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HUD-insured mortgage appraisals are perfect for me

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As you drive up to a property, say an apartment, you count the number of stories, the parking spaces, look for AC sleeves, check to find gas meters . . . but have you ever needed to check the windows to note if the property provides blinds or shades? If you have ever filled out HUD Form 92273-S8, then the answer is yes! If you find comfort in details, this may be work you would enjoy.

U.S. Department of Housing and Urban Development (HUD)-insured mortgages are sought after for rehabilitation or new construction of apartment properties. These mortgage programs require reports that adhere to the HUD Multifamily Accelerated Processing (MAP) guidelines; these requirements include several forms and a high level of detail. For people, such as myself, who thrive on being able to invest themselves in a project to chart data and analyze details, these reports are ideal.

The apartment properties can be market-rate, affordable or mixed-income and may contain commercial/residential garages or retail-oriented space. The majority of income must be generated by apartment rental units and this majority must adhere to a specific percentage as required by HUD MAP guidelines.

There are several HUD-insured mortgage programs including the 221(d)(3), (d)(4) and the 207/223(f) programs, just to name a few. Owners and developers pursue HUD-insured mortgages in order to benefit from a low interest rate. However, Mortgage Insurance Premiums (MIP) are often required, which impacts the effective interest rate.

More and more interested parties are benefitting from these programs as noted by the amount of mortgages insured through the two HUD-insured mortgage programs noted above. In 2012, a total of \$8.3 billion in insured mortgages was approved for 819 projects totaling 119,515 units nationwide. This is up from 2011 figures of \$6.3 billion in insured mortgages for 616 projects totaling 89,303 units. These figures, obtained through HUD, do not consider the projects that were not approved. These figures do not reflect the appraisal reports required for projects that don't get approved.

Major differences in appraising properties for a HUD-insured mortgage versus a typical refinance/purchase include specific HUD forms which then require a detailed level of analysis. For example, in the estimate of market rent HUD form, a rent adjustment based on size is required. Many apartment rent analysis discussions complete a similar rent adjustment, but in this case, a specific dollar amount is required and must be illustrated with data directly pulled from the market.

Other not so typical adjustment categories must also be detailed such as the number of rooms in a unit; many newly constructed one-bedroom units contain a small office or alcove, which must be identified and adjusted for. The data for this adjustment must be collected, analyzed and discussed before entering on the HUD form.

The operating expense analysis form requires three expense comparables. This is a reasonable number of comparables from which to derive a pro forma expense for the subject, but one of the three must be fully identified and disclosed. This requires the appraiser to identify the three best

expense comparables and then contact the owner of the comparable property to ask permission to openly disclose the property in the report. If the owner denies permission, the appraiser must find another expense comparable and attempt to gain permission to disclose that property. Although not a difficult procedure, items such as this take up time not typically spent in a conventional mortgage. After permission is granted to disclose an expense comparable, details of individual expenses must be analyzed and discussed individually. For example, if the owner of a comparable benefits from a blanket insurance policy, the appraiser must recognize that the per unit insurance expense may not necessarily represent a market expense for a single property. The appraiser must also recognize that HUD MAP guidelines require projects to be "analyzed as independent operations and must not reflect shared expenses from nearby projects".

Other details of HUD MAP guidelines include the minimum occupancy permitted for apartment rental income and commercial income. Commercial and residential parking garages also have minimum occupancy requirements. Other items include a certification that must be included verbatim as written in the HUD MAP guidelines. If this certification (or any required detail) is not included, then the report is sent back to the appraiser and must be revised.

As with any niche in our business, the more often you work with a similar type of property, the more familiar you become with the nuances of that property type. Based on my experience, the learning curve is in the two to six months range and further depends on the type of project and the assistance available in navigating the distinct HUD programs. However, one can occasionally get bogged down in details that ultimately have no influence on the conclusion. For example, instead of developing a unit-by-unit opinion of every unit benefitting from a water view in a 150-unit project, I could have just noted that all units on the 6th and 7th floors have water views and saved myself an hour!

Attention to detail, filling out forms, digging deeper into expense comparables, taking care to meet all HUD guidelines; these skills require discipline. These types of details comprise the learning curve required to complete a report for a HUD-insured mortgage. I thrive on these details and although the learning curve was tedious, appraising these properties is perfect for me.

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