

Questions & Answers from Hollywood Squares Game Appraisal Panel

1. My deal has been stuck in the queue and rents have certainly increased since I submitted it. What do I need to submit in order to recognize the higher rents?
 - a. Correct Answer:
 - 221(d)(4): For the appraisal of a 221(d)(4), the key items to update are the conclusions regarding rents, vacancy, expenses, and land value. If the rents are more than 8% above the original rents, an update to the market study is required. For a market study, the key conclusions to update are the capture rate, penetration rate, net demand, and future vacancy rates/trends.
 - 223(f): For the appraisal of a 223(f), the key conclusion is value. Because the most important indicator of value is the Income Approach, the rents, vacancy, and cap rates should be reanalyzed. Other approaches can be ignored.
 - For either 221(d)(4) or 223(f) these can be short Letter Addenda to the original reports. The underwriting should be updated accordingly. All documents should be included in a revised application submitted through Catalyst – ideally 15-30 days prior to HUD assigning an underwriter.

2. I have a site in a major western city. Because I meet the density requirements, Zoning does not require any parking. Will HUD accept the city's opinion on parking and allow this deal to go through?
 - a. Correct Answer: Probably not. Parking is a marketability issue, not just a compliance issue. The key will be what the best comparables in the market indicate.

3. My deal has income from a cell tower. What vacancy rate applies to the cell tower income?
 - a. Correct Answer: Cell towers are considered a form of commercial income. Further, assess the risks of current and future competition and technology changes prior to applying an appropriate vacancy rate.

4. Several months have elapsed since I received the Firm Commitment. Can I submit updated underwriting to recognize that rents have increased?
 - a. Correct Answer: At the discretion of the processing office and while the Firm Commitment is still valid, the lender can request an amendment to the Firm Commitment. The request must be accompanied by a Letter Addendum to the Appraisal updating the income, vacancy, and expense estimate that drives to the NOI for Criterion 5. The letter addendum must just be sufficient to support the updated valuation conclusions.

5. I have a New Construction deal coming in with 7,000 square feet of retail space planned. The project is 240 units, so the commercial income is relatively small. The market analyst focuses on residential demand, not retail. Can the appraiser address the retail space and the market analyst just focus on the residential demand piece?
 - a. Correct Answer: If the commercial space is 5,000 sf or more, the market analyst must describe the commercial space and the report on traffic counts; trends in commercial vacancy rates and commercial rents in the submarket; inventory competitive centers in the

immediate vicinity of the subject site; provide a representative sample of rents presently available in the market; note the pipeline of commercial properties; evaluate the pipeline and opinion on the viability of the site and the achievable rents.

6. I have a project that will have cable, internet, and Smart Home features. The fees will be \$125 per unit per month. Is this kind of technology income treated differently than other reimbursements?
 - a. Correct Answer: Yes. HUD is concerned that rapid technological change could make this income stream obsolete during the mortgage term. Underwritten Telecommunication subscription fees can be recognized at 70% of the effective income (which is after applying the market usage rates) estimated in the appraisal report.
7. I have some potential projects in smaller cities in Montana, Arizona, Idaho, and the Dakotas. None of these are TOD. What does the West Region want for parking in these markets?
 - a. Correct Answer: Parking is a marketability issue. The key will be what the best comparables in the market indicate. In both the sunbelt and the snowbelt, we find an enhanced demand for covered parking including both carports and garages.
8. I have a New Construction deal coming in with commercial/retail income. The local retail market is recovering nicely with vacancy of about 10%. What occupancy rate will I need to underwrite to?
 - a. Correct Answer: 20% is the MAP Guide minimum.
9. Do HUD appraisers feel it is beneficial to receive HUD forms 92273, 92274, and 92264 when the appraisal already includes all this information (and more)?
 - a. Correct Answer: Yes. Though the forms are not as useful as they might be, they still contain critical information HUD relies on. Further, the forms are required by the MAP Guide.
10. I have an existing property with stable and long-term commercial tenants. Occupancy has been near 100% for the last 3 years. What vacancy rate will I need to underwrite to?
 - a. Correct Answer: The MAP Guide minimum is 10%. More if the market vacancy rate is higher.
11. We had a recent deal where HUD questioned the underwritten expense ratio. It seems that expense ratios should be secondary to the per unit per annum expenses. What does the West Region look for regarding expense ratios?
 - a. Correct Answer: Though the comparable expenses are key, the expense ratio provides a quick guide of reasonableness. For new projects 33% to 35% is the minimum. More for existing projects and more again for affordable housing (which has higher administrative expenses).
12. For new construction or for a recently completed property, property taxes have not yet been determined (there is no relevant history). What should the appraiser and the underwriter rely on to determine the tax burden?
 - a. Correct Answer: Tax comparables are almost always the most reliable data. Other methods subject to too much opinion. Consultation with the local tax office should be conducted in cases where the property might qualify for an abatement due to affordability.

13. My 221(d)(4) new construction project will be located in a metro district which pays utilities and road installation. The mill levy and the resulting real estate taxes are much higher than the comparables. Can other expense line items be balanced out to show that overall expenses will still be in line with the expense comparables?
- Correct Answer: No. The difference in real estate taxes will simply increase the overall expenses.
14. My new construction deal will have solar panels. The local utility will give the property a 20 year credit for installing the panels, paying them annually for not putting load on the grid. Is this commercial income? How does this all drop to the bottom line?
- Correct Answer: It is not commercial income. It is more similar to utility income. The 20 year structure is analogous to a tax exemption. The income should be handled via a second tranche of debt.
15. I will be submitting a concept package for a downtown midrise with all micro units. I have heard other lenders say the West Region doesn't accept micro units. What is the real deal?
- Correct Answer: The West Region has developed micro-units and will require significant market research supporting local market acceptance as the Region has no desire to pioneer the concept in a particular market. Rents and overall demand will have to be well supported.
16. I have a new construction deal in a market where vacancy is projected to be between 6% and 7% over the next few years. HUD already requires a 7% vacancy rate, so I am covered, right?
- Correct Answer: If the market will reach close to 7%, there are two options. If the increased vacancy is forecast to be temporary (less than a year) then strong creditworthiness and normal IODs are sufficient. If the increased vacancy will be longer-term, either a higher underwritten vacancy rate, a larger IOD or both may be required.
17. Thankfully, the pandemic seems to be drawing to a close and the higher IOD requirements have been retired. The higher IOD used at Pre-App no longer applies at Firm, but the West Region is still asking me to underwrite to a higher IOD than the MAP Guide requires. Why?
- Correct Answer: The IOD is a buffer. Most deals should go through at the MAP required limit. Market issues may cause the West Region to ask for more. Pre-Applications approved under the old rules can be reconsidered for a lesser figure at Firm.
18. Various issues in my pre-application prevented it from moving forward. While we communicated these issues during Concept Meeting, we felt that they were not thoroughly vetted prior to an invitation. What can we do to ensure any perceived concerns in our proposal are properly vetted at the Concept Meeting, so any additional information or mitigation is including at application review?
- Correct Answer: Consult with HUD as soon as possible with specific concerns and engage with HUD technical staff early. Request the assistance of a review appraiser, EMAD, or even an environmental officer if specific issues are identified.