

Appendix 40

PROJECT-BASED CERTIFICATE PROGRAM  
ESTABLISHING INITIAL CONTRACT RENTS  
FOR NONINSURED PROJECT

Instructions: Within 30 working days of receipt of a PBC project application, the Valuation Branch must establish the initial contract rents and personal benefit expenses for the project.

The Valuation Branch reviews the project description and sketches included in the owner's application and any additional PHA-required work items, and performs an onsite analysis to establish market rents by comparison, using Form [HUD-92273](#) (without special adjustments), for the units in their after rehabilitation or newly constructed condition.

The Valuation Branch also reviews the owner's projected utility costs for each utility that is not included in the rent, and the PHA's schedule of Section 8 utility allowances, and establishes the personal benefit expenses (utility allowances) for each unit type in the project.

The initial Section 8 contract rents must be the lowest Of:

- a. the Section 8 Existing FMRs (or exception rents) in effect when the Section 8 Agreement is executed minus HUD's personal benefit expense (PBE) for the project.
- b. the HUD determined market rents (reasonable rents) based on comparable rents for unassisted units.
- c. the minimum rents HUD determines are necessary to make the project feasible after taking account of tax credits and other government assistance, in accordance with 24 CFR Part 12. (Item C was effective 4/15/91 for projects with tax credits; a future Federal Register Notice will provide the effective date of item C for projects with other government assistance but no tax credits).

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The Assistant Secretary's prerogative, special 5 percent elderly or handicapped adjustments to FMRs, and special Section 8 adjustments to correlated rents with cost justification for the rent comparability analysis are not applicable to the Project-Based Certificate Program. HUD Valuation staff will determine the market rents for the units after rehabilitation or construction; this approach is different from the process used by PHAs to establish a reasonable rent for units in the tenant-based certificate component, which identifies units comparable to the current condition. The attached copy of Form [HUD-92773](#), Estimates of Market Rent

by Comparison, has been modified for HUD use for non-insured project-based Section 8 Certificate units. A worksheet for determining contract rents for noninsured projects is also attached.

PHAs should submit the following items to the local HUD Field Office:

1. A completed Form [HUD-52580A](#) indicating the PHA-required work items to meet the \$1,000 per unit rehabilitation minimum and to bring the units up to the Section 8 Housing Quality Standards (HQS).
2. A copy of the owner's rehabilitation work write-up (which generally will include additional work items beyond those required by the PHA), and where determined necessary by the PHA, the rehabilitation specifications and plans.
3. A copy of the new construction working drawings and specifications.

4. A letter indicating the HAP Contract term and ACC expiration date of the funding source, the unit size distribution of the Section 8 units, and if applicable, a request by the PHA for HUD to approve exception rents, up to 110 percent of the FMRs.

5. The PHA's utility allowances. (The HUD PBE must be used.)

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Exception rents. If the initial contract rents are limited by the FMRs, and the PHA submission includes a request for approval to exceed the FMRs:

a. The appraiser must check with the PHD for a determination of whether exception rents are permissible if the PHA, is seeking approval to exceed the FMRs by up to 10 percent.

b. The appraiser must check with the Economic and Market Analysis staff for a determination of whether exception rents are permissible if the PHA is seeking approval to exceed the FMRs by more than 10 percent and up to 20 percent.

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CONTRACT RENTS

NON INSURED PROJECTS  
SECTION 8 PROJECT-BASED CERTIFICATE PROGRAM

No. BR.	(a) Published Existing FMR or Applicable Rent	(b) PBE	(c)* Maximum Section 8 Contract Rents (a) minus (b))
0	\$ _____	- \$ _____	= \$ _____
1	\$ _____	- \$ _____	= \$ _____
2	\$ _____	- \$ _____	= \$ _____
3	\$ _____	- \$ _____	= \$ _____
4	\$ _____	- \$ _____	= \$ _____

No. BR.	(d)* Market Rents by Comparison with Unassisted Units (Line 22 of Form 92273)	(e)* Reduced Rents due to Tax Credit & Other Government	(f) Contract Rents (Lowest of (c)), (d), or (e))
0	\$ _____	_____	\$ _____
1	\$ _____	_____	\$ _____
2	\$ _____	_____	\$ _____
3	\$ _____	_____	\$ _____
4	\$ _____	_____	\$ _____
			Total
	\$ _____		

\*Fractions of a dollar should be rounded up to the next whole dollar.

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ESTIMATES OF MARKET RENT BY COMPARISON

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FORM HUD-92273 ESTIMATES OF MARKET

RENTS BY COMPARISON

1.PURPOSE. Form [HUD-92273](#) will provide the Multifamily Appraiser with a convenient and systematic means of analyzing Comparable Rental Units, measuring any differences, and arriving at estimates of market rents by comparison for the subject unit. This form shall be used for finding Market Rent by Comparison.

2.PREPARED BY. This form is prepared by the processing appraiser.

3.NUMBER: One form is to be prepared for each type and size (if significantly different) of rental unit in the project being processed.

4.DISTRIBUTION. Originals are to be included in the Valuation File as supporting documentation for the Form 2264 used in processing, copies are to be included in any other files and dockets as considered appropriate by the Director, Housing Development Division.

5.INSTRUCTIONS. Spaces at the top of Columns A through E shall be used to identify adequately the comparables chosen by the processor. A minimum of three comparables for each unit type may be used if there is a shortage of good comparables. Normally, however, use of five is recommended. This will provide better analysis and a more accurate estimation of market rent. Comparables chosen shall be as similar to the subject as possible (i.e., those requiring the least adjustments). If reasonably acceptable comparables are not available in the subject locality, comparables from similar, although geographically more distant locations, should be used.

a.Each of the items listed in the first column under "Characteristics" tends to affect the rents typical tenants in the subject's competitive area would pay. However, not all of

the listed characteristics will always have an appreciable effect all of the time. Local market conditions will dictate if, when, and how much of an effect any given item might exert. The Appraiser shall reflect this effect, if any, in the analysis.

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Space for listing additional items, if considered appropriate by the appraiser, is provided under Item 16, "OTHER". Throughout the analysis, care must be exercised to insure that no duplication of "Characteristics" and/or "Adjustments" inadvertently takes place.

b.The appraiser will relate each of the characteristics to the subject and the comparables used by making relevant entries in corresponding spaces in each of the respective columns under "Data." These entries will serve to facilitate objective comparison of the subject unit characteristics with those of each of the comparables. Significant observable differences between the subject and the comparables shall be reflected by entering a dollar amount for each difference in the appropriate space under "Adjustments."

c.The adjustments must be made in dollar amounts, reflecting local market differences between the subject and the comparables. If the subject is superior to a comparable, relative to a characteristic enter the amount of the adjustment in the "Plus" (+) column for that comparable; if the subject is inferior, enter the amount of the adjustment in the "Minus" (-) column.

d.The items 1 through 26 are mostly self-explanatory. However, for the purpose of consistent interpretation, the following shall be used.

(1)Item 1. Unit Type. Adequately identify the unit type for which the monthly market rent by comparison is to be estimated by entering the appropriate description (e.g., 1BR-1B, 1BR-1-1/2B, etc.) in the space provided on the line "Unit Type." Unit types substantially different due to size, design, etc. are not to be combined on one sheet even if they have the same bedroom count.

(2)Item 2. Subject Property. Enter the name, project number and location of the subject project in the space provided.

(3)Item 3. Eff. Date of Rental. Enter the date that the comparable unit was last leased as the "Effective Date of

Rental." If the comparable

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rental does not represent the amount currently obtainable on the open market, but represents an amount obtainable at an appreciably earlier date, the earlier date shall be entered as the "Effective Date of Rental" and a time adjustment made. For example, assume that a rental appearing on FHA Form No. 184, Income and Market Absorption Record, was last verified six months ago, and an updated rental for that unit type within the comparable project cannot be obtained. The date as of six months ago shall be entered as the "Effective Date of Rental" and a time adjustment shall be made from the effective date to the date of appraisal. If units in a comparable project similar to the subject unit are currently offered for lease, and there is substantial reason to believe that the units are readily rentable at the rents offered, the currently offered rent may be entered; the date of the appraisal shall be recorded as the "Effective Date of Rental" and no time adjustment shall be made.

(4)Item 4. Type of Project/Stories. Enter "E" for elevator, "TH" for townhouse, "WU" for walkup, etc.; a slant bar and the number of stories. Choose only comparables of the same project type as the subject, when practicable.

(5)Item 5. Year Built. Enter the dates as appropriate for the subject and comparables. If the age difference would affect the level of attainable rents, an adjustment is required. In cases where the unit and/or project has been, or is proposed to be, rehabilitated, this entry shall include the actual age followed by a slant bar and the completion date of the rehabilitation and shall be referenced to clarifying remarks. Adjustments shall be made on the basis of effective rather than chronological age. Clarifying remarks for this and other items, where appropriate or required by instructions herein, shall be written on the back of the Form and identified and referenced by asterisks or numbered superscripts.

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(6)Item 6. Sq. Ft. Area. This refers to the net rentable area of the unit. NOTE: A variation of the Principle of Contribution may affect adjustments for differences in unit size. A given square foot difference may not enhance the utility of a larger unit to the same degree that it might a smaller unit (i.e., a difference of 50 square feet of net rentable area would have greater market effect relative to a 500 square foot 1BR unit than to an 800 square foot 1BR unit).

(7)Item 7. Number of Bedrooms. Entry for this item is self-explanatory. The appraiser is not justified in using comparables with a bedroom count different from the subject, except in very unusual circumstances. Where such circumstances exist, a detailed explanation shall be given.

(8)Item 8. Number of Baths. Entry for this item is self-explanatory.

(9)Item 9. Number of Rooms. Entry for this item is self-explanatory. Dividing a unit into too many rooms relative to its size would tend to have a negative effect on that unit's rentability. Generally, an adjustment for the number of rooms shall not be made in addition to a size adjustment, but it is not prohibited if necessary to reflect local market reactions, provided that care is exercised to avoid any duplication or overlap of the unit size adjustment.

(10)Item 10. Balc./Terrace/Patio. Enter under the subject and comparables which amenity, if any, each has. If a unit does not have one of the above enter "None."

(11)Item 11. Garage or Carport. Enter whichever is applicable or "None" if appropriate. If the project has either a garage or carport but their use is not included in the rent, enter "Extra" and explain in clarifying remarks.

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(12)Item 12. Equip. All of the items under this general heading refer to the equipment included in the rent rather than to the cost of the energy needed to operate the equipment. Consideration of the operating expense shall be reflected under "Services."

(a)Item 12.a A/C. Enter the type of air conditioning

equipment the unit has or "None" as appropriate. An adjustment may also be warranted to reflect a certain type of equipment (i.e., central vs. window unit) if the local market so indicates.

(b)Item 12.b. Range/Oven. Enter "R/O" if the unit has both items of equipment included in rent; "R" or "O" respectively, if the unit has one or the other; and "None" if neither is included.

(c)Item 12.c. Refrigerator. Enter "Yes" if included in the rent and "No" if not.

(d)Item 12.d. Garbage Disposal. Enter "Yes" if included in the rent and "No" if not.

(e)Item 12.e. Vent Fan. Enter "Yes" if included in the rent and "No" if not, and indicate "Kit.," "Bath," "Attic," etc., as appropriate.

(f)Item 12.f. Dishwasher. Enter "Yes" if included in the rent and "No" if not.

(g)Item 12.g. Carpet/Drapes. Enter "C/D" if both are included in the rent; "C" or "D" respectively if the unit has one or the other; and "None" if neither is included.

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(h)Item 12.h. Pool/Rec. Area. Enter the applicable facility (or facilities) available to the tenant. Although a facility may be available for both the subject unit and a comparable unit, there may be a substantial difference in the amenity provided because of design, capacity, and/or other factors. If this is the case, appropriate adjustments supported by explanatory remarks shall be made.

(13)Item 13. Serv. All of the following items for consideration under this general heading refer to the cost of the utility (energy) that may be included in the rent. In some instances, even if both the subject and comparable units have the same utility included in the rent an adjustment may still be warranted to bring the comparable in line with the subject, due to factors of size, equipment, insulation, utility rates, etc. If included in the



comparable rent but not in the subject rent, enter a minus adjustment reflecting the portion of the comparable's rent attributable to the inclusion of the service. If excluded from the comparable tent but included in the subject rent, enter a plus adjustment reflecting the estimated increase in rental value attributable to including the service in the subject's rent.

(a)Item 13.a. Heat/Type. Enter "Yes" or "No" to indicate whether or not heat is included in rent. Also, enter the appropriate abbreviation for the type of system (refer to Form FHA-2264 instructions, Section A, Item 18) for evaluation relative to rent.

(b)Item 13.b. Cook/Type. Enter "Yes" or "No" to indicate whether or not the energy to operate the cooking equipment is included in the rent. Also indicate "E" for electric, "G" for gas, etc., as appropriate to indicate type.

(c)Item 13.c. Electricity. Enter "Yes" or "No" to reflect whether or not the cost of electricity used within the unit is included in the rent.

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(d)Item 13.d. Water - Cold/Hot. If the cost of water used within the unit is not included in the rent enter "No"; otherwise enter "C" for cold water included, "H" for hot water included or "C/H" for both included.

(14)Item 14. Storage. Enter the appropriate descriptive adjective (i.e., "Excellent", "Good", "Fair," or "Poor"). Consider storage outside of the finished living area (such as in the basement for each unit) and relate to local market demand and unit/project type.

(15)Item 15. Project Location. Enter the appropriate adjective (i.e., "Excellent", "Good", "Fair," or "Poor"). Consider factors such as: distance to shopping, recreational, social, medical and employment centers; economic obsolescence; neighborhood desirability; transportation; special hazards and nuisances; etc.

(16)Items 16 - Other. Use these spaces as needed to reflect characteristics not categorized elsewhere but which are significant enough to affect the unit rent.

(a)Among the items that may be considered here are the following:

(1)Livability - Reflect good or poor room sizes, lack of adequate closets and/or cupboards, adequacy of lighting, extra elevators, laundry facilities in the unit, etc.

(2)Condition of Improvements - Reflect lack of maintenance, upkeep, etc.

(3)Parking - Reflect parking rates, adequacy of parking space for visitors, proximity of parking spaces to unit and/or other factors related to parking.

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(4)Project Density - Consider extra open space or crowding of units if degree of either is such that it would affect the level of attainable rent.

(5)Unit Location - Reflect here features of location of unit in the project such as view, nuisance due to proximity to swimming pool or other recreation facilities, and/or any other factors of this nature.

(6)Project Features - Reflect here features such as a fireplace in the unit, works of art, beach, boat marina, sauna, doorman, security services and equipment, etc.

(b)If the lines under "OTHER" do not provide adequate space, it is permissible to line out any of the "Characteristics" preceding ITEM 15 that have not been used and substitute those that would be more relevant to this analysis.

(17)Item 17. Unit Rent Per Mo. Enter in the appropriate space provided for each comparable the monthly rent as reflected by leases currently (as of the date of the processing of this form) being executed and not a rental amount currently being paid by the tenant but based on a lease executed substantially earlier than the date of processing. Or, alternatively, if a good comparable has had no recent turnover (past 3 to 6 months) in a unit comparable to the unit being appraised, the most recently leased unit may be used as a comparable; provided that the date of the lease is

reported as the "Effective Date of Rental" and a time adjustment is made to reflect changes in prevailing rents in the comparable neighborhood, if any, between the date of the lease and the date of appraisal.

(18)Item 18. Net Adjustment W/O Trend & Spec. ADJ. Enter the difference between the total "plus" adjustments and total "minus" adjustments. This entry shall be prefixed by either a (+) plus or (-) minus. Enter "-0-" if there is no difference between the totals.

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(19)Item 19. Indicated Rent W/O Trend. & Spec. ADJ. Enter for each of the comparables used the algebraic sum of, Item 17, Unit Rent Per/Mo., and Item 18, Net Adjustment W/O Trend & Special Adjustments.

(20)Item 20. Correlated Subject Rent. Proper correlation and interpolation of the amounts shown in Item 19 for the comparables shall result in the estimated monthly dollar amount to be entered for the subject unit. Generally, the Appraiser may choose any rental value, which he/she believes to be the single most defensible estimate which is within the range of the value indicators derived from adjustment of the comparable rents. However, when vacancy rates are low, (less than 5%) indicating a tight rental market, correlated rental values should be derived from the high end of the range to reflect rental values compatible with long range vacancy and collection loss estimates of 5 to 7 percent. (See NOTE on the line opposite this Item.) (For Section 8 dwelling units see paragraphs 9-3m in Handbooks 7420.1 and 7420.2)

(21)Item 21. Occupancy Date & Trend. Enter the month and year the subject unit is expected to be ready for occupancy in the space following "Occupancy Date." Determine the length of time between the date of processing and the date the unit will be ready for occupancy. In establishing a target date for occupancy, allow ample time for processing and all necessary preconstruction and construction activities. Enter in the spaces following "Trend", annual and composite "trend" percentages, based on data from the data bank. The composite trend is the total change expressed as a percent which is expected to occur between the date of appraisal and completion of construction. Multiply ITEM 20, Correlated Subject Rent, by the composite trend. Enter the result, rounded to the nearest whole dollar, in ITEM 21.

(22)Item 22. Subject Rent With Trend. Enter the sum of Item 20

and Item 21.