



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

MEMORANDUM FOR: Multifamily Regional Directors  
Multifamily Asset Management Division Directors  
Multifamily Owners and Management Agents  
Section 8 Contract Administrators

FROM: Tobias Halliday, Director, Office of Asset Management  
and Portfolio Oversight, HTG

SUBJECT: Clarification on Valuation of Non-Shelter Services

In valuing services at a subject property, an appraiser must (1) determine how the services are offered and funded, (2) select comparable properties that make services available similar in type and funding source to those at the subject property, and (3) assign a market value to the services offered at the subject property. This valuation informs the appraiser's determination of market comparable rents for a Section 8-assisted property. This memorandum clarifies existing policies with respect to these activities and serves as a complement to Chapter 9 of the Section 8 Renewal Policy Guidebook (the Guide). This guidance does not apply to internet/satellite/cable services.

**Step One: Identify Which Services at a Subject Property to Include in the Valuation**

The Guide instructs appraisers to identify all non-shelter services and amenities that are offered at a property. This assessment should include determining which services are regularly and reliably available to tenants. Generally, if the owner provides services directly to tenants or has a contractual obligation to make them reliably available to tenants, then the services should be included in the appraiser's description of the subject property. However, services that are offered by an external agency without a contractual arrangement or other commitment to the project, or are temporary, or that may be withdrawn at any time or interrupted, may not be characteristic of the services that tenants at the property are able to access. Furthermore, if a property is only offering a service on a temporary basis, then it should not be defined as a feature of the property.

- Example One: A property hired a bus to transport residents to the poll on election day. This is a one-time service and therefore "transportation" should not be included as a non-shelter service in the rent comparability study.
- Example Two: The property hires educators to visit the property once per quarter to teach elderly residents computer skills. These services are not included as part of rent. This arrangement has been in place for several years. This service may qualify for a small valuation, as its infrequent nature diminishes its market value.

**Step Two: Identify the Funding Source for the Subject Property's Services or Amenities**

In section 9-9(C), the Guide instructs appraisers to identify which services are included in the rent and which services are charged for separately. The owner and agent should make this distinction when describing services to an appraiser. A service is included in the rent if the terms

of the service are specified in the lease or in another agreement with the tenant and future rent payments are contingent upon the continued provision of that service without material change to the tenant. An owner may not include an agreement for services in the addendum to the HUD Model Lease without prior written approval by HUD. Guidance on obtaining approval to provide services for a fee is available in HUD Handbook 4350.1 Chapter 7, Section 9. In addition, a property may offer services at no cost to tenants and fund these services from a source other than the rent (such as a grant or a partnership with a nonprofit). All services included in the comparability analysis must be described in the rent comparability study, and the funding source for each must be included in this description.

- **Example:** A project arranges with a nonprofit service to provide tutoring services to children of families living at the project. The appraiser would note this service, and explain that it is not included in rent, but funded by a nonprofit which has an agreement with the owner to provide the services on a regular basis.

### **Step Three: Identify Properties that Offer Comparable Services**

An appraiser must select comparables that meet the six-point test laid out in Section 9-10(A), where possible. Special attention must be paid to point five, in that the comparables should “provide services and have project amenities like those at the [subject] property.” A correlate of this requirement is that an appraiser should not select properties that have services and amenities unlike the subject property. For instance, an assisted living facility that offers many amenities and services beyond those at the subject property (such as medical services, 24-hour nursing care, housekeeping, etc.) would be a poor choice for a comparable, because it would require many complex downward adjustments. In addition, if a potential comparable and the subject property have similar services but they are funded differently, then the analysis may require many adjustments and the comparable may not be the best choice for the study. For example, an assisted living complex that includes in rent the provision of services to assist with activities of daily living is not an accurate comparable to a Section 8 property where tenants receive similar services in their units that are paid through a separate fee or through a Medicaid Home and Community Based Services program.

- **Example:** An appraiser is trying to choose between two possible comparable properties for a subject property that has a laundry room. One option offers transportation services, housekeeping, and laundry services for the residents as part of rent. A second comparable offers laundry drop off services as part of the rent. Though neither property offers identical services to the subject property, the appraiser should select the second comparable as it would require fewer and less complex adjustments in the study.

### **Step Four: Assign Market Value to Each Service at the Subject Property**

Once an appraiser has documented the services at a subject property and identified how each is funded, they must be considered in the comparability analysis. Per section 9-11(A)(3)(a) of the Guide, the value of the adjustment for a service varies based on whether it is included in the rent or whether it is funded from another source. Guidance on the funding for these services is as follows:

- a. **Value of Services Included in the Rent.** If a property is providing a service to tenants and the service is funded by tenant rent (in accordance with HUD regulations, directives, and contractual agreements), the appraiser should consider the full market value of the provision

of the service. The market value is unrelated to the cost to the project or the retail price of a stand-alone service and is solely determined by the attractiveness of the service in the subject market to renters whose tenant profile matches that of the subject property. For instance, if a comparable property lacks a service that the subject property provides (and the cost is included in the rent), the comparable should receive an upward adjustment for the value of the provision of the service.

- Example: HUD has authorized the owner to install emergency pullcords in elderly units and to include the monitoring service in rent. The complete market value of this service may be considered by the appraiser when selecting a comparable and assigning a value.

b. **Value of Services Funded by Other Sources.** If a service is not authorized to be included in the rent but is instead funded by any other source (including services delivered by third-party providers), an appraiser should consider the value of the availability of the service only. The value of availability should be roughly equal to the value of the convenience of a similarly-funded service in the immediate surrounding community. The availability of a service that tenants must pay for is less valuable than a service that is available for free. Neither service is as valuable as a similar service that is included in tenant rent. If a comparable property includes a service in the rent but the subject property funds it from other sources, the appraiser should apply a downward adjustment to the comparable in the amount of the difference between the full value of the service and the value of the availability of the service. Services funded by government or philanthropy that are widely available to low-income residents within the market area should generally be reflected in their market value only to the extent that specific agreements with service providers contribute to improved access to the service by residents of the subject property.

- Example 1: The owner funds a service coordinator on-site with a grant from HUD. The appraiser should only consider the value of the availability of this service, which should be equivalent to the value of a local nonprofit providing the service.
- Example 2: Two Medicaid-funded health service agencies provide in-home assistance to any resident at the property who qualifies for the services. The market value of this arrangement should be recognized only to the extent that efforts by the owner of the subject property allow qualified residents to access services more quickly and reliably than if they lived at the comparable.

### **Step Five: Document Service Valuation Following Each Rent Grid**

Per section 9-12(C) of the guide, if the valuation analysis results in an adjustment on a rent grid, the appraiser must provide a narrative explanation for how such an adjustment was determined. The explanation must convey the appraiser's rationale for arriving at a certain dollar amount, and this explanation must include the pertinent facts that the appraiser used in arriving at the valuation. For instance, if the comparable includes service coordination in the rent but the subject property funds it from a grant, the appraiser must explain how they derived the value of the service at the comparable as well as the value of the availability of the service at the subject property based on market analysis or previous experience with similar properties. Simply restating the information in the rent grid or stating that an adjustment was "reasonable" with no further explanation is not sufficient to support a valuation conclusion.

- Example: A property offers its elderly tenants low-cost transportation services for a fee and does not include them in the rent. The appraiser has valued nearby buildings and has noted that equivalent rental units in the market that do not offer this service are renting for \$20 less on average. The appraiser documents this decision-making process in the narrative following the rent grid.

There may be cases where HAP-assisted properties previously received larger service valuations than are permitted by the Guide and are still providing these services. If all the following conditions are met, Asset Management Division Directors may provide written authorization for owners to continue to use service adjustment amounts from the prior Rent Comparability Study:

1. The owner requests permission to use valuations from the last-submitted RCS in writing and provides dollar valuations and descriptions for each service in a narrative. The narrative must demonstrate that all conditions herein are met, and;
2. The property would have a debt service coverage ratio of less than 1.10 if the service valuations were adjusted. The owner must demonstrate this with pro forma budgets reflecting the appropriate and the previous service adjustments; and
3. There has not been a cash-out refinance since the prior RCS was submitted to HUD; and
4. There are no outstanding findings from the prior Management and Occupancy Review; and
5. The adjustment is taking place as the result of a fifth-year comparability adjustment and not a HAP renewal.

By ensuring these steps are satisfied when identifying services at a property and identifying comparables in a rent comparability study, appraisers will ensure they are accurately representing the market desirability of a property and that appropriate comparable rents are being concluded. If you have any questions regarding this memorandum, please contact Tony Sarkees at [anthony.m.sarkees@hud.gov](mailto:anthony.m.sarkees@hud.gov).

