



U.S. Department of Housing and Urban Development
Office of Multifamily Housing Program Center
Region X Multifamily HUB

October 1, 2008

MEMORANDUM FOR: Preservation Working Group

FROM: Patrick J. Shea, Supervisory Project Manager 0EHML
Portland Multifamily Housing Program Center

SUBJECT: Project Based Section 8 Determinative Criteria Review
HUD Scope of Work for Appraisers

The following is HUD Scope of Work for contract appraisers that should be included in engagement letters for Project Based Section 8 Determinative Criteria Review:

The appraisal report should be USPAP compliant. The purpose of the appraisal should be to estimate the unencumbered "as-is" market value of the fee-simple interest in the subject property as of the inspection date. It should not be assumed that the proposed repairs or renovations have occurred. A hypothetical assumption should be made that the subject property is not encumbered by restricted rental rates.

The following suggestions are based on errors and omissions witnessed by HUD in prior appraisals.

- The Appraisal should not be any older than the 6 months from the submission date of the Determinative Criteria Review to HUD.
- Comparables should be local and within 5 miles of the subject property, if possible.
- Comparables from greater distances must include a short narrative as to why no other closer comparables were available.
- Contact name and phone number should be included for each comparable data source.
- The estimated market rental rates should be based on comparably unassisted similar unit types and market supported adjustments that are explained.
- Projected stabilized vacancy and collection loss should be based on unencumbered market rate comparables.

- The projected expenses should be reconciled with the historical expenses (with adjustments for being a hypothetical market rate project) and the local comparable expenses.
- Off-site management fees should be reflective of number of units at subject and supported by comparables and by interviews with subject market property managers.
- Property taxes should be analyzed and the local assessor should be interviewed to determine if the existing assessment was based on the subject being subsidized.
- At least two subject market rent comparables should be used as property tax comparables to support the subject's projected unencumbered property tax assessment.
- Improved sale comparable information should be attempted to be confirmed with brokers, seller and buyer.
- The estimated value of any excess land should be deducted from price of improved sale comparable.
- Overall capitalization rate should be based on buyer's pro forma expectations to correlate with the subject's projected net operating income, and should be within the range of capitalization rates commonly utilized within the region.
- Costs for curing existing deferred maintenance and profit should be deducted from the estimated "stabilized" market value to estimate the "as-is" market value.

If you have any questions regarding this Memorandum, please contact Will Lee by email at william.r.lee@hud.gov or by phone at 971-222-2639.