Rent Comparability Studies

BACKGROUND

Section 9-1

A. The purpose of a Rent Comparability Study (RCS) is to estimate “market” rents for each Section 8 unit type. “Market Rent” is the rent that a knowledgeable tenant would most probably pay for Section 8 units, as of the date of the appraiser’s report, if the tenants were not receiving rental subsidies and rents were not restricted by HUD or other government agencies.

B. As a requirement for renewal under Section 524(a) of MAHRA, most project owners with expiring Section 8 project-based contracts must submit an RCS at initial renewal to demonstrate that current rents are at or below comparable “market” rents. Beginning with the date of the initial renewal of the expiring Section 8 project-based contract, the RCSs start a maximum five-year “life cycle” before a new RCS is required. In general, any contract that renews during the five year life cycle can only be renewed for a term that does not exceed the remaining life of the RCS. An exception is when the owner submits a new RCS when requesting permission to mark rents up to market.

APPLICABILITY OF CHAPTER NINE

Section 9-2

This Chapter provides guidance on HUD’s standards for preparing, submitting, and reviewing RCSs. More specifically,

A. It provides guidance to owners and RCS appraisers for preparing and submitting an RCS. For other rare instances, owners may choose alternatives to RCS, if applicable, when renewing under Option Two of Section 8 renewal options.

B. It provides guidance to reviewers, including HUD Housing staff, Contract Administrators (CA) or Recap, formerly known as OAHP. Please note that Recap has amended its Operating Guide and will apply the Rent Comparability Grid and policies similar to those in Sections 9-9 through 9-13 of this Guide to Recap’s processes for RCSs.
C. Certain sections of this Chapter apply when HUD Notice H 97-14 (AAF Rent Adjustment Procedures) is applicable, and requires owners of new construction/substantial rehabilitation projects to submit a HUD Form 92273 - Estimates of Market Rent by Comparison. The owners must instead use one of the following two methods:

1. Submit the new Rent Comparability Grid (HUD Form 92273-S8) and other materials required in this Chapter (Appendix 9-2-2). Owners must require RCS appraisers preparing the reports to do so in accordance with the guidance in Sections 9-8 through 9-13 of this Chapter, but should follow instructions provided in HUD Notice H 97-14 to determine which units must be included in the RCS;

2. Ask to use non-Section 8 units at the Section 8 project to set the market rent ceiling instead of performing an RCS if the project meets all of the conditions in Section 9-6 B of this Chapter for all unit types for which HUD Notice H 97-14 requires a HUD Form 92273 rent comparison. The owner must submit a request in the format shown in Appendix 9-4, but should delete references to renewals and instead refer to rent comparisons required by HUD Notice H 97-14 (also substitute rent comparisons for references to renewals when reading Section 9-6).

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

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

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

*ROAD MAP TO CHAPTER NINE*

**Section 9-3**

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

<table>
<thead>
<tr>
<th>Sections</th>
<th>Topic</th>
<th>Primary Stakeholder(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>9-1 – 9-3</td>
<td>Background, Applicability &amp; Roadmap of Chapter Nine</td>
<td>Owner</td>
</tr>
<tr>
<td></td>
<td></td>
<td>RCS Appraiser</td>
</tr>
<tr>
<td></td>
<td></td>
<td>RCS Reviewer*</td>
</tr>
<tr>
<td>9-4 – 9-6</td>
<td>Alternatives to RCS (Using FMRs or Using Non-Section 8 Units)</td>
<td>✓</td>
</tr>
<tr>
<td>9-7</td>
<td>Preparing RCSs</td>
<td>✓</td>
</tr>
<tr>
<td>9-8</td>
<td>Appraiser’s Qualifications</td>
<td>✓</td>
</tr>
<tr>
<td>9-9 – 9-13</td>
<td>Analyzing Subject Project, Selecting Comparable Units, Collecting Data on Comps, Computing Adjusted Rents, Deriving Market Rents</td>
<td>✓</td>
</tr>
<tr>
<td>9-14</td>
<td>Procedure for Mandatory Market Rent Threshold</td>
<td>✓</td>
</tr>
<tr>
<td>9-15 – 9-16</td>
<td>HUD/CA Reviews of RCS Initial and Substantive Review</td>
<td>✓</td>
</tr>
<tr>
<td>9-17 – 9-18</td>
<td>Communicating Results, owner Appeals</td>
<td>✓</td>
</tr>
<tr>
<td>9-19</td>
<td>Imposing Sanctions on RCS Appraisers</td>
<td>✓</td>
</tr>
<tr>
<td><strong>Appendix</strong></td>
<td><strong>Topic</strong></td>
<td></td>
</tr>
<tr>
<td>9-1</td>
<td>Guidance to RCS Appraisers</td>
<td>✓</td>
</tr>
<tr>
<td>9-2</td>
<td>Guidance to owners</td>
<td>✓</td>
</tr>
<tr>
<td>9-3</td>
<td>Request to Renew Using FMRs as Market Ceiling</td>
<td>✓</td>
</tr>
<tr>
<td>9-4</td>
<td>Request to Renew Using Non-Section 8 Units in the Section 8 Project</td>
<td>✓</td>
</tr>
<tr>
<td>9-5</td>
<td>Guidance to Reviewers</td>
<td>✓</td>
</tr>
<tr>
<td>9-6</td>
<td>Special Project Types</td>
<td>✓</td>
</tr>
<tr>
<td>Attachment 1 &amp; 2</td>
<td>Acronyms and Definitions</td>
<td>✓</td>
</tr>
</tbody>
</table>

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

**ALTERNATIVES TO THE RENT COMPARABILITY STUDY**

**Section 9-4**

This Section gives owners three methods of demonstrating how the Section 8 rents proposed at renewal compare to rents charged for other units. The first two methods listed below (A and B) are available to owners only under Option Two for renewal of Section 8 contracts (i.e., renewal with existing rents adjusted by an OCAF or on the basis of a budget). Methods A and B, discussed under Sections 9-5 and 9-6 of this Chapter, are rarely used, but when facts strongly suggest that the proposed rents would be under rents
computed in an RCS, methods A and B are provided under Option Two to avoid the
costs, processing times and delays that may be associated with RCSs.

A. Comparing proposed Section 8 rents to fair market rents (FMRs), as provided in
Section 9-5.

B. Comparing Section 8 rents to rents charged for other units in that Section 8 project, as
provided in Section 9-6.

C. Purchasing and submitting an RCS in accordance with Sections 9-7 through 9-13 of
this Chapter.

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

**USING FMRs TO DETERMINE BELOW MARKET STATUS**

**Section 9-5**

A. **Fair Market Rents.** Fair Market Rents or FMRs represent the 40th percentile of an
area’s market rents, and are published and updated annually by HUD around early
October and posted at [www.huduser.org/datasets/fmr/html](http://www.huduser.org/datasets/fmr/html). Under this approach, FMRs create the market rent ceiling that is usually created using an RCS’s rents.

B. **Eligibility.** Owners eligible to renew under Chapter Four of this Guide, or Option
Two, may request to renew without an RCS if the current Section 8 gross rent
potential and the proposed Section 8 gross rent potential at renewal are less than 75%
of the FMR potential for the units being renewed. Since the FMRs are inclusive of
utilities, Section 8 gross rent potential must include utilities in order to make the two
figures comparable.

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

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

3. **Budget Worksheet** (HUD Form 92547-A), if seeking a budget-based adjustment; or Steps 1 and 2 of the OCAF calculation on HUD Form 9625, if seeking OCAF driven adjustment.

D. **HUD/CA processing.**

1. **Due Diligence.** Account Executives who process these requests must be familiar with the project’s condition and amenities. Account Executives must seek a state-certified appraiser’s input as to prevailing rent levels in the subject’s market area. Besides verifying and validating the computations, the Account Executive must review the following factors in their approval decision:
   a. Are the subject project’s units unusually small, have limited appeal or offer substantially fewer amenities than typically offered in that market?
   b. Were there RCSs completed on other projects in the subject’s area that often produced market rents which were significantly lower than FMRs?
   c. Does the project have a prior RCS which concluded that the project’s Section 8 rents were above market?

2. **Approval/Denial.** Account Executive must approve the request unless, based on their own due diligence and the input of a state-certified appraiser, they have reasons to believe that the proposed rents are above market levels, or if the comparison with FMR levels is erroneous. Staff must make a decision within 20 calendar days after receiving the owner’s request. If HUD denies the owner’s request, HUD may issue a short-term renewal to allow the owner a reasonable period of time to obtain an RCS prepared in accordance with Sections 9-9 through 9-13 of this Chapter. Owners may not appeal HUD/CA’s denial of their requests to use FMRs in lieu of submitting an RCS. Chapter Two of this Guide provides additional details for setting rent levels in short-term contracts. Staff must document their decision on the owner’s request form and in iREMS.

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

**Section 9-6**

A. **Non-Section 8 Units.** Under this method, rents paid by tenants not receiving rental subsidies, serve as a market rent ceiling that is otherwise created using an RCS’s rents.

B. **Eligibility.** If the criteria below are met, and the owner is choosing to renew Section 8 contract using Option Two, the owner may request to use non-Section 8 units at that Section 8 project to set the market rent ceiling instead of purchasing and submitting an RCS. The project must meet these criteria *for each unit type* that will be included in the renewal contract.

   1. The contract(s) is eligible to be renewed under Chapter Four of this Guide.
2. At least 25% of each unit type being renewed is occupied by tenants who pay the full rent due the owner and receive no tenant rental assistance. “Tenant rental assistance” includes project-based Section 8, certificates/vouchers, PRAC/PAC in a 202/811 project, Rent Supplement, Rental Assistance (RAP), or any comparable federal/state/other public subsidy. Tenant rental assistance does not include Section 236 interest reduction (IRP) subsidies, other construction/mortgage based subsidies, or LIHTC / comparable state credits.

3. For each unit type being renewed, the proposed Section 8 contract rent is no more than the average rent that tenants not receiving tenant rental assistance pay for that unit type.

4. Tenants in units used to compute Paragraph 3’s average have been paying (without assistance and for three or more months) at least the rent levels used in computing the average. These tenants do not receive rental concessions or rebates, currently or in the past, and have no business or family relationship with the project’s ownership or management.

5. The Section 8 units and the units occupied by tenants not receiving tenant rental subsidies are nearly identical and would not require adjustments if the units without tenant rent subsidies were used as comparables in an RCS. “Nearly identical” means the two sets of units have the same number of bedrooms & baths; are similar in condition, layout & size; and have the same amenities & utilities included in the rent.

6. Occupancy rates in the units occupied by tenants not receiving tenant rental subsidies are not significantly less than occupancy levels for those unit types in the project’s market area.

C. Owner’s Request. To request renewal using rents of non-Section 8 units for Section 8 Project, an owner must submit the following no later than 120 days before the expiration of the Section 8 contract:

1. **Request to Renew Using Non-Section 8 Units in the Section 8 Project as a Market Rent Ceiling** (HUD Form 9629, attached as Appendix 9-4).

2. **Rent Table** comparing current and proposed Section 8 rents with the rents paid by tenants not receiving tenant rental assistance.

3. **Cover Sheet** of the Contract Renewal Request (HUD Form 9624), showing the current rent potential and identifying all contracts at the project, as well as indicating which contracts will be renewed.

4. **Budget Worksheet** (HUD Form 92547-A), if seeking a budget-based adjustment; or Steps 1 and 2 of the OCAF calculation on HUD Form 9625, if seeking OCAF driven adjustment.

D. **HUD/CA processing**. Staff must make a decision on the request within 20 calendar days after receiving the owner’s request.

1. **Due Diligence**. Account Executives who process these requests must be familiar with the project’s condition and amenities. Account Executives must seek a state-certified appraiser’s input as to prevailing rent levels in the subject’s market area.
Staff must ensure that the project meets the eligibility conditions and Staff must also:

a. Use iREMS/TRACS to check the data reported in the rent table attached to the owner’s request.
b. Use owner’s rent table to help assess compliance with the occupancy criterion noted above. A significant vacancy may indicate that the project is asking too much for these units.

2. Approval/Denial. Account Executive should deny the request only if they have reasons to believe that the rents paid by non-Section 8 tenants in the project are significantly higher than rents in the surrounding area or that some of the eligibility conditions listed above are not met. HUD staff must make an approve/deny decision on the application within 20 calendar days after receiving the owner’s request. If HUD denies the owner’s request, HUD may issue a short-term renewal to allow the owner a reasonable period of time to obtain an RCS. Owners may not appeal HUD/CA’s denial of their requests to use projects’ non-Section 8 units in lieu of submitting an RCS. Chapter Two of this Guide provides additional details for setting rent levels in short-term contracts. Staff must document their decision on the owner’s request form and in iREMS.

PREPARING RENT COMPARABILITY STUDIES

Section 9-7

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

1. Is prepared by, or under, the direction of an RCS appraiser that meets the requirements set forth in Section 9-8A.

2. Covers at least all unit types that have Section 8 assistance in the contracts being renewed now. Owners may also include other Section 8 unit types in other contracts that the owner plans to renew during the next five years. (For projects submitting RCSs to support AAF requests, Chapter Fifteen determines which units must be studied.)

3. Estimates “market” rents for each Section 8 unit type, by adjusting rents of comparable units to reflect the location, condition, appeal, amenities, and utilities of the Section 8 units. Note: RCS Appraisers must estimate market rent without considering the market’s ability to absorb all Section 8 units.

4. Is concise, but contains enough information that a person not familiar with the properties and market areas involved can understand how the RCS appraiser arrived at his/her adjustments and opinion of market rent. Owners and their RCS appraisers may consult the sample RCS provided by HUD under Appendix 9-2-2.

5. Is submitted to HUD/CA no later than 120 days before the expiration of the Section 8 contract. Early submissions are allowed, but owners must not submit more than 180 days before the contract expires. Additionally, no more than 90 calendar days must
have elapsed between the date the owner submits the RCS to HUD and the date of the
RCS.

6. Includes at least all materials listed under Appendix 9-2-1 (under Owner’s Checklist).
Each submittal must include a cover letter from the owner (as shown in Appendix 9-
2-1). To expedite HUD review, the owners and their RCS appraisers must ensure that
all materials are submitted in hard copy reports in the same order as shown in the
owner’s checklist.

APPRAISER’S QUALIFICATIONS

Section 9-8

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

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

1. Be a Certified General Appraiser, licensed and in good standing in the state where
the project is located. The license may be temporary or permanent. (Owners can
obtain lists of RCS appraisers meeting this standard at www.asc.gov or from each
state’s appraiser regulatory agency.)

2. Be currently active and regularly engaged in performing RCSs or appraisals of
multifamily housing.

3. Meet all the requirements of the current Competency Provision in the Uniform
Standards of Professional Appraisal Practice (USPAP) and have read all of this
HUD Chapter and Appendices. (Additional or updated information on USPAP
can be obtained at www.appraisalfoundation.org.)

4. Have no prospective or present financial interest in the Section 8 project, its
ownership or management agent entity, or the principals of those entities.

5. Not be an employee of the owner, the management agent, or the principals of
those entities or have a business or close personal/family relationship with those
parties that would commonly be perceived to create bias or a conflict-of-interest.

6. Not be debarred or suspended from doing business with the Federal Government
and not be under a Limited Denial of Participation (LDP) imposed by the
Regional Center or Program Center having jurisdiction over the Section 8 project.

7. Be in compliance with all applicable civil rights laws and statutes.

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

1. Sign and take full responsibility for the report. Appraisal assistants may contribute
to any of the tasks if: 1) they are employed by the same firm as the RCS
appraiser; and 2) the report identifies the roles the assistant RCS appraiser
performed.

2. Ensure compliance with this Chapter and its appendices, and with USPAP.
a. If this Chapter’s requirements go beyond USPAP, RCS appraisers must consider the Chapter’s requirements to be supplemental standards and comply with them.

b. RCS appraisers must comply with the Fair Housing Act and the provisions of USPAP related to that Act. RCS appraisers may not use or rely on unsupported conclusions related to the racial, ethnic or religious mix of the comparable or subject properties or their surrounding areas or upon other factors prohibited by the Fair Housing Act. RCS appraisers’ opinions, conclusions and reports must be impartial and objective and not illegally discriminate or contribute to illegal discrimination through subjective or stereotypical assumptions. (See USPAP Advisory Opinion #16 for additional guidance on complying with Fair Housing requirements.)

3. Collect, update or verify all data within 90 calendar days before the date of the RCS appraiser’s letter transmitting the RCS to the owner (or to HUD, when HUD purchases the study pursuant to Section 9-14).

4. Provide a descriptive analysis following the guidance provided in Sections 9-9 through 9-14, and detailed instructions under Appendix 9-1. The RCS appraisers must download the electronic versions of Word or Excel files for any table/grids in the RCS, as provided under Appendix 9-1.

**ANALYZING THE SUBJECT PROJECT**

**Section 9-9**

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

A. Unit Breakdown
B. Project’s Condition and Appeal
C. Project’s Amenities and Services
D. Scope of Planned Repairs
E. Neighborhood Characteristics

A. **Unit Breakdown** – RCS appraisers must identify the unit breakdown at the subject project as primary versus secondary, as defined in Section 9-9.A.2., below. While RCS appraisers must estimate a market rent for each Section 8 unit type, a Rent Grid is required only for each primary unit types. For secondary unit types, RCS appraisers need not complete an entire Rent Grid. Instead, they may start with the market rent for a primary unit type and adjust for the minor difference(s). RCS appraiser must review Section 9-13.C. regarding estimating market rents for primary and secondary unit types. In order to identify primary and secondary unit types, the RCS appraisers must:

1. Identify all unit types that will be included in the renewal contract and any other units the owner elected, per Section 9-7, to include in this study. The RCS appraiser must recognize a unit type for each rent level that the owner is seeking renewal for.
2. Label each unit type as a *primary* or *secondary* type using the guidance below.

   a. The RCS appraiser should consider the number of bedrooms and baths, the unit size, the structure (e.g., townhouse, elevator, walk-up), and any other factors the market would consider as significant differences. If two unit types have the same number of bedrooms and the same structure type but the units have only slight differences (e.g., a half bath, a few square feet, a view), the RCS appraiser must consider the more common unit type to be *primary* and the other unit type to be *secondary*.

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

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

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

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

2. Determine or verify the size of each unit type. Estimate the rentable interior square footage of the unit. Do *not* count balconies, mechanical areas, or other non-living spaces.

3. Take color photos of the items listed below. Take additional close-up photos as needed to show the project’s condition.
   a. subject’s exterior, showing location on the site, exterior design, site layout, and site amenities
   b. interior of typical units.
   c. interior common areas (e.g., meeting rooms)

4. Determine and document the project’s design, age and structure. Assess the project’s physical condition and overall appeal. Determine the extent of any major renovations made.

C. **Project’s Amenities and Services** – The RCS appraiser must identify all amenities and services offered at the subject project, and whether they are included in the rent or charged for separately. The RCS appraiser must:
1. Identify all unit and site amenities and the type of utilities. The RCS appraiser must consider all characteristics listed on the Rent Grid, and any other characteristics that would affect the rent a tenant would be willing to pay.

2. At projects providing non-shelter services (e.g., service coordination, neighborhood networks, the elderly services noted below), the RCS appraiser must ask the owner/agent to identify which services are included in the rent and which services require additional payments from tenants. A non-shelter service provided at the subject project for an additional charge may still warrant adjustment to the comparables if there is market evidence that availability of that service has value to tenants in that market. Conversely, a non-shelter service provided at the subject project for no additional charge may not necessarily warrant any adjustment to the comparables, if the RCS appraiser does not find evidence of its value to tenants in that market (Appendix 9-1-2, Page 11, Lines 29-31).

3. Consider the tenant profile at the subject project. For instance, when preparing an RCS for projects designed for the elderly/disabled, the RCS appraiser must identify all services provided for elderly/disabled. RCS appraisers must consider whether emergency call systems, transportation, social or educational activities, service coordination, meals, laundry or housekeeping are offered. RCS appraisers must determine which services are actually provided by the project and which are just accessed through arrangements the project has established with outside agencies.

D. Scope of Planned Repairs – The RCS appraiser must review the complete list of repairs to the subject property planned by the owner during the 12-month period following the as-of date of the rent study. Each item within the scope of planned repairs provided by the owner must be evaluated for the impact of that repair item on marketability and appeal of the subject property to prospective tenants. Typically, replacement of components that are worn or at the end of their useful lives will not impact marketability. On the other hand, installation of equipment or systems that represent upgrades may increase the appeal of the property. Examples would be installation within living units of features not formerly provided, such as air conditioning, or kitchen renovations that add features such as dishwashers. Examples of upgrades not directly impacting living units, but nevertheless having potential impact on marketability, would be improvements to the on-site parking facilities (e.g., providing covered parking at a property formerly offering only open parking, or adding additional parking spaces) or adding a non-shelter service such as an on-site childcare facility. The RCS appraiser should take care to distinguish non-replacement outlays that increase marketability from those that will typically have no impact. An owner’s plan to install a berm on the site to improve site drainage would be an example of a repair that is not a mere replacement of a worn-out component, but yet would not likely impact marketability.

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

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

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

2. Identify the project’s market area, such as the geographic area from which the subject project would draw the majority of its applicants. Identify street or other boundaries. Consider mobility patterns and natural or man-made barriers (rivers, freeways, rails, etc.).

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

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

SELECTING COMPARABLE UNITS

Section 9-10

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

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

A. Six Point Criteria – For each primary unit type identified pursuant to Section 9-9A2 above, the RCS appraiser should attempt to identify comparable units from five different properties. The RCS appraiser should select projects that would compete with the subject for tenants. The RCS appraiser must exert good faith effort to find comparable units that meet all of the conditions listed below. If the RCS appraiser cannot find units that meet all of these criteria, the RCS appraiser may use the methods discussed in Paragraph B below.

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

1. Are in the same market area as the subject project.
2. Are not receiving tenant rental assistance (project-based Section 8, certificates/vouchers, PRAC/PAC in a 202/811 project, Rent Supplement, Rental Assistance (RAP), or any comparable federal/state/other public subsidy). The tenant must be responsible for the full rent due to the landlord.

3. Have locations and neighborhood conditions (including crime rates and accessibility to services, employment, transportation, etc.) similar to the subject’s.

4. Are located in projects that are similar to the subject in terms of project structure and layout, design, street appeal, age, size and unit mix, unit amenities and utilities.

5. Provide services and have project amenities similar to those available at the subject.

6. Are not rent restricted or rent controlled by a federal, state, local or other public program. This category includes LIHTC, HOME, HOPE VI, state/local rent controlled and rent stabilization units, and all units in 236, BMIR, 202/811, and Section 515 Rural Development projects.

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

1. Units with No Restrictions: If a project contains rent restricted units or units with tenant subsidies, but also has other units with no restrictions or subsidies, those units that are both unrestricted and unassisted may be used as comparables. Such mixes will often exist in tax credit, tax-exempt, state-financed, HOPE VI or Section 221d3/ d4 FHA insured projects.

2. Properties with Identity of Interest: The RCS appraiser may select a comparable that has the same ownership/management as the subject, or is owned or managed by a company/individual having an identity-of-interest with the owner or management agent of the subject project. In such a situation, the RCS appraiser must disclose the ‘identity-of-interest’ under the section titled ‘Selection of Comparables’ in the RCS report. RCS appraiser must review Handbook 4381.5, Paragraph 2-3 for a definition of the term “identity-of-interest”. Furthermore, the RCS appraiser must take special care to verify the information, preferably through an unrelated party. For example, to verify the rent at which a unit is leased according to the on-site management, the RCS appraiser might ask to see a copy of the lease.

3. Comparables from Outside the Market Area: RCS appraisers must try to select a market area that is similar to the subject’s market area. In assessing similarity, RCS appraisers should consider rent levels, housing prices, demographics, job opportunities and other relevant economic indicators. If
equally good comparables are available in more than one alternate market area and those market areas are similar, the RCS appraiser should generally consider using an alternate that is near the subject. For Section 8 projects in rural areas, however, HUD recognizes that it will often be necessary to go to distant, alternate markets that are sometimes of a different character.

4. Dissimilar Comparables: If similar comparables are not available in the subject’s neighborhood, RCS appraisers can use properties that may be different from the subject in terms of vintage, construction type, layout, design and/or services and amenities, but are located in the same market.

Alternatively, RCS appraisers may use dissimilar comparables from outside the subject’s market area when comparables in the same category are not available in the subject’s neighborhood. This would include using units with a different number of bedrooms, units in properties of a different structure type (e.g. high rise vs. garden) or units in a different housing/service category (e.g., assisted living/luxury retirement vs. a 202/811). The RCS appraiser must provide market support for both the decision to use a different number of bedrooms or a different structure/housing type in the comparable selection process.

5. Fewer Than Five Comparables: If the above strategies do not produce five comparables for each unit type, the RCS appraiser can use fewer than five comparables. However, no unit type may have less than three comparables. Before proceeding with less than five comparables, the RCS appraiser may ask the Regional Center if it is aware of any comparables the RCS appraiser has not already identified. As described in 9-10.C.2 below, the RCS appraiser must discuss why fewer than five comparables were used.

6. Rent Restricted Units: Adjustments that would need to be made in the Rent Grid for units that are rent and/or income restricted comparable are inherently subjective. However, if the RCS appraiser cannot find any comparables other than rent restricted units that meet conditions 1 through 5 under 9-10 A above, the RCS appraiser may use the rent restricted units. Rent restricted units should only be used as comparables when they reasonably represent the market.

a. If the RCS appraiser cannot find five unrestricted, very similar units in the same market area, he/she may supplement the rental analysis with rent-restricted units that are available in a nearby, similar market area and meet the requirements of conditions 2 through 5 under 9-10 A.

b. The RCS appraiser must clearly disclose the use of rent restricted comparables and the nature of the rent restriction in the Selecting Comparables narrative part of the RCS and on the Rent Comparability Grid. (Note: RCS appraisers may not adjust rents simply to account for the fact that the comparable unit is rent restricted.)

c. While rent restricted units may in some cases reflect market rent (e.g., when LIHTC units make up a large percent of the multifamily units in a neighborhood or nearly all units are rent controlled), rent restricted units can also be below market rent. Therefore, the RCS appraiser may want to discuss the use of rent restricted units with the owner and HUD appraisal staff before finalizing the selection of comparables. RCS appraisers hired by HUD/CAs to prepare studies pursuant to Section 9-14 should be especially careful to avoid
selecting rent restricted units that would artificially depress the RCS’s rent conclusions.

C. **Comparables Search Procedure** – The RCS appraiser must include a narrative in the RCS to describe his/her process for identifying the set of comparable properties for the subject project.

1. **Document the Search Process:** The RCS appraiser must note the means used for comparables selection, whether that be driving the market area, interviewing the Account Executives and owners, consulting subscription databases, or a combination of these approaches. For each selected rent comparable, considered separately, the RCS appraiser must describe those specific characteristics that the respective comparable shares with the subject project (for e.g., same market area, similar design and layout) that justify the inclusion of the project in the RCS. For other potential comparables that were excluded from inclusion, the RCS appraiser should document the reasons for exclusion. The narrative must provide an overall assessment of the availability of comparables and the quality of the comparables selected and state why the comparables used were selected. If the unassisted units in the subject project have the same number of bedrooms and were not used as comparables, the RCS appraiser must explain why. If there are unassisted properties in close proximity to the subject project that share the subject project’s basic characteristics (e.g., number of bedrooms) but were not used as comparables, the RCS appraiser must explain why.

2. **Disclose when Insufficient Comparables Exist:** If less than five comparables were provided for any primary unit type, the RCS appraiser must explain why. If the RCS appraiser chooses to use comparables that are significantly different to the subject, the RCS appraiser must describe the research that was performed to determine that more similar comparables were not available. When comparables are outside the subject’s market area, the RCS appraiser must discuss in the RCS what research was done that indicated that better comparables were not available in the subject’s market area. In such instances, the RCS appraiser must also compare the rent levels in the alternate market area with those in the subject’s market area. When using rent-restricted units, the RCS appraiser must discuss in the RCS what research was done that indicated that no other similar, non-rent restricted units were available for use as appropriate comparables. The RCS appraiser must also explain the type of restriction (e.g., LIHTC, local rent control, etc.) when using rent restricted units as comparables.

3. **Select a Variety of Comparables:** In identifying the three to five comparables for the subject, the RCS appraiser should try to select some comparables that are superior and some that are inferior to the subject project so that the subject is within the range of indicators.

4. **Special Project Types:** Appendix 9-6 provides guidance on using comparables drawn from project categories that would not typically be suitable for use as comparables for multifamily rental housing. Project types discussed include cooperative housing, certain elderly/disables project types, student housing, and congregate-care projects. Newly renovated and recently constructed housing is also cited in Appendix 9-6, because properties from that category are suitable comparables for the subject project only after the impact of any proposed rehabilitation to the subject project is considered.
COLLECTING AND DOCUMENTING DATA ON COMPARABLE UNITS

Section 9-11

This section provides guidance on collecting and reporting data on comparables. It covers the following two topics:

A. Collecting Data on Comparables

B. Reporting Comparable Data

A. Collecting Data on Comparables. For each relevant unit type at the comparable project, the RCS appraiser must collect data on the elements listed in Parts A through E of the Rent Grid in Appendix 9-1-1 and on any other characteristics that would affect the rent a tenant would pay. The RCS appraiser must also identify any services that are provided for additional fees and that a tenant would consider in selecting a rental. If the comparable is located outside of the subject’s market area, the RCS appraiser must provide the market data requested in Paragraph 2b below. The RCS appraiser must verify and collect relevant data on comparables using the guidance below.

1. Verification of Data: The RCS appraiser must exercise due diligence to independently verify any information on comparables pulled from existing files, Internet research, newspaper ads or apartment guides. The RCS appraiser may use multiple sources if needed to adequately verify the comparables data.

2. Data on Comparable’s Characteristics: The RCS appraiser must:

   a. View each comparable’s grounds and exterior common areas. If access is given, the RCS appraiser should also view interior common areas (e.g., lobby, laundry rooms, community or dining rooms, recreation/fitness areas, business centers).

   b. Take color photos of each comparable’s exterior, showing location on the site and exterior design and condition. If the comparable project is in a different market area than the subject, the RCS appraiser must collect market-based data to compare the rent levels in the two markets.

   c. Obtain the unit’s rentable interior square footage, either through inspection or through other sources. The RCS appraiser must exclude balconies, mechanical areas or other non-living spaces. If the square footage available represents an exterior measurement, the RCS appraiser must use his/her professional judgment to convert the square footage to an interior measurement that can be compared with the interior measurements Section 9-9 requires on the subject.

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

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

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

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

a. **Non-Shelter Services.** RCS appraisers must determine if the project provides
non-shelter services (e.g. service coordination, neighborhood networks, the
elderly services noted below), and if so, the RCS appraisers must identify
which services are included in the rent and which are covered by additional
fees residents pay.

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

B. **Reporting Comparable Data.**

1. **Comparable Project Profile:** For each comparable used, the RCS appraiser
must report the data collected in the Comparable Project Profile as required under
Item 10 of Appendix 9-1-3 (Required Contents for an RCS). The Appendix 9-1-4
(Comparable Project Profile) provides a suggested format for reporting the data
collected, but RCS appraisers may use their own formats if those formats include
all of the information listed in Item 10 of Appendix 9-1-3 (Required Contents for
an RCS).

2. **Rent Grid:** For each primary unit type, the RCS appraiser must report the data
collected by completing the data columns of the Rent Grid shown in Appendix 9-
1-1. The RCS appraiser must complete all lines of the Grid’s data columns, i.e.,
even lines/items for which the RCS appraiser will make no adjustment. All
comparables for one subject unit type must be shown on one grid. RCS appraisers
must review Appendix 9-1-2 for guidance on completing the Rent Grid.

3. **Disclosure:** In the Scope of Work Section of the RCS report, the RCS appraiser
must identify any data on comparables that was unobtainable or estimated and all
efforts to obtain that data. RCS appraisers must review Appendix 9-1-3, Item 2
for more detail on what the Scope of Work write-up must cover.
COMPUTING ADJUSTED RENTS FOR COMPARABLE UNITS

Section 9-12

This section provides guidance to RCS appraisers for deriving an adjusted rent for each comparable. RCS appraisers must review the instructions provided in this section and the line-by-line instructions provided in Appendix 9-1-2, before preparing the Rent Grid in Appendix 9-1-1. For computed adjusted rents, RCS appraisers must:

A. Analyze for differences between subject and comparable
B. Adjust the comparable to the subject
C. Provide narrative explanations
D. Pay particular attention to Special Issues
E. Follow the guiding principles when quantifying adjustments

A. Analyze for differences between subject and comparable. To compute the adjusted rent, the RCS appraiser must:

1. Compute an effective rent by adjusting the most recently charged rent for factors (e.g., rent concessions) listed in Part A of the Grid.

2. Determine which differences between the subject and the comparable unit would affect the amount of rent a typical applicant would be willing to pay in the subject’s market area.

3. For each difference tenants would value, adjust the comparable’s rent by the amount tenants in the subject’s market area would typically pay for that difference. Adjustments must be displayed in dollar amounts.

B. Adjust the comparable to the subject. The goal is to determine what rent the comparable would obtain if the comparable were nearly identical to the subject. Thus, if the comparable is:

1. Inferior to the subject on a particular characteristic, the RCS appraiser must adjust the comparable upward. The RCS appraiser must enter the adjustment as a positive value to indicate that residents of the comparable would pay more if the comparable had the subject’s characteristic. For example, if the comparable unit size is 100 square feet smaller than the subject units, and the RCS appraiser estimates the value of incremental square feet to be $.50 per square foot, $50 would be entered on Line 13 of HUD Form 92273-S8.

2. Superior to the subject on a particular characteristic, the RCS appraiser must adjust the comparable downward. The RCS appraiser must enter the adjustment as a negative value to indicate that residents of the comparable would pay less if the comparable had the subject’s characteristic. For example, if the comparable units include patios or balconies and the subject does not, and the RCS appraiser’s research shows that at a third project in this market that offers units both, with and without balconies, units with balconies rent for $15 more, -$15 would be entered on Line 14 of the HUD Form 92273-S8.

C. Provide narrative explanations. RCS appraisers must provide concise, but professionally complete explanations as to why the adjustments were made and how the dollar values were derived. The explanations must be clear and convincing to a person not familiar with the properties and market areas involved.
1. Every line item adjustment on the Rent Grid requires two separate and distinct explanations in the narrative.

   a. First, RCS appraisers must explain why the adjustment was made. Specifically, the RCS appraisers are required to state the reasons that justify an adjustment, and explain whether the adjustment would be on a total dollar amount basis (generally used for qualitative adjustment characteristics such as “neighborhood” or “location”), or on a dollar amount per the comparison unit (generally used for adjusting unit size differences). Example: “Comparables A and B were each adjusted upwards by $20 for not offering units with either a patio or balcony.”

   b. Second, RCS appraisers must explain how the dollar value was derived. Specifically, the RCS appraisers are required to explain the rationale for the amount of their adjustments. This could be supported through paired comparable analysis, interviews with Account Executives and leasing agents, or prior experience in the subject market. This second component (“how”) of the narrative is required for all adjustments where the amount of adjustment exceeds nominal amount of $10. Example: “The subject and comparables C, D, and E offer either a balcony or a patio, while comparables A and B do not offer that feature in any of their units. The RCS appraiser recently appraised a project in this market that offered units both with and without balconies. Units with balconies commanded an average additional rent of approximately $20, which provides the basis for the upward adjustment to comparables A and B”.

2. RCS appraisers shall not just reiterate the entries in the data column. It would be unacceptable for an RCS appraiser to state: “A negative adjustment was made to comparable A for location.” Instead, the RCS appraiser must outline the data and logic used to arrive at the adjustment amount. Example: In this situation, the RCS appraiser’s narrative could say, “Comparable A was adjusted downward to reflect its location in a more desirable neighborhood that consists primarily of single-family homes, has little crime and has good access to shopping. The adjustment was estimated by comparing the rents at comparable A with those of comparable D, which is in the subject’s neighborhood but otherwise very similar to comparable A. The average value of the superior location was estimated to be $25.”

3. For all adjustments exceeding a nominal amount of $10, the RCS appraiser must present market data to support his/her conclusions. Section 9-12, C1 above shows an example of the two-part explanation needed for adjustments exceeding $10. For minor adjustments (adjustments not exceeding $10), the RCS appraiser may state his/her subjective evaluation of why the observed differences would affect rent.
D. **Pay particular attention to Special Issues.** The RCS appraiser must pay special attention to the detailed guidance for all line items in the Rent Grid, as provided under Appendix 9-1-2. In particular, there are a few line items that are discussed under “General Instructions” in Appendix 9-1-2 along with common errors associated with those line items. The RCS appraiser must pay special attention to the guidance before making adjustments for those respective line items.

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

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

2. Adjustments must reflect local markets. The RCS appraisers must make adjustments on what typical renters in the subject’s particular market area will pay. Swimming pools, floor types, carpets and other special features generally do not affect value to the extent of their cost. Additionally, tenants in different markets may value amenities and services differently, so the RCS appraiser must be aware of sometimes subtle differences in the value of some project features even within the same community. **Example:** Central air conditioning may be less valued by tenants in a beachfront project, compared to tenants at another project, perhaps not far away, but within a valley location with much warmer summertime temperatures.

3. Adjustments often vary by unit type. Even in the same market, renters may value the same service differently among unit types. **Example:** A second bathroom may be more valuable in a three-bedroom than in a two-bedroom unit.

4. Adjustments levels must reflect rental value, not construction cost or the cost of providing a service. **Example:** In adjusting for differences like an elevator, amortizing the cost of the elevator over its useful life is not what a market renter would do. Any adjustment should reflect only what residents would typically pay for the convenience of using the elevator rather than climbing stairs. It is thus imperative that the source of the adjustment be market-derived, from sources such as paired-comparable analysis or direct interviews with project management personnel, rather than cost-based.

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

6. Do not duplicate adjustments. RCS appraisers must be careful not to adjust for the same element in more than one place. **Example:** If adjustments are made for ‘project appeal’ (Line 8) and ‘age’ (Line 7), the RCS appraiser must take care to ensure that the sum of those lines is not more than the value the tenant would place on all features covered by those line items.
DERIVING ESTIMATED MARKET RENTS

Section 9-13

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

A. Derive the estimated market rent
B. Derive secondary unit’s market rent, if applicable
C. Explain the estimated market rent

A. Derive the estimated market rent. For each primary unit type, the RCS appraiser must analyze the adjusted rents of the comparables computed pursuant to Section 9-12 and the line-by-line instructions in Appendix 9-1-2. Then, using his/her knowledge of the comparables, the RCS appraiser determines what point in that range of adjusted rents best represents the rent the subject project could most probably obtain. The RCS appraiser must consider: the type, size and number of adjustments made; the quality of each comparable; whether a comparable’s data was estimated or incomplete; and how the adjusted rents for each unit type relate to each other. The comparables most similar to the subject should receive more weight. While RCS appraisers may compute and consider averages and other mathematical-based indices, those calculations do not allow for exercise of the RCS appraiser’s professional judgment and should not, by themselves, determine market rents. Instead, the RCS appraiser’s estimated market rent may be skewed towards the range of the adjusted rents for the best suited comparables to the subject project, as opposed to the mean, modal or median values for the adjusted rents of all comparables.

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

C. Explain the estimated market rent. The RCS appraiser must explain how the market rent (for primary and/or secondary unit types) was derived and why it was derived that way. The RCS appraiser must note which comparables were given the most weight and why, including which attributes of those respective comparables resulted in their being weighted more or less than others. If the estimated market rent is set at the high or low end of the range of adjusted rents, the RCS appraiser must explain why. Explanations should be concise, while at the same time clear and convincing. Example for narrative on estimated market rent: “Comparable A, although not as close in distance as the other four comparables, was given a higher weight than others because leasing agents have observed that prospective tenants often consider both properties (subject and comparable A) “family-friendly” due to on-site day care facilities and similar services.”

*PROCEDURE FOR MANDATORY MARKET RENT THRESHOLD*

Section 9-14
In addition to submitting the Rent Grid and the RCS Report, the RCS appraisers are also required to follow special procedures for all contracts, as outlined in this section, under the following topics.

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

A. Mandatory market rent threshold. The following requirements will apply for all contracts where the owner’s RCS concludes that the project’s median gross rent, as derived from the RCS, exceeds 140 percent of the “Gross Rent By Zip Code Tabulation Area” as published by the U. S. Bureau of the Census or other comparable source as determined by the Department. These requirements do not apply to studies undertaken as part of the MTM process. All RCS submissions (other than those for MTM process) to HUD/CA must include the following information:

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<thead>
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<tbody>
<tr>
<td>1</td>
<td>Distribution of RCS Rents and Subject Project’s median rent (see Step 1 below)</td>
</tr>
<tr>
<td>2</td>
<td>Screen Shot of Median Gross Rent Estimate for the Project’s Zip Code, as per U.S. Bureau of the Census (see Step 2 below)</td>
</tr>
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</table>

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

Step 1: Compute Subject Project’s median rent as determined by the RCS;
Step 2: Determine Median Gross Rent Estimate for the Subject Project’s zip code;
Step 3: Compare Project’s median rent to 140% of Median Gross Rent.

Step 1: Compute Subject Project’s median rent as determined by RCS: The RCS appraiser will compute the median rent for the subject project by identifying the rental rate in the middle of the distribution of RCS rents for the subject project. The following examples illustrate and differentiate how to compute the median rent for a project with odd or even number of units.
Example 1 (Odd # of Units): The project consists of a total 25 units. The median rent will be the rent of the 13th unit, or $1,200.

Example 2 (Even number of units): The project consists of a total of 26 units. The median rent will be obtained by taking simple average of the rents for the 13th and 14th unit, or average of $1,200 and $1,900.

Step 2: Determine Median Gross Rent Estimate by Subject Project’s Zip Code: HUD provides the most recent ACS-5 year estimate at [LINK]. The RCS appraiser must use this file to search by state where the subject project is located, and identify the Median Gross Rent Estimate for the subject project by its’ 5 digit zip code.

Step 3: Compare Project’s median rent to 140% of Median Gross Rent: The RCS appraiser will then compare the median rent determined under Step 1, with the Median Gross Rent for the relevant zip code as determined under Step 2. If the Project’s estimated/median rent does not exceed 140% of the Median Gross Rent, no further action is required. If the median rent exceeds this threshold, then HUD will use the process described below to establish comparable market rents.

C. When Project’s median rent exceeds the Threshold. If the RCS based median rent for the Subject Project exceeds 140% of the Median Gross Rent for the project’s zip code, then a HUD commissioned RCS would be required. In such a scenario, HUD will hire an independent third-party appraiser through its Contracting Officer to prepare another RCS for the Subject Project. For RCS submitted that include “as–is” and “past-repair” market rent estimates, if either the “as-is” estimate or the “post-repair” estimate exceeds the threshold, then a HUD study would be required.

Funding for HUD Commissioned RCS: Since HUD-commissioned RCSs will be done for both insured and uninsured properties, contract funds to pay for the studies will come from the sources below:

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

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

Differences in Comparability Studies: HUD will compare the gross rent potential for the subject project as determined by the HUD-commissioned RCS versus the owner-contracted RCS, and the final market rent for the subject project will be determined as follows:
a. When the HUD comparable gross rent potential is greater than the owner’s comparable gross rent potential, the final comparable market rents will be the owner’s comparable market rents.

b. When the HUD comparable gross rent potential is less than the owner’s comparable gross rent potential, the final comparable market rents will be determined by reviewing if the owner’s comparable rent potential is:

i. less than 105% of the HUD comparable rent potential, and if so, the final comparable market rents will be the owner comparable market rents; or

ii. greater than or equal to 105% of the HUD comparable rent potential, in which case the final comparable market rents will be 105% of the market rents as determined by the HUD-commissioned RCS.

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

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

D. Special exceptions under the threshold. One of the primary reasons for utilizing the U.S. Department of Census based threshold is that it is market-based, and it allows for greater comprehensiveness and granularity since it is available by zip codes. However, the threshold has a few limitations. For instance, the Median Market Rent Estimate does not differentiate rents by dwelling unit size. Although statistically, ‘Median’ should depict rental rates in the middle of the distribution of rents, the threshold does not currently capture the variability in unit sizes and considers all data from studio apartments to the largest units available in the zip code. However, HUD’s escalation factor of 140% should minimize the effect of this limitation, and provide greater comfort to owners with properties skewed toward larger unit sizes. Other limitations of the Census based threshold are described below, along with specific guidance for when such situations are encountered.

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

i. is less than 140% of $2,000 (or $2,800), then no further action is required and the final comparable market rent is determined by the owner’s RCS; or

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

The examples below illustrate the two stage assessment process described above. As illustrated, a new HUD-commissioned RCS will be required if owner’s comparable gross rent potential exceeds $2,800 and it also exceeds 105% of the current HAP rents.
For Zip Codes with ACS-based Median Market Rent of $2,000+

<table>
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<tr>
<th>RCS Rent submitted by owner</th>
<th>Example 1</th>
<th>Example 2</th>
<th>Example 3</th>
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<tr>
<td>ACS-based Median Market Rent for Zip Code</td>
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<td>$3,000</td>
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</table>

**TEST 1:**
**Does RCS Rent Exceed 140% of $2,000 (or $2,800)***

<table>
<thead>
<tr>
<th>comment</th>
<th>Example 1</th>
<th>Example 2</th>
<th>Example 3</th>
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</thead>
<tbody>
<tr>
<td>Is $2,800 &gt; $2,800?</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Is $3,000 &gt; $2,800?</td>
<td>RCs Rent Subjected to Test 2</td>
<td>Subjected to Test 2</td>
<td>Subjected to Test 2</td>
</tr>
</tbody>
</table>

**Results of Test 1**
If "NO", RCS Rent prevails. If "YES", subjected to Test 2

<table>
<thead>
<tr>
<th>Current HAP Rent for the Project</th>
<th>$2,900</th>
<th>$3,045</th>
</tr>
</thead>
<tbody>
<tr>
<td>105% of Current HAP Rent for the Project</td>
<td>$2,800</td>
<td>$2,940</td>
</tr>
</tbody>
</table>

**TEST 2:**
**Does RCS Rent Exceed 105% of Current HAP Rent?**

<table>
<thead>
<tr>
<th>Results of Test 2</th>
<th>Example 1</th>
<th>Example 2</th>
<th>Example 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is $3,000 &gt; $3,045?</td>
<td>NO</td>
<td>YES</td>
<td>YES</td>
</tr>
<tr>
<td>Is $3,000 &gt; $2,940?</td>
<td>HUD RCs Required</td>
<td>Subjected to Test 2</td>
<td>Subjected to Test 2</td>
</tr>
</tbody>
</table>

**Results of Test 2**
If "NO", RCS Rent prevails. If "YES", HUDRCs required

**Special Case #2:** When the Median Gross Rent Estimate is unavailable for a certain zip code, the U.S. Census Bureau reports the value as ‘missing’ or ‘blank’. This may occur for zip codes that belong to national parks, resort areas, or in some rural areas so sparsely populated that there is an insufficient number of rental units available for the Census Bureau to compute and report a Median Gross Rent estimate.

If the Subject Project belongs to such a zip code, HUD will compare the owner’s gross potential rent with the current HAP contract rents. More specifically, if the owner’s comparable gross potential rent:

i. is less than 105% of the current HAP contract rents, then no further action is required and the final comparable market rent is determined by the owner’s RCS; or

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

**Section 9-15**

This Section gives Housing staff and Section 8 Contract Administrators (CAs) guidance on how to review RCSs prepared and submitted in accordance with Sections 9-7 through 9-14 of this Chapter. When referring to a particular staff position, this Section uses titles typically used at HUD. CAs should translate those to their own position titles.
This Section also provides categories of reviewers, i.e., initial reviewers (comprised of HUD/CA staff), and substantive reviewers (who are required to be state-certified appraisers for all reviews conducted by CAs, or HUD appraisers for those completed by HUD’s Multifamily Satellite Offices). Such substantive reviewers are also referred to as RCS review appraisers. For instances, where HUD’s staffing does not permit the availability of a HUD appraiser, a non-appraiser HUD staff can complete the substantive review, subject to the minimum requirements and process outlined below.

A. Minimum qualifications for reviewers. All RCSs must be reviewed by staff members who possess the requisite knowledge needed for the level of review being performed. Section 9-16 of this Chapter provides guidance on the level of reviews.

1. Initial Screening: An initial review for timeliness and completeness may be completed by HUD/CA initial reviewer using the checklist provided under Appendix 9-5-1. While completing this review, the HUD/CA initial reviewer must adhere to the policies and time frames set forth in this Chapter’s guidance. The HUD/CA initial reviewer must also have read the Chapter Nine guidance, and successfully completed training on using the initial screening checklist within the preceding 12 months of performing their first Initial Screening review.

2. Substantive Review: All substantive reviews conducted by CAs must be completed by a state-certified general appraiser. Substantive reviews completed by HUD staff must ideally be completed by HUD appraisers. However, if staffing does not permit that, a non-appraiser substantive reviewer must meet the following minimum qualifications in order to complete a substantive review:
   a. Have a minimum of at least two years’ direct multifamily experience. Besides direct experience in HUD multifamily review, other acceptable qualifying experience would be two years’ employment in multifamily project management or leasing, multifamily loan or acquisition underwriting, and also multifamily development. This background is necessary to effectively review the RCS facts, reasoning and conclusions; and
   b. Have read the Chapter Nine guidance, and successfully completed training on using the reviewer checklists, within the preceding 12 months of performing their first Substantive review.

B. Process for approving non-appraiser substantive reviewers. The Regional Director at HUD’s Multifamily Satellite Office, must authorize all non-appraiser substantive reviewers performing substantive reviews on RCSs. This individual must also perform ongoing assessment of gaps in skills/training for HUD reviewers in their respective offices. The individual must ensure that:

1. All authorized non-appraiser substantive reviewers meet the minimum qualifications required for performing a substantive review, and receive the necessary training on a periodic basis; and

2. Non-appraiser substantive reviewer has access to a second reviewer at HUD, if needed (as per Section 9-16.C.), when an RCS triggers a second review for a certain line item(s).
C. **Timing requirements.** An initial screening review using the checklist in Appendix 9-5-1 must be completed within 10 calendar days of the date of receipt of an RCS from the owner. HUD/CA initial reviewer may contact the RCS appraiser directly unless the owner has specifically objected to that in the owner’s cover letter (as required under Section 9-7). The HUD/CA initial reviewer must follow up with the owner or RCS appraiser, by email or other forms of written correspondence, if:

1. The owner’s submission is incomplete. The RCS appraiser or the owner must submit the missing items within 7 calendar days of the HUD/CA initial reviewer’s request.

2. More than 90 calendar days elapsed between the RCS appraiser’s transmittal letter and the date the owner submitted the RCS to HUD. Under this scenario, the HUD/CA initial reviewer must return the RCS and ask the owner to have the RCS appraiser update the data to comply with Section 9-8.

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

*INITIAL AND SUBSTANTIVE REVIEW*

**Section 9-16**

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

A. Initial Review

B. Substantive Review

C. Field Visit

A. **Initial Review.** HUD/CA initial reviewers performing an initial screening of the RCSs for completeness and timeliness check must utilize the ‘Initial Screening’ checklist provided under Appendix 9-5-1. The HUD/CA initial reviewer must sign and retain the completed checklist, and a copy must be provided to the substantive reviewer informing him/her that the RCS is determined to be complete and ready for a substantive review.

B. **Substantive Review.**

1. **Purpose of a Substantive Review.** The purpose of a substantive review is to assess and evaluate whether the RCS appraiser’s selection of comparables, adjustments, and rent conclusions are reasonable. The substantive reviewer may not agree with every detail of the RCS, but must conclude that the suggested market rents presented in the RCS are reasonably supported by market facts. The RCS should contain sufficient information to convince a person unfamiliar with the market areas or properties involved, that the RCS conclusions are reasonable.

2. **Compliance with USPAP.** Policing compliance with USPAP should not be the focus of a substantive reviewer, unless the substantive reviewer identifies
significant problems in the research, facts, reasoning or conclusions noted in the RCS report. Substantive reviewers are not required to check for compliance with USPAP when performing a substantive review.

3. **Scope of a Substantive Review.** The key focus for a substantive reviewer should be to ensure that the RCS is reasonable, consistent with facts and standard appraisal practice, and complies with the guidance provided in Sections 9-9 through 9-13. The tools and checklists provided under Appendix 9-5-2 through 9-5-6, and discussed in detail below, should facilitate the substantive review process.

   a. **Detailed Screening Checklist.** Appendix 9-5-2 provides a ‘Detailed Screening’ checklist incorporating key questions that a substantive reviewer must assess and evaluate when reviewing an RCS. These key questions incorporate requirements under Sections 9-9 through 9-11, with respect to analyzing the subject project, comparables selection and data collection. Substantive reviewers must document any concerns or conclusions in the checklist when reviewing the RCS.

   b. **Rent Grid analysis Checklist.** All substantive reviewers must complete the ‘Rent Grid Analysis’ checklist (Appendix 9-5-3) using guidance provided under ‘Notes for Rent Grid Analysis and Triggers for Second Review’ (Appendix 9-5-4). The purpose of these checklists is to ensure that the concluded market rent is appropriate and reasonable. Substantive reviewers are not expected to challenge minor differences in RCS adjustments, particularly if correcting those perceived flaws would not affect the rent an owner will receive, or the estimated market rent shown on the rent grid. For example, if the owner is seeking a $20 red increase, and it is clear that the market rent increase will exceed $20 even if adjustments were revised, then it would not be cost effective to spend extensive time analyzing adjustments that are reasonably close.

   c. **Triggers for Second Review for Non-Appraiser Reviewers:** In cases where an RCS includes line item adjustments that are identified as triggers under Appendix 9-5-4, and if the substantive reviewer is a non-appraiser HUD staff, HUD requires that a second reviewer also review and sign-off on the specific trigger items. The second reviewer must meet the minimum qualification requirements (as described under Section 9-15.A.) and is required to provide input on the appropriateness and reasonableness of only the specific line item that triggered a second review, as opposed to the entire RCS. If the first and second reviewers do not reach consensus, then the trigger item will be reviewed by an RCS review appraiser, whose opinion will prevail as to what revisions, if applicable, need to be made to the RCS. Please note that seeking a second reviewer’s input is not a requirement if the first or second substantive reviewer is an RCS review appraiser (state-certified).

   d. **Issues/Certification Memo.** Once the substantive reviewer has completed the detailed screening and rent grid analysis, the substantive reviewer must also complete a certification (Appendix 9-5-5). If the substantive reviewer has questions or needs additional clarification, they can use the sample
provided in Appendix 9-5-6 for preparing an issues memo for the owner and/or RCS appraiser.

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

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

**COMMUNICATING RESULTS OF HUD/CA REVIEWS**

**Section 9-17**

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

A. **Approval:** If HUD/CA substantive reviewer agree with the RCS appraiser’s market rent conclusions, they must document that agreement on the reviewer’s certification (Appendix 9-5-5) and notify the Account Executive that the market rents in the RCS are acceptable for use in further processing of the renewal.

B. **Questions and/or Clarifications:** If aspects of the RCS are unclear or unconvincing, the HUD/CA substantive reviewer must ask the RCS appraiser for additional information or explanation, if the owner’s cover letter permits HUD/CA to reach the RCS appraiser directly. If the issues are minor and HUD/CA expect easy resolution, the substantive reviewer may call the RCS appraiser. If concerns are many, more significant, or complicated HUD/CA must send the RCS appraiser an email/fax/hard copy of a letter stating the concerns highlighted in the Reviewer’s Issues Memo (sample provided in Appendix 9-5-6), and giving the RCS appraiser up to 10 calendar days to respond. *(HUD/CA must copy the owner contact on any written correspondence.)* The RCS appraiser must send the requested information to HUD/CA and copy the owner.

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

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

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

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

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

**OWNER APPEALS**

Section 9-18

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

A. First Level Appeal.

1. Subsequent to submitting the owner’s letter indicating an appeal of HUD’s decision, owner must prepare and submit a written statement of his/her reasons for appeal and any data that supports his/her objections. This written statement must be delivered via email/fax/mail to the Program Center Director within 20 calendar days after the date of HUD/CA’s initial decision letter (or 10 calendar days after the date of owner’s response) as provided by Section 9-17 above.

2. In addition to the written statement, the owner may also request a meeting, or a conference call with the RCS review appraiser. If such a request is made, a meeting or a conference call must be held within 15 calendar days of the date of the owner’s appeal. The owner, the RCS appraiser, the RCS review appraiser, and the Program Center Director/designee must participate. The Program Center Director and RCS review appraiser should consider if a field visit is needed to accurately process the appeal as discussed in Section 9-16-.C. above. In some instances, the Director and RCS review appraiser may ask for additional information from the owner and the RCS appraiser. This information must be submitted by the owner within 10 calendar days after the date of the meeting or conference call.

3. The RCS review appraiser and Program Center Director will review the owner’s appeal in conjunction with any supplemental information submitted by the owner,
and issue a letter reporting the results of the review within 15 calendar days after
the latest of: the date the owner submitted the basis for the first appeal; the date of
any meeting/conference call conducted per Paragraph A2; or the date by which
owner submits additional information requested by HUD per Paragraph A2.
HUD’s letter in response to the owner’s first appeal must be signed by the
Program Center Director, and it may accept the RCS with supplemental
information submitted by the owner, reject owner’s first appeal and require
resubmission of a new RCS study, or propose HUD’s alternate rents for the
project.

4. The owner may either accept or submit a second appeal on the Program Center
Director’s decision.

B. Second Level Appeal.
1. If the owner chooses to pursue a second level appeal, the owner must submit a
written statement of his/her reasons for a second appeal and any data that supports
his/her objections to the Program Center Director’s decision letter in response to
the owner’s first appeal. The submission must be received within 15 calendar
days after the date of the Program Center Director’s decision letter on the first
appeal, and must be addressed to the Regional Center Director and copy the
Program Center Director. The owner may also request a short-term renewal if the
contract has expired or if expiration is imminent.

2. The Regional Center Director will determine if the appeal has potential merit and,
if so, issue a short term renewal at then-current rents, to allow time to process the
appeal. Any rent increases as a result of the second appeal will be made
retroactively. The Regional Center Director may contact the owner, the RCS
appraiser, or the Program Center Director and/or the RCS review appraiser for
clarification or additional information.

3. The Regional Center Director must issue a decision letter to the owner within 15
calendar days after the date of the owner’s second appeal to the Regional Center.
The letter must clearly state the basis for HUD’s decision.

**IMPOSING SANCTIONS ON APPRAISERS**

Section 9-19

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

A. reporting material deficiencies in the appraiser’s work product to the state’s real
estate appraisal regulatory authority; and

B. imposing or recommending imposition of HUD’s administrative sanctions [Limited
Denial of Participation (LDP), suspension or debarment].