
  2. *Site characteristics and improvements:* number of buildings and their design (construction material, structure type), number of units; topography and density; and access to site.
  3. *Unit mix for all units in the project, not just the Section 8 units.* The RCS appraiser should use the table format below, and ensure that he/she includes all revenue-producing units in the project & group them by major unit types (e.g., # bedrooms/# baths). The RCS appraisers should review Section 9-10 for a definition of rent restricted units.

Unit Type	# Units	Interior Size (SF)	# Project-Based Sec 8 units	# Other Rent Restricted Units	# Units Not Rent Restricted
	<b>Total</b>		<b>Total</b>	<b>Total</b>	<b>Total</b>

4. *Condition:* age of project, state of repair, any recent/ planned rehab or refurbishing.
5. *Schedule of charges collected in addition to rent.*
6. *3 to 5 labeled, color photos of exterior and interior.* The RCS appraiser must review Section 9-9 regarding requirements on photos, and insert the photos at the end of the RCS or in the body of RCS's description of the subject.)
7. *Population or occupancy group targeted for this project (e.g., elderly), if any.*
8. *Summary of unit design and amenities.*
9. *Summary of project service/ site amenities:* parking, recreational facilities, community areas, security, service coordination, neighborhood networks, transportation, meal services, social or educational activities, emergency call systems, laundry or housekeeping, and any other amenities for elderly or disabled.
10. *Name and phone number of contact person.* This would include the information for the individual who the RCS appraiser verified or collected information on the subject project.

**D. Owner's Scope of Repairs.** As required under Section 9-9.D, the RCS appraiser must review the complete list of repairs to the subject project, and if needed prepare a separate set of HUD Form 92273-S8 rent grids to differentiate between pre-repair and post-repair conditions.

**E. Definition of the Subject's Market Area.** The RCS appraiser must identify the geographic area from which the subject would normally draw its applicants, or the area where competitive alternative apartment buildings are located.

- F. **Description of Neighborhood.** Under this section, the RCS appraiser should provide a discussion of the project's location noting factors that would impact market rent level, as required under Section 9-9 of this Chapter.
- G. **Narrative Describing Selection of Comparables.** The RCS appraiser must provide an overall assessment of the availability of comparables and the quality of the comparables selected and state *why* the comparables used were selected, as required under Sections 9-10 and 9-11 of this Chapter. The RCS appraiser must document the search process in accordance with the Section 9-10.C requirements. If insufficient comparables or dissimilar comparables are utilized, the RCS appraiser must explain *why* in the narrative, and outline what research was performed to determine that more similar comparables were not available. If the comparables chosen have an identity-of-interest with the owner, management agent of the subject project, the RCS appraiser must identify those and explain why such a comparable was selected.
- H. **Locator Map for Subject and Comparables.** The RCS appraiser must include a locator map identifying the subject project and each comparable. He/she must also clearly mark major roadways and natural or man-made barriers (e.g., rivers, freeways, railways, etc.) on the map.
- I. **Rent Comparability Grid HUD-92273-S8** (Appendix 9-1-1). The RCS appraiser must complete one grid for each primary unit type using instructions in Appendix 9-1-2 and guidance in Section 9-9 through 9-13 of this Chapter.
- J. **Explanation of Adjustments & Market Rent Conclusions.** As required under Sections 9-9 through 9-13 and the line-by-line instructions in Appendix 9-1-2, the RCS appraiser must provide a narrative for each adjustment.
- K. **Comparable Project Profiles.** The RCS appraiser must provide a one-page, table/grid profile of each comparable project used in the RCS. The RCS appraiser must profile each project only once, regardless of the number of unit types for which the project was used. The Sample RCS under Appendix 9-2-2 provides a sample profile that RCS appraisers may use, or they can create their own table/grid formats. The RCS appraisers must include at least the following items in their comparable project profiles:
1. *Project name and address* (street, city, county, cross streets) and neighborhood name.
  2. *Name and phone number of contact person with whom* the RCS appraiser verified or collected information on the project and the date of verification.
  3. *A color photo* (at least 3" by 5") of the project's exterior. (Interior photos may be included if available, but they are not required).
  4. *A rent and unit mix table.* Showing *all units* in the project and grouped by major unit types (e.g., # bedrooms/# baths). The RCS appraiser must indicate which unit types are used as comparables in the RCS.

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

5. *Total number of units* at the project and project-wide *occupancy*.
  6. List of *any charges tenants pay* in addition to rent.
  7. Description of *any rent, income, and use restrictions or tenant rent subsidies* (Section 8, certificates, vouchers, state/local payments on behalf of residents) in effect at the project. The RCS appraiser must provide this information even if the units covered by the restriction/subsidy were not the units studied in the RCS.
- L. **RCS Appraiser's Certification** (Appendix 9-1-5). The RCS appraiser must fill in the blanks and sign and date the Certification. When entering names, the RCS appraiser must also give title (e.g., Sharon Jones, Assistant RCS Appraiser). The RCS appraiser may enter "*none*" in items 8 and 10 if there is nothing to disclose.
- M. **Copy of any Temporary License the RCS appraiser is relying upon for this RCS.** Any temporary license relied upon must be issued by the state where the project is located.

## Comparable Project Profile

**Project Name**

Address

City/Town, State, Zip Code

Management Agent:

County:

Contact:

Neighborhood:

Contact's Phone

PHOTO

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

**Total Units:** \_\_\_\_

**Project Occupancy:** \_\_\_\_percent

**Charges in Addition to Rent:**

**Subsidies and Restrictions at Project:**

**Other Comments:**

**Date Information Verified:** \_\_\_\_ / \_\_\_\_ / \_\_\_\_

**RCS Appraiser Certification**

**Project Name:** \_\_\_\_\_ **FHA Project No** \_\_\_\_\_

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

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

## Appendix 9-1-5

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

**Appraiser's Name:** \_\_\_\_\_ **Signature:** \_\_\_\_\_ **Date:** \_\_\_\_\_

**Permanent License No:** \_\_\_\_\_ **Issuing State:** \_\_\_\_\_ **Expires:** \_\_\_\_\_

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



### Sample for RCS Appraiser's Transmittal Letter

[Date]

[Name &amp; Address of Appraisal Firm]

[Phone, fax and email contact info for Appraiser]

[Owner's Name &amp; Address]

Re: **Rent Comparability Study**/[Project Name]

Section 8 Contract Number: \_\_\_\_\_ FHA No. \_\_\_\_\_

Dear [Mr./Ms. Owner]:

Attached is the Rent Comparability Study (RCS) you requested for [Project Name].

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

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

The RCS was prepared in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP) and the requirements in Chapter Nine of HUD's Section 8 Renewal Guide. Market Rents were defined and estimated in accordance with the guidance in Sections 9-8 through 9-13 and Appendix 9-1-2 of Chapter Nine of HUD's Section 8 Renewal Guide, and the RCS report was prepared in accordance with the guidance in Chapter Nine. I understand that HUD/the Section 8 Contract Administrator (CA) and the project owner will use my estimate of market rents to determine: 1) the owner's options for renewing the project's Section 8 contracts; and 2) the maximum rents allowed under any renewal contract.

Additionally, as required by Section 9-14 of the Chapter Nine guidance, I compared the Project's median rent with HUD's threshold, and concluded that the Project's median rent is below the threshold, as shown in the table below.

***Mandatory Market Rent Threshold Test***

<b><i># of Bedrooms (For Section 8 Units)</i></b>	<b><i># of Units</i></b>	<b><i>Cumulative # of Units</i></b>	<b><i>RCS Rents</i></b>
Project's RCS-based median rent			
HUD's Threshold: 140 percent of Median Gross Rent Estimate for Project's Zip Code			
Test: Compare Project's Median Rent to HUD Threshold			

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

Sincerely,

[RCS Appraiser Name]

ST Certified General Appraiser #\_\_\_\_\_

### Special Exceptions under Mandatory Rent threshold

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

- A. Is less than 140 percent of \$2,000 (or \$2,800), then no further action is required and the final comparable market rent is determined by the owner's RCS; or
- B. Is greater than or equal to 140 percent of \$2,000 (or \$2,800), but less than 105 percent of the current HAP contract rent for the subject project, then the final comparable market rent is determined by the owner's RCS; or
- C. Is greater than or equal to 140 percent of \$2,000 (or \$2,800), and greater than or equal to 105 percent of the current HAP contract rent for the subject project, then a HUD-commissioned RCS would be required.

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

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

<b>RCS Rent submitted by owner</b> ACS-based Median Market Rent for Zip Code	<b><u>Example 1</u></b> <b>\$2,800</b> \$2,000+	<b><u>Example 2</u></b> <b>\$3,000</b> \$2,000+	<b><u>Example 3</u></b> <b>\$3,000</b> \$2,000+
<b>TEST 1:</b> <b>Does RCS Rent Exceed 140</b> <b>percent of \$2,000 (or \$2,800)</b> <b>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</b> <b>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 percent of Current HAP Rent for the Project		\$3,045	\$2,940
<b>TEST 2:</b> <b>Does RCS Rent Exceed 105</b> <b>percent 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</b> <b>Prevails</b>	<b>YES</b> <b>HUD RCS</b> <b>Required</b>

*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.

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:

- A. is less than 105 percent 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
- B. is greater than or equal to 105 percent of the current HAP contract rents, then a HUD-commissioned RCS would be required.

## **Appendix 9-2**

### **Guidance for Owners**

- 9-2-1: Template for Owner's Cover Letter & Owner's Checklist
- 9-2-2: Link to Sample RCS

**Sample Owner's Cover Letter & Owner's Checklist**

[Date]

[Owner's Name]

[Owner's Address]

**RCS Submittal Cover Letter for [Project Name]**

1. I have reviewed the content of the RCS and concluded that the RCS includes all material required by Chapter Nine and the Owner's Checklist in Appendix 9-2-2.
2. The RCS appraiser's *[insert appraiser's name]* narratives and Rent Grid accurately describe the subject project and properly treat non-shelter services and their funding sources as required by Section 9-12 and Appendix 9-1-2.
3. There is no family relationship or identity-of-interest between the principals of the subject's Ownership or management agent entity and the principals that manage/ own the projects used as comparables. *[Owners must identify and provide information if there is an identity-of-interest existing between principals. See Handbook 4381.5, Paragraph 2-3 for a definition of the term "identity-of-interest".]*
4. I certify that: a) neither the selection of the RCS appraiser nor the RCS appraiser's compensation was/is contingent upon the RCS appraiser reporting a predetermined rent nor direction in rent; and b) to the best of the Owner's knowledge, the RCS appraiser meets Section 9-8.A.'s conditions regarding absence of financial, employment, and family relationships.
5. I certify that the fee paid for the RCS is the only compensation the RCS appraiser will receive for the RCS work and there is no side agreement or other consideration.
6. The following person is our point of contact for HUD/CA's decision letter, or to address any questions that the HUD/CA staff may have on the RCS:

*[Provide a name, email and phone number for a point of contact at the agent/Owner's office]*

7. HUD/CA may talk with the RCS appraiser directly and copy the RCS appraiser on written materials. The RCS appraiser's contact information is provided below

*[Insert RCS appraiser's name, address, email and phone number]*

I certify that the above is all true.

*[Owner's Name & Signature]*

*[Date]*

*Encl: Owner's Checklist*

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## Owner's Checklist for RCS Submission

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### Owner's Materials

- ☐ Signed Cover Letter
- ☐ Signed Owner's Checklist
- ☐ Scope of Repair

### RCS Materials

- ☐ RCS Appraiser's Transmittal Letter
- ☐ Scope of Work
- ☐ Description of Subject Project (including color photographs)
- ☐ Identification of the Subject's Market Area
- ☐ Description of Neighborhood
- ☐ Narrative Describing Selection of Comparables
- ☐ Locator Map for Subject and Comparables
- ☐ Rent Comparability Grid for Each Primary Unit type
- ☐ Narrative Explaining Adjustments and Market Rent Conclusions (one set of explanations for each Rent Grid)
- ☐ Comparable Project Profiles (each including a color photo)
- ☐ RCS Appraiser's Certification
- ☐ Copy of RCS Appraiser's License (only if relying upon a temporary license)

### Mandatory Market Rent Threshold Materials

- ☐ Distribution of RCS Rents and Subject Project's median rent
- ☐ Comparison of Project's median rent to the Median Gross Rent

### Owner's Signature & Date

**Link to Sample RCS**

[Sample RCS](#)



**Request to Renew Using FMRs as Market Ceiling**

[USE HUD FORM 9630](#)

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

[USE HUD FORM 9629](#)

## **Appendix 9-5**

### **Guidance to Reviewers**

- 9-5-1: Link to Initial Screening Checklist
- 9-5-2: Link to Detailed Screening Checklist
- 9-5-3: Link to Rent Grid Analysis Checklist (*to be used with Notes in 9-5-4*)
- 9-5-4: Notes to Rent Grid Analysis and Triggers for Second Review
- 9-5-5: Link to Certification of Substantive Reviewer
- 9-5-6: Sample of Issues Memo from Substantive Reviewer

**Link to Initial Screening Checklist**

[Initial Screening Checklist](#)

**Link to Detailed Screening Checklist**

[Detailed Screening Checklist](#)

**Link to Rent Grid Analysis Checklist**

[Rent Grid Analysis Checklist](#)

### Notes for Rent Grid Analysis and Triggers for Second Review

**Introduction:** All substantive reviewers must use the notes provided below when completing the Rent Grid Analysis checklist ([Excel based version](#)). The following notes provide line-by-line guidance to substantive reviewers for identifying areas that may warrant a closer evaluation, or in some cases trigger a mandatory second review, as provided in Section 9-16 if the substantive reviewer is a non-appraiser HUD staff. The second reviewer would assess the appropriateness and reasonableness of the specific line item that triggered a second review, as opposed to the entire RCS. The minimum qualifications for performing a substantive review and/or a second review are provided in Section 9-15.A.2 (“Substantive Review”). If the first and second reviewers do not reach consensus, then the trigger item will be reviewed by an RCS review appraiser, whose opinion will prevail as to what revisions, if applicable, need to be made to the RCS. Seeking a second reviewer’s input is not a requirement if the rent grid analysis review is being performed by an RCS review appraiser.

**Line 1: \$ Last Rent/ Restricted.** Using a comparable from an affordable/restricted project should only be a “last resort”. Adjustments that would need to be made to a restricted comparable are inherently subjective. Likewise, using a comparable from other categories of project types, such as independent or assisted living facilities or master-planned retirement communities, for an age-restricted Section 8 project, may be difficult to justify because tenants at those types of projects choose them over conventional apartment projects due to the non-shelter services offered at such facilities. In particular, a comparable property that offers a daily meal or meals included in the monthly rent poses specific challenges with regard to determining appropriate rent adjustments. Accordingly, use of rent-restricted projects will trigger a second review. Using a rental comparable that offers one or more daily meals included in the monthly rent, whether that comparable is an independent or assisted living facility, or a master-planned retirement community, will also trigger a second review (the trigger will not apply if the RCS appraiser has used units that do not include daily food service in the rent, even if that comparable provides the option of taking daily food service; the trigger will only apply if paying for daily food service is mandatory at that comparable).

**Line 2: Date Last Leased.** Adjustments on this line item should be rare since the RCS appraiser should only be using recent lease transactions to begin with. Accordingly, an adjustment on this line exceeding \$15 or 3 percent of the comparable’s unadjusted rent, whichever is larger, would be unusual, and thus the substantive reviewer needs to carefully review the RCS appraiser’s explanation for that adjustment exceeding the threshold amount.

**Line 3: Rent Concessions.** Concession adjustments should be based on a simple mathematical formula for calculating *effective rent* (i.e., the total rent paid over the lease term divided by total months of occupancy, including rent-free periods). Difference between *nominal rent* and *effective rent* is then entered as the amount of the negative adjustment to the comparable. Use of an amount other than that indicated by the formula above should trigger a second review.

**Line 4: Occupancy Rate.** This line item is rarely adjusted. Should be only used if the RCS appraiser is confident that the comparable project consistently runs at unusually high or low

occupancy rate because the asking rent is either too low or too high, respectively (See Appendix 9-1-2 under Line by Line instructions). Accordingly, an adjustment on this line exceeding \$15 or 3 percent of the comparable's unadjusted rent, whichever is larger, would be unusual, and thus the substantive reviewer needs to carefully review the appraiser's explanation for that adjustment exceeding the threshold amount.

**Line 6: Structure/Stories.** Adjustment on this line item can be based on a variety of factors, such as walk-up versus elevator, or stacked flat versus townhome configuration. The appraiser should try to select comparables that have the same structure type as the subject project. Scale of adjustments should typically be modest. An adjustment on this line exceeding \$15 or 3 percent of comparable's unadjusted rent, whichever is larger, would be unusual, and thus the substantive reviewer needs to carefully review the RCS appraiser's explanation for that adjustment exceeding the threshold amount.

**Line 7: Year Built/Yr. Renovated.** This adjustment is inherently subjective and needs to be accompanied by a clear, comprehensive explanation by the RCS appraiser. Typically, adjustments should not be made at all for age differences of just a few years. An ideal approach is to adjust in multiples of a fixed number of years of age difference. For example, each multiple of three years of age difference between the subject and the comparable would be assigned a certain dollar amount of adjustment. An adjustment on this line exceeding \$5 or 1 percent of comparable's unadjusted rent, whichever is larger, for each year of age difference should be a **trigger to for a second review.**

**Line 8: Condition/Street Appeal.** This adjustment is often subjective and needs to be accompanied by a clear, comprehensive explanation by the RCS appraiser. Based on the mandatory five levels of ratings (Excellent, Good, Average, Fair and Poor), an adjustment of more than \$20 or 4 percent of comparable's unadjusted rent, whichever is larger, for each level of rating difference **triggers a second review.** For example, a positive adjustment for an "Average" rated comparable versus an "Excellent" rated subject, should not exceed \$40. Due to the potential for overlap between adjustment parameters, if the RCS appraiser has made an adjustment also on Line 7 for Year Built/Renovated, the **trigger for a second review** is \$15 or 3 percent of comparable's unadjusted rent, whichever is larger, for each level of rating difference for Line 8.

**Line 9: Neighborhood.** This adjustment is inherently subjective and needs to be accompanied by a clear, comprehensive explanation by the RCS appraiser. Based on the mandatory five levels of ratings (Excellent, Good, Average, Fair and Poor), an adjustment of more than \$20 or 4 percent of comparable's unadjusted rent, whichever is larger, for each level of rating difference **triggers a second review.** For example, a positive adjustment for an "Average" rated comparable versus an "Excellent" rated subject, should not exceed \$40 or 8 percent of comparable's unadjusted rent, whichever is larger.

**Line 10. Same Market.** Using a comparable from a different market should be rarely used, as adjustments that would need to be made to a comparable in a different market are inherently subjective. Accordingly, an adjustment on this line item should typically not exceed \$15, whether it is to account for a different market or for distance to the subject project. For adjustments exceeding \$15 or 3 percent of comparable's unadjusted rent, whichever is larger, the



substantive reviewer needs to carefully review the RCS appraiser's explanation for that adjustment exceeding the threshold amount.

**Lines 11-13: Number Bedrooms/Bathrooms/Unit Interior Square Feet.** The appraiser should be able to justify adjustments with specific market data, such as paired comparable analysis. A trigger for a second review would be if the RCS appraiser adjusts for a size difference less than 10 square feet. The RCS appraiser should be using comparables with units as close as possible in size to the subject units, so very large adjustments based on large differences in unit size are likewise discouraged. Total net adjustments for line items 11 through 13 exceeding \$100 or 20 percent of comparable's unadjusted rent, whichever is larger, would suggest that the comparable may not be suitable, and thus for an adjustment exceeding that threshold amount, the reviewer needs to carefully review the appraiser's explanation.

**Line 14: Balcony/Patio.** Adjustment for this line should typically be nominal, generally not exceeding \$10 (but for some special cases such as resort areas, warm climates, adjustments may be slightly higher). RCS appraiser must describe the basis for any dollar amount of adjustment that exceeds \$10 or 2 percent of comparable's unadjusted rent, whichever is larger.

**Line 15: AC/central vs. wall.** While adjustment for type of AC will rarely exceed \$10 or \$15, adjustment for lack of AC may be more substantial in some markets. RCS appraiser must describe the basis for any dollar amount of adjustment that exceeds \$10, or 2 percent of comparable's unadjusted rent, whichever is larger.

**Line 16: Range/Refrigerator.** It is not unusual in some markets for owners to not provide a refrigerator. The amount of adjustment should typically not exceed the monthly cost of equipment rental.

**Line 17: Microwave/Dishwasher.** The substantive reviewer needs to carefully review the RCS appraiser's explanation for an adjustment on this line exceeding a total of \$20 or 4 percent of comparable's unadjusted rent, whichever is larger.

**Line 18: Washer/Dryer.** If the unit includes hookups but the equipment is not provided by the owner, the amount of adjustment should typically not exceed the monthly cost of equipment rental.

**Line 19: Floor Coverings.** As floor coverings typically vary little within a given market (e.g., carpet, except vinyl in kitchens and baths), an adjustment on this line should rarely exceed \$10 to \$15, if made at all. For adjustment amount exceeding \$10 or 2 percent of comparable's unadjusted rent, whichever is larger, the RCS appraiser must discuss and provide market evidence. Adjustments for specialty coverings (e.g., ceramic tile in some areas of the living unit) should be in Line 22 ("Special Features") rather than in this line item.

**Line 20: Window Coverings.** While it is common to adjust for owner-provided vs. tenant-provided window coverings, any adjustment at all for type of window covering is unusual, and thus would only be acceptable if RCS appraiser provides market evidence for adjustments exceeding \$10 or 2 percent of comparable's unadjusted rent, whichever is larger.

**Line 21: Cable/Satellite/Internet.** If the owner provides connection but the tenant pays the monthly service fee, the amount of adjustment should not exceed the published monthly fees.

**Line 22: Special Features.** If the RCS adjusts more than \$10 or 2 percent of comparable's unadjusted rent, whichever is larger, for any individual item, market evidence must be cited in the RCS.

**Line 24: Parking.** As described in Appendix 9-1-2 (Line-by-Line Instructions), there are three distinct types of adjustment may be included in this line. These are (a) *availability* of parking, (b) *cost* of parking, and (c) *type* of parking facility. Explanation provided in the RCS should be sufficiently clear for the substantive reviewer to follow just how the adjustments made fit into these respective categories. A chart is suggested if more than just a few simple adjustments are made.

**Line 25: Extra Storage.** As described in Appendix 9-1-2 (Line-by-Line Instructions), RCS appraiser must distinguish between adjustments for *availability* of storage versus *cost* of storage. The substantive reviewer needs to carefully review the RCS appraiser's explanation for a total adjustment on this line exceeding \$20 or 4 percent of comparable's unadjusted rent, whichever is larger.

**Line 26: Security.** The substantive reviewer needs to carefully review the RCS appraiser's explanation for an adjustment on this line exceeding \$15.

**Line 27: Clubhouse/Meeting Rooms.** The substantive reviewer needs to carefully review the appraiser's explanation for an adjustment on this line exceeding \$10.

**Line 28: Pool/Recreation Areas.** While generally nominal, adjustment on this line could be \$15 or more in some markets. RCS appraiser must provide market evidence to justify adjustments exceeding \$10 or 2 percent of the comparable's unadjusted rent, whichever is larger.

**Lines 29-31: Business Center/Service Coordination/Non-shelter Services.** RCS Appraiser should explain any adjustment within these categories. Since it is rare for a project to offer more than a few distinct categories of non-shelter services, total net adjustments to any comparable for these line items exceeding \$50 or 5 percent of the comparable's unadjusted rent, whichever is larger, should be a **trigger for a second review.**

**Lines 33-39: Utilities.** To account for owner-paid versus tenant-paid items, the RCS appraiser should explain the criteria used. Typically, published housing authority utility allowances will represent an upper limit for any particular category. Use of adjustment amount for any utility category that exceeds the respective published allowance would be a **trigger for a second review.** The RCS appraiser may also choose to adjust for tenant preferences, when applicable, for type of utility (e.g., gas cooking versus electric, gas heat versus electric), but those adjustments will typically be small (see discussion in Appendix 9-1-2).

**Line 46: Estimated Market Rent.** As described in Section 9-13 and Appendix 9-1-2, the RCS must note *which* comparables were weighted over others for purposes of evaluating the adjusted rents, and also the reasons *why* those comparable were weighted over others.

**Link to Certification of Substantive Reviewer**

[Certification of Substantive Reviewer](#)

**Sample for Issues Memo from Substantive Reviewer**

[Name of Regional Director at HUD (or equivalent)]

[Address of HUD/CA]

Name of Subject Project: \_\_\_\_\_  
Section 8 Contract Number: \_\_\_\_\_

I have performed a Substantive Review of the Rent Comparability Study (RCS) of the aforementioned project. Based on my review, I have identified the following issues that need to be addressed by the RCS appraiser and/or Owner.

1. Type issue #1 here.....
2. Type issue #2 here.....
3. Type issue #3 here.....
4. Type issue #4 here....

I am requesting for the RCS appraiser and/or Owner to provide additional information or explanations on the items noted above within 10 calendar days of date of HUD's/CA's request, as per HUD guidelines in Chapter Nine of the Section 8 Renewal Guide.

Please do not hesitate to contact me if you have questions concerning my findings.

*[Insert substantive reviewer's name]*

*[Address, email and phone number]*

## Special Project Types

If the RCS appraiser uses comparables from project categories that would not typically be suitable for use as comparables for multifamily rental housing, as outlined under Section 9-10.C.4, the RCS appraiser must consult the guidance provided below.

1. **Cooperative Project (Co-Op):** A Co-Op is a multi-unit project in which those who own the project actually own shares in the ownership of the overall project as a whole. For the purposes of an RCS, the fact that the project is a co-op doesn't significantly affect the market rental rate of the subject and/or the comparable project. Depending on the market evaluation that is performed by the RCS appraiser, an adjustment may be justified for the ownership being a co-op but most likely it will have no effect on the concluded market rental rate.
2. **Elderly/Special Needs:** An elderly or special needs project is different from traditional market rate projects because these projects typically include services offered at no extra cost to the tenant. The mix of these services will vary widely among projects in a given market as well as between different markets. Upon identification of an age-restricted or Special Needs project, the RCS appraiser should determine what extra services are provided (if any) and during the comparable selection process attempt to identify projects that offer similar services with the same restrictions as well as being located in the defined market area. The preference in selection would be to go outside the market area and find comparable projects offering the same or similar services, rather than locating projects within the defined market areas but offering different services. If the Elderly/Special Needs project doesn't offer any services above and beyond a normal market rate project, then no adjustments would be required and the comparable selection could utilize traditional market rate projects for comparison. However, an adjustment would most likely be required due to the restriction of the tenant pool as compared to a traditional market rate project.
3. **Student Housing:** Included as a Special Project due primarily to the growth of these projects, and the "by the bed" rental structure that they often offer. There are two types of projects that fall under the Student Housing category; (1) traditional apartment projects that are rented by the unit, but are restricted to students and (2) "by the bed" projects.

The first project type is one that is similar in operations and rentals to the traditional apartment project, and specifically similar to an elderly or age-restricted project. The tenant rents a studio or larger unit, containing a kitchen, bath, and sleeping quarters.

The second project type is one that has become very popular over the last 10-20 years and that is a project that rents beds, rather than apartment units. Accordingly, there will be two or more tenants sharing a living unit. This concept is similar to a college dorm concept mixed with a traditional apartment project. Commonly, these projects will also offer services that cater to students and student-living and will be located on and very close to campus. As an RCS will in all cases involve estimating market rents for self-contained living units rather than bed rentals within shared apartment units, this second project type cannot under any circumstance be used as a rental comparable for the RCS.

4. **Congregate-Care Projects:** Included as a Special Project Type due to the amount of extended services available, and the "by the bed" rental structure that they sometimes offer.

There are several types of projects that fall under Congregate-Care Housing but all offer some level of home health care services to either the elderly or persons with special needs. The different types could include (1) Assisted-living facilities, (2) senior citizen housing, or (3) other age-restricted retirement communities. Congregate-care housing typically offers enhanced healthcare services for the elderly, whereas the typical elderly housing projects offer only limited services with no specific healthcare applications.

For some care facilities, residents lease a bed rather than a private unit. Typically, that kind of facility will offer skilled nursing, and will require payment on a daily rather than monthly basis. The RCS appraiser will not encounter this type of facility for purposes of estimating rent for a Section 8 project. Accordingly, there is no reason to use projects rented on a daily rather than monthly basis as rental comparables. As an RCS will, in all cases, involve estimating market rents for self-contained living units rented on a monthly basis, rather than daily bed rentals, this project type cannot under any circumstance be used as a rental comparable for the RCS.

5. **After-Rehabilitation:** Included as a Special Property Type due to the hypothetical assumption that the proposed renovation has been completed. This requires a dual review of the subject project in its “as is” state, and a “projected” review as though all units and common areas that will be renovated have already been renovated, in accordance with the specifications provided in the renovation scope of work. This then requires the RCS appraiser to include comparables similar to the subject project in its post-renovation condition.

The RCS appraiser should review what if, any repairs are proposed for the subject project. Proposed changes to the subject project other than routine repairs for deferred maintenance may need to be reflected in Form 92273-S8 adjustments to rental comparables. Examples of adjustments that may need to be reflected in the RCS appraiser’s Form 92273-S8 analysis would include changes in utility configuration, such as installing separate living unit meters that effectively convert an owner-paid utility service to a tenant-paid basis. Another example of possible adjustments would be additions or reductions in the scope of non-shelter services, such as would occur if management were proposing to eliminate an on-site day care facility or other amenity. Even if no specific change is proposed to utility configuration, available amenities, or available non-shelter services, the subject project’s overall condition and appeal may be enhanced by the proposed scope of work. Accordingly, the RCS appraiser needs to consider how adjustments for line items 7 and 8 of the form 92273-S8 (Year built/Yr. Renovated and Condition/Street Appeal) will be affected.