



MEMORANDUM FOR: Interested Stakeholders

FROM: Ethan D. Handelman, Deputy Assistant Secretary
Office of Multifamily Housing Programs

SUBJECT: Proposed Revisions to Chapter 9, *Section 8 Renewal Policy Guidebook*

The Office of Multifamily Housing Programs (MFH) is presenting for public comment proposed revisions to Chapter 9 of the *Section 8 Renewal Policy Guidebook* (the Guidebook), which addresses Rent Comparability Studies. The revisions are intended to provide greater clarity in the renewal process and address issues not covered in the current chapter on which MFH has received questions.

In addition to soliciting comments on the chapter in its entirety, MFH invites input on the following specific questions:

- A. To reduce administrative costs and processing time for owners, MFH proposes to revise the options available to Owners seeking to renew without a Rent Comparability Study (RCS). Specifically, HUD:
1. Revises the option to renew some HAP contracts without an RCS by replacing the prior rent cap of 75 percent of Fair Market Rents (FMRs) with a cap of 90 percent of Small Area Fair Market Rents (SAFMRs), which are more location-specific (paragraph 9–5) and should be a more attractive option for Owners, especially of smaller properties; and
 2. Extends to Owners seeking to renew under Option One the option of relying on rents charged for comparable unassisted units in the same project (paragraph 9–6).

Please describe any specific concerns about these proposals.

- B. MFH is proposing to allow an Owner to update an aged RCS via submission of a letter from an RCS appraiser indicating that current rents are not lower than in the original study (paragraph 9–7.E.3). The intent of this proposal is to reduce processing steps and expenses for Owners. Are there concerns about this approach?
- C. When valuing services, MFH proposes to:
1. Make a distinction between services that are reliably available to tenants and other services. The revision is intended to support Owners with a clear intent and credible plan for providing services to tenants and to limit valuations for those who

assert a right to a higher valuation but cannot demonstrate such a plan or a successful record of providing such services (paragraph 9–9.C); and

2. Clarify that the valuation of services and amenities must take into account whether similar services and amenities are available in the surrounding community (paragraph 9–9.C.2). The intent of this revision is to assure that the valuation of services and amenities is in line with their market appeal to tenants.

Please provide feedback on these revisions and the extent to which they support or impede an Owner’s ability to fund reliable services with revenues from rent adjustments that reflect the intent to provide those services. We welcome feedback about how best to verify that services are being reliably provided to tenants while ensuring that this verification is not overly burdensome (Note: Corresponding revisions are proposed to paragraph 9–11.A.3.)

- D. In selecting comparables, MFH proposes to allow RCS appraisers to use properties subject to rent control if such rent control is widespread in a given market area. The intent of this proposal is to facilitate the identification of comparables in markets where an ordinance categorizes most properties as rent controlled. Please share any concerns about this proposal (paragraph 9–10.B.6.d). (A corresponding change has been made to Appendix 9–1–2.)
- E. With respect to the HUD-commissioned RCS (paragraph 9–14), MFH:
 1. Proposes to replace the Median Gross Rent by ZIP Code HUD-commissioned RCS threshold with a SAFMR-based threshold. The intent of this change is to establish a threshold that is less subject to lags in market data and that takes into account a project’s gross rent potential as opposed to its median rent (as special exceptions will no longer apply with the elimination of the Median Rent threshold, Appendix 9–1–7 has been deleted). The new 150% of SAFMR threshold will capture approximately the same number of properties as the current 140% of ZIP code median rent threshold;
 2. Includes a statement clarifying that HUD is not required to perform a substantive review of the HUD-commissioned RCS; and
 3. Adds language stating that, if an owner identifies a factual discrepancy in the HUD-commissioned RCS, then the Owner may notify HUD, and HUD will review the discrepancy. The intent of this language is to establish a clear limit on elements of the HUD-commissioned RCS that are subject to HUD review and to clarify how such discrepancies are resolved.

Please share any concerns about these proposed changes/clarifications.

- F. HUD’s determination of rents is subject to Owner appeal under the provisions of paragraph 9–17. MFH proposes to revise the appeals process, stating that an Owner may not revise an RCS following the issuance of a decision letter, clarifying the roles of HUD

staff during the appeal process, and clarifying that the HUD-commissioned RCS is subject to review where the owner can identify factual discrepancies, miscalculations, or errors. The purpose of the appeal process for the Owner's RCS is to provide an opportunity to provide additional information to justify the original submission, rather than to enter into a rent negotiation. The intent of these changes is to encourage Owners to present proposed rents that are fully justified by market conditions, eliminating extensive iterative submissions that can sometimes become an unproductive and time-consuming feature of the RCS process (paragraph 9–18). Please share any feedback about these changes and other suggestions for reaching fair outcomes in a timely manner.

G. In Appendix 9–1–2, HUD proposes:

1. Subject to budgetary analysis and applicable appropriations, to allow for the inclusion of internet service in the comparability analysis, if supported by actual comparables in the surrounding market area. This change is meant to support low-income households who increasingly rely on stable internet access for work and education;
2. To stipulate that the lack of a fee at a subject property is not a service and thus does not form the basis for a rent adjustment if charging the fee would be prohibited by HUD; and
3. To focus on rent adjustments to recognize the value of appropriate services, especially when the owner is not receiving financial support from another source.

Please share comments on these proposals.

H. The requirements in the revised Chapter will apply to Rent Comparability Studies initiated on or after the effective date of the revised Chapter, which will be 30 days from the date of publication. Any RCS initiated prior to the effective date will be processed in accordance with current guidance. Please share feedback about this planned implementation process.

We encourage interested stakeholders to review the document carefully in addition to responding to any of the above questions. The entire chapter has been edited for grammatical purposes and to assure that consistent punctuation and formatting have been employed.

PUBLIC COMMENT VERSION: Chapter 9: Rent Comparability Studies

1 **9-1 BACKGROUND**

- 2 A. The project-based Section 8 program is authorized by 42 U.S.C. § 1437f, which allows
3 HUD to make housing assistance payments, “for the purpose of aiding low-income
4 families in obtaining a decent place to live and promoting economically mixed housing.”
- 5 B. A Rent Comparability Study (RCS) is used in determining contract rents for each unit
6 type covered by a project-based Section 8 Housing Assistance Payments (HAP) contract
7 at a HUD-assisted project.
- 8 C. Contract rents are estimated based on rents paid at comparable properties. “Comparable
9 properties” are defined by the Multifamily Assisted Housing Reform and Affordability
10 Act of 1997 (MAHRA)¹ as properties that (1) are not receiving project-based assistance;
11 (2) are in the same market area, where practicable, as properties with project-based
12 assistance; and (3) are similar to properties with project-based assistance “as to
13 neighborhood (including risk of crime), type of location, access, street appeal, age,
14 property size, apartment mix, physical configuration, property and unit amenities,
15 utilities, and other relevant characteristics.”²
- 16 D. To prepare an RCS, an appraiser analyzes the subject property (the HUD-assisted
17 property), identifies comparable properties, and determines the rents paid at such
18 properties.³ The appraiser then makes adjustments to these rents based on differences
19 between the comparable properties and the HUD-assisted property to arrive at estimated
20 market rents for the HUD-assisted property.

21 **9-2 APPLICABILITY OF CHAPTER NINE**

- 22 This Chapter provides guidance on HUD’s standards for preparing, submitting, and reviewing an
23 RCS. More specifically:
- 24 A. It provides guidance to owners and RCS appraisers for preparing and submitting an RCS.
- 25 B. It defines the limited circumstances under which an owner may employ an alternative
26 mechanism for setting contract rent levels instead of an RCS when renewing under
27 Option One or Two (see Section 9-4).
- 28 C. It provides guidance to RCS reviewers, including HUD staff, Contract Administrators
29 (CA), and the Office of Recapitalization (Recap). Recap will apply the *Rent*
30 *Comparability Grid* (Form HUD-92273-S8) and the guidelines in Sections 9-9 through
31 9-13 to Recap’s processes for reviewing an RCS.
- 32 D. When *Section 8 Project-Based Rent Adjustments Using the Annual Adjustment Factor*
33 (*AAF*) (Notice H 02-10) is applicable, and an owner of a new construction/
34 substantial rehabilitation project is required to submit *Estimates of Market Rent by*

¹ 42 U.S.C. 1437f note

² Section 512(1) of MAHRA

³ HUD uses the term “comparable market rents” to describe these rents.

35 *Comparison (Form HUD-92273)*, the owner must use one of the following two methods
36 instead of following the instructions in this Guide, determined by the project and
37 transaction:

- 38 1. Submit the *Rent Comparability Grid, RCS Submittal Cover Letter, an Initial*
39 *Screening Checklist, a Detailed Screening Checklist, a Rent Grid Analysis*
40 *Checklist, and a Certification of Substantial*. The owner must require the RCS
41 appraiser preparing the reports to do so in accordance with the guidance in
42 Sections 9-8 through 9-13 and must follow the instructions provided in *Fiscal*
43 *Year 1997 Annual Adjustment Factor (AAF) Requirements (Notice H 97-14)* to
44 determine which units must be included in the RCS.
- 45 2. Submit the *Request to Renew Using Non-Section 8 Units in the Section 8 Project*
46 *as a Market Rent Ceiling (Form HUD-9629)*, deleting references to renewals and
47 instead referring to rent comparisons required by Notice H 97-14. In order to use
48 this method, the project must meet all the conditions in paragraph 9-6.B of this
49 Chapter for all unit types for which Notice H 97-14 requires the use of *Estimates*
50 *of Market Rent by Comparison*, substituting references to renewals with references
51 to rent comparisons when reading Section 9-6.

52 Other provisions of Notice H 97-14 (e.g., adding initial difference to the rent resulting
53 from the analysis in paragraph 1 or 2 above), still apply, and Notice H 97-14 determines
54 which units the RCS must cover. "Initial difference" means the dollar amount by which
55 the initial Section 8 contract rents exceeded the original comparable rents (or the Fair
56 Market Rents, if they were originally used instead of comparables). The owner must
57 submit evidence of the initial difference.

- 58 E. This Chapter does not apply to market rent analyses required in the processing of
59 applications for FHA insurance.

60 **9-3 ROAD MAP TO CHAPTER NINE**

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

66

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 SAFMR or Using Non-Section 8 Units)	✓		✓
9-7	Preparing an RCS	✓	✓	
9-8	Appraiser’s Qualifications	✓	✓	
9-9 – 9-13	Analyzing the Subject Project Selecting Comparable Units Collecting and Documenting Data on Comparable Units Computing Adjusted Rents for Comparable Units Deriving Estimated Market Rents		✓	
9-14	Procedure for Mandatory Market Rent Threshold	✓	✓	✓
9-15 – 9-16	HUD Reviews of RCS Initial and Substantive Review			✓
9-17 – 9-18	Communicating Results of HUD/CA Reviews Owner Appeals	✓		✓
9-19	Imposing Sanctions on Appraisers			✓
Appendix	Topic	Owner	RCS Appraiser	RCS Reviewer*
9-1	Guidance to RCS Appraisers		✓	
9-2	Guidance to Owners	✓		
9-3	Guidance to Reviewers	✓		✓
9-4	Forms Used in Preparation and Review of an RCS	✓	✓	✓

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

68

69 **9-4 ALTERNATIVES TO RENT COMPARABILITY STUDY**

70 In lieu of procuring an RCS to demonstrate that proposed Section 8 rents do not exceed
71 comparable market rents, an Owner requesting renewal under the renewal options indicated
72 below may, with prior written approval from HUD, rely on one of the following two alternative
73 methods for establishing comparable market rent levels:

74 Method One: Available only to Owners requesting renewal under Option Two, this method
75 involves comparing the proposed Section 8 rents to Small Area Fair Market Rents (SAFMRs).
76 (See Section 9-5.)

77 Method Two: Available only to Owners requesting renewal under Options One or Two, this
78 method involves comparing proposed Section 8 rents to rents charged for comparable unassisted
79 units in the same project. (See Section 9–6.)

80 Both of these alternative methods are intended to provide additional flexibility and local market
81 specificity, subject to the Owner’s discretion, to avoid the cost and processing time associated
82 with obtaining an RCS. Use is limited to a HUD determination that market indicators strongly
83 suggest that the proposed Section 8 rents do not exceed comparable market rents, and an Owner
84 must obtain HUD’s prior written approval to use an alternative method. If such approval is
85 granted, then the Section 8 rents are not automatically established at the SAFMR or unassisted
86 comparable rent level; instead, the SAFMR or unassisted comparable rent level establishes a
87 comparable market rent ceiling for the Section 8 rents.

88 **9–5 METHOD ONE: COMPARING PROPOSED SECTION 8 RENTS WITH SAFMRS**

89 A. Small Area Fair Market Rents (SAFMRs). Under this method, the SAFMR rent level
90 serves as the comparable market rent ceiling that is otherwise established by an RCS. The
91 SAFMR is an estimate of rent plus the cost of utilities for a ZIP code area, set at the 40th
92 percentile level (i.e., the dollar amount below which the rent for 40 percent of standard
93 quality rental housing units within the ZIP code area falls). HUD publishes SAFMRs
94 annually, by posting them to [https://www.huduser.gov/portal/datasets/fmr/
95 smallarea/index.html](https://www.huduser.gov/portal/datasets/fmr/smallarea/index.html). SAFMRs are published for ZIP codes in metropolitan areas only;
96 HUD does not calculate SAFMRs for ZIP codes in nonmetropolitan counties.

97 B. Eligibility. An Owner who requests to renew under Option Two may request HUD
98 approval to establish a comparable market rent ceiling using Method One if the proposed
99 Section 8 gross rent potential at renewal is less than 90 percent of the SAFMR potential
100 for the units under the HAP contract being renewed. Since the SAFMRs are inclusive of
101 utilities, the Section 8 gross rent potential must include utilities in order to make the two
102 figures comparable.

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

105 1. Request to Renew HAP Using FMRs as Market Ceiling (Form HUD–9630).

106 a. The proposed Section 8 gross rent potential used in the above comparison
107 must be the current rent potential, adjusted by the OCAF or budget;

108 b. The potential must be the gross potential (contract rent plus utilities) to
109 make the figure comparable to SAFMRs, which include utilities; and

110 c. The Section 8 gross rent potential must be less than 90 percent of the
111 SAFMR potential for the units being renewed under the request.

112 2. Cover Sheet (Form HUD–9624). The Owner must identify all HAP contracts to
113 which the project is subject, including the HAP contract for which renewal is being
114 requested.

- 115 3. Either *Budget Worksheet: Income and Expense Projections (Form HUD-92547-*
 116 *A)*, if seeking a budget-based adjustment; or Steps 1 and 2 of the *Operating Cost*
 117 *Adjustment Factor (OCAF) Worksheet (Form HUD-9625)*, if seeking an OCAF-
 118 driven adjustment.
- 119 D. HUD processing. The Account Executive (AE) will review the Owner’s request to
 120 determine whether the use of SAFMRs is appropriate and will render a decision within 20
 121 calendar days of receiving the request, documenting the decision on the *Request to Renew*
 122 *HAP Using FMRs as Market Ceiling*, as completed by the owner, and in the Integrated
 123 Real Estate Management System (iREMS). The AE may consult the Production
 124 Technical Specialist Branch Chief to assist with this determination.
- 125 1. Due Diligence. The AE who processes the request must be familiar with the
 126 project’s condition and amenities and must seek a state-certified appraiser’s input
 127 as to prevailing rent levels in the subject’s market area. In addition to verifying and
 128 validating the owner’s computations, the AE must consider the following
 129 questions:
- 130 a. Are the subject project’s units unusually small or large? Are they
 131 substantially similar to or different from units typically offered in the
 132 market area?
- 133 b. Did an RCS completed on another project in the market area within the last
 134 three years produce market rents that were significantly lower than the
 135 SAFMRs?
- 136 c. Does the project’s prior RCS show that the project’s Section 8 rents
 137 exceeded rents in the market area?
- 138 2. Approval/Denial. The AE must approve the Owner’s request to use SAFMRs in
 139 lieu of an RCS unless, based on the AE’s due diligence review and/or the input of
 140 a state-certified appraiser, the AE concludes that the proposed rents are above
 141 market.
- 142 a. If HUD denies the Owner’s request, HUD may, upon the owner’s request,
 143 issue a short-term renewal contract to allow the Owner a reasonable period
 144 of time to obtain an RCS prepared in accordance with Sections 9-9 through
 145 9-13. Chapter Two explains how to set rent levels for short-term renewal
 146 contracts.
- 147 b. An owner may not appeal HUD’s denial of their request to use SAFMRs in
 148 lieu of submitting an RCS.

149 **9-6 METHOD TWO: COMPARING PROPOSED SECTION 8 RENTS WITH RENTS**
 150 **FOR UNASSISTED UNITS IN THE PROJECT**

- 151 A. Unassisted Units. Under this method, rents paid by families residing in unassisted units in
 152 the project serve as the comparable market rent ceiling. An unassisted unit is one for

153 which a family who receives neither project-based nor tenant-based rental assistance of
154 any kind pays the full rent due to the Owner.

155 B. Eligibility. The following criteria must be met to qualify for Method Two:

- 156 1. The contract must be eligible for renewal under Option One or Option Two.
- 157 2. At least 25 percent of each unit type being renewed must be occupied by
158 unassisted tenants.
- 159 3. For each unit type in the contract, the proposed Section 8 contract rent must be no
160 greater than the average rent paid by unassisted tenants who reside in the same
161 type of unit. Such tenants must have been paying (without assistance and for 3 or
162 more months) at least the rent levels used in computing the average. These tenants
163 must have no business or family relationship with the project's ownership or
164 management. If units are occupied pursuant to a lease providing for rent
165 concessions, the rents used to calculate the average must take all such concessions
166 into account.
- 167 4. The Section 8 units and the units occupied by unassisted tenants must be nearly
168 identical (i.e., no adjustments would be required if the units occupied by unassisted
169 tenants were used as comparables in an RCS). "Nearly identical" means the two
170 sets of units must have the same number of bedrooms and baths; be similar in
171 condition, layout, and size; and have the same amenities and utilities included in
172 the rent.
- 173 5. Occupancy rates in the units available for occupancy by unassisted tenants must
174 not be significantly lower than occupancy rates for the same unit types in the
175 overall market area. A lower occupancy rate could imply that rents for such units
176 are above market. For example, if occupancy rates in the overall market area
177 exceed 90 percent, while the subject's units available for occupancy by
178 unassisted tenants are 20 percent vacant, then the occupancy rate for such units is
179 considered to be significantly lower than that of the overall market area.

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

- 182 1. *Request to Renew Using Non-Section 8 Units in the Section 8 Project as a Market*
183 *Rent Ceiling.*
- 184 2. *Rent Table.* A rent table comparing current and proposed Section 8 rents with the
185 rents paid by unassisted tenants.
- 186 3. *Cover Sheet.* In addition to indicating which contract is being renewed, the owner
187 must identify all contracts at the project.

188 4. Either *Budget Worksheet: Income and Expense Projections*, if seeking a budget-
189 based adjustment; or Steps 1 and 2 of the *OCAF Worksheet*, if seeking an OCAF-
190 driven adjustment.

191 D. HUD processing. The AE will review the *Request to Renew Using Non-Section 8 Units in*
192 *the Section 8 Project as a Market Rent Ceiling*, as completed by the Owner, to determine
193 whether the use of rents paid by unassisted tenants is appropriate and will render a
194 decision within 20 calendar days of receiving the request, documenting the decision on
195 the form and in iREMS.

196 1. Due Diligence. The AE who processes the request must be familiar with the
197 project's condition and amenities and must seek a state-certified appraiser's input
198 as to prevailing rent levels in the subject's market area. In addition to verifying that
199 the project meets the eligibility conditions, the AE must:

200 a. Use iREMS/Tenant Rental Assistance Certification System (TRACS) to
201 check the data reported in the rent table attached to the owner's request.

202 b. Use the owner's rent table to assess compliance with the occupancy
203 criterion noted above.

204 2. Approval/Denial. The AE must deny the request if the AE concludes that the rents
205 paid by unassisted tenants in the project are significantly higher than rents in the
206 surrounding area or that the eligibility conditions listed above are not met.

207 a. If HUD denies the Owner's request, HUD may, upon the owner's request,
208 issue a short-term renewal contract to allow the Owner a reasonable period
209 of time to obtain an RCS prepared in accordance with Sections 9-9 through
210 9-13 of this Chapter. Chapter Two explains how to set rent levels for short-
211 term renewal contracts.

212 b. An Owner may not appeal HUD's denial of their request to use rents paid
213 by unassisted tenants in lieu of submitting an RCS.

214 9-7 PREPARING A RENT COMPARABILITY STUDY

215 An Owner who is required or decides to procure an RCS must ensure that the RCS:

216 A. Is prepared by, or under, the direction of an RCS appraiser who meets the requirements
217 set forth in paragraph 9-8.A.

218 B. Covers at least all unit types that have Section 8 assistance in the contracts being
219 renewed. The Owner may also include other Section 8 unit types in other contracts the
220 Owner plans to renew within the next 5 years.

221 C. Estimates comparable market rents for each Section 8 unit type by adjusting the rents of
222 comparable units to reflect the location, condition, appeal, amenities, and utilities of the

223 Section 8 units. Note: The RCS appraiser must estimate market rent without considering
224 the market's ability to absorb all Section 8 units.

225 D. Is concise but contains enough information that a person unfamiliar with the subject
226 property and market area can understand how the RCS appraiser arrived at the
227 adjustments and opinion of the subject property's market rent. HUD provides a *Sample*
228 *RCS* in Appendix 9-2-2.

229 E. Is submitted to HUD/the CA no later than 120 days before the end of the 5-year life cycle
230 of the RCS or contract renewal in cases where the contract is being terminated early and
231 renewed.

232 1. Not more than 90 calendar days must have elapsed between the date of the RCS
233 and the date the Owner submits the RCS to HUD/the CA.

234 2. Early submissions are allowed, but owners must not submit more than 180 days
235 before the end of the prior RCS's five-year life cycle or early contract termination.

236 3. For transactions involving an early termination and renewal, if more than 180 days
237 will have elapsed between the date of submission and the termination date, the
238 Owner must, not more than 180 days prior to the termination date, submit a letter
239 from an appraiser updating the RCS and confirming that current rents are no lower
240 than in the original study. If more than 24 months will have elapsed between the
241 original submission and the termination date, then the Owner must submit a fully
242 updated study.

243 F. Includes a cover letter from the Owner and all materials listed in Appendix 9-2-1
244 (*Template for Owner's Cover Letter & Owner's Checklist*). To expedite HUD review, the
245 Owner and RCS appraiser must ensure that all materials are submitted in electronic
246 format in the same order as shown in the *Owner's Checklist*.

247 G. Complies with Standard 1 and Standard 2 of Uniform Standards of Professional
248 Appraisal Practice (USPAP), which establish requirements for the development and
249 reporting of a real property appraisal.

250 **9-8 APPRAISER QUALIFICATIONS**

251 This section provides guidance to Owners and RCS appraisers regarding the required
252 qualifications for an RCS appraiser. It also contains general instructions for preparing an RCS
253 and identifies requirements that need to be followed.

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

255 1. Be a Certified General Appraiser, licensed and in good standing in the state in
256 which the project is located. The license may be temporary or permanent. (An
257 Owner can obtain a list of RCS appraisers meeting this standard at www.asc.gov
258 or from each state's appraiser regulatory agency.)

- 259 2. Be currently active and regularly engaged in performing Rent Comparability
260 Studies or appraisals of multifamily housing and demonstrate continuing education
261 relating to multifamily housing, market studies, or advanced market analysis
262 and/or separating non-real property features within a property.
- 263 3. Meet all the requirements of the current competency provision in USPAP and have
264 read this Chapter and Appendices. (Additional or updated information on USPAP
265 can be obtained at www.appraisalfoundation.org.)
- 266 4. Have no prospective or present financial interest in the subject Section 8 project,
267 its ownership or management agent entity, or the principals of those entities.
- 268 5. Not be an employee of the Owner, the management agent, or the principals of
269 those entities or have a business or close personal/family relationship with those
270 parties that would commonly be perceived to create bias or a conflict of interest.
- 271 6. Not be debarred or suspended from doing business with the Federal Government
272 and not be under a Limited Denial of Participation (LDP) imposed by the Regional
273 Center or Satellite Office having jurisdiction over the subject Section 8 project.
- 274 7. Be in compliance with all applicable civil rights laws and statutes.
- 275 B. In preparing the RCS, the RCS appraiser must:
- 276 1. Sign and take full responsibility for the report. Appraisal assistants may contribute
277 to any of the tasks if:
- 278 a. They are employed by the same firm as the RCS appraiser; and
- 279 b. The report identifies the tasks(s) the assistant RCS appraiser performed.
280 There is no specific restriction on the tasks an assistant may perform with
281 respect to the subject property or comparables.
- 282 2. Ensure compliance with this Chapter and its appendices, and with USPAP.
- 283 a. If this Chapter's requirements go beyond USPAP, the RCS appraiser must
284 consider the Chapter's requirements to be supplemental standards and must
285 comply with them.
- 286 b. The RCS appraiser must comply with the Fair Housing Act and must not
287 use or rely on unsupported conclusions related to the comparable or
288 subject properties or their surrounding areas or upon any factors
289 prohibited by the Fair Housing Act. RCS appraisers' opinions,
290 conclusions, and reports must be impartial and objective and must not
291 illegally discriminate or contribute to illegal discrimination through
292 subjective or stereotypical assumptions. The Fair Housing Act explicitly
293 prohibits a person engaging in the business of furnishing real estate

294 appraisals to take race, color, religion, national origin, sex, disability, or
295 familial status into consideration.

296 3. Collect, update, or verify all data within 90 calendar days before the date of the
297 RCS appraiser’s letter transmitting the RCS to the Owner (or to HUD, when HUD
298 purchases the study pursuant to Section 9–14). If more than 90 days will have
299 passed between the date of data collection and transmittal of the RCS, the
300 appraiser may verify or update that data to meet this requirement.

301 4. Provide a descriptive analysis following the guidance provided in Sections 9–9
302 through 9–14 and the detailed instructions under Appendix 9–1. The RCS
303 appraiser must download the electronic versions of Word or Excel files for any
304 tables/grids in the RCS, as provided under Appendix 9–1.

305 **9–9 ANALYZING THE SUBJECT PROJECT**

306 This section provides guidance to RCS appraisers for inspecting and analyzing the subject
307 Section 8 project and its surrounding neighborhood.

308 A. Unit Breakdown. The RCS appraiser must identify the unit breakdown at the subject
309 project as primary versus secondary, as defined in paragraph 9–9.A.2, below. The RCS
310 appraiser must estimate a market rent for each Section 8 unit type, but a *Rent*
311 *Comparability Grid* is required only for each primary unit type. For secondary unit types,
312 the RCS appraiser need not complete an entire *Rent Comparability Grid*. Instead, the
313 RCS appraiser may start with the market rent for a primary unit type and adjust for the
314 minor difference(s). The RCS appraiser must review paragraph 9–13.C regarding
315 estimating market rents for primary and secondary unit types. To identify primary and
316 secondary unit types, the RCS appraiser must:

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

321 2. Label each unit type as a primary or secondary type using the guidance below. It is
322 possible to have multiple primary unit types.

323 a. The RCS appraiser must consider the number of bedrooms and baths, the
324 unit size, the structure (e.g., townhouse, elevator, walk-up), and any other
325 factors the market would consider to be significant differences. units will
326 be categorized as “primary” or “secondary” based on having similar unit
327 size, the same number of bedrooms and bathrooms (including additional
328 toilet or shower/bath fixtures), and the same unit configuration (e.g.,
329 stacked versus townhome, or walk-up versus elevator-served).

330 Example: Project has 100 3-bedroom, 2-bath, 1,000–square foot units and
331 30 3-bedroom, 1.5-bath, 900–square foot units. The owner charges
332 different rents for these two unit types. The RCS appraiser will label the

333 most common unit type (the 2 bath, 1,000–square foot unit) as primary and
334 the other as secondary.

335 b. If the units being renewed are located on scattered sites, the RCS appraiser
336 must determine if separate unit types will be designated for the different
337 sites. The RCS appraiser must visit each site and assess the extent of any
338 differences in neighborhood, condition, street appeal, services, or market
339 area. If units are located in different market areas or other differences
340 suggest that separate comparables are appropriate, the RCS appraiser must
341 create separate unit types for each site if the sites vary significantly and
342 must use professional judgment in categorizing the unit types at each site
343 as primary or secondary.

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

347 1. Inspect at least one unit of each primary unit type, the project grounds, and the
348 interior and exterior common areas (e.g., lobby, laundry rooms, community or
349 dining rooms, recreation rooms, parking areas, outdoor play areas). If the units
350 being renewed are located on scattered sites, the RCS appraiser must visit each site.

351 2. Determine or verify the size of each unit type. Estimate the rentable interior square
352 footage of the unit, excluding the square footage of balconies, mechanical areas, or
353 other non-living spaces.

354 3. Take color photos of the items listed below and additional close-up photos as
355 needed to show the project’s condition.

356 a. Subject’s exterior, showing location on the site, exterior design, site layout,
357 and site amenities;

358 b. Interior of typical units; and

359 c. Interior common areas.

360 4. Determine and document the project’s design, age, and type of structure (e.g.,
361 walk-up, townhomes, low-rise, etc.). Assess the project’s physical condition and
362 overall appeal. Determine the extent of any major renovations.

363 C. Project Amenities and Services. The RCS appraiser must identify all amenities and non-
364 shelter services offered at the subject project and whether they are reliably available to
365 tenants or incidental. The RCS appraiser must:

366 1. Identify all unit and site amenities and the type of utilities. The RCS appraiser
367 must consider all characteristics listed on the *Rent Comparability Grid* and any
368 other characteristics that would affect the rent a tenant would be willing to pay.

369 2. Assign a value to the services and amenities available at the property. If a service
370 is available to renters at other properties in the market area, then that service has
371 demonstrated that it may carry market value at the subject property and should be
372 considered in the valuation. The value of a service or amenity may be affected by
373 the availability in the community of similar services or amenities. For example, if a
374 project offers a small collection of books as a library, but it is located in close
375 proximity to a municipal library that contains a much larger selection, then the
376 value of that amenity may be diminished.

377 If a service is not available at comparable properties or otherwise observed in the
378 local market, HUD may nonetheless allow an adjustment to RCS rents to reflect
379 the market value of such a service to tenants of the subject property. HUD may
380 limit such adjustments to those services that are appropriate to support vulnerable
381 populations in an independent setting and those services which are not already
382 receiving funding support from HUD or another source.

383 3. One factor in the appropriate valuation of a service whether that service is
384 regularly and reliably available to tenants. For example, an appraiser may
385 determine a service to be reliably available to tenants if there is a demonstrated
386 record of consistently providing the service to tenants at no cost or if there is an
387 agreement between the owner and a service provider. Conversely, a service is
388 considered incidental and not reliably available to tenants if there is no history or
389 providing such service, no designated provider, no service plan, and no agreement
390 between the owner and the provider. The appraiser should make the determination
391 of whether a service is reliably available after evaluating evidence supplied by the
392 owner and agent.

393 a. Reliable services. A service is considered to be more reliable if an Owner
394 has an agreement with a credible service provider that specifies the services
395 offered, the hours or frequency of services, and provides continuity
396 throughout the five-year term of the RCS. An Owner with a credible
397 services plan and a provider with a successful record of providing the
398 service and who commits to take all reasonable steps to maintain services
399 reflected in the RCS will be considered to have more reliable services.
400 Owners are expected to inform HUD immediately of any expected
401 interruption of such services.

402 b. Incidental services. A service is incidental if tenants are required to pay to
403 use the service (fee-for-service) if the service is provided on a sporadic
404 basis, or if the service is provided at will by the Owner or a third party,
405 including a third party that has no service agreement with the property.
406 Incidental services are those that may be terminated or altered at any time
407 with no recourse, thus reducing their market value to potential tenants.
408 Incidental services may still warrant a valuation or adjustment of a
409 comparable if there is market evidence that the availability of that service
410 has value to tenants in that market. Only the value of the convenience or
411 availability of an incidental service may be included in an RCS analysis.

- 412 c. Specialized services. The RCS appraiser may consider the value of a non-
413 shelter service provided to the tenants at the specific project within the
414 context of the specific occupancy of that project; in that case — perhaps
415 involving a service that is so specialized that it is not found elsewhere in
416 the subject market — the RCS appraiser may cite market evidence from
417 other multifamily markets. (Appendix 9–1–2, page 11, lines 29–31.)
- 418 4. Consider the tenant profile at the subject project. When preparing an RCS for a
419 project designed for the elderly/disabled, the RCS appraiser’s valuation of the
420 available amenities and non-shelter services must consider the project’s
421 occupancy. For example, irrespective of the proximity to the project of a municipal
422 library, the value of having a small collection of books at the project may be
423 greater if the project’s occupants are unable to access the library due to their status
424 as elderly or disabled families.
- 425 D. Scope of Planned Repairs. If the owner anticipates an increase in rents based on repairs to
426 be commenced within 12 months of HAP contract renewal (such as in the case of a
427 Chapter 15 HAP renewal), then the RCS appraiser must review the complete list of
428 planned repairs, evaluating each item on the list for its effect on marketability and appeal
429 to prospective tenants.
- 430 1. Typically, the replacement of components that are worn or at the end of their
431 useful lives will not affect marketability. On the other hand, the installation of
432 equipment or systems that represent upgrades may increase the appeal of the
433 property. Examples of upgrades include installing air conditioning or adding
434 dishwashers. Examples of upgrades that do not directly affect living units but may
435 improve marketability include improvements to on-site parking facilities (e.g.,
436 providing covered parking at a property formerly offering only open parking or
437 adding additional parking spaces) or adding a non-shelter service such as an on-
438 site childcare facility.
- 439 2. The RCS appraiser must take care to distinguish between outlays that increase
440 marketability and those that do not. For example, an owner’s plan to install a berm
441 on the site to improve drainage would be unlikely to affect marketability.
- 442 3. If in the RCS appraiser’s judgment, any of the items within the owner’s scope of
443 planned repairs will affect marketability, then the RCS appraiser must prepare two
444 versions of the *Rent Comparability Grid*. One version will show pre-repair (“as-
445 is”) estimated market rents and the other will show post-repair (“as-repaired”)
446 estimated market rents. It is possible that “dual” *Rent Comparability Grids* will not
447 be required for every type of living unit. For example, if kitchen renovations will
448 be completed only for the 2-bedroom units, then “dual” *Rent Comparability Grids*
449 will be required only for the 2-bedroom plan.
- 450 4. If the RCS appraiser determines that none of the items on the owner’s list of
451 planned repairs to the subject property will affect market rent, then the RCS must
452 contain an affirmative statement to that effect.

453 E. Neighborhood Characteristics. The RCS appraiser must assess and describe the project’s
454 location and surrounding neighborhood and must:

455 1. Evaluate and note factors that would affect market rent levels, such as access to
456 schools, employment and medical centers, transportation, shopping, recreation,
457 and community services. The RCS appraiser must identify nuisances (e.g., street
458 noise), crime rates, and other factors that affect the perceived quality of the
459 neighborhood.

460 2. Identify the project’s market area. This is the geographic area from which the
461 subject project will likely draw most of its applicants, taking into account street or
462 other boundaries and considering mobility patterns and natural or man-made
463 barriers (rivers, freeways, rails, etc.).

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

467 3. Consider the unique aspects of scattered-site projects. If the units under the HAP
468 contract being renewed are located on scattered sites, the RCS appraiser must
469 assess whether the sites vary significantly with respect to condition, street appeal,
470 services, neighborhoods, or other factors.

471 **9–10 SELECTING COMPARABLE UNITS**

472 This section provides guidance on the items an RCS appraiser must take into account to ensure
473 that units and properties selected as comparables accurately represent the rental market for the
474 subject project:

475 A. Six Point Criteria. For each primary unit type identified pursuant to paragraph 9–9.A.2
476 above, the RCS appraiser must exert a good-faith effort to identify comparable units from
477 5 properties that meet all 6 of the criteria listed below and compete with the subject for
478 tenants. Specifically, the comparable properties must:

479 1. Be in the same market area as the subject project, considering rent levels, housing
480 prices, demographics, job opportunities, and other relevant economic indicators.

481 2. Be occupied by tenants without tenant-based assistance, residing in unassisted
482 units as defined in paragraph 9–6.A.

483 3. Have locations and neighborhood conditions (including crime rates and
484 accessibility to services, employment, transportation, etc.) that are similar to those
485 of the subject project.

486 4. Be similar to the subject project in terms of project structure and layout, design,
487 street appeal, age, unit size and mix, project amenities, and utilities.

488 5. Have amenities and provide non-shelter services similar to those available at the
489 subject project and do not have significant amenities or non-shelter services
490 beyond those available at the property.

491 6. Not be rent-restricted or rent-controlled by a federal, state, local, or other public
492 program. This category includes Low Income Housing Tax Credit (LIHTC),
493 HOME, HOPE VI, state/local rent controlled and rent stabilization units, and all
494 unassisted units in 236, BMIR, 202/811, and Section 515 Rural Development
495 projects.

496 If the RCS appraiser cannot find 5 properties that meet these 6 criteria, then the RCS
497 appraiser may use the methods discussed in paragraph B, below.

498 B. Insufficient Comparables Meeting the Criteria. HUD recognizes that finding 5
499 comparables meeting all 6 criteria in paragraph 9–10.A above will be difficult in some
500 markets. When the RCS appraiser makes a good-faith effort to identify 5 comparables
501 that meet all 6 criteria in paragraph 9–10.A but fails to do so, the RCS appraiser may
502 adopt one or more of the following strategies. The RCS appraiser must use professional
503 judgment to decide the pairing and ordering of the alternate strategies listed below,
504 except that using rent-restricted units must be done only as a last resort.

505 1. Units with No Restrictions. If a project contains rent-restricted units or units with
506 tenant subsidies but also has other units with no restrictions or subsidies, then the
507 RCS appraiser may use as a comparable a unit that is both unrestricted and
508 unassisted. Such mixes will often exist in LIHTC, tax-exempt, state-financed,
509 HOPE VI, or Section 221(d)(3)/(d)(4) FHA-insured projects.

510 2. Identity-of-Interest Properties. The RCS appraiser may select a comparable that
511 has the same ownership/management as the subject project, or is owned or
512 managed by a company/individual having an identity-of-interest (as defined in
513 Chapter 2, paragraph 3 of Handbook 4381.5) with the Owner or Management
514 Agent of the subject project. In such a situation, the RCS appraiser must disclose
515 the nature of the “identity-of-interest” under the section titled “Selection of
516 Comparables” in the RCS report. The RCS appraiser must also take special care to
517 verify the rent at which a unit in the comparable property is leased, preferably
518 through an unrelated party. For example, the RCS appraiser might ask on-site
519 management to provide a copy of a redacted, recently executed lease.

520 3. Comparables from Outside the Market Area. If necessary to identify a comparable
521 in a market area that is similar to the market area in which the subject project is
522 located, the RCS appraiser may select a comparable that is in an alternate market
523 area. If equally good comparables are available in more than one alternate market
524 area, then the RCS appraiser must consider using the alternate market area that is
525 nearest the subject project. For Section 8 projects in rural areas, HUD recognizes
526 that it will often be necessary to go to distant, alternate market areas that are
527 sometimes of a different character.

- 528 4. Dissimilar Comparables. If similar comparables are unavailable in the subject's
529 neighborhood, the RCS appraiser may use comparables that differ from the
530 subject in terms of vintage, construction type, layout, design, and/or services and
531 amenities, but are in the same market. Alternatively, the RCS appraiser may use
532 similar comparables from outside the subject's market area when comparables in
533 the same category are not available in the subject's neighborhood. The RCS
534 appraiser must provide market support for the comparable selection process.
- 535 5. Fewer Than Five Comparables. If the above strategies do not produce 5
536 comparables for each unit type, then the RCS appraiser may use fewer than 5
537 comparables, provided no unit type has fewer than 3 comparables. Before
538 proceeding with fewer than 5 comparables, the RCS appraiser may ask the
539 Regional Center if it is aware of any comparables not identified by the RCS
540 appraiser. As described in 9–10.C.2, below, the RCS appraiser must discuss why
541 fewer than 5 comparables were used.
- 542 6. Rent-Restricted Units. If the RCS appraiser cannot find comparables other than
543 rent-restricted units that meet conditions 1 through 5 under paragraph 9–10.A,
544 above, then the RCS appraiser may use the rent-restricted units. Adjustments that
545 would need to be made in the *Rent Comparability Grid* for such comparables are
546 inherently subjective. Rent-restricted units may be used as comparables only when
547 they reasonably represent the market. The following guidelines apply:
- 548 a. If the RCS appraiser cannot find 5 unrestricted, similar units in the same
549 market area as the subject project, the RCS appraiser may supplement the
550 rental analysis with rent-restricted units that are available in a nearby,
551 similar market area and meet the requirements of conditions 2 through 5
552 under paragraph 9–10.A.
- 553 b. The RCS appraiser must clearly disclose the use of rent-restricted
554 comparables and the nature of the rent restriction in the part of the RCS
555 where the appraiser provides a narrative description of the selection of
556 comparables and on the *Rent Comparability Grid*. (Note: The RCS
557 appraiser must not adjust rents simply to account for the fact that the
558 comparable unit is rent restricted.)
- 559 c. While rent-restricted units may in some cases reflect market rent (e.g.,
560 when LIHTC units make up a large percent of the multifamily units in a
561 neighborhood or nearly all units are rent-controlled), rent-restricted units
562 can also be below market rent. Therefore, the RCS appraiser may want to
563 discuss the use of rent-restricted units with the owner and HUD appraisal
564 staff before finalizing the selection of comparables. RCS appraisers hired
565 by HUD/CAs to prepare studies pursuant to Section 9–14 must be
566 especially careful to avoid selecting rent-restricted units that would
567 artificially depress the RCS's rent conclusions.

568 d. An appraiser may select units in market areas with rent control if they were
569 rented recently (within 3 years of the date of the study) and are therefore
570 representative of market rents.

571 7. Special Project Types. Appendix 9–6 provides guidance on using comparables
572 drawn from project categories that would not typically be suitable for use as
573 comparables for multifamily rental housing. Project types discussed include
574 cooperative housing, certain elderly/disabled project types, student housing, and
575 congregate-care projects. Newly renovated/recently constructed housing is also
576 cited in Appendix 9–6, because properties from that category are suitable
577 comparables for the subject project only after the impact of any proposed
578 rehabilitation to the subject project is considered.

579 C. Comparables Search Procedure. The RCS appraiser must include a narrative in the RCS
580 to describe the process used to identify the set of comparable properties for the subject
581 project.

582 1. Document the Search Process. The RCS appraiser must note the means used for
583 comparables selection, whether driving the market area, interviewing the AEs and
584 Owner, consulting subscription databases, or a combination of these approaches.

585 2. Selected Comparables. For each selected comparable, considered separately, the
586 RCS appraiser must describe the specific characteristics that the respective
587 comparable shares with the subject project (e.g., same market area, similar design
588 and layout) that justify the inclusion of the project in the RCS. The narrative must
589 provide an overall assessment of the availability of comparables, describe the
590 quality of the comparables selected, and state why they were selected.

591 3. Excluded Comparables. For potential comparables that were excluded, the RCS
592 appraiser must document the reasons for such exclusion. If the unassisted units in
593 the subject project have the same number of bedrooms and were not used as
594 comparables, the RCS appraiser must explain why. If there are unassisted
595 properties near the subject project that share the subject project’s basic
596 characteristics (e.g., number of bedrooms) but were not used as comparables, the
597 RCS appraiser must explain why.

598 Example: The nearest 1-bedroom units to the subject are clustered just 1 mile
599 away, along Oceanview Boulevard. However, these are mostly large, luxury units,
600 with many amenities and ocean views. Rather than make numerous large
601 adjustments to most of the property comparison features at those buildings, the
602 RCS appraiser instead selected comparables more similar to the subject and
603 located further away, but still within the geographic radius shopped by renters
604 considering living in the subject neighborhood.

605 4. Insufficient Comparables. If fewer than 5 comparables were provided for any
606 primary unit type, the RCS appraiser must explain why. If the RCS appraiser
607 chooses to use comparables that are significantly different from the subject, the

608 RCS appraiser must describe the research that was performed to determine that
609 more similar comparables were not available. When comparables are outside the
610 subject's market area, the RCS appraiser must discuss in the RCS what research
611 was done that indicated that better comparables were not available in the subject's
612 market area. In such instances, the RCS appraiser must also compare economic
613 indicators in the alternate market area with those in the subject's market area.
614 When using rent-restricted units, the RCS appraiser must discuss in the RCS what
615 research was done that indicated that no other similar, non-rent restricted units
616 were available for use as comparables. The RCS appraiser must also explain the
617 type of restriction (e.g., LIHTC, local rent control, etc.) when using rent-restricted
618 units as comparables.

619 5. Variety of Comparables. In identifying the 3 to 5 comparables, the RCS appraiser
620 must try to select some comparables that are superior and some that are inferior to
621 the subject project so that the subject is within the range of indicators.

622 **9-11 COLLECTING AND DOCUMENTING DATA ON COMPARABLE UNITS**

623 This section provides guidance on collecting and reporting data on comparables.

624 A. Collecting Data on Comparables. For each relevant unit type at the comparable project,
625 the RCS appraiser must collect data on the elements listed in Parts A through E of the
626 *Rent Comparability Grid (Form HUD-92273-S8)* and on any other characteristics that
627 would affect the rent a tenant would pay. The RCS appraiser must also identify any
628 services that are provided to tenants, and whether they are reliably available or incidental
629 (using the criteria in paragraph 9-2.C). If the comparable is located outside of the
630 subject's market area, the RCS appraiser must provide the market data requested in
631 Paragraph 2b, below. The RCS appraiser must verify and collect relevant data on
632 comparables using the guidance below.

633 1. Verification of Data. The RCS appraiser must exercise due diligence to
634 independently verify any information on a comparable pulled from existing files,
635 Internet research, newspaper ads or apartment guides. The RCS appraiser may use
636 multiple sources if needed to adequately verify a comparable's data.

637 2. Data on a Comparable's Characteristics. The RCS appraiser must:

638 a. View each comparable's grounds and exterior common areas. If
639 access is given, the RCS appraiser should also view interior
640 common areas (e.g., lobby, laundry rooms, community or dining
641 rooms, recreation/ fitness areas, business centers). The RCS
642 appraiser must take color photos of each comparable's exterior,
643 showing location on the site and exterior design and condition.

644 b. Collect market-based data to compare economic indicators and rent
645 levels in the two markets if the comparable project is in a different
646 market area than the subject.

647 c. Obtain the unit’s rentable interior square footage, either through
648 inspection or through other sources. The RCS appraiser must exclude
649 balconies, mechanical areas, and other non-living spaces. If the square
650 footage available represents an exterior measurement, the RCS appraiser
651 must use professional judgment to convert the square footage to an
652 interior measurement that can be compared with the interior
653 measurements Section 9–9 requires on the subject. Square footage
654 calculations should be verified with the project’s management agent,
655 when possible.

656 Note: The RCS appraiser is not required to inspect a comparable’s unit
657 interiors but should do so if a unit is available and access is given.

658 d. Talk with management of the comparable property to determine overall
659 occupancy rates for that project, typical and current occupancy levels
660 specific to the unit types used as a comparable, and whether any unit type
661 is particularly difficult to rent. If the comparable’s occupancy rate for a unit
662 type included in the RCS is not typical of the comparable’s market, the
663 RCS appraiser must determine and document why. The RCS appraiser
664 must consider if the rent is too high or if there are other factors causing the
665 vacancy. Also, the RCS appraiser must confirm and quantify the
666 existence/absence of any rent or use restrictions and tenant subsidies.

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

672 3. Data on Comparable’s Amenities. The RCS appraiser must identify services and
673 amenities available at each comparable.

674 a. Non-Shelter Services. RCS appraisers must determine if the project
675 provides non-shelter services (e.g., service coordination, neighborhood
676 networks, the elderly services noted below), and, if so, the RCS appraisers
677 must identify which services are reliably available to tenants and which are
678 incidental. If the comparable is incidental (i.e., the property offers the
679 service for a fee, the service may be terminated at any time or the service is
680 only provided on a sporadic basis), the RCS appraiser needs to value the
681 availability of the service only. The value of availability is defined as the
682 market value of the convenience of a non-shelter service if it were to be
683 offered in the immediately surrounding community. For instance, if a
684 property offers a gym facility to tenants but it is not included in the lease or
685 other document, the appraiser should consider how much value would be
686 added if a nearby community center gym offers the exact same equipment.
687 If the owner offers a gym but charges a membership fee, the appraiser
688 should consider how much value would be added if the property were in

689 close proximity to a gym charging the same price and offering the same
690 services. However, if the service is reliably available to tenants at no
691 additional cost, then the RCS appraiser must consider the full additional
692 rent differential that tenants at comparable properties are paying for access
693 to similar facilities without an additional usage fee.

694 Regardless of whether a service is reliably available or incidental, the value
695 of such services should be determined by the attractiveness of the services
696 to tenants like those to whom the subject property is being marketed. If a
697 service is not relevant to tenants like those at the subject property, its value
698 should be diminished.

699 b. Elderly/Disabled. At projects for the elderly and/or disabled, RCS
700 appraisers must determine if the project provides emergency call systems,
701 transportation, social or education activities, service coordination, meals,
702 laundry, housekeeping, or other services.

703 B. Reporting Comparable Data.

704 1. Comparable Project Profile. For each comparable used, the RCS appraiser must
705 report the data collected in the Comparable Project Profile as required under Item
706 K of Appendix 9–1–3 (Required Contents for an RCS). The Appendix 9–1–4
707 (Comparable Project Profile) provides a suggested format for reporting the data
708 collected, but RCS appraisers may use their own formats if those formats include
709 all the information listed in Item K of Appendix 9–1–3.

710 2. Rent Comparability Grid. For each primary unit type, the RCS appraiser must
711 report the data collected by completing the data columns of the *Rent*
712 *Comparability Grid (Form HUD–92273–S8)*. The RCS appraiser must complete
713 all lines of the *Rent Comparability Grid*'s data columns (i.e., even lines/items for
714 which the RCS appraiser will make no adjustment). All comparables for one
715 subject unit type must be shown on one *Rent Comparability Grid*. RCS appraisers
716 must review Appendix 9–1–2 for guidance on completing the *Rent Comparability*
717 *Grid*.

718 3. Disclosure. In the Scope of Work Section of the RCS report, the RCS appraiser
719 must identify any data on comparables that was unobtainable or estimated and
720 must describe all efforts to obtain that data. RCS appraisers must review Appendix
721 9–1–3, item 2, for more detail on what the Scope of Work write-up must cover.

722 **9–12 COMPUTING ADJUSTED RENTS FOR COMPARABLE UNITS**

723 This section provides guidance to RCS appraisers for deriving an adjusted rent for each
724 comparable. RCS appraisers must review the instructions provided in this section and the line-
725 by-line instructions provided in Appendix 9–1–2, before preparing the *Rent Comparability Grid*
726 (Form HUD–92273–S8).

- 727 A. Analyze for differences between subject and comparable. To compute the adjusted rent,
728 the RCS appraiser must:
- 729 1. Compute an effective rent by adjusting the most recently charged rent for factors
730 (e.g., rent concessions) listed in Part A of the *Rent Comparability Grid*.
- 731 2. Determine which differences between the subject and the comparable unit would
732 affect the amount of rent a typical applicant would be willing to pay in the
733 subject's market area.
- 734 3. For each difference tenants would value, adjust the comparable's rent by the
735 amount tenants in the subject's market area would typically pay for that difference.
736 Adjustments must be displayed in dollar amounts.
- 737 B. Adjust the comparable to the subject. Determine what rent the comparable would obtain
738 if the comparable were nearly identical to the subject. For example, if the comparable is:
- 739 1. Inferior to the subject on a characteristic, the RCS appraiser must adjust the
740 comparable upward. The RCS appraiser must enter the adjustment as a positive
741 value to indicate that residents of the comparable would pay more if the
742 comparable had the subject's characteristic. For example, if the comparable unit
743 size is 100 square feet smaller than the subject units, and the RCS appraiser
744 estimates the value of incremental square feet to be \$0.50 per square foot, \$50
745 would be entered on Line 13 of the *Rent Comparability Grid (Form HUD-92273-*
746 *S8)*.
- 747 2. Superior to the subject on a characteristic, the RCS appraiser must adjust the
748 comparable downward. The RCS appraiser must enter the adjustment as a negative
749 value to indicate that residents of the comparable would pay less if the comparable
750 had the subject's characteristic. For example, if the comparable units include patios
751 or balconies and the subject does not, and the RCS appraiser's research shows that
752 at a third project in this market that offers units both with and without balconies,
753 units with balconies rent for \$15 more, -\$15 would be entered on Line 14 of the
754 *Rent Comparability Grid (Form HUD-92273-S8)*.
- 755 C. Provide narrative explanations. RCS appraisers must provide a concise but professionally
756 complete explanation as to why each adjustment was made and how the dollar value was
757 derived. The explanations must be clear and convincing to a person not familiar with the
758 properties and market areas involved.
- 759 1. Every line item adjustment on the *Rent Comparability Grid* requires two separate
760 and distinct explanations in the narrative.
- 761 a. First, RCS appraisers must explain why the adjustment was made.
762 Specifically, RCS appraisers are required to state the reasons that justify an
763 adjustment and explain whether the adjustment would be on a total dollar
764 amount basis (generally used for qualitative adjustment characteristics such

765 as “neighborhood” or “location”) or on a dollar amount per the comparison
766 unit (generally used for adjusting unit size differences).

767 Example: “Comparables A and B were each adjusted upward by \$20 for
768 not offering units with either a patio or balcony.”

769 b. Second, RCS appraisers must explain how the dollar value was derived.
770 Specifically, RCS appraisers are required to explain the rationale for their
771 adjustments. This could be supported through paired comparable analysis,
772 interviews with management agents and leasing agents, or prior experience
773 in the subject market. This second component (“how”) of the narrative is
774 required for all adjustments where the amount of adjustment exceeds a
775 nominal amount (a dollar amount or percent of unadjusted rent of the
776 comparable, as defined in Appendix 9–1–2).

777 Example: “The subject and comparables C, D, and E offer either a balcony
778 or a patio, while comparables A and B do not offer that feature in any of
779 their units. The RCS appraiser recently appraised a project in this market
780 that offered units both with and without balconies. Units with balconies
781 commanded an average additional rent of approximately \$20, which
782 provides the basis for the upward adjustment to comparables A and B”.

783 2. RCS appraisers shall not just reiterate the entries in the data column. It would be
784 unacceptable for an RCS appraiser to state: “A negative adjustment was made to
785 comparable A for location.” Instead, the RCS appraiser must outline the data and
786 logic used to arrive at the adjustment amount.

787 Example: “Comparable A was adjusted downward to reflect its location in a more
788 desirable neighborhood that consists primarily of single-family homes, has little
789 crime, and has good access to shopping. The adjustment was estimated by
790 comparing the rents at comparable A with those of comparable D, which is in the
791 subject’s neighborhood but otherwise very similar to comparable A. The average
792 value of the superior location was estimated to be \$25.”

793 3. For all adjustments exceeding a nominal amount (a dollar amount or percent of
794 unadjusted rent of the comparable, as defined in Appendix 9–1–2), the RCS
795 appraiser must present market data to support each conclusion. Section 9–12.C.1
796 above shows an example of the two-part explanation needed for adjustments
797 exceeding the nominal amount. For minor adjustments (adjustments not exceeding
798 the nominal amount), the RCS appraiser may provide a subjective evaluation of
799 why the observed differences would affect rent.

800 D. Pay attention to Special Issues. The RCS appraiser must pay special attention to the
801 detailed guidance for all line items in the *Rent Comparability Grid (Form HUD-92273-*
802 *S8)* (see Appendix 9–1–2). In particular, there are a few line items that are discussed
803 under “General Instructions” in Appendix 9–1–2 along with common errors associated

804 with those line items. The RCS appraiser must pay special attention to the guidance
805 before making adjustments for those respective line items.

806 E. Follow the Guiding Principles when Quantifying Adjustments.

807 1. Not all differences between the subject and the comparable require an adjustment.
808 An RCS appraiser must adjust only for differences that would affect how much
809 rent a tenant is willing to pay. If a difference would appear to affect rental value
810 and no adjustment is made, the RCS appraiser must explain why.

811 2. An adjustment must reflect the local market. The RCS appraiser must make an
812 adjustment based on what typical renters in the subject's particular market area
813 would pay. Additionally, tenants in different markets may value amenities and
814 services differently, so the RCS appraiser must be aware of sometimes subtle
815 differences in the value of some project features even within the same community.

816 Example: Central air conditioning may be less valued by tenants in a beachfront
817 project, compared to tenants at another project, perhaps not far away, but within a
818 location with much warmer summertime temperatures.

819 3. Adjustments often vary by unit type. Even in the same market, renters may value
820 the same service differently among unit types.

821 Example: A second bathroom may be more valuable in a 3-bedroom than in a 2-
822 bedroom unit.

823 4. An adjustment must reflect rental value, not construction cost or the cost of
824 providing a service.

825 Example: In adjusting for differences such as an elevator, amortizing the cost of
826 the elevator over its useful life is not what a market renter would do. Any
827 adjustment should reflect only what residents would typically pay for the
828 convenience of using the elevator rather than climbing stairs. It is thus imperative
829 that the value of the adjustment be market-derived, from sources such as paired-
830 comparable analysis or direct interviews with project management personnel,
831 rather than cost-based.

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

837 6. Do not duplicate adjustments. RCS appraisers must be careful not to adjust for the
838 same element in more than one place.

839 Example: If adjustments are made for “project appeal” (line 8) and “age” (line 7),
840 the RCS appraiser must take care to ensure that the sum of those lines is not more
841 than the value the tenant would place on all features covered by those line items.

842 **9-13 DERIVING ESTIMATED MARKET RENTS**

843 This section provides guidance to RCS appraisers for deriving estimated market rents based on
844 the *Rent Comparability Grid* (Form HUD-92273-S8) prepared for the subject project.

845 A. Derive the estimated market rent. For each primary unit type, the RCS appraiser must
846 analyze the adjusted rents of the comparables computed pursuant to Section 9-12 and the
847 line-by-line instructions in Appendix 9-1-2. Then, using knowledge of the comparables,
848 the RCS appraiser determines the rent the subject project could most probably obtain in
849 the market. The RCS appraiser must consider: the type, size, and number of adjustments
850 made; the quality of each comparable; whether a comparable’s data was estimated or
851 incomplete; and how the adjusted rents for each unit type relate to each other. The
852 comparables most like the subject should receive more weight. While RCS appraisers
853 may compute and consider averages and other mathematical-based indices, those
854 calculations do not allow for exercise of the RCS appraiser’s professional judgment and
855 should not, by themselves, determine market rents. Instead, the RCS appraiser’s
856 estimated market rent may be skewed toward the range of the adjusted rents for the best
857 suited comparables to the subject project, as opposed to the mean, mode, or median
858 values for the adjusted rents of all comparables.

859 B. Derive secondary unit’s market rent, if applicable. If secondary unit types are included in
860 the RCS, the RCS appraiser may adjust the market rent of the related primary unit type to
861 arrive at the secondary unit type’s market rent. To do so, the RCS appraiser may adjust
862 the primary’s market rent to reflect the slight differences (e.g., additional half bath)
863 between the secondary and primary type and set the secondary’s market rent at the
864 resulting amount.

865 C. Explain the estimated market rent. The RCS appraiser must explain how the market rent
866 (for primary and/or secondary unit types) was derived and why it was derived that way.
867 The RCS appraiser must note which comparables were given the most weight and why,
868 including which attributes of those respective comparables resulted in their being
869 weighted more or less than others. If the estimated market rent is set at the high or low
870 end of the range of adjusted rents, the RCS appraiser must explain why. Explanations
871 should be concise, while at the same time clear and convincing.

872 Example: “Comparable A, although not as close in distance as the other four
873 comparables, was given a higher weight than others because leasing agents have
874 observed that prospective tenants often consider both properties (subject and comparable
875 A) to be ‘family-friendly’ due to on-site day care facilities and similar services.”

876 **9-14 PROCEDURE FOR MANDATORY MARKET RENT THRESHOLD**

877 In addition to submitting the rent comparability analysis and *Rent Comparability Grid (Form*
878 *HUD-92273-S8)*, Owners and RCS appraisers are also required to follow special procedures for
879 all contracts, as outlined in this section.

880 A. Mandatory market rent threshold. The following requirements will apply for all contracts
881 where the owner's RCS concludes that the project's gross rent for the assisted units, as
882 derived from the RCS, exceeds 150 percent of the Small Area FMR gross rent for the
883 property ZIP code as published annually by the Department. These requirements do not
884 apply to studies undertaken as part of the Mark-To-Market (MTM) process. All RCS
885 submissions (other than those for the MTM process) to HUD/CA must include a
886 distribution of RCS rents and subject project's gross rent (as explained in Step 1, below,
887 under Section 9-14.B).

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

891 Step 1: Compute Subject Project's gross renewal rent as determined by RCS. The RCS
892 appraiser will compute the gross renewal rent for the subject project's assisted units by
893 multiplying the RCS rent by the number of units for each renewal type, and by calculating
894 a monthly total gross rent. If an RCS contains multiple rent schedules (such as in a
895 Chapter Fifteen renewal with both as-is and post-rehabilitation rents), the higher gross
896 renewal rent amount must be used in the analysis.

897 Step 2: Identify the 150 percent SAFMR Rent Threshold by Subject Project's Zip Code.
898 HUD publishes annually a list of SAFMR rents for each unit size within a ZIP code at
899 <https://www.huduser.gov/portal/datasets/fmr/smallarea/index.html>. In those rare cases
900 where the subject project to be evaluated lies within multiple ZIP codes either because of
901 the scattered-site configuration of the property or simply because a ZIP code boundary
902 happens to be separate living units within the same property due to its large size and
903 straddling location, the gross rent estimate that is the larger of the figures for the two
904 respective ZIP codes will apply to all assisted units within the subject project being
905 evaluated. If HUD has not published a SAFMR for the project's ZIP code, the FMR rents
906 for the project's market area shall be used instead
907 (<https://www.huduser.gov/portal/datasets/fmr.html>).

908 Step 3: Compare Project's gross renewal rent to 150 percent of SAFMR Gross Rent. The
909 RCS appraiser will then compare the gross renewal rent determined under Step 1, with
910 the SAFMR gross rent for the relevant zip code as determined under Step 2. If the
911 project's assisted units' estimated/median rent does not exceed 150 percent of the
912 SAFMR gross rent, a HUD-commissioned RCS will not be required for the purposes of
913 mandatory market rent threshold requirements. If the gross renewal rent exceeds this
914 threshold, then HUD will use the process described below to establish comparable market
915 rents. An example comparison of a project's RCS gross renewal rent to 150 percent of
916 SAFMR gross rent is as follows:

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Example Project in ZIP code 76469

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Owner’s Gross Renewal Rent Calculation

Unit Size	Number of Units	RCS Rent	Gross Rent
1 Bedroom	50	\$800	\$40,000
2 Bedroom	75	\$1,100	\$82,500
Total Gross Renewal Rent			\$122,500

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SAFMR Gross Rent Calculation

Unit Size	Number of Units	SAFMR Rent	Gross Rent
1 Bedroom	50	\$610	\$36,600
2 Bedroom	75	\$800	\$60,000
Total Gross SAFMR Rent			\$96,600
150% of SAFMR Gross Rent			\$144,900

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Owner’s gross renewal rent is less than 150 percent of SAFMR gross rent, so the RCS does not exceed the mandatory market rent threshold.

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C. When Project’s gross renewal rent exceeds the Threshold. If the RCS-based gross renewal rent for the subject project’s assisted units exceeds 150 percent of the SAFMR gross rent for the project’s ZIP code, then a HUD-commissioned RCS will be required. In such a scenario, HUD will use independent third-party appraisal services procured through its Contracting Officer to prepare an RCS for the subject project. For an RCS that includes both “as-is” and “post-rehabilitation” market rent estimates, if either the “as-is” estimate or the “post-rehabilitation” estimate exceeds the threshold, then a HUD-commissioned RCS will be required. If the “as-is” rents do not exceed the mandatory market rent threshold, then a HUD-commissioned RCS will be procured only for the “post-rehabilitation” condition of the property. HUD shall not commission a third-party RCS until the owner’s RCS has been substantively reviewed and deemed acceptable, with no outstanding appeals. HUD is the only intended user of the HUD-commissioned RCS, however a copy will be shared with the owner upon written request.

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D. Funding for HUD-Commissioned RCS. A HUD-commissioned RCS may be ordered for either an insured or an uninsured property. Contract funds to pay for the studies will come from the following respective sources:

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1. FHA Insured: Technical Discipline Contract PAS Code: MTF.

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2. Noninsured: Section 8 program funds. PAS Code: CRE.

941 E. Differences in Comparability Studies. HUD is not required to perform a substantive
942 review of the HUD-commissioned RCS but may perform such a review for the purpose
943 of quality control of the contractor's work product. HUD will review each HUD-
944 commissioned RCS using the *Initial Checklist* (included in Appendix 9-5) to determine if
945 all the required material has been submitted. If so, HUD will compare the gross rent
946 potential conclusions of the HUD-commissioned RCS and the owner-contracted RCS and
947 the final market rent for the subject project will be determined as follows:

948 1. When the HUD comparable gross rent potential is greater than the owner's
949 comparable gross rent potential, the final comparable market rents will be
950 the owner's comparable market rents.

951 2. When the HUD comparable gross rent potential is less than the owner's
952 comparable gross rent potential, the final comparable market rents will be
953 determined as follows:

954 a. If the owner's comparable gross rent potential is less than 105 percent of
955 the HUD comparable rent potential, then the final comparable market
956 rents will be the owner comparable market rents.

957 b. If the owner's comparable gross rent potential is greater than or equal to
958 105 percent of the HUD comparable rent potential, then the final
959 comparable market rents will be 105 percent of the market rents as
960 determined by the HUD-commissioned RCS.

961 F. Transparency of HUD-Commissioned RCS. The owner may request a copy of the HUD-
962 commissioned RCS for informational purposes only. There are no negotiations allowed,
963 however the owner may identify factual discrepancies regarding a mistake of square
964 footage, a mistake regarding the presence/absence of a characteristic resulting in an
965 adjustment, or a mathematical miscalculation and HUD will review the discrepancy.. If
966 such discrepancies are indeed errors in the RCS, HUD will work with the third-party
967 appraiser to correct such errors and adjust the rent conclusions. For other issues of
968 professional discretion, such as the choice of comparables, the amount of adjustments, or
969 derivation of concluded rent, the HUD-commissioned RCS will prevail and cannot be
970 appealed by the owner.

971 G. HUD allows the use of a lender ordered MAP appraisal to serve as a substitute for the
972 HUD-commissioned required RCS if the following conditions are met.

973 1. The appraisal must be ordered, paid for, and underwritten by the lender. The MAP
974 appraiser must follow the existing requirements as stated in Chapter 9 of this
975 Guide to determine the rent. In cases where there is project-based Section 8
976 (Section 8), comparable market rents must be estimated both before and after
977 repairs. The MAP Guide will be used for the remainder of the assignment.

978 2. The MAP appraiser must use the form HUD 92273-S8 in lieu of the form HUD
979 92273. The 92273-S8 form will be used in all Section 8 related appraisals. The
980 92273 form will continue to be used for non-Section 8 assignments.

- 981 3. Lender appraisers and HUD reviewers must follow the most current USPAP
982 standards.
- 983 4. Any appeals regarding the MAP appraisal are to be made by the lender to the
984 processing Regional Centers/Satellite Offices office. No direct appeals to
985 Headquarters by the owner will be accepted.
- 986 5. To set the Section 8 rents, HUD staff shall use the lender-supplied appraisal and
987 the HUD 92273-S8 as they would have used the HUD-commissioned RCS and
988 use Section 9-14(C) to determine the final comparable market rents for the
989 project.

990 **9-15 HUD REVIEW OF RENT COMPARABILITY STUDY**

991 This Section provides guidance to HUD/CAs on how to review an owner’s RCS prepared and
992 submitted in accordance with Sections 9–7 through 9–14. When referring to a particular staff
993 position, this Section uses titles typically used at HUD. CAs should translate those to their own
994 position titles.

995 This Section also defines categories of reviewers. Initial reviewers are HUD/CA staff.
996 Substantive reviewers are required to be state-certified appraisers for all reviews conducted by
997 CAs, or HUD appraisers for those completed by HUD’s Multifamily Regional Centers and
998 Satellite Offices (such substantive reviewers are also referred to as RCS review appraisers). For
999 instance, where HUD’s staffing does not permit the availability of a HUD appraiser, a non-
1000 appraiser HUD staff person can complete the substantive review, subject to the minimum
1001 requirements and process outlined below.

1002 A. Minimum qualifications for reviewers. Each RCS must be reviewed by staff members
1003 who possess the requisite knowledge needed for the level of review being performed.
1004 Section 9–16 provides guidance on the level of reviews.

1005 1. Initial Screening. An initial review for timeliness and completeness shall be
1006 completed by a HUD/CA initial reviewer using the checklist provided under
1007 Appendix 9–5–1. While completing this review, the HUD/CA initial reviewer
1008 must adhere to the policies and timeframes set forth in this Chapter’s guidance.
1009 The HUD/CA initial reviewer must also have read this Chapter and Appendices
1010 within the preceding 12 months of performing their first initial screening review.

1011 2. Substantive Review. All substantive reviews conducted by CAs must be
1012 completed by a state-certified general appraiser. Substantive reviews completed
1013 by HUD staff should ideally be completed by HUD appraisers. However, a non-
1014 appraiser substantive reviewer from HUD staff may complete the substantive
1015 review if they meet the following minimum qualifications:

1016 a. Have a minimum of two years’ direct multifamily experience. Besides
1017 direct experience in HUD multifamily review, other acceptable
1018 qualifying experience would be two years’ employment in
1019 multifamily project management or leasing, multifamily loan or

1020 acquisition underwriting, or multifamily development. This
1021 background is necessary to effectively review the RCS facts,
1022 reasoning, and conclusions; and

1023 b. Have read this Chapter and Appendices within the preceding 12
1024 months of performing their first substantive review.

1025 B. Process for approving non-appraiser substantive reviewers. The Regional Center Director
1026 must authorize all non-appraiser substantive reviewers performing substantive reviews on
1027 RCSs within their region.

1028 C. Timing requirements. An initial screening review using the checklist in Appendix 9–5–1
1029 must be completed within 10 calendar days of the date of receipt of an RCS from the
1030 Owner. The HUD/CA initial reviewer may contact the RCS appraiser directly unless the
1031 Owner has specifically objected to that in the Owner’s cover letter (as required under
1032 Section 9–7). The HUD/CA initial reviewer must follow up with the Owner or RCS
1033 appraiser, by email or other form of written correspondence, if:

1034 1. The Owner’s submission is incomplete. The RCS appraiser or the Owner must
1035 submit the missing items within 7 calendar days of the HUD/CA initial reviewer’s
1036 request. If the materials are not submitted, the renewal process is considered
1037 abandoned and the owner must make a complete submission to initiate the process
1038 again.

1039 2. More than 90 calendar days elapsed between the RCS appraiser’s transmittal letter
1040 and the date the Owner first submitted the RCS to either HUD or the CA. Under
1041 this scenario, the HUD/CA initial reviewer must return the RCS and ask the Owner
1042 to have the RCS appraiser update the data to comply with Section 9–8.

1043 D. Recordkeeping. All categories of reviewers must retain the RCS submission, subsequent
1044 correspondence with the Owner, and all materials and documentation for 3 years from the
1045 date of the Owner’s RCS submission. This retention requirement applies equally to RCS
1046 materials that were deemed inadequate and/or incomplete.

1047 **9–16 INITIAL AND SUBSTANTIVE REVIEW OF OWNER’S RCS**

1048 This section provides guidance to initial and substantive reviewers for performing a
1049 comprehensive review of the owner’s RCS, covering the initial review, substantive review, and
1050 field visit.

1051 A. Initial Review. The HUD/CA initial reviewer performs an initial screening of the RCS for
1052 completeness and timeliness utilizing the “Initial Screening” checklist provided under
1053 Appendix 9–5–1. The HUD/CA initial reviewer must sign and retain the completed
1054 checklist, and a copy must be provided to the substantive reviewer informing them that
1055 the RCS is determined to be complete and ready for a substantive review. If the initial
1056 reviewer finds the RCS to be incomplete, the initial reviewer must contact the Owner or
1057 the Owner’s appraiser to obtain the missing material before the package is forwarded to
1058 the substantive reviewer.

1059 B. Purpose of Substantive Review. The purpose of a substantive review is to assess and
1060 evaluate whether the owner’s RCS appraiser’s selection of comparables, adjustments, and
1061 rent conclusions are reasonable. The substantive reviewer may not agree with every detail
1062 of the RCS, but the substantive reviewer’s approval of the RCS means that the
1063 substantive reviewer has concluded that the suggested market rents presented in the RCS
1064 are reasonably supported by market facts. The RCS must contain sufficient information
1065 to convince a person unfamiliar with the market areas or properties involved that the RCS
1066 conclusions are reasonable.

1067 1. Compliance with USPAP. The substantive reviewer should not focus on
1068 compliance with USPAP unless the substantive reviewer identifies significant
1069 problems in the research, facts, reasoning, or conclusions noted in the RCS report.
1070 Substantive reviewers are not required to check for compliance with USPAP when
1071 performing a substantive review.

1072 C. Scope of a Substantive Review. The key focus for a substantive reviewer is to ensure that
1073 the owner’s RCS is reasonable, consistent with facts and standard appraisal practice, and
1074 complies with the guidance provided in Sections 9–9 through 9–13. The tools and
1075 checklists provided under Appendix 9–5–2 through 9–5–6, and discussed in detail below,
1076 will facilitate the substantive review process.

1077 1. Detailed Screening Checklist. Appendix 9–5–2 provides a “Detailed Screening”
1078 checklist that incorporates key questions that a substantive reviewer must assess
1079 and evaluate when reviewing an RCS. These key questions incorporate
1080 requirements under Sections 9–9 through 9–11, with respect to analyzing the
1081 subject project, comparables selection and data collection. Substantive reviewers
1082 must document any concerns or conclusions in the checklist when reviewing the
1083 RCS.

1084 2. Rent Grid Analysis Checklist. The substantive reviewer must complete the *Rent*
1085 *Grid Analysis Checklist* (Appendix 9–5–3) using guidance provided under “Notes
1086 for Rent Grid Analysis and Triggers for Second Review” (Appendix 9–5–4). The
1087 purpose of these checklists is to ensure that the concluded market rent is
1088 appropriate and reasonable. Substantive reviewers are not expected to challenge
1089 minor differences in RCS adjustments, particularly if correcting those perceived
1090 flaws would not affect the rent an owner will receive or the estimated market rent
1091 shown on the Rent Comparability Grid (Form HUD–92273–S8). For example, if
1092 the owner is seeking a \$20 rent increase, and the market rent increase will exceed
1093 \$20 even if adjustments are revised, then it would not be cost effective to spend
1094 extensive time analyzing adjustments that are reasonably close.

1095 3. Triggers for Second Review for Non-Appraiser Reviewers. In cases where an RCS
1096 includes line-item adjustments that are identified as triggers under Appendix 9–5–
1097 4, and if the substantive reviewer is a non-appraiser HUD employee, HUD requires
1098 that a second reviewer also review and sign-off on the specific trigger items. The
1099 second reviewer must meet the minimum qualification requirements (as described
1100 under Section 9–15.A.) and is required to provide input on the appropriateness and

1101 reasonably of only the specific line item that triggered a second review, as
1102 opposed to the entire RCS. If the first and second reviewers do not reach
1103 consensus, then the trigger item will be reviewed by an RCS review appraiser,
1104 whose opinion will prevail as to what revisions, if applicable, need to be made to
1105 the RCS. Please note that seeking a second reviewer's input is not a requirement if
1106 the first or second substantive reviewer is an RCS review appraiser (state-
1107 certified).

1108 4. Issues/Certification Memo. Once the substantive reviewer has completed the
1109 detailed screening and Rent Comparability Grid, the substantive reviewer must
1110 also complete a certification (Appendix 9-5-5). If the substantive reviewer has
1111 questions or needs additional clarification, they can use the sample provided in
1112 Appendix 9-5-6 for preparing an issues memo for the Owner and/or RCS
1113 appraiser.

1114 D. Field Visits. While most RCS reviews usually require a desk review only, substantive
1115 reviewers may recommend a field review if they believe a site visit is needed to assess
1116 the RCS. If required, all field reviews must be conducted by an RCS review appraiser. A
1117 substantive reviewer must consider recommending a field visit when:

- 1118 1. The desk review raises major questions;
- 1119 2. The substantive reviewer is largely unfamiliar with the market area, the subject
1120 project or the comparables; or
- 1121 3. The substantive reviewer is considering challenging adjustments for condition,
1122 appeal, neighborhood, or other factors that can change quickly.

1123 Note: If not acting as the review appraiser, HUD staff may review the RCS and communicate
1124 concerns to the review appraiser. However, the review appraiser makes the final determination of
1125 market rents.

1126 **9-17 COMMUNICATING RESULTS OF HUD/CA REVIEWS**

1127 The HUD/CA must convey the results of the substantive review of the owner's RCS to the owner
1128 within 30 calendar days after receiving a complete RCS package from the Owner.

1129 A. Approval. If the HUD/ CA substantive reviewer agrees with the RCS appraiser's market
1130 rent conclusions, they must document that agreement on the reviewer's certification
1131 (Appendix 9-5-5) and notify the AE that the market rents in the RCS are acceptable for
1132 use in further processing of the renewal.

1133 B. Questions and/or Clarifications. If aspects of the RCS are unclear or unsupported, the
1134 HUD/CA substantive reviewer must ask the RCS appraiser for additional information or
1135 explanation, if the Owner's cover letter permits the HUD/CA reviewer to reach the RCS
1136 appraiser directly. If the issues have a minimal effect on valuation and the HUD/CA
1137 reviewer expects easy resolution, the substantive reviewer may call the RCS appraiser. If
1138 concerns are many, more significant, or complicated, the HUD/CA reviewer must send

1139 the RCS appraiser an email/fax/hard copy of a letter stating the concerns highlighted in
1140 the Reviewer’s Issues Memo (sample provided in Appendix 9–5–6) and give the RCS
1141 appraiser up to 10 calendar days to respond. (The HUD/CA reviewer must copy the
1142 Owner on any written correspondence.) The RCS appraiser must send the requested
1143 information to the HUD/CA reviewer and copy the Owner.

1144 Within 10 calendar days after final information was due from the Owner or RCS
1145 appraiser, the HUD/CA reviewer must either: accept the study and proceed as described
1146 in Section 9–17.A, above; or draft a decision letter to the Owner.

1147 C. Decision Letter. If the RCS appraiser’s response does not resolve the substantive
1148 reviewer’s concerns, the substantive reviewer will draft a decision letter challenging the
1149 RCS. If the substantive reviewer is a non-appraiser, an RCS review appraiser must also
1150 be engaged to review the subject’s RCS prior to issuance of such a letter. If the RCS
1151 review appraiser also concludes that the rejection is warranted, then the substantive
1152 reviewer may issue the decision letter that either tells the Owner the study must be redone
1153 and resubmitted or challenges the study’s rent conclusions and suggests an alternate rent.
1154 Any alternate rents must be developed by a RCS review appraiser and be consistent with
1155 this Chapter’s procedures and USPAP. The decision letter must tell the owner how the
1156 RCS review appraiser arrived at the suggested market rent. The decision letter must also:

- 1157 1. be signed by the Regional Office Director or designee;
- 1158 2. clearly state the reasons the RCS is challenged or that alternate rents are offered;
- 1159 3. list the Owner’s options; and
- 1160 4. provide a firm deadline for the Owner to respond.

1161 D. Owner’s Response. The Owner has 10 calendar days after the date of the Decision Letter
1162 to advise HUD in writing of their choice to accept HUD’s alternate rents, submit a new
1163 study, or appeal HUD’s decision.

1164 If the Owner chooses to appeal or resubmit their RCS, HUD/CA may, upon the Owner’s
1165 request, prepare a short-term renewal at the then-current rents to allow time for
1166 processing the appeal. Any rent increases because of the appeal will be retroactive to the
1167 date of execution of the short-term renewal contract. Submission of a new study restarts
1168 the processing timeline. If the Owner chooses to appeal, the Owner may not submit a new
1169 or revised study, and must follow the process outlined under Section 9–18, below.

1170 **9–18 OWNER APPEALS**

1171 An Owner may appeal HUD’s decision letter by following the steps provided below. The Owner
1172 may not make changes to an RCS following the issuance of a decision letter, as the purpose of an
1173 appeal is to provide support for the conclusions reached in the original study. The HUD-
1174 commissioned RCS is not appealable following the process set out in this section, but an owner
1175 may bring factual discrepancies or errors to HUD’s attention for possible correction as described
1176 under Section 9–14.F. All appeals of HUD’s decision letter, when eligible, are reviewed and

1177 decided by HUD staff at the appropriate Regional Center rather than HUD headquarters. The
1178 appeal process is as follows:

1179 A. Owner prepares written statement. Subsequent to submitting the Owner’s letter
1180 indicating an appeal of HUD’s decision, the Owner must submit a written statement of
1181 his/her reasons for appeal and any data that supports his/her objections. This written
1182 statement must be delivered via email to the Regional Center or Satellite Office Asset
1183 Management Division Director within 20 calendar days after the date of HUD/CA’s
1184 initial decision as provided by Section 9–17 above.

1185 B. Owner may request meeting. In addition to providing a written statement, the Owner may
1186 request a meeting or a conference call with the RCS review appraiser. If such a request is
1187 made, a meeting or a conference call must be held within 15 calendar days of the date of
1188 the Owner’s appeal. The Owner, the RCS appraiser, the RCS review appraiser, and the
1189 Regional Center or Satellite Office Asset Management Division Director/designee must
1190 participate. The Regional Center or Satellite Office Asset Management Division Director
1191 and RCS review appraiser must consider if a field visit is needed to process the appeal as
1192 discussed in Section 9–16–C, above. In some instances, the Regional Center or Satellite
1193 Office Asset Management Division Director and RCS review appraiser may ask for
1194 additional information from the Owner and the RCS appraiser. This information must be
1195 submitted by the Owner within 10 calendar days after the date of the meeting or
1196 conference call.

1197 C. HUD reviews Owner’s request. The RCS review appraiser and the Regional Center or
1198 Satellite Office Asset Management Division Director will review the Owner’s appeal,
1199 including any supplemental information submitted by the Owner, and issue a letter
1200 reporting the results of the review within 15 calendar days after the latest of the date the
1201 Owner submitted the basis for the first appeal; the date of any meeting/conference call
1202 conducted per paragraph B.; or the date by which the Owner submits additional
1203 information requested by HUD per paragraph B. HUD’s letter in response to the owner’s
1204 first appeal must be signed by the Regional Center or Satellite Office Asset Management
1205 Division Director, and it may accept the RCS with supplemental information submitted
1206 by the Owner, reject the Owner’s first appeal and require resubmission of a new RCS
1207 study, or propose HUD’s alternate rents for the project.

1208 The Owner may either accept HUD’s decision or withdraw the renewal request.

1209 D. Second Level Appeal. If the owner chooses to pursue a second level appeal, the owner
1210 must submit a written statement of his/her reasons for a second appeal and any data that
1211 supports his/her objections to the Regional Center or Satellite Office Asset Management
1212 Division Director’s decision letter in response to the owner’s first appeal. The submission
1213 must be received within 15 calendar days after the date of the Regional Center or Satellite
1214 Office Asset Management Division Director’s decision letter on the first appeal, and must
1215 be addressed to the Regional Center Office Director and must copy the Regional Center
1216 or Satellite Office Asset Management Division Director. The owner may also request a
1217 short-term renewal at current rents if the contract has expired or if expiration is imminent.

- 1218 1. The Regional Center Director will determine if the appeal has potential merit and,
1219 if so, issue a short-term renewal at then-current rents, to allow time to process the
1220 appeal. Any rent increases as a result of the second appeal will be made
1221 retroactively.
- 1222 2. The Regional Center or Satellite Office Director may contact the owner, the RCS
1223 appraiser, or the Regional Center or Satellite Office Asset Management Division
1224 Director and/or the RCS review appraiser for clarification or additional
1225 information.
- 1226 3. The Regional Center Director must issue a decision letter to the owner within 15
1227 calendar days after the date of the owner’s second appeal. The letter must clearly
1228 state the basis for HUD’s decision.

1229 **9–19 IMPOSING SANCTIONS ON APPRAISERS**

1230 If, after the substantive review and communication, discussion, or appeal pursuant to Section 9–
1231 17 or 9–18, a CA or Regional Director still concludes that the RCS appraiser’s work is seriously
1232 deficient, the CA/Regional Director may consider:

- 1233 A. Reporting material deficiencies in the appraiser’s work product to the state’s real estate
1234 appraisal regulatory authority; and
- 1235 B. Imposing or recommending imposition of HUD’s administrative sanctions (LDP,
1236 suspension, or debarment)

- 1237 • 9-1-1: Instructions for Completing the HUD Form 92273-S8
- 1238 • 9-1-2: Required Contents of a Rent Comparability Study
- 1239 • 9-1-3: Comparable Project Profile
- 1240 • 9-1-4: RCS Appraiser Certification
- 1241 • 9-1-5: Sample for RCS Appraiser's Transmittal Letter
- 1242 • 9-2-1: Sample Owner's Cover Letter
- 1243 • 9-2-2: Sample Owner's Checklist
- 1244 • 9-3-1: Notes for Rent Grid Analysis and Triggers for Secondary Review
- 1245 • 9-3-2: Sample Issues Memo from Substantive Reviewer
- 1246 • 9-4: Special Project Types
- 1247 • 9-5: Forms Used in Preparation and Review of an RCS
- 1248 • Attachment 1: Acronyms Used in this Guide
- 1249 • Attachment 2: Glossary of Terms

Appendix 9-1-1

Instructions for Completing the HUD Form 92273-S8

1250

1251

1252

1253 RCS appraisers must use the Rent Comparability Grid (HUD 92273-S8) for preparing an RCS to
1254 estimate “market” rents for the subject project. A Rent Comparability Grid provides a tool for
1255 documenting the characteristics of the subject and the comparables, and the adjustments made
1256 for differences between a comparable and the subject. The Rent Comparability Grid is comprised
1257 of seven parts, and this Appendix includes “line-by-line instructions” for populating each data
1258 column under the forty-six line items on the Rent Comparability Grid.

1259 RCS appraisers must review and comply with the guidance provided in Sections 9-8 through 9-
1260 13 of Chapter Nine, and the instructions provided below before preparing a Rent Comparability
1261 Grid.

1262 A. General Instructions

- 1263 1. Prepare a separate Rent Comparability Grid for each *primary* Section 8-unit type.
1264 The RCS appraiser should review Section 9-9. A for guidance on classifying unit
1265 types as primary or secondary. For any secondary unit types, RCS appraisers need
1266 not complete a separate rent comparability grid.

- 1267 2. Complete all lines of the Rent Comparability Grid. The RCS appraiser must show
1268 all comparables for one unit type on one Rent Comparability Grid. The RCS
1269 appraiser must enter the comparable’s name and address at the top of each column,
1270 fill in all lines of the Grid’s data columns, even if no adjustment is made on a line.
1271 The RCS appraiser must use the specific letter codes listed in line items 8 and 9
1272 under Section C of this Appendix. If a project has other characteristics that would
1273 affect the rent that the project could command in the subject’s market area, then
1274 the RCS appraiser may use blank lines (Lines 22 and 23) to capture these other
1275 characteristics.

- 1276 3. Make adjustments to comparable’s rents. Not all of the characteristics will affect
1277 rents. Local market conditions will dictate if, when and how much of an impact
1278 each characteristic will have upon rent. The RCS appraiser is required to make
1279 adjustments only for differences in characteristics that would affect the amount of
1280 rent that prospective tenants in the subject’s market area are willing to pay. The
1281 RCS appraiser must display all adjustments in dollar amounts. The RCS appraiser
1282 may leave adjustment entries blank (not zero) if local tenants would not pay for the
1283 difference shown on that line.

- 1284 4. Provide narrative explanations. The RCS appraiser must attach a narrative
1285 explaining *why* each adjustment was made and *how* the dollar value of the
1286 adjustment was derived for all adjustments exceeding a *nominal amount* (as
1287 defined in Section 9-12. C.2).

1288 a. The RCS appraiser must prepare a separate set of explanations for each
 1289 Grid. If an explanation applies to more than one comparable, the RCS
 1290 appraiser may refer back to that explanation rather than repeating it each
 1291 time. For example, the location adjustment for Comparable Y was
 1292 estimated for the same reason and in the same way as for Comparable X.

1293 b. The RCS appraiser must include the following two additional narrative
 1294 explanations, if applicable, for the estimated market rent (Line 46 of the
 1295 instructions): 1) how the market rent was derived from the comparables'
 1296 adjusted rents; and 2) how a primary unit type's market rent was adjusted
 1297 to derive a market rent for a secondary unit type.

1298 5. Pay attention to special issues. The following are some of the issues and errors that
 1299 are commonly noted by substantive reviewers. RCS appraisers must pay special
 1300 attention to the guidance in this Appendix when making adjustments for these line
 1301 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.

1302 B. Instructions for HUD's Excel-Based Rent Comparability Grid

1303 Before using HUD's Excel based Rent Comparability Grid, which can be downloaded at
 1304 the link provided under Appendix 9-1-1, RCS appraisers must review the following
 1305 instructions.

1306 6. Worksheet is protected and locked. Formulas in the worksheet cannot be altered. If
 1307 the RCS appraiser tries to enter data in a formula cell, the RCS appraiser will
 1308 receive an error message stating that the cells are locked and cannot be changed.

1309 7. Scrolling and entering data in the Worksheet. The RCS appraiser may use the tab
 1310 key to move horizontally within the print area of the worksheet. This will allow the
 1311 RCS appraiser to skip locked formula cells and stop only at cells designed to
 1312 receive data. As the RCS appraiser enters adjustments, Excel will automatically
 1313 compute counts, sums or percentages on the form.

1314 a. The Tab Key will navigate as described only if the Excel settings are
 1315 configured to: 1) not check the Transition Navigation Keys box; and 2)
 1316 check the "Microsoft Excel Menus" button. The RCS appraiser may go to
 1317 Tools-Options-Transition Tab to check settings.

1318 b. As the RCS appraiser scrolls horizontally to the right, columns will shift
 1319 left and be hidden behind Column C's row labels. This keeps line labels
 1320 next to the data cells, making it easier to accurately load data. To view the
 1321 hidden columns, the RCS appraiser may scroll back to the left. Similarly,
 1322 rows will move up and disappear under the column headings as the RCS
 1323 appraiser scrolls down. To bring the rows back into view, the RCS
 1324 appraiser may scroll up.

1325 8. Creating a New Grid. The "Create New Grid" button allows the RCS appraiser to
 1326 simultaneously add a new unit type worksheet, label the tab at the bottom of the
 1327 worksheet, and fill in the Unit Type box at the top of the worksheet. The RCS
 1328 appraiser may enter different names/ labels for the tab and the unit type box on top.

1329 If the "Create New Grid" button is used, the resulting worksheet will contain all
 1330 the data that was on the worksheet containing the button. The RCS appraiser may
 1331 edit any data that is not appropriate for the new unit type. For example, the RCS
 1332 appraiser could:

- 1333 a. Load just the project names and other identifying header data that will
 1334 apply to most unit types and then use the “Create New Grid” button to
 1335 create a worksheet for each unit type. The RCS appraiser could then load
 1336 amenity and adjustment entries either individually on each sheet, by
 1337 copying specific cells from one worksheet to another, or by clicking the
 1338 control key and selecting multiple worksheets. When the control key option
 1339 is used, data is entered simultaneously in the same cell location on all the
 1340 selected worksheets.
- 1341 b. Fully complete one unit type worksheet, use the “Create New Grid” button
 1342 to add another worksheet, and edit the resulting worksheet to change data
 1343 that is not appropriate for the new unit type. The RCS appraiser must not
 1344 forget to check any copied data.
- 1345 9. Sign and Date the Form. After completing the Rent Comparability Grid, the RCS
 1346 appraiser must sign and date the form. The RCS appraiser must also indicate
 1347 whether the Grid was prepared in Excel (with the computer running the
 1348 calculations using HUD’s formulas). If the RCS appraiser used another approach
 1349 (such as manual entry of data, which is discouraged by HUD), the RCS appraiser
 1350 must note that on the bottom of the grid or at the end of narrative comments.

1351 C. Line-by-Line Instructions for Preparing a Rent Comparability Grid

1352 The guidance below provides line by line instructions to RCS appraisers for completing a
 1353 Rent Comparability Grid. This guidance is organized by the seven parts (A through G) of
 1354 a Rent Comparability Grid, covering forty-six line items.

1355 **Part A: Rents Charged (lines 1 through 5)**

1356 Before the rents for comparable units can be adjusted for differences from the subject,
 1357 they must be adjusted for conditions at the comparable project itself. This section makes
 1358 adjustments that are primarily internal to each individual comparable and produces an
 1359 effective rent. Subsequent sections adjust each comparable’s effective rent by comparing
 1360 the comparable to the subject project.

1361 Line 1. \$ Last Rent/Restricted? In the “data” column, the RCS appraiser must enter the
 1362 rent at which this unit type was last leased. This must be a rent that was actually paid; the
 1363 RCS appraiser must not enter an asking rent which has not yet been achieved. In the
 1364 adjustments column, the RCS appraiser must enter “Y” if the unit is rent restricted and
 1365 “N” if it is not. Rent restricted units include those that are subject to rent control, rent
 1366 stabilization or other restrictions on the unit rent. (e.g., LIHTC, HOME, HOPE VI, and
 1367 236/BMIR/Rural Development Section 515 units). The RCS appraiser must identify the
 1368 specific reason for a yes answer in the narrative explanation of adjustments. Using a
 1369 comparable from an affordable/restricted project should be only a “last resort,” as
 1370 adjustments that would need to be made to line items 2 through 39 for a restricted
 1371 comparable are inherently subjective. However, rent restricted units could be used as
 1372 comparables when they reasonably represent market rents. Units in market areas with

1373 rent control may reasonably represent a market if they were leased recently, and should
1374 not be excluded solely on the basis of the rent control. Using a comparable from other
1375 categories of project types, such as independent or assisted living facilities or master-
1376 planned retirement communities, for an age-restricted Section 8 project, may be difficult
1377 to justify because tenants at those types of projects choose them over conventional
1378 apartment projects due to the non-shelter services offered at such facilities. In particular,
1379 a comparable property that offers a daily meal or meals included in the monthly rent
1380 poses specific challenges with regard to determining appropriate rent adjustments.

1381 Line 2. Date Last Leased. In the data column, the RCS appraiser must enter the date
1382 (month/ year) that unit type was most recently leased. This should be the date the most
1383 recent lease for the rent on Line 1 became effective. The RCS appraiser should make an
1384 adjustment here only if the rental market has changed significantly between the date on
1385 this line and the date of the RCS appraiser's analysis. Adjustments here should be
1386 infrequent, as the RCS appraiser should be using only recent lease transactions to begin
1387 with. This adjustment may be needed when the comparable is at full occupancy and has
1388 had no turnover for an extended period. If market conditions have not changed, the RCS
1389 appraiser should not adjust even if considerable time has elapsed since Line 1's rent
1390 became effective.

1391 Line 3. Rent Concessions. The RCS appraiser should evaluate if the comparable is
1392 offering initial rent or renewal concessions. The RCS appraiser must enter "Y" or "N",
1393 and may enter a negative adjustment to reflect the value of the concession, as appropriate.
1394 The RCS appraiser must prorate the concession over the lease period. For example, the
1395 RCS appraiser would make a (\$33) adjustment for one month free on a 12-month lease
1396 (requiring 11 monthly rent payments), at \$400 /month. If the free month is instead offered
1397 as an add-on before or after 12 months of payments, the adjustment in this example
1398 would be less (\$31).

1399 Line 4. Occupancy percent for Unit Type. The RCS appraiser must consider only the unit
1400 type represented by the comparable. The RCS appraiser should enter the approximate
1401 percent of units in that type that are occupied as of the data collection date. The RCS
1402 appraiser must not enter occupancy for all unit types at the comparable. If the
1403 comparable's occupancy rate for the unit type under consideration is not typical of the
1404 comparable's market, the RCS appraiser must determine if the occupancy differential is
1405 due to the rent being set too high/ too low, or due to other factors.

1406 10. If the occupancy gap is due to factors other than Line 1's rent level (e.g. condition
1407 or location), the RCS appraiser must not make an adjustment. The RCS appraiser
1408 should adjust only if the occupancy gap is clearly due to the rent level used on
1409 Line 1. If the comparable's occupancy for the unit type being studied is
1410 significantly lower than the typical occupancy rate for that unit type, the RCS
1411 appraiser should adjust negatively to indicate that the rent is too high. If the
1412 comparable's occupancy for the unit type being studied is significantly higher than
1413 the typical occupancy rate for that unit type, the RCS appraiser should make a
1414 positive adjustment.

1415 11. If the property manager/other contact for a comparable is unwilling or unable to
1416 provide occupancy rates by unit type, the RCS appraiser should report overall
1417 occupancy for the comparable and note in the explanation for Line Item #4 that the
1418 occupancy rate is project-wide. If only overall occupancy is reported, an
1419 occupancy adjustment may be made only if the unit mix is such that the RCS
1420 appraiser can still conclude that the occupancy for the unit type is significantly
1421 different than market occupancy levels for that unit type. *Example:* If a project has
1422 99 percent occupancy and 100 units (50 one-bedrooms, 50 two-bedrooms), it could
1423 still be concluded that the two-bedroom units being studied are at least 98 percent
1424 occupied. The RCS appraiser must explain how he/she arrived at that conclusion.

1425 12. The occupancy adjustment is subjective, and thus it is not expected to be
1426 frequently used. Often, unusually low occupancy may have other explanations. For
1427 example, a low occupancy project may still be in initial absorption, or may be re-
1428 absorbing after a renovation or other unusual event. Conversely, an unusually high
1429 occupancy rate may be due to factors such as a high proportion of long-term
1430 tenants at below-market rates or the presence of Section 8 voucher tenants, even if
1431 new rental transactions there are being done at market rates. The use of an
1432 occupancy adjustment should thus be reserved for the specific situation where
1433 management is marketing units consistently at unusually low or high rental rates
1434 over a sustained period of time as a matter of policy, with measurable impacts on
1435 project occupancy.

1436 Line 5. Effective Rent and Rent/Sq. Ft. The RCS appraiser must enter the sum of lines 2,
1437 3, and 4. This yields an effective rent after age of the lease, occupancy, and rental
1438 concessions are taken into account. Excel based Rent Comparability Grids will
1439 automatically calculate the total rent. After the RCS appraiser enters the unit size in Part
1440 C, the form will also display the effective rent per square foot.

1441 **Part B. Design, Location, Condition (lines 6 through 10)**

1442 This section allows for comparison of the comparable to the subject in terms of design,
1443 materials, condition, location, and appeal. The total adjustments in this section should not
1444 exceed the value a typical tenant would place on these characteristics in the aggregate.

1445 Line 6. Structure/ Stories. The RCS appraiser must enter the type of structure using
1446 recognized codes such as “E” for Elevator, “G” for Garden, “WU” for other walk-up, and
1447 “T” for townhouse. The RCS appraiser can select other categories as dictated by market
1448 conditions, but must explain the significance of other categories and codes, if different
1449 from the recognized codes. For example, in some markets, renters in low-rise buildings
1450 may value apartments with private exterior entrances over a shared entry/or shared
1451 stairway, even if the units are stacked. In such cases, the RCS appraiser must identify the
1452 categories and codes used in the adjustments. Codes such as “WU-Pvt” (private entrance)
1453 or “WU-Shrd” (shared entrance) could be used.

1454 The RCS appraiser must follow the letters with a slant bar and the number of stories. For
1455 example, the RCS appraiser should enter “WU/3” for a three-story walk-up. The RCS

1456 appraiser should try to select comparables that have the same structure type as the
1457 subject. If the comparables have a different configuration than the subject, adjustment
1458 may be warranted based on market preferences. For instance, the RCS appraiser may
1459 make an adjustment for configuration differences such as townhome versus a stacked
1460 unit. The RCS appraiser must explain the basis for any adjustment exceeding the larger of
1461 \$10 or 2 percent of the comparable's unadjusted rent.

1462 Line 7. Year built/Year renovated. The RCS appraiser must enter the year the project was
1463 built. If it has been renovated, the RCS appraiser should follow with a slant bar and the
1464 year the project was renovated. For example, 1939/70 would indicate that the project was
1465 built in 1939 and renovated in 1970. The RCS appraiser must make adjustments on this
1466 line if the effective age (the age indicated by the utility, quality of the structure, and
1467 major equipment) affects rental value. The RCS appraiser must consider if basic
1468 structures and major equipment have been replaced and whether baths and kitchens have
1469 been renovated. Typically, the RCS appraiser should not make any adjustments for age
1470 differences of just a few years. When the RCS appraiser chooses to make an adjustment,
1471 the amount for each year of age difference should typically be less than \$5 per year or 1
1472 percent of the unadjusted rent. Alternatively, the RCS appraiser could make one
1473 adjustment for multiples of a fixed number of years of age difference. For *example*, each
1474 multiple of three years of age difference between the subject and the comparable would
1475 be assigned a certain dollar amount of adjustment.

1476 Line 8. Condition/Street Appeal. It is mandatory for the RCS appraiser to rate the subject
1477 and each comparable per a five-point scale: Excellent, Good, Average, Fair, or Poor. *No*
1478 *other classifications are acceptable.* For the subject, and every comparable, the RCS
1479 appraiser must enter "E" for excellent, "G" for good, "A" for average, "F" for fair, or "P"
1480 for poor. If the design of the building or the street appeal of the project would affect the
1481 rents it can command, the RCS appraiser must adjust appropriately. The RCS appraiser
1482 should consider the overall appearance of the project, such as whether the grounds are
1483 clean, whether the landscaping is well maintained, and whether or not the paint and
1484 siding are in good condition. Other considerations would be whether the architecture of
1485 the buildings and layout of the site are appealing (open space, shrubbery, etc.). In
1486 summary, the RCS appraiser must evaluate whether the comparable's condition/street
1487 appeal could cause tenants to pay more or less than they would pay at the subject.

1488 An adjustment of more than the larger of \$20 or 4 percent of unadjusted rent for each
1489 level of rating difference would require that the RCS appraiser provide specific
1490 explanation in the narrative to support the amount of adjustment. *Example:* a positive
1491 adjustment for an "Average" rated comparable versus an "Excellent" rated subject,
1492 should not exceed \$40, or 8 percent of the unadjusted comparable rent, whichever is
1493 larger.

1494 Due to the potential for overlap between adjustment parameters, if the RCS appraiser has
1495 made an adjustment on Line 7 for Year Built/Renovated for a comparable, the RCS
1496 appraiser must explain if the adjustment exceeds \$15 or 3 percent of unadjusted rent,
1497 whichever is larger, for each level of rating difference for Line 8 for that same
1498 comparable.

1499 Note: Take care not to duplicate adjustments made on line 7. Adjustments made
1500 on lines 7 and 8 should not add to more than the adjustment that would be made if
1501 the project characteristics referenced on Lines 7 and 8 were considered as a single
1502 adjustment.

1503 Line 9. Neighborhood. The RCS appraiser must rate the subject and each comparable
1504 according to a five-point scale: Excellent, Good, Average, Fair, or Poor. No other
1505 classifications are acceptable. For the subject, and every comparable, the RCS appraiser
1506 must enter “E” for excellent, “G” for good, “A” for average, “F” for fair, or “P” for poor.
1507 The entry should reflect the market’s reaction to location features that affect rental
1508 values. For example, neighborhood desirability; nuisances such as street noise; nearby
1509 land uses; crime volume; and access (time/distance) to schools, transportation, shopping,
1510 recreation, and medical and employment centers. The Multifamily Assisted Housing
1511 Reform and Affordability Act of 1997 (MAHRA) specifically requires that neighborhood
1512 (including risk of crime), location and access be considered.

1513 An adjustment of more than \$20 or 4 percent of unadjusted rent, whichever is larger, for
1514 each level of rating difference would require that the RCS appraiser provide specific
1515 explanation in the narrative to support the amount of adjustment. For example, a positive
1516 adjustment for an “Average” rated comparable versus an “Excellent” rated subject,
1517 should not exceed \$40, or 8 percent of the unadjusted comparable rate, whichever is
1518 larger.

1519 The RCS appraiser must note that HUD FHEO guidelines prohibit negative adjustments
1520 based solely on the racial, ethnic, religious mix of projects or their surrounding areas or
1521 other discriminatory criteria. RCS appraiser’s adjustments must be based on objective,
1522 quantifiable factors.

1523 Line 10. Same Market? Miles to Subject? The RCS appraiser must enter “Y” or “N”,
1524 depending on whether the comparable is in the same market area as the subject. The RCS
1525 appraiser must follow the entry with a slant bar, and the distance between the comparable
1526 and the subject in miles. If the comparable is in a different market area, the RCS
1527 appraiser must collect quantitative data to compare the rent levels in the two market
1528 areas. The RCS appraiser must adjust for any significant difference in rental costs
1529 between the two market areas and explain how he/she computed the adjustment. If the
1530 comparable is in a different market area and the RCS appraiser chooses to not adjust it for
1531 the different market location, the RCS appraiser must explain *why*.

1532 **Part C. Unit Equipment/Amenities (lines 11 through 23)**

1533 This section details specifics about the unit and its equipment and amenities. The RCS
1534 appraiser should use the blank line to add unit amenities or equipment that aren’t listed
1535 but significantly affect the rent a tenant would pay. Total adjustments made for this Part
1536 should not exceed the value a typical tenant would place on all unit amenities.

1537 Line 11. # Bedrooms. The RCS appraiser must enter the number of bedrooms in the unit.
1538 The RCS appraiser can use “0” for efficiencies. If a comparable and the subject have a

1539 different number of bedrooms, the RCS appraiser must explain in the narrative why
1540 he/she selected a comparable of a different bedroom type.

1541 Line 12. # Baths. The RCS appraiser must enter the number of bathrooms in the unit. The
1542 RCS appraiser may use decimals to represent partial baths. *Example:* The RCS appraiser
1543 may enter 1.5 to indicate one full bath and one bath with a toilet and sink, but no tub or
1544 shower stall.

1545 Line 13. Unit Interior Sq. Ft. The RCS appraiser must enter the rentable interior square
1546 footage of the unit. The RCS appraiser should not include balconies, mechanical areas or
1547 other nonliving spaces, unless the comparable unit size measurements include those
1548 areas and it is not possible to adjust the comparables. The RCS appraiser must explain:
1549 a) how the square footage of the subject was derived and how it corresponds to the
1550 square footage of the comparables; and b) the method used to determine the size
1551 adjustment. The method used to determine the size adjustment must be market-based,
1552 the ideal being a property in that market that offers similar plans with regard to number
1553 of bedrooms and bathrooms, but differing with regard to square footage. Given the lack
1554 of precision and standardization in the way that unit sizes are measured, RCS appraisers
1555 should not adjust for size differences of less than 10 square feet. For example, a
1556 difference of 50 square feet in the case of a 500 square feet one-bedroom might be worth
1557 a different amount to prospective tenants than a 50 square feet difference in the case of
1558 an 800-square foot, two-bedroom unit.

1559 Note: Even for size differences exceeding 10 square feet, the RCS appraiser
1560 should adjust only if, and to the extent, the subject's market values a size
1561 difference. Some markets may not value small size differences and a difference in
1562 size may not increase the market value of a larger unit to the same degree that it
1563 might for a smaller unit.

1564 Line 14. Balcony/Patio. The RCS appraiser should consider if the unit has a balcony or a
1565 patio, and enter "Y" or "N", as appropriate. While an adjustment greater than a nominal
1566 amount may be justified in certain markets (e.g., resort area, warm climate), the RCS
1567 appraiser must explain the basis for any adjustment that exceeds \$10 or 2 percent of
1568 unadjusted rent of the comparable, whichever is larger.

1569 Line 15. AC: Central/Wall. The RCS appraiser should use this line item to reflect the
1570 type of cooling equipment in the unit, using "C" for central, "W" for wall unit, or "N" for
1571 none. The RCS appraiser is required to adjust only for the value of having AC equipment
1572 and for differences in the type of equipment (wall, central, etc.). The RCS appraiser
1573 should not adjust for the cost of running the air conditioner, which should be captured
1574 under Line 34 below. Adjustment for type of AC will typically be nominal (not
1575 exceeding \$10 or 2 percent of unadjusted rent, whichever is larger). The RCS appraiser
1576 must explain the basis for dollar amount chosen that exceeds the nominal amount, in the
1577 underlying narrative, and whether the RCS appraiser utilized a paired comp analysis or
1578 interviewed knowledgeable sources.

1579 Line 16. Range /Refrigerator. The RCS appraiser must enter “R” for range, “F” for
1580 refrigerator, or “RF” if the unit has both appliances. If neither is present, the RCS
1581 appraiser must enter “N”. It is not uncommon in some markets for tenants to need to
1582 provide their own refrigerator; the corresponding adjustment should not exceed the
1583 monthly cost of a rental.

1584 Line 17. Microwave/ Dishwasher. The RCS appraiser must enter “M” for microwave,
1585 “D” for dishwasher, or “MD” if the unit has both appliances. If neither is present, the
1586 RCS appraiser must enter “N”. The adjustments here should be nominal, typically not
1587 exceeding the higher of \$10 or 2 percent of the unadjusted rent, for each item.

1588 Line 18. Washer/Dryer. If there is a washer/dryer hookup in the unit but the owner
1589 supplies neither appliance, the RCS appraiser must enter “HU.” If the appliances are
1590 provided in the unit, the RCS appraiser must enter “W” for washer, “D” for dryer or
1591 “WD” for both. If there is a common laundry area in the project, the RCS appraiser must
1592 enter “L”. If the project offers no laundry facilities, hookup, or appliances in the unit, the
1593 RCS appraiser must enter “N”. The adjustment for a unit where the owner provides
1594 hookups, but not the washer-dryer machines, should not exceed the monthly cost of the
1595 machine rental.

1596 Line 19. Floor Coverings. The RCS appraiser must indicate the predominant floor
1597 covering in the unit, using “V” for vinyl, “W” for wood, “WC” for wood composite
1598 product, and “C” for carpet. The RCS appraiser is required to only adjust for type of floor
1599 covering if there is market evidence, based on the experience of property managers and
1600 leasing agents, that one type of floor covering is more valued in the project’s market than
1601 other types.

1602 Line 20. Window Coverings. If the unit is rented with window treatments, the RCS
1603 appraiser must enter “B” for blinds or “S” for shades or “D” for drapes. If the unit is
1604 rented without window coverings of any kind, the RCS appraiser must enter “N” for none.
1605 RCS appraisers are required to only adjust for type of owner-provided window covering,
1606 if there is market evidence, based on the experience of property managers and leasing
1607 agents, that one type of window covering is more valued in the project’s market than
1608 other types.

1609 Line 21. Cable/Satellite/Internet. The RCS appraiser must enter “C” for cable TV, “S” for
1610 satellite TV, and “I” for Internet access. If the subject property has more than one of these
1611 amenities, the RCS appraiser must enter all of the corresponding letters. For example,
1612 “CSI” indicates a project that offers all three of these amenities. The RCS appraiser must
1613 consider whether the project merely offers infrastructure (i.e., broadband) to access the
1614 amenities or whether it offers the amenities itself as part of the rent. If only infrastructure
1615 is offered, then the RCS appraiser must adjust based on the market value attributable to
1616 the availability of that infrastructure. If the amenity is provided to the tenant without an
1617 additional fee, the RCS appraiser should reflect the value of both access to and provision
1618 of the amenity. Any valuation for provision of cable/satellite/internet must be based on
1619 actual comparable data from the surrounding market area (comparable properties that
1620 provide internet access to tenants without any additional fees) rather than post-market

1621 adjustments. Similar data speed and means of access (wireless, hard-wired) must be used
1622 to identify comparable market services.

1623 Line 22. Special Features. The RCS appraiser should use this line to adjust for items that
1624 are valued in the project's market, based on the experience of property managers and
1625 leasing agents, but not listed above. For example, views, fireplaces, vaulted ceiling,
1626 partial ceramic tile flooring (in entryway, kitchen, or bath). The RCS appraiser must enter
1627 "VW" for view, "F" for fireplace, "VC" for vaulted ceiling, or "CT" for ceramic tile. If
1628 the unit has safety bars, ramps, or other features to improve access for elderly or persons
1629 with disabilities, the RCS appraiser should enter "A".

1630 Lines 23. Blank line. The RCS appraiser should use this line to add a unit amenity that is
1631 not listed but significantly affects the rent a tenant would pay. The RCS appraiser must
1632 describe the amenity on the line provided and make dollar adjustments as appropriate.

1633 **Part D. Site Equipment/Amenities (lines 24 through 32)**

1634 This section details specifics about the project and its amenities. The RCS appraiser
1635 should use the blank line #32 to add site amenities that are not listed but affect the rent a
1636 tenant would pay. Total adjustments in this Part should not exceed the total value a
1637 typical tenant would place on all amenities in this Part.

1638 Line 24. Parking (\$ Fee). The RCS appraiser must enter "L" for lot parking, "G" for
1639 garage, and "CP" for covered parking, followed by a slant bar and the amount of the
1640 additional charge, if any, the tenant pays for the service. Properties that offer choices for
1641 type of parking such as lot parking or garages, will show a code and dollar amount for
1642 each type of parking offered. If there is no charge, the RCS appraiser should enter "0".

1643 Next, the RCS appraiser must adjust for the magnitude of the difference between the
1644 parking ratio at each comparable versus the subject property. The impact of parking
1645 charges on the average base rental rate for living units at the respective property depends
1646 on the percentage of total tenant households that have parking available; the parking fee at
1647 a property that has only one space for each ten apartments has much less impact on
1648 average rents than a property that has nine spaces for each ten apartments. The RCS
1649 appraiser should create a weighting factor by dividing the smaller parking ratio into the
1650 larger ratio. That figure should show the magnitude of the difference in parking
1651 availability between each comparable and the subject, so if the comparable has a ratio of
1652 0.40 ratio of spaces to living units, and the subject property has a ratio of 0.80, the weight
1653 factor would be 50 percent.

1654 Finally, the RCS appraiser must weigh the extra value of one type of parking over
1655 another. If it is determined that covered parking is worth \$20 more to tenants in this
1656 market than open lot parking, that cost must be weighted for the parking ratio at that
1657 respective property; if that property has 7 spaces for every ten living units, the weighted
1658 value of covered parking there is \$14 (note that the weighting factor to the type of
1659 parking is based on the parking ratio at that property only).

1660 A graphic presentation of parking adjustments, using a chart or table, will typically be
1661 helpful if more than just a few simple adjustments are being made.

1662 Example: The subject property charges \$25 for monthly parking and has twice as
1663 many apartments as parking spaces, thus indicating a 0.50 parking ratio. The only
1664 parking offered is in an open lot. Comparable A charges \$40 for monthly parking
1665 and has three apartments for every two parking spaces, indicating a 0.67 parking
1666 ratio. Comparable A likewise offers only open parking spaces. The weighting for
1667 parking availability between the subject property and Comparable A is 0.50/0.67,
1668 or 75 percent. The net adjustment for Comparable A is $0.75 \times \$15$, or \$11; the
1669 adjustment is positive because the parking rate at the subject property is cheaper.
1670 Comparable B charges \$60 for monthly parking but has four apartments for every
1671 parking space, indicating a 0.25 parking ratio. The weight between the subject
1672 property and Comparable B is 0.25/0.50, or 50 percent. The net adjustment for
1673 Comparable B is $0.50 \times \$35$, or \$18. The adjustment is once again positive
1674 because the parking rate at the subject property is cheaper. But an additional
1675 adjustment is needed for Comparable B because all the parking is covered,
1676 compared to only open lot parking at the subject property. The RCS appraiser also
1677 identified another apartment complex nearby that offers both open lot parking and
1678 covered parking. The difference in cost is \$15, which would be the incremental
1679 value of covered parking. The RCS appraiser further adjusts the \$15 by applying
1680 the 0.25 parking ratio, resulting in a “net” value of \$4 for covered parking.
1681 Therefore, the final adjustment for Comparable B parking is \$14 (or \$18 less \$4).

1682 Line 25. Extra Storage. The RCS appraiser must enter “Y” or “N” indicating whether
1683 tenants are provided with additional storage space. This may include extremely large or
1684 functional closets or outside storage. Before adjusting for any storage inside the unit, the
1685 RCS appraiser must ensure that any adjustment for unit size did not already capture that
1686 value. Also, when adjusting for this line item, RCS appraisers must distinguish between
1687 availability of storage versus cost of storage. An adjustment based on cost rather than
1688 availability would be the case where the subject project offers ancillary storage for no
1689 charge while the comparables charge for a similar sized storage unit. The RCS appraiser
1690 should indicate the cost of storage by inserting the cost after the letter code. For example,
1691 a comparable that offers storage lockers for a \$20 fee can be represented by “Y/\$20,
1692 versus a comparable that offers free storage can be represented by “Y/\$0”.

1693 Example: If the subject offers no ancillary storage while Comparable A offers
1694 storage units at market rents, then Comparable A needs to be adjusted downwards
1695 if tenants value the convenience of on-site storage.

1696 Line 26. Security. The RCS appraiser must enter “Y” or “N”, and must describe and
1697 evaluate the subject’s security features, such as locked exterior doors with intercom, on-
1698 site security guards, secured site access, and exterior/corridor lighting. Only those
1699 features that tenants value and thus impact rent must be compared to the comparables and
1700 appropriately adjusted.

1701 Line 27. Clubhouse/Meeting Rooms/Dining Rooms. The RCS appraiser must enter “C”
1702 for clubhouse, “MR” for meeting rooms, and “DR” for dining room. If the project has
1703 none, the RCS appraiser should enter “N”.

1704 Line 28. Pool/Recreation Areas. The RCS appraiser must enter “P” for pool, “E” for
1705 exercise rooms, or “R” for other recreation facilities such as playgrounds, volleyball or
1706 basketball courts. The RCS appraiser must be sure to describe the type of recreation
1707 facilities in the underlying narrative description of adjustments. If any adjustment amount
1708 here exceeds the higher of \$10 or 2 percent of unadjusted rent of the comparable, which is
1709 possible in some resort or warm climate markets, the RCS appraiser must explain the basis
1710 for all adjustments made under this line item.

1711 Important Note for Lines 29, 30, 31, and 32: Appraisers must assess the value of all non-
1712 shelter services that are regularly and reliably available to tenants at the property, and
1713 should note whether the services are reliably available or incidental. More specifically,
1714 the RCS appraisers must note the following:

1715 13. The primary determining factors of the value of a service at a property are the
1716 attractiveness of the service to potential renters like those to whom the property is
1717 being marketed, and whether those services are reliably available to tenants. The
1718 cost to the owner of providing a service has no bearing on its effect on the
1719 valuation of the property.

1720 14. Services can be valued in two tiers depending on whether they are reliably
1721 available to tenants or whether they are incidental. Services that are reliably
1722 available are valued most highly, and an RCS should reflect the full value of
1723 provision of these services. Incidental services receive a reduced valuation,
1724 equivalent to the value of the convenience/availability of the service taking into
1725 account whether tenants must pay a fee to use the service.

1726 Example: A comparable does not offer a shuttle service to tenants, while the
1727 subject property does provide this service.

1728 a. If the subject property provides the shuttle as a reliably available service,
1729 the comparable should be adjusted upward by the amount that tenants
1730 would pay to use such a shuttle service at comparable properties, on
1731 average.

1732 b. If the subject property provides the shuttle as an incidental service for free
1733 by partnering with a nonprofit, the comparable should be adjusted upward
1734 by an amount equal to the convenience value of a local community
1735 organization that provides the service free of charge.

1736 c. If the subject property provides the shuttle as in incidental service and
1737 charges a fee, the comparable should be adjusted upward by an amount
1738 equal to the convenience value of a local organization that provides a
1739 shuttle service at the same cost as that charged by the property.

- 1740 15. RCS appraisers must explain the basis and rationale for any adjustments made
 1741 under Lines 29, 30, 31 and 32. This explanation should include evidence- and
 1742 experience-based reasoning for arriving at a given adjustment amount. If the total
 1743 net adjustments for Lines 29, 30, 31 and 32, exceeds the larger of \$50 or 5 percent
 1744 of the comparable’s unadjusted rent, the RCS appraiser must also support the
 1745 overall adjustment with market-based evidence regarding the value of these
 1746 services.
- 1747 16. In some cases, non-shelter services may be provided out of a single common area
 1748 facility. A single space used to provide more than one service has no bearing on
 1749 whether an adjustment is warranted or not; the consideration is exclusively based
 1750 on the value of each respective service to residents.
- 1751 17. The lack of a fee at the subject property that is prohibited other HUD regulation or
 1752 guidance (such as an Application Fee) is not a service, and thus may not form the
 1753 basis for a rent adjustment.
- 1754 18. If a service forms the basis for a valuation in an RCS, but that service is also
 1755 funded by a grant from HUD, that grant may be reduced by an amount equal to the
 1756 gross amount by which the service increases the RCS rent conclusion.

1757 Line 29. Business Center/Neighborhood Network. If the project has a business center
 1758 offering office services such as copying and faxing, the RCS appraiser must enter “BC.”
 1759 If the project has a HUD sponsored Neighborhood Network, the RCS appraiser must
 1760 enter “NNW”, or “N” for neither. RCS appraisers must review the “Important Note”
 1761 above pertaining to Lines 29, 30, 31 and 32.

1762 Line 30. Service Coordination. The RCS appraiser must identify if the project has a
 1763 service coordinator who helps residents access social services, health care or resources
 1764 for meeting other needs, and enter “Y” or “N” on this line item accordingly. RCS
 1765 appraisers must review the “Important Note” above pertaining to Lines 29, 30, 31 and 32.

1766 Line 31. Non-Shelter Services. The RCS appraiser must enter “M” for meals, “T” for
 1767 transportation, “EC” for emergency call systems, “H” for housekeeping, and “L” for
 1768 laundry service, “ED” for educational classes, “AS” for after school care, “SP” for
 1769 summer programs, “O” for other, or “N” for none. The RCS appraiser must record and
 1770 fully describe (in the accompanying narrative explanations) any other services provided at
 1771 the property. RCS appraisers must review the “Important Note” above pertaining to Lines
 1772 29, 30, 31 and 32.

1773 Lines 32. Neighborhood Networks (non-HUD). The RCS appraiser should populate this
 1774 line to capture features such as Neighborhood Networks-type programs or other types of
 1775 social support programs provided by sources other than HUD. RCS appraisers must
 1776 review the “Important Note” above pertaining to Lines 29, 30, 31 and 32.

1777 **Part E. Utilities (lines 33 through 39)**

1778 Lines 33 through 39. Since tenants make housing choices based upon total shelter cost
1779 (rent + utilities), estimated outlays for utilities reduce, dollar for dollar, the amount a
1780 prospective tenant is willing to pay for rent. If a utility is included in the subject's rent,
1781 but not in the rent of the comparable (or vice versa), the RCS appraiser must estimate the
1782 rental value of that utility and adjust accordingly. For projects with typical utility costs,
1783 the 'rental value' is probably close to what prospective tenants would expect to pay.
1784 However, for projects with unusually low utility costs, prospective tenants initially may
1785 overestimate utility costs, putting rental value slightly above actual cost. For projects with
1786 unusually high utility costs, the reverse may be true. Prospective tenants initially may
1787 underestimate utility outlays, causing rental value to be less than utility costs they incur
1788 following move-in.

1789 For lines 33 through 39, the RCS appraiser must enter "Y" if the service is included in the
1790 rent and "N" if it is not. The RCS appraiser must follow the Y or N entry with a slant bar
1791 and the energy source for the utility addressed on that line. If the project does not have a
1792 utility listed here, the RCS appraiser may leave the space blank. "Other Electric" on line
1793 37 includes the cost of electricity for things not listed separately on the form (e.g., lights
1794 and outlets).

1795 When making adjustments on lines 33 through 39, the RCS appraiser must consider if a
1796 utility is:

- 1797 19. excluded from the comparable rent but included in the subject rent, the RCS
1798 appraiser must enter a positive adjustment that reflects the amount prospective
1799 tenants would reasonably expect to pay for that utility at the comparable.
- 1800 20. included in the comparable rent but not the subject rent, the RCS appraiser must
1801 enter a negative adjustment that reflects what prospective tenants would
1802 reasonably expect to pay for that utility at the subject. Since tenants make housing
1803 choices based upon total shelter cost (i.e., rent + utilities), estimated outlays for
1804 utilities reduce the amount a prospective tenant is willing to pay for rent.
- 1805 21. included in the rent at both the subject and the comparable, a prospective tenant
1806 would probably perceive these as equal choices even if the energy sources (gas,
1807 electric, or oil) differ, and no adjustment would usually be needed by the RCS
1808 appraiser. However, if the RCS appraiser has evidence that the type of utility
1809 affects tenant preferences and rents, then the RCS appraiser may consider
1810 adjustments for tenant preferences. Example: Tenants may prefer gas over electric
1811 heat in severely cold locations. Such adjustments, when applicable, should not
1812 exceed a nominal amount of \$10 or 2 percent of unadjusted rent of the comparable,
1813 whichever is larger; the RCS appraiser needs to explain any adjustment exceeding
1814 that nominal amount.

1815 The RCS appraisers may use any reasonable method to value expected utility outlays, but
1816 must identify the method used and explain how the dollar adjustment was derived. Some
1817 data sources commonly used to value utility adjustments are listed below.

- 1818 22. Regional Utility allowances published by independent public agencies. When
1819 using this source as the basis of adjustment in any utility item, RCS appraisers
1820 must be mindful that such published allowances typically represent the very high
1821 end of a reasonable range for each respective utility item.
- 1822 23. Data gathered from utility providers.
- 1823 24. Data gathered from tenants and landlords.
- 1824 25. A HUD/CA approved utility allowance if the type of service and building
1825 attributes considered in developing the utility allowance are similar to the
1826 comparable being adjusted.

1827 **Part F. Adjustments Recap (lines 40 through 43)**

1828 This section calculates both the number and dollar value of adjustments, both before and
1829 after utility adjustments. HUD's Excel form automatically calculates these items.

1830 Line 40. Number of Adjustments B through D. Excel calculates the total number of
1831 positive and, separately, negative adjustments made to each comparable for items in Parts
1832 B through D.

1833 Line 41. Sum of Adjustments B through D. Excel calculates the total dollar amount of
1834 positive and, separately, negative adjustments made to each comparable for items in Parts
1835 B through D.

1836 Line 42. Sum of Utility Adjustments. Excel calculates the total dollar amount of positive
1837 and, separately, negative adjustments made to each comparable for the utility items in
1838 Part E of the form.

1839 Line 43 Net/Gross Adjustments B to E. Excel calculates the net adjustments, which is the
1840 addition of the four entries (positive and negative) on Lines 41 and 42. This line also
1841 shows the gross adjustments, which is obtained by adding the positive entries on Lines 41
1842 and 42 to the absolute value of the negative entries on those lines.

1843 **Part G. Adjusted Rents (lines 44 through 45)**

1844 HUD's Excel form automatically calculates these items, except for Line 46. RCS
1845 appraisers do not need to compute entries for Lines 44 and 45 manually.

1846 Line 44. Adjusted Rent. Excel computes this line by adding the net adjustments (Line 43)
1847 to the Effective Rent (Line 5) to derive an adjusted rent for each comparable.

1848 Line 45. Adjusted Rent/Last Rent. Excel computes this line by dividing the Adjusted
1849 Rent (Line 44) by the Last Rent (Line 1) and expresses the answer as a percent. This
1850 shows the impact of all adjustments made for all Parts of the form. The totals in Part F do
1851 not include the adjustments in Part A.

1852 Line 46. Estimated Market Rent. In this line, the RCS appraisers will determine, using
1853 their professional judgment, the point in the range of adjusted rents that best represents
1854 the rent a knowledgeable tenant would most probably pay for that unit type at the subject.
1855 HUD’s Excel form will divide that rent by the square footage shown for the subject in
1856 Part C to compute estimated market rent per square foot. When entering the estimated
1857 market rent, the RCS appraiser must explain the points listed below. The RCS appraiser
1858 is required to present these explanations immediately after his/her comments on Item 46.
1859 RCSs without these explanations will be rejected by the substantive reviewer.

1860 How the estimated market rent was derived from comparables’ adjusted rents.
1861 The RCS appraiser must explain how the estimated market rent was derived and
1862 why it was derived that way. He/she must note which comparables were given the
1863 most weight and why, including which attributes of those respective comparables
1864 resulted in their being weighted more or less than others. If the estimated market
1865 rent is set at the high or low end of the adjusted rents’ range, the RCS appraiser
1866 must explain why. For example, the narrative may note that a comparable located
1867 within the same master-planned community deserves proportionately more weight
1868 than another comparable which is only slightly farther from the subject, but is in a
1869 different school district. Alternatively, the RCS appraiser may support his/her
1870 estimation by stating that comparable A that may not be as close in distance as
1871 other four comparables, was given a higher weight than others because leasing
1872 agents have observed that prospective tenants often consider both projects
1873 (subject and comparable A) “family-friendly” due to on-site day-care facilities
1874 and similar services.

1875 How the estimated market rent was derived for a secondary unit type. When a
1876 subject has primary and secondary units, the RCS appraisers may start with the
1877 market rent for a primary type and adjust for the minor difference(s) between the
1878 secondary type and related primary type. RCS appraisers must explain why
1879 adjustments were made and how they were made in deriving rents for a secondary
1880 unit type.

1881

Appendix 9-1-2

1882

Required Contents for Rent Comparability Study

1883

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:

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1. RCS appraiser's name, company name, address, telephone, fax number (optional), and email address.

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1889

2. Project name, FHA/other project number of the Section 8 project.

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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 Comparability 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. If the study reflects both pre-repair and post-repair rent conclusions, two tables should be provided reflecting each scenario.

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

1897

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.

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1900

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.”

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1905 D. Scope of Work. The RCS appraiser must acknowledge that all work was done in
 1906 accordance with the requirements set forth in this notice, and provide a narrative
 1907 describing:

1908 6. Dates, number and types of inspections, and how unit sizes were verified.

1909 7. How rent, condition and amenity data were collected and verified. The RCS
 1910 appraiser should also note all interviews completed, records reviewed, and internet
 1911 sites used. The RCS appraiser should indicate the period during which data was
 1912 collected.

1913 8. Any data that was unobtainable or estimated and all efforts to obtain that data.

1914 9. Any assistance from assistant RCS appraisers.

1915 E. Description of Subject Project. The RCS appraiser must address the items listed under
 1916 this section by creating a chart or table like the template shown below. If the units being
 1917 renewed are located on scattered sites and those sites differ significantly on condition,
 1918 services, street appeal or other factors listed below, the RCS appraiser must need to create
 1919 a separate chart for each site:

1920 10. Project name and address (street, city, county, cross streets) and neighborhood
 1921 name if applicable).

1922 11. Site characteristics and improvements: number of buildings and their design
 1923 (construction material, structure type), number of units; topography and density;
 1924 and access to site.

1925 12. Unit mix for all units in the project, not just the Section 8 units. The RCS appraiser
 1926 should use the table format below, and ensure that he/she includes all revenue-
 1927 producing units in the project & group them by major unit types (e.g., #
 1928 bedrooms/# baths). The RCS appraisers should review Section 9-10 for a
 1929 definition of rent restricted units.

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

	Total		Total	Total	Total
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- 1930 13. Condition: age of project, state of repair, any recent/ planned rehab or refurbishing.
- 1931 14. Schedule of charges collected in addition to rent.
- 1932 15. 3 to 5 labeled, color photos of exterior and interior. The RCS appraiser must
1933 review Section 9-9 regarding requirements on photos, and insert the photos at the
1934 end of the RCS or in the body of RCS's description of the subject.)
- 1935 16. Population or occupancy group targeted for this project (e.g., elderly), if any.
- 1936 17. Summary of unit design and amenities.
- 1937 18. Summary of project service/ site amenities: parking, recreational facilities,
1938 community areas, security, service coordination, neighborhood networks,
1939 transportation, meal services, social or educational activities, emergency call
1940 systems, laundry or housekeeping, and any other amenities for elderly or disabled.
- 1941 19. Name and phone number of contact person. This would include the information for
1942 the individual who the RCS appraiser verified or collected information on the
1943 subject project.
- 1944 F. Owner's Scope of Repairs. As required under Section 9-9. D, the RCS appraiser must
1945 review the complete list of repairs to the subject project, and if needed prepare a separate
1946 set of HUD Form 92273-S8 Rent Comparability Grids to differentiate between pre-repair
1947 and post-repair conditions.
- 1948 G. Definition of the Subject's Market Area. The RCS appraiser must identify the geographic
1949 area from which the subject would normally draw its applicants, or the area where
1950 competitive alternative apartment buildings are located.
- 1951 H. Description of Neighborhood. Under this section, the RCS appraiser should provide a
1952 discussion of the project's location noting factors that would impact market rent level, as
1953 required under Section 9-9 of this Chapter.
- 1954 I. Narrative Describing Selection of Comparables. The RCS appraiser must provide an
1955 overall assessment of the availability of comparables and the quality of the comparables
1956 selected and state why the comparables used were selected, as required under Sections 9-
1957 10 and 9-11 of this Chapter. The RCS appraiser must document the search process in
1958 accordance with the Section 9-10.C requirements. If insufficient comparables or
1959 dissimilar comparables are utilized, the RCS appraiser must explain why in the narrative,
1960 and outline what research was performed to determine that more similar comparables
1961 were not available. If the comparables chosen have an identity-of-interest with the owner,
1962 management agent of the subject project, the RCS appraiser must identify those and
1963 explain why such a comparable was selected.

1964 J. Locator Map for Subject and Comparables. The RCS appraiser must include a locator
 1965 map identifying the subject project and each comparable. He/she must also clearly mark
 1966 major roadways and natural or man-made barriers (e.g., rivers, freeways, railways, etc.)
 1967 on the map.

1968 K. Rent Comparability Grid HUD-92273-S8. The RCS appraiser must complete one grid for
 1969 each primary unit type using instructions in Appendix 9-1-2 and guidance in Section 9-9
 1970 through 9-13 of this Chapter.

1971 L. Explanation of Adjustments & Market Rent Conclusions. As required under Sections 9-9
 1972 through 9-13 and the line-by-line instructions in Appendix 9-1-2, the RCS appraiser must
 1973 provide a narrative for each adjustment.

1974 M. Comparable Project Profiles. The RCS appraiser must provide a one-page, table/grid
 1975 profile of each comparable project used in the RCS. The RCS appraiser must profile each
 1976 project only once, regardless of the number of unit types for which the project was used.
 1977 The Sample RCS under Appendix 9-2-2 provides a sample profile that RCS appraisers
 1978 may use, or they can create their own table/grid formats. The RCS appraisers must
 1979 include at least the following items in their comparable project profiles:

1980 20. Project name and address (street, city, county, cross streets) and neighborhood
 1981 name.

1982 21. Name and phone number of contact person with whom the RCS appraiser verified
 1983 or collected information on the project and the date of verification.

1984 22. A color photo (at least 3” by 5”) of the project’s exterior. (Interior photos may be
 1985 included if available, but they are not required).

1986 23. A rent and unit mix table. Showing all units in the project and grouped by major
 1987 unit types (e.g., # bedrooms/# baths). The RCS appraiser must indicate which unit
 1988 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				
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- 1989 24. Total number of units at the project and project-wide occupancy.
- 1990 25. List of any charges tenants pay in addition to rent.
- 1991 26. Description of any rent, income, and use restrictions or tenant rent subsidies
1992 (Section 8, certificates, vouchers, state/local payments on behalf of residents) in
1993 effect at the project. The RCS appraiser must provide this information even if the
1994 units covered by the restriction/subsidy were not the units studied in the RCS.
- 1995 N. RCS Appraiser’s Certification (Appendix 9-1-5). The RCS appraiser must fill in the
1996 blanks and sign and date the Certification. When entering names, the RCS appraiser must
1997 also give title (e.g., Sharon Jones, Assistant RCS Appraiser). The RCS appraiser may
1998 enter “none” in items 8 and 10 if there is nothing to disclose.
- 1999 O. Copy of any Temporary License the RCS appraiser is relying upon for this RCS. Any
2000 temporary license relied upon must be issued by the state where the project is located.

Appendix 9-1-3

Comparable Project Profile

Project Name

Address

City/Town, State, Zip Code

Management Agent:

County:

Contact: Neighborhood:

Contact's Phone

Place Photo Below:

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:

2018 Other Comments:

2019 Date Information Verified: ___ / ___ / ___

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Appendix 9-1-4

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.
8. _____ inspected the exteriors of the projects used as comparables in this report.
9. 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.
10. 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.

2053 11. I/We am/are not debarred or suspended from doing business with the Federal Government.
2054 I also am not under a Limited Denial of Participation (LDP) imposed by the HUD Multifamily
2055 Regional Center or Program Center having jurisdiction over the Section 8 project. Any LDPs in
2056 effect now or in the past three years were imposed by the following HUD offices.

2057 12. I/We, the undersigned, certify under penalty of perjury that the information provided
2058 above is true and correct. WARNING: Anyone who knowingly submits a false claim or makes a
2059 false statement is subject to criminal and/or civil penalties, including confinement for up to 5
2060 years, fines, and civil and administrative penalties. (18 U.S.C. §§ 287, 1001, 1010, 1012; 31
2061 U.S.C. §3729, 3802).

2062 Appraiser's Name: _____ Signature: _____ Date: _____

2063 Permanent License No: _____ Issuing State: _____ Expires: _____

2064 Did you prepare the RCS under a temporary license? _____

2065 If so, attach a copy of the temporary license.

2066

Appendix 9-1-5

2067

Sample RCS Appraiser's Transmittal Letter

2068

2069 [Date]

2070 [Name & Address of Appraisal Firm]

2071 [Phone, fax and email contact info for Appraiser]

2072 [Owner's Name & Address]

2073 Re: **Rent Comparability Study/[Project Name]**

2074 Section 8 Contract Number: FHA No.

2075 Dear [Mr./Ms. Owner]:

2076 Attached is the Rent Comparability Study (RCS) you requested for [Project Name].

2077 The purpose of the study was to estimate the market rents for units that will be assisted
2078 under the renewed Section 8 contract. Market rent is the rent that a knowledgeable tenant
2079 would most probably pay for the Section 8 units as of the date of this report, if the tenants
2080 were not receiving rental subsidies and rents were not restricted by HUD or other
2081 government agencies. The following table lists the market rent I concluded for each Section
2082 8-unit type.

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

2083 The RCS was prepared in accordance with the Uniform Standards of Professional
2084 Appraisal Practice (USPAP) and the requirements in Chapter Nine of HUD's Section 8
2085 Renewal Guide. Market Rents were defined and estimated in accordance with the guidance
2086 in Sections 9-8 through 9-13 and Appendix 9-1-2 of Chapter Nine of HUD's Section 8
2087 Renewal Guide, and the RCS report was prepared in accordance with the guidance in
2088 Chapter Nine. I understand that HUD/the Section 8 Contract Administrator (CA) and the
2089 project owner will use my estimate of market rents to determine: 1) the owner's options for
2090 renewing the project's Section 8 contracts; and 2) the maximum rents allowed under any
2091 renewal contract.

2092 Additionally, as required by Section 9-14 of the Chapter Nine guidance, I compared the
 2093 Project's gross renewal rent with HUD's threshold, as shown below:

2094 **Mandatory Market Rent Threshold Test**

# of Bedrooms (For Section 8 Units)	# of Units	RCS Rents	Gross Rent
Total Gross Comparable Rent			

2095

# of Bedrooms (For Section 8 Units)	# of Units	SAFMR Rents	Gross Rent
		Total Gross SAFMR Rent	
		150% of Total Gross SAFMR Rent	

2096 Comparable gross rents are [greater than/less than] 150 percent of SAFMR rents.
 2097 Therefore, the property [does/does not] exceed the mandatory market rent threshold.

2098 Should you have any questions or require more information, please contact me directly
 2099 at the phone number or e-mail address listed above.

2100 Sincerely,

2101 [RCS Appraiser Name]

2102 ST Certified General Appraiser #

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Appendix 9-2-1

Sample Owner's Cover Letter

[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 Comparability 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:
7. [Provide a name, email and phone number for a point of contact at the agent/Owner's office]
8. 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]
9. I certify that if I discontinue any service to tenants at this property which forms the basis of a rent adjustment in this RCS, I will inform HUD in writing within 30 days of the termination of that service.

2135 10. I/We, the undersigned, certify under penalty of perjury that the information provided
2136 above is true and correct. WARNING: Anyone who knowingly submits a false claim or makes a
2137 false statement is subject to criminal and/or civil penalties, including confinement for up to 5
2138 years, fines, and civil and administrative penalties. (18 U.S.C. §§ 287, 1001, 1010, 1012; 31
2139 U.S.C. §3729, 3802)..

2140 [Owner's Name & Signature] [Date]

2141 Encl: Owner's Checklist

2142

Appendix 9-2-2

2143

Sample Owner's Checklist

2144

Owner's Materials

2145 Signed Cover Letter

2146 Signed Owner's Checklist

2147 Scope of Repair

RCS Materials

2148 RCS Appraiser's Transmittal Letter

2149 Scope of Work

2150 Description of Subject Project (including color photographs)

2151 Identification of the Subject's Market Area

2152 Description of Neighborhood

2153 Narrative Describing Selection of Comparables

2154 Locator Map for Subject and Comparables

2155 Rent Comparability Grid for Each Primary Unit type

2156 Narrative Explaining Adjustments and Market Rent Conclusions (one set of explanations for
2157 each Rent Grid)

2158 Comparable Project Profiles (each including a color photo)

2159 RCS Appraiser's Certification

2160 Copy of RCS Appraiser's License (only if relying upon a temporary license)

Mandatory Market Rent Threshold Materials

2161 Computation of the Project's gross rents and the SAFMR gross rents

2162 Comparison of Project's gross rents to the SAFMR gross rents

2163 **Owner's Signature & Date**

Appendix 9-5-5: Link to Certification of Substantive Reviewer

2164

Appendix 9-3-1

2165

Notes for Rent Grid Analysis and

2166

Triggers for Secondary Review

2167 All substantive reviewers must use the notes provided below when completing the Rent Grid
2168 Analysis checklist (Excel based version). The following notes provide line-by-line guidance to
2169 substantive reviewers for identifying areas that may warrant a closer evaluation, or in some
2170 cases trigger a mandatory second review, as provided in Section 9-16 if the substantive
2171 reviewer is a non-appraiser HUD staff. The second reviewer would assess the appropriateness
2172 and reasonableness of the specific line item that triggered a second review, as opposed to the
2173 entire RCS. The minimum qualifications for performing a substantive review and/or a second
2174 review are provided in Section 9-15. A.2 (“Substantive Review”). If the first and second
2175 reviewers do not reach consensus, then the trigger item will be reviewed by an RCS review
2176 appraiser, whose opinion will prevail as to what revisions, if applicable, need to be made to the
2177 RCS. Seeking a second reviewer’s input is not a requirement if the rent grid analysis review is
2178 being performed by an RCS review appraiser.

2179 Line 1: \$ Last Rent/Restricted. Using a comparable from an affordable/restricted project
2180 should only be a “last resort”. Adjustments that would need to be made to a restricted
2181 comparable are inherently subjective. Likewise, using a comparable from other categories of
2182 project types, such as independent or assisted living facilities or master-planned retirement
2183 communities, for an age-restricted Section 8 project, may be difficult to justify because tenants
2184 at those types of projects choose them over conventional apartment projects due to the non-
2185 shelter services offered at such facilities, and because non-shelter services offered in a Section
2186 8-assisted project are valued differently. In particular, a comparable property that offers a daily
2187 meal or meals included in the monthly rent poses specific challenges with regard to
2188 determining appropriate rent adjustments. Accordingly, use of rent-restricted projects will
2189 trigger a second review. Using a rental comparable that offers one or more daily meals
2190 included in the monthly rent, whether that comparable is an independent or assisted living
2191 facility, or a master-planned retirement community, will also trigger a second review (the
2192 trigger will not apply if the RCS appraiser has used units that do not include daily food service
2193 in the rent, even if that comparable provides the option of taking daily food service; the trigger
2194 will only apply if paying for daily food service is mandatory at that comparable).

2195 Line 2: Date Last Leased. Adjustments on this line item should be rare since the RCS appraiser
2196 should only be using recent lease transactions to begin with. Accordingly, an adjustment on
2197 this line exceeding \$15 or 3 percent of the comparable’s unadjusted rent, whichever is larger,
2198 would be unusual, and thus the substantive reviewer needs to carefully review the RCS
2199 appraiser’s explanation for that adjustment exceeding the threshold amount.

2200 Line 3: Rent Concessions. Concession adjustments should be based on a simple mathematical
2201 formula for calculating effective rent (i.e., the total rent paid over the lease term divided by
2202 total months of occupancy, including rent-free periods). Difference between nominal rent and

2203 effective rent is then entered as the amount of the negative adjustment to the comparable. Use
2204 of an amount other than that indicated by the formula above should trigger a second review.

2205 Line 4: Occupancy Rate. This line item is rarely adjusted. Should be only used if the RCS
2206 appraiser is confident that the comparable project consistently runs at unusually high or
2207 low occupancy rate because the asking rent is either too low or too high, respectively
2208 (See Appendix 9-1-2 under Line by Line instructions). Accordingly, an adjustment on
2209 this line exceeding \$15 or 3 percent of the comparable's unadjusted rent, whichever is
2210 larger, would be unusual, and thus the substantive reviewer needs to carefully review the
2211 appraiser's explanation for that adjustment exceeding the threshold amount.

2212 Line 6: Structure/Stories. Adjustment on this line item can be based on a variety of factors,
2213 such as walk-up versus elevator, or stacked flat versus townhome configuration. The appraiser
2214 should try to select comparables that have the same structure type as the subject project. Scale
2215 of adjustments should typically be modest. An adjustment on this line exceeding \$15 or 3
2216 percent of comparable's unadjusted rent, whichever is larger, would be unusual, and thus the
2217 substantive reviewer needs to carefully review the RCS appraiser's explanation for that
2218 adjustment exceeding the threshold amount.

2219 Line 7: Year Built/Yr. Renovated. This adjustment is inherently subjective and needs to be
2220 accompanied by a clear, comprehensive explanation by the RCS appraiser. Typically,
2221 adjustments should not be made at all for age differences of just a few years. An ideal
2222 approach is to adjust in multiples of a fixed number of years of age difference. For example,
2223 each multiple of three years of age difference between the subject and the comparable would
2224 be assigned a certain dollar amount of adjustment. An adjustment on this line exceeding \$5 or
2225 1 percent of comparable's unadjusted rent, whichever is larger, for each year of age difference
2226 should be a trigger to for a second review.

2227 Line 8: Condition/Street Appeal. This adjustment is often subjective and needs to be
2228 accompanied by a clear, comprehensive explanation by the RCS appraiser. Based on the
2229 mandatory five levels of ratings (Excellent, Good, Average, Fair and Poor), an adjustment of
2230 more than \$20 or 4 percent of comparable's unadjusted rent, whichever is larger, for each
2231 level of rating difference triggers a second review. For example, a positive adjustment for an
2232 "Average" rated comparable versus an "Excellent" rated subject, should not exceed \$40. Due
2233 to the potential for overlap between adjustment parameters, if the RCS appraiser has made an
2234 adjustment also on Line 7 for Year Built/Renovated, the trigger for a second review is \$15 or
2235 3 percent of comparable's unadjusted rent, whichever is larger, for each level of rating
2236 difference for Line 8.

2237 Line 9: Neighborhood. This adjustment is inherently subjective and needs to be accompanied
2238 by a clear, comprehensive explanation by the RCS appraiser. Based on the mandatory five
2239 levels of ratings (Excellent, Good, Average, Fair and Poor), an adjustment of more than \$20 or
2240 4 percent of comparable's unadjusted rent, whichever is larger, for each level of rating
2241 difference triggers a second review. For example, a positive adjustment for an "Average" rated
2242 comparable versus an "Excellent" rated subject, should not exceed \$40 or 8 percent of
2243 comparable's unadjusted rent, whichever is larger.

2244 Line 10. Same Market. Using a comparable from a different market should be rarely used, as
2245 adjustments that would need to be made to a comparable in a different market are inherently
2246 subjective. Accordingly, an adjustment on this line item should typically not exceed \$15,
2247 whether it is to account for a different market or for distance to the subject project. For
2248 adjustments exceeding \$15 or 3 percent of comparable's unadjusted rent, whichever is larger,
2249 the substantive reviewer needs to carefully review the RCS appraiser's explanation for that
2250 adjustment exceeding the threshold amount.

2251 Lines 11-13: Number Bedrooms/Bathrooms/Unit Interior Square Feet. The appraiser should be
2252 able to justify adjustments with specific market data, such as paired comparable analysis. A
2253 trigger for a second review would be if the RCS appraiser adjusts for a size difference less than
2254 10 square feet. The RCS appraiser should be using comparables with units as close as possible
2255 in size to the subject units, so very large adjustments based on large differences in unit size are
2256 likewise discouraged. Total net adjustments for line items 11 through 13 exceeding \$100 or 20
2257 percent of comparable's unadjusted rent, whichever is larger, would suggest that the
2258 comparable may not be suitable, and thus for an adjustment exceeding that threshold amount,
2259 the reviewer needs to carefully review the appraiser's explanation.

2260 Line 14: Balcony/Patio. Adjustment for this line should typically be nominal, generally not
2261 exceeding \$10 (but for some special cases such as resort areas, warm climates, adjustments
2262 may be slightly higher). RCS appraiser must describe the basis for any dollar amount of
2263 adjustment that exceeds \$10 or 2 percent of comparable's unadjusted rent, whichever is
2264 larger.

2265 Line 15: AC/Central/Wall. While adjustment for type of AC will rarely exceed \$10 or \$15,
2266 adjustment for lack of AC may be more substantial in some markets. RCS appraiser must
2267 describe the basis for any dollar amount of adjustment that exceeds \$10, or 2 percent of
2268 comparable's unadjusted rent, whichever is larger.

2269 Line 16: Range/Refrigerator. It is not unusual in some markets for owners to not provide a
2270 refrigerator. The amount of adjustment should typically not exceed the monthly cost of
2271 equipment rental.

2272 Line 17: Microwave/Dishwasher. The substantive reviewer needs to carefully review the
2273 RCS appraiser's explanation for an adjustment on this line exceeding a total of \$20 or 4
2274 percent of comparable's unadjusted rent, whichever is larger.

2275 Line 18: Washer/Dryer. If the unit includes hookups but the equipment is not provided by
2276 the owner, the amount of adjustment should typically not exceed the monthly cost of
2277 equipment rental.

2278 Line 19: Floor Coverings. As floor coverings typically vary little within a given market (e.g.,
2279 carpet, except vinyl in kitchens and baths), an adjustment on this line should rarely exceed \$10
2280 to \$15, if made at all. For adjustment amount exceeding \$10 or 2 percent of comparable's
2281 unadjusted rent, whichever is larger, the RCS appraiser must discuss and provide market
2282 evidence. Adjustments for specialty coverings (e.g., ceramic tile in some areas of the living
2283 unit) should be in Line 22 ("Special Features") rather than in this line item.

2284 Line 20: Window Coverings. While is it common to adjust for owner-provided vs. tenant-
2285 provided window coverings, any adjustment at all for type of window covering is unusual,
2286 and thus would only be acceptable if RCS appraiser provides market evidence for
2287 adjustments exceeding \$10 or 2 percent of comparable's unadjusted rent, whichever is
2288 larger.

2289 Line 21: Cable/Satellite/Internet. If the owner provides connection but the tenant pays the
2290 monthly service fee, the amount of adjustment should not exceed the published monthly
2291 fees.

2292 Line 22: Special Features. If the RCS adjusts more than \$10 or 2 percent of comparable's
2293 unadjusted rent, whichever is larger, for any individual item, market evidence must be cited
2294 in the RCS.

2295 Lines 23. Blank line. The RCS appraiser should use this line to add a unit amenity that is not
2296 listed but significantly affects the rent a tenant would pay. The RCS appraiser must describe the
2297 amenity on the line provided and make dollar adjustments as appropriate.

2298 Line 24: Parking. As described in Appendix 9-1-2 (Line-by-Line Instructions), there are three
2299 distinct types of adjustment may be included in this line. These are (a) availability of parking,
2300 (b) cost of parking, and (c) type of parking facility. Explanation provided in the RCS should be
2301 sufficiently clear for the substantive reviewer to follow just how the adjustments made fit into
2302 these respective categories. A chart is suggested if more than just a few simple adjustments are
2303 made.

2304 Line 25: Extra Storage. As described in Appendix 9-1-2 (Line-by-Line Instructions), RCS
2305 appraiser must distinguish between adjustments for availability of storage versus cost of
2306 storage. The substantive reviewer needs to carefully review the RCS appraiser's explanation
2307 for a total adjustment on this line exceeding \$20 or 4 percent of comparable's unadjusted rent,
2308 whichever is larger.

2309 Line 26: Security. The substantive reviewer needs to carefully review the RCS
2310 appraiser's explanation for an adjustment on this line exceeding \$15.

2311 Line 27: Clubhouse/Meeting Rooms. The substantive reviewer needs to carefully review
2312 the appraiser's explanation for an adjustment on this line exceeding \$10.

2313 Line 28: Pool/Recreation Areas. While generally nominal, adjustment on this line could be \$15
2314 or more in some markets. RCS appraiser must provide market evidence to justify adjustments
2315 exceeding \$10 or 2 percent of the comparable's unadjusted rent, whichever is larger.

2316 Lines 29-31: Business Center/Service Coordination/Non-shelter Services. RCS Appraiser
2317 should explain any adjustment within these categories. Since it is rare for a project to offer
2318 more than a few distinct categories of non-shelter services, total net adjustments to any
2319 comparable for these line items exceeding \$50 or 5 percent of the comparable's unadjusted
2320 rent, whichever is larger, should be a trigger for a second review.

2321 Lines 33-39: Utilities. To account for owner-paid versus tenant-paid items, the RCS appraiser
2322 should explain the criteria used. Typically, published housing authority utility allowances will
2323 represent an upper limit for any category. Use of adjustment amount for any utility category
2324 that exceeds the respective published allowance would be a trigger for a second review. The
2325 RCS appraiser may also choose to adjust for tenant preferences, when applicable, for type of
2326 utility (e.g., gas cooking versus electric, gas heat versus electric), but those adjustments will
2327 typically be small (see discussion in Appendix 9-1-2).

2328 Line 46: Estimated Market Rent. As described in Section 9-13 and Appendix 9-1-2, the RCS
2329 must note which comparables were weighted over others for purposes of evaluating the
2330 adjusted rents, and also the reasons why those comparable were weighted over others.

2331

Appendix 9-3-2

2332

Sample Issues Memo from Substantive Reviewer

2333 [Name of Regional Director at HUD (or equivalent)]

2334 [Address of HUD/CA]

2335 Name of Subject Project:

2336 Section 8 Contract Number:

2337 I have performed a Substantive Review of the Rent Comparability Study (RCS) of the
2338 aforementioned project. Based on my review, I have identified the following issues that
2339 need to be addressed by the RCS appraiser and/or Owner.

2340 1. Type issue #1 here.....

2341 2. Type issue #2 here.....

2342 3. Type issue #3 here.....

2343 4. Type issue #4 here.....

2344 I am requesting for the RCS appraiser and/or Owner to provide additional information or
2345 explanations on the items noted above within 10 calendar days of date of HUD's/CA's
2346 request, as per HUD guidelines in Chapter Nine of the Section 8 Renewal Guide.

2347 Please do not hesitate to contact me if you have questions concerning my findings.

2348 [Insert substantive reviewer's name]

2349 [Address, email and phone number]

Appendix 9-4

Special Project Types

2350

2351

2352

2353 If the RCS appraiser uses comparables from project categories that would not typically be
2354 suitable for use as comparables for multifamily rental housing, as outlined under Section 910.
2355 C.4, the RCS appraiser must consult the guidance provided below.

2356 A. Cooperative Project (Co-Op): A Co-Op is a multi-unit project in which those who own
2357 the project actually own shares in the ownership of the overall project as a whole. For the
2358 purposes of an RCS, the fact that the project is a co-op doesn't significantly affect the
2359 market rental rate of the subject and/or the comparable project. Depending on the market
2360 evaluation that is performed by the RCS appraiser, an adjustment may be justified for the
2361 ownership being a co-op but most likely it will have no effect on the concluded market
2362 rental rate.

2363 B. Elderly/Special Needs: An elderly or special needs project is different from traditional
2364 market rate projects because these projects typically include services offered at no extra
2365 cost to the tenant. The mix of these services will vary widely among projects in each
2366 market as well as between different markets. Upon identification of an age-restricted or
2367 Special Needs project, the RCS appraiser should determine what extra services are
2368 provided (and how they are funded) and during the comparable selection process attempt
2369 to identify projects that offer similar services with the same restrictions as well as being
2370 in the defined market area. The preference in selection would be to go outside the market
2371 area and find comparable projects offering the same or similar services, rather than
2372 locating projects within the defined market areas but offering different services. If the
2373 Elderly/Special Needs project doesn't offer any services above and beyond a normal
2374 market rate project, then no adjustments would be required and the comparable selection
2375 could utilize traditional market rate projects for comparison. However, an adjustment
2376 would most likely be required due to the restriction of the tenant pool as compared to a
2377 traditional market rate project.

2378 C. Student Housing: Included as a Special Project due primarily to the growth of these
2379 projects, and the "by the bed" rental structure that they often offer. There are two types of
2380 projects that fall under the Student Housing category; (1) traditional apartment projects
2381 that are rented by the unit, but are restricted to students and (2) "by the bed" projects.

2382 D. The first project type is one that is similar in operations and rentals to the traditional
2383 apartment project, and specifically similar to an elderly or age-restricted project. The
2384 tenant rents a studio or larger unit, containing a kitchen, bath, and sleeping quarters.

2385 The second project type is one that has become very popular over the last 10-20 years and
2386 that is a project that rents beds, rather than apartment units. Accordingly, there will be
2387 two or more tenants sharing a living unit. This concept is similar to a college dorm

2388 concept mixed with a traditional apartment project. Commonly, these projects will also
2389 offer services that cater to students and student-living and will be located on and very
2390 close to campus. As an RCS will in all cases involve estimating market rents for self-
2391 contained living units rather than bed rentals within shared apartment units, this second
2392 project type cannot under any circumstance be used as a rental comparable for the RCS.

2393 E. Congregate-Care Projects: Included as a Special Project Type due to the amount of
2394 extended services available, and the “by the bed” rental structure that they sometimes
2395 offer. There are several types of projects that fall under Congregate-Care Housing but all
2396 offer some level of home health care services to either the elderly or persons with special
2397 needs. The different types could include (1) Assisted-living facilities, (2) senior citizen
2398 housing, or (3) other age-restricted retirement communities. Congregate-care housing
2399 typically offers enhanced healthcare services for the elderly, whereas the typical elderly
2400 housing projects offer only limited services with no specific healthcare applications.

2401 For some care facilities, residents lease a bed rather than a private unit. Typically, that
2402 kind of facility will offer skilled nursing, and will require payment on a daily rather than
2403 monthly basis. The RCS appraiser will not encounter this type of facility for purposes of
2404 estimating rent for a Section 8 project. Accordingly, there is no reason to use projects
2405 rented on a daily rather than monthly basis as rental comparables. As an RCS will, in all
2406 cases, involve estimating market rents for self-contained living units rented on a monthly
2407 basis, rather than daily bed rentals, this project type cannot under any circumstance be
2408 used as a rental comparable for the RCS.

2409 F. After-Rehabilitation: Included as a Special Property Type due to the hypothetical
2410 assumption that the proposed renovation has been completed. This requires a dual review
2411 of the subject project in its “as is” state, and a “projected” review as though all units and
2412 common areas that will be renovated have already been renovated, in accordance with the
2413 specifications provided in the renovation scope of work. This then requires the RCS
2414 appraiser to include comparables similar to the subject project in its post-renovation
2415 condition.

2416 The RCS appraiser should review what if, any repairs are proposed for the subject
2417 project. Proposed changes to the subject project other than routine repairs for deferred
2418 maintenance may need to be reflected in Form 92273-S8 adjustments to rental
2419 comparables. Examples of adjustments that may need to be reflected in the RCS
2420 appraiser’s Form 92273-S8 analysis would include changes in utility configuration, such
2421 as installing separate living unit meters that effectively convert an owner-paid utility
2422 service to a tenant-paid basis. Another example of possible adjustments would be
2423 additions or reductions in the scope of non-shelter services, such as would occur if
2424 management were proposing to eliminate an on-site day care facility or other amenity.
2425 Even if no specific change is proposed to utility configuration, available amenities, or
2426 available non-shelter services, the subject project’s overall condition and appeal may be
2427 enhanced by the proposed scope of work. Accordingly, the RCS appraiser needs to
2428 consider how adjustments for line items 7 and 8 of the form 92273-S8 (Year built/Yr.
2429 Renovated and Condition/Street Appeal) will be affected.

2430

Appendix 9-5

Forms Used in Preparation and Review of an RCS

Form	HUD Form No.	Link
Initial Checklist	N/A	[to be populated]
Substantive Checklist	N/A	[to be populated]
Rent Comparability Grid	HUD 92273-S8	[to be populated]
Rent Comparability Grid Instructions	HUD 92273-S8I	[to be populated]
Request to Renew Using SAFMR as Market Ceiling	HUD 9630	[to be populated]
Request to Renew Using Non-Section 8 Units in the Section 8 Project as a Market Rent Ceiling	HUD 9629	[to be populated]
Rent Grid Analysis Checklist	N/A	[to be populated]
Worksheets for Mark-up-to-Market (Option 1)	N/A	[to be populated]