
CHAPTER 9. VALUATION INSTRUCTIONS

- 9-1. PROPOSED CONSTRUCTION. When there is a sufficiently strong rental market, an investor sponsored project with no presale requirement may be constructed by an investor-sponsor with HUD-FHA mortgage insurance. In the event the investor-sponsor is unsuccessful in efforts to find a sufficient number of cooperative member subscribers, it is contemplated that it will be operated on a rental basis under the usual Assistant Secretary-FHA Commissioner regulation of rents, capital structure, rate of return and methods of operation.
- 9-2. FEASIBILITY STAGE PROCESSING. Since investor sponsored projects present the possibility of being dependent on their competitive position in the rental investment market for the two year marketing period and perhaps an indefinite period in the future, the appraiser will consider the proposal from two different approaches:
- a. As a rental project.
 - b. As a cooperative.
- 9-3. PROCESSING AS A RENTAL PROJECT. Processing the proposal as a rental project uses portions of a supplementary FHA Form 2264 to develop some of the information essential to determination of feasibility as a rental project. Other portions of the essential information are recorded on FHA Form 2264-B. Where the same entries would appear on both forms, they are omitted from FHA Form 2264 to eliminate duplication. Processing as a rental project is done in the following steps:
- a. In accordance with basic Section 207 (Reference (9) of the Foreword) instructions on FHA Form 2264, record the location and description of property, estimate of income, equipment and services included in rent, estimate of annual expense as a rental project, occupancy and income computations to result in net income estimate.
 - b. Operating deficit, if applicable, is estimated in Section I. other portions of FHA Form 2264 are not completed.
 - c. On FHA Form 2264-B, the replacement cost is estimated (Section H) as in management type cooperatives except that the loan ratio applicable to investor sponsored projects (90%) is used for the mortgage amount to compute interest during

construction, mortgage insurance premium, inspection fee, financing expense, and title and recording expense. The examination fee, however, will be computed on a mortgage amount based on the 97% loan ratio applicable when the property is sold to a management type cooperative.

- d. Using Criterion 5 of FHA Form 2264-A as a worksheet, develop the mortgage amount which can be supported by 90% of the net income from the rental project (FHA Form 2264). This mortgage amount is divided by 90% in the calculation of budgeted construction cost in Section M of FHA Form 2264-B.
- 9-4. DETERMINATION OF FEASIBILITY AS A RENTAL PROJECT. A finding of feasibility is justified when cost data indicates and sponsor agrees that he can build the project for the amounts within the construction budget. A sponsor whose proposal is not feasible as a rental project may not receive a feasibility letter for an investor-sponsor project. However, he may apply for further consideration with a management type cooperative application.
- 9-5. PROCESSING AND FEASIBILITY AS A COOPERATIVE. The remaining portions of FHA Form 2264-B are completed in accordance with instructions for management type cooperatives. Feasibility as a cooperative is justified when the sponsor states and HUD agrees that he can engage in a successful marketing program of the cooperative living units with the project mortgage amount shown in the feasibility letter as being available to the cooperative.
- 9-6. REHABILITATION. Investor sponsored rehabilitation projects are processed in accordance with the instructions for management type rehabilitation projects Reference (2) of the Foreword.