Subject: FISCAL YEAR 1997 ANNUAL ADJUSTMENT REQUIREMENTS

PURPOSE: This Notice does not substantively change the FY 95 and FY 96 Adjustment procedures in HUD Notices H 95-12 and H 95-92. The purpose of this Notice is to update forms and appendices and to clarify inconsistencies found throughout HUD Notices H 95-12 and H 95-92.

BACKGROUND: This Notice implements FY 97 rent adjustment requirements in accordance with 42 U.S.C. 1437f (c)(2)(A) (as amended by the HUD Appropriations for FY 95 and FY 97). Under this Notice, the Overall Limitation (comparability) clause of the HAP Contract applies to Section 8 New Construction and Substantial Rehabilitation Properties where pre-adjustment Section 8 rent levels for a unit type exceed the published Existing Housing Fair Market Rents (FMR) (See Part 1, below).

The original AAF rent limitations promulgated and implemented by HUD Notice H-9592 are a statutory mandate under the FY 1995 Appropriations Act. As such, the provisions for comparability where gross project rents exceed FMR and lower AAFs for units with no turn-over supersede any field office manager's authority to grant waivers of policy directives under the Notice of Revocation and Redelegation of Authority rule (December 1994). Any request for a waiver from either of these provisions require the explicit approval of the Assistant Secretary of Housing-FHA Commissioner.

Comparability applies if the pre-adjustment gross rent (adjusted contract rent plus any allowances for tenant-paid utilities) is above the published FMR. For Section 8 New Construction and Substantial Rehabilitation properties, the published Table 1 AAF factor is applied to the pre-adjustment contract rent. If the comparable rent level (plus any initial difference) is lower than the contract rent as adjusted by application of the table 1 AAF, the comparable rent level (plus any initial difference) will be the new contract rent. However, the pre-adjustment contract rent will not be decreased by application of comparability.

For Section 8 New Construction and Substantial Rehabilitation Properties where rent levels for a particular unit type are not reduced by comparability AND for all Loan Management Set Aside (LMSA)
and Management Set Aside (LMSA) and Property Disposition (PD) Section 8 AAF Contracts, the method of rent adjustment under this Notice will continue to be by applying the appropriate published AAF (See Part 2, below).

To implement the law, HUD publishes two separate AAF (Annual Adjustment Factor) tables in the Federal Register. (24 CFR Part 888, Schedule C, Tables one and two). In Federal Fiscal Year 1997, for units where rent levels are not reduced by comparability Table One AAFs are used for turnover units and Table Two AAFs are used for non-turnover units.

EFFECTIVE DATE: This Notice applies to Section 8 rent adjustments for HAP contract anniversary dates from October 1, 1996 to the end of Federal FY 1997 (through September 30, 1997). In order to allow time for owners to conduct the comparability study, contracts with HAP anniversary dates which fall within the first sixty (60) days after this Notice is issued:

- will be permitted to have any rent increase paid retroactive to the HAP anniversary date, so long as
- a request which meets the requirements of this Notice is received no later than sixty (60) days after the date this Notice is issued.

If the request is submitted after the first sixty (60) days, the increase will be effective 60 days after receipt of the required material is submitted.

NOTE: If the Field Office has already issued the rent increase approval letter and/or a new Rent Schedule implementing the AAF(S) for FY 1997, these rents will remain the approved rents regardless of whether or not they have been made effective at the property by the issuance date of this Notice. If a Field Office has approved the application of the AAF to contract rents, for FY 1997, the approved rents will not be reconsidered under the procedures of this Notice.

The requirements outlined in this Notice may not be waived by the Local HUD Office.

APPLICABILITY: This Notice has been broken into two parts for clarification purposes. The requirements outlined within are applicable to the following types of Section 8 contracts where rents are adjusted via the AAF (regardless of whether or not the owner is required to request the AAF) in the following manner:

1. **PART 1:** New Construction and Substantial Rehab Contracts where the existing contract rent for the specific unit type (prior to the FY 1997 adjustment) exceeds the current published applicable Existing
2. **PART 2**: New Construction and Substantial Rehab Contracts where the existing contract rent for the specific unit type (prior to the FY 1997 adjustment) DOES NOT exceed the current published applicable Existing FMR; AND

All Section 8 Loan Management and Property Disposition Contracts in which the method of adjustment is the Annual Adjustment Factor (AAF).

NOTE: Section 8 Moderate Rehabilitation Programs and the Section 8 Certificate Program (Tenant-based and Project-based) are NOT covered by this Notice. Section 8 Contracts adjusted by the budget-based method are also NOT covered by this Notice.

While the comparability provisions of this Notice only apply to Section 8 New Construction and Substantial Rehabilitation Contracts (Part 1), HUD may publish regulations requiring comparability studies on all AAF adjusted HAP Contracts.

**PART 1: NEW CONSTRUCTION AND SUBSTANTIAL REHABILITATION CONTRACTS WHERE CURRENT CONTRACT RENTS ARE ABOVE THE PUBLISHED FMRs**

If current gross rents on a SR or NC contract (before the application of the AAF) are above the published FMR for the area then, in order to receive a rent increase, the owner must submit, at least 60 days prior to the HAP contract anniversary date, form HUD 92273 (3/95), Estimates of Market Rent by Comparison, completed by a non-identity of interest, state certified, general appraiser, FOR EACH UNIT TYPE (e.g. 1 BR, 2BR, etc.). This form must contain at least three examples of unassisted housing in the same market area of similar age, type and quality. (If the owner fails to submit the information required by this Notice at least 60 days before the contract anniversary date, then the rent levels will not be adjusted on the contract anniversary date, rather the new rent levels will go into effect 60 days after receipt of the required information. However, if the owner fails to submit this information by the date of the FY 1998 HAP contract anniversary, then no increase will be granted for the FY 1997 contract year.) If Asset Management Staff has questions regarding the amount charged to the property for preparation of this form, they should request the owner submit evidence of compliance with the guidelines set forth in Paragraph 6.50, Handbook 4381.5, REV-2.

Once HUD receives the form HUD 92273 evidencing rent levels in similar housing, Asset Management staff should review and approve the completed form if the Correlated Subject Rent listed on form HUD-92273 (line 23) is greater than 105% of the current contract rent level for that unit type, or if there is concern regarding the comparable properties. The owner should also be notified by Asset Management Staff for correction of any deficiencies which may exist on the HUD-92273.

Once approved (if necessary), Asset Management staff will apply the published AAF in Table 1 to answer the question for each unit type, "Will the resulting rent level still be lower than the owner submitted comparable rent?" (NOTE: Throughout this Notice when
applying the published AAF, the factor of 1.000 should be used in all cases where the published factor is below 1.000.)

A. If yes, then the published AAF factor in Table One (see Appendix 1) is the factor that would be applied to all units in which turnover occurred since the last HAP anniversary date (see Appendix 4). The published AAF in Table Two would be used for units in which turnover had not occurred.

B. If no, then Asset Management Staff would need to assure that the initial difference which existed in the initial contract rents is protected, as required by the contract. The 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. If the owner does not submit evidence of this figure to HUD and the initial difference is not documented in the project file maintained by the local HUD Office, then the Asset Management Staff should use the amount equal to 10% of the initial Section 8 contract rent for that unit, as a substitute for the initial difference.

In determining whether or not the AAF should be denied, the HAP contract provides for the following:

"...adjustments as provided in this Section shall not result in a material difference between the rents charged for assisted and comparable unassisted units, as determined by HUD; provided that this limitation shall not be construed to prohibit differences in rents between assisted and comparable unassisted units to the extent that such differences may have existed with respect to the initial contract rents." (form HUD-52751, Paragraph 1.8(d), emphasis added)

In protecting the difference which existed in the initial contract rents, HUD has developed a term known as the Initial Difference. This is a dollar figure which existed between the initial Section 8 contract rents and the original comparables. (For Financial Adjustment Factor (FAF) properties, this should also include the original dollar figure of the FAF, if the FAF has not been removed as a part of a refinancing transaction.) The regulations permitted this difference to be between zero and 20% of the original comparables (or the FMRS). In order to provide a fair number to owners who may not be able to show proof of the initial difference which existed in the initial Section 8 contract rents, HUD will use 10% of the initial Section 8 contract rent (plus the FAF, if applicable) where evidence of the initial difference cannot be provided by the owner.

Once the initial difference is determined for each unit
type, either by owner documentation or by HUD, it should be added on to the comparable rent for each unit type to determine what is the maximum permissible rent level allowed for each unit. This will be referred to as the Adjusted Comparable Rent. This rent level will then be compared to the rent level adjusted by the Table One AAF, for each unit type. The lower of the two rent levels will become the new effective rents (unless this would require a rent reduction, in which case the current contract rent level will be maintained with no increase or decrease.)

- If application of the Table One AAF produces the lower rent, then HUD must take into account the unit turnover count submitted by the owner in determining what AAF to apply. Appendix 1, Table 1 will be used for units with turnover, while Table 2 will be used for those units in which no turnover occurred. Once the rent for each unit has been determined, all the unit rent levels will be added together to calculate a new monthly Gross Rent Potential (GRP) for that specific unit type. This monthly GRP will then be divided by the number of units for that specific unit type to derive what the new monthly rent will be for all units of the specific unit type.

- If the lower rent level is the adjusted comparable rent level, then this rent level will be applied to all units regardless of turnover.

The owner will then be notified of the new rent level. The Field Office Worksheet (see Appendix 2) used to derive this new rent level should be attached to all correspondence informing the owner of the new rent level.

UNDER NO CONDITION WILL A RENT ADJUSTMENT RESULT IN A RENT DECREASE FOR SECTION 8 NEW CONSTRUCTION AND SUBSTANTIAL REHABILITATION CONTRACTS. If an owner does not request an increase or fails to submit a request based on the guidelines in this chapter, then the rents will remain the same as the current contract rents, unmodified by HUD or the Contract Administrator. Rent decreases in Section 8 New Construction and Substantial Rehab properties are specifically prohibited by law, unless the project has been refinanced and the refinancing reduces owner's periodic payments. Throughout this Notice when applying the published AAF, the factor of 1.000 should be used in all cases where the published factor is below 1.000.

EXAMPLES OF IMPLEMENTATION:

A New Construction Project with 100% Section 8 adjusted by the AAF. The property has 100 units, 20 have turned over since the last anniversary date, and 10 have remained vacant since the last anniversary date. The rents at this property for 1 BR units are $400 and $500 for 2 BR units. The initial Section 8 contract rents on this
property in 1979 were $210 for I BR units and $260 for Two Bedroom Units.
Published FMRs for this area are $375 for a 1 BR and $475 for a two bedroom.
The published AAF in Table 1 (AAF for Turnover Units) is 1.054 and the published AAF in Table 2 (AAF for Non-Turnover Units) is 1.044.

Scenario 1: Project is eligible to receive the AAF based on the comparable rents

The owner submits a form HUD-92273 for the 1 BR rents and a form HUD-92273 for 2 BR rents, both completed by a non-entity of interest, state certified, general appraiser. The Correlated Subject Rent on these forms are $410 for a 1 BR and $510 for a 2 BR. HUD receives these forms 60 days prior to the anniversary date and begins processing for a thirty day turnaround.

Applying the Table One AAF to the current rents of $400 and $500 would result in new rent levels of $422 and $527, both above the rent levels which the comparable produced. The owner did not submit evidence of the initial difference, so the Loan Management staff would use 10% of the initial Section 8 contract rent as a substitute for the initial difference. For 1 BR units this figure would be $21 (10% of $210) and for 2 BR units, this figure would be $26 (10% of $260). These figures added to comparable rents of $410 and $510 would produce adjusted comparable rent levels of $431 for 1 BR units and $536 for 2 BR units.

Since these rent levels are both above the rent levels produced by the Table One AAF of $422 and $527, respectively, then the maximum rent levels that would be permitted are the rents produced by application of the appropriate AAF published in the Federal Register.

Since adjustment by the AAF is permitted based on the comparable rents plus the initial difference, then the 1 BR rent levels would be $422 for the units in which turnover occurred and $418 for the units in which turnover has not occurred (including any units which were vacant at the time of the last annual adjustment). In deriving the new GRP for this unit type, $422 would be multiplied by 20 (turnover units) and $418 would be multiplied by 80 (non-turnover units) to produce a monthly GRP of $8440 (for turnover units) plus $33,440 (for non-turnover units) which equals $41,880 divided by 100 units would yield a rent of $419 for all one bedroom units. The same calculation would then be performed for the 2 BR units.

Scenario 2: The Project is only eligible for the comparable rents

The owner submits a form HUD-92273 for the 1 BR rents and a form HUD92273 for 2 BR rents, both completed by a non-entity of interest, state certified, general appraiser. The Correlated Subject Rent on these forms are $400 for a 1 BR and $500 for a two bedroom. HUD receives these forms 60 days prior to the anniversary date and begins processing for a thirty day turnaround.
Applying the Table One AAF to the current rents of $400 and $500 would result in new rent levels of $422 and $527, both above the rent levels which the comparable produced. The owner did not submit evidence of the initial difference, so the Loan Management staff would use 10% of the initial Section 8 contract rent as a substitute for the initial difference. For 1 BR units this figure would be $21 (10% of $210) and for 2 BR units, this figure would be $26 (10% of $260). These figures added to comparable rents would produce adjusted comparable rent levels of $421 for 1 BR units and $526 for 2 BR units. Since these rent levels are both below the rent levels produced by the AAF in Table 1 of $422 and $527, respectively, then the comparable rent plus the initial difference would be the maximum permissible rents HUD could approve. These rent levels would be applied to all units without regard to turnover.

PART 2: NEW CONSTRUCTION AND SUBSTANTIAL REHABILITATION CONTRACTS WHERE THE EXISTING CONTRACT RENT FOR THE SPECIFIC UNIT TYPE DOES NOT EXCEED THE CURRENT PUBLISHED APPLICABLE EXISTING FMR; AND ALL SECTION 8 LMSA AND PD CONTRACTS IN WHICH THE METHOD OF RENT ADJUSTMENT IS THE ANNUAL ADJUSTMENT FACTOR.

Where the rent level for a specific unit type falls under one of the conditions stated above, the appropriate AAF will be applied for each unit. The only information required to be submitted by the owner will be the number of units in which turnover occurred since the last HAP contract anniversary date. If the owner fails to submit the information required by this Notice at least 60 days before the contract anniversary date, then the rent levels will not be adjusted on the contract anniversary date, rather the new rent levels will go into effect 60 days after receipt of the required information by HUD. However, if the owner fails to submit this information by the date of the FY 1998 HAP contract anniversary, then no increase will be granted for the FY 1997 contract year.

Once the information regarding unit turnover is received from the owner, then Asset Management Staff will apply the appropriate AAF to each unit, by unit type. When applying the published AAF, the factor of 1.000 should be used in all cases where the published factor is below 1.000. For units in which turnover did occur since the last HAP anniversary date, the AAF in Table 1 will be applied. For units in which turnover did NOT occur since the last HAP anniversary date, the AAF in Table 2 will be applied. Once the rent for each unit has been determined, a new Gross Rent Potential (GRP) for that specific unit type will be calculated. This GRP will then be divided by the number of units for that specific unit type to derive what the new rent will be for all units of the specific unit type.

UNDER NO CONDITION WILL A RENT ADJUSTMENT RESULT IN A RENT DECREASE FOR NEW CONSTRUCTION AND SUBSTANTIAL REHABILITATION PROPERTIES. If an owner does not request an increase or fails to submit a request based on the guidelines in this Notice, then the rents will remain the same as the current contract rents, unmodified by HUD or the Contract Administrator. Rent decreases in Section 8 New Construction and
Substantial Rehab properties are specifically prohibited by law, unless the project has been refinanced and the refinancing reduces owner's periodic payments. Throughout this Notice, when applying the published AAF, the factor of 1.000 should be used in all cases where the published factor is below 1.000. THE FIELD OFFICE WORKSHEET: Attached in Appendix 2 are sample worksheets for both Part 1 and Part 2 adjustments, which Field Offices may use to complete the process outlined in this notice. While the format may be modified, the process which is used to calculate the rents must be adhered to, as it is based in statute. A worksheet should be completed for each unit type.

OWNER SUBMISSION REQUIREMENTS FOR PART 1:

Where rent levels for a specific unit type, in a Substantial Rehab or New Construction contract, exceed the Existing Fair Market Rent for that specific unit type, then the owner must submit the following items in order to be eligible to receive a rent increase for that unit type.

- form-HUD 92273 (3/95), Estimates of Market Rent by Comparison, completed by a non-identity of interest, state certified, general appraiser (See Appendix 5)
- a copy of the owner certification (Appendix 3) (Only one certification per project is necessary regardless of the number of unit types for which a rent increase is requested)
- The number of units in which turnover occurred since the last HAP contract anniversary, FOR EACH UNIT TYPE (a sample format for reporting is attached in Appendix 4)

NOTE: Appendix 3 and Appendix 4 provide sample formats in which information may be reported or certification language is presented. These formats may be modified so long as the certification language contained in Appendix 3 is presented exactly as printed and the information required by Appendix 4 is contained in the modified format.

Optional Information:

- Evidence of the Initial Difference which existed between the original contract rents and underwriting comparable, or the Fair Market Rents at the time of initial underwriting, including any Financial Adjustment Factor (FAF) which was a part of the original rents. (If this figure, and the documentation to support this figure, is not submitted, then HUD will use 10% of the initial Section 8 contract rent as a substitute for the initial difference)

OWNER SUBMISSION REQUIREMENTS FOR PART 2:

Where the rent levels for a specific unit type, in a Substantial Rehab or New Construction contract, DOES NOT exceed the Existing Fair Market Rent for that specific unit type, and for all LMSA and PD Section 8
contracts where rents are adjusted by the owner, the owner must submit the following items in order to be eligible to receive a rent increase for that unit type.

- The number of units in which turnover occurred since the last HAP contract anniversary, FOR EACH UNIT TYPE (a sample format for reporting is attached in Appendix 4)

OWNERS OF SUBSTANTIAL REHAB AND NEW CONSTRUCTION PROPERTIES WITH BOTH PART 1 AND PART 2 UNIT TYPES

Unit types are treated individually. In some situations, New Construction and Sub Rehab properties may have some unit types which meet the requirements of Part 1 and other unit types which meet the requirements of Part 2. When an owner encounters this condition at a property, they will be required to submit the information for each unit type based on what part of this notice the rent increase will be processed under. Take for example, a New Construction property where the 1 BR rents exceed the current FMRs, but the 2 BR rents do not. In requesting a rent increase, the owner should detail in the request to the Field Office that the 1 BR units do exceed the published FMR and thus the information submitted is that required for a Part 1 request. However, the 2 BR units do not exceed the published FMR and therefore the information submitted for the 2 BR units is that required for a Part 2 request. These units that are above the FMR, must complete comparability studies, while units below FMR do not need comparability analysis. This policy is by unit, not project specific.

If you have any further questions regarding this notice please contact Peter Giaquinto at (202) 708-4162, or your desk officer in the Operations Division.

Nicolas P. Retsinas
Assistant Secretary for Housing -
Federal Housing Commissioner

ATTACHMENT CONTAINS SCHEDULE C - TABLE 1 - CONTRACT RENT AAFS
TABLE 2 - CONTRACT RENT AAFS
APPENDIX 2

PART 1 ADJUSTMENTS WORKSHEET

FIELD OFFICE WORKSHEET FOR
PROCESSING RENT INCREASES FOR AAF RENTS FOR NEW CONSTRUCTION
AND SUBSTANTIAL REHABILITATION UNIT TYPES WHICH EXCEED THE
EXISTING HOUSING FAIR MARKET RENTS
(NOT FOR USE ON BUDGET BASED RENT INCREASES)

Property Name: ________________________________  Unit Type:______

ESSENTIAL INFORMATION

Existing FMR Level                      Current Gross
for Unit Type $ ______                  Rent for Unit Type $ ______
AAF from Correlated Subject Rent
Table 1 from HUD-92273 $_______
(Line 23)

Initial Difference Submitted by Owner (if any) $_______

STEP 1: Is this contract a New Construction or Sub Rehab contract?;
AND Is the current rent for this unit type (before
application of the AAF) above the Existing Housing FMR?
__ If the answer to BOTH questions is YES, then proceed to
Step 2
__ If the answer to EITHER question is NO, then this unit
type should be adjusted under Part 2 of this Notice.
This worksheet does not apply. Please find Part 2
Adjustments Worksheet at the end of Appendix 2.

STEP 2: Apply the appropriate AAF in Table 1 to the current gross
rent. (NOTE: Throughout this Worksheet, when applying the
published AAF the factor of 1.000 should be used in all
cases where the published factor is below 1.000.)

________________ X _________ = ___________________
by
Current Gross Factor Used Rent Level Produced
Rent for Unit Type the AAF

STEP 3: Is the Rent Level developed in Step 2, greater than the
Correlated Subject Rent Level (CSR) on form 92273, for the
particular unit type?

________________ > _________________________
Rent Level produced by the AAF Correlated Subject Rent Level
(CSR, form HUD 92273)

__ Yes, then go to Step 4
__ No, then the AAF is granted. For units in which
turnover occurred in the last year, use AAF Table 1 to
calculate the rents. For units in which no turnover
occurred in the last year use Table 2 to calculate the
rents. Go to Step 6(b) and document the new rent
levels.

STEP 4: Since the AAF rent level derived in Step 2 is greater than
the correlated subject rent submitted by the owner, then the
initial difference must be added to the correlated subject rent.

If documented evidence of the initial difference was
submitted by the owner from the original underwriting
documents, then use the dollar amount submitted by the
owner. If not, then use 10% of the initial Section 8
Contract Rent as a substitute.

$_________________
Dollar Amount of the Initial Difference

Method Used for the Initial Difference:

___ Owner Submission  ___ Calculated by HUD

$__________         +    $_______________ =  $_____________
Correlated Subject Rent Level  Initial Difference Adjusted Correlated Subject Rent Level

STEP 5: Is the Adjusted Correlated Subject Rent Level (derived above) greater than the rent level obtained by applying the AAF in Step 2?

$_____________           >    $_______________  
Adjusted Correlated Subject Rent Level  Rent Level Produced by the AAF (See Step 2)

__ Yes, then AAF is granted. Rent levels cannot go higher than the AAF. For units in which turnover occurred in the last year, use AAF Table 1 to calculate the rents. For units in which no turnover occurred in the last year use AAF Table 2 to calculate the rents. (NOTE: Throughout this Worksheet when applying the published AAF the factor of 1.000 should be used in all cases where the published factor is below 1.000.)

Turnover units

$_____________  X  ___________  =  $______________
Current Gross Rent  Table 1 Factor New Gross Rent Level

Units with no Turnover

$_____________  X  ___________  =  $______________
Current Gross Rent  Table 2 Factor New Gross Rent Level

Document these rent levels in Step 6(b) and proceed through Steps 7 and 8.

__ No, then the adjusted correlated subject rent will be the new rent level for all units without regard to turnover. Document this rent level in Step 6 (a).

STEP 6: The new rent level(s) for ________ unit type is:

a) $________ for all units (Document this rent level in Step 8);

OR

b) $________ for units with turnover (Number of Units _____); AND
STEP 7: If Step 6 resulted in different rent levels for the same unit type, then a common rent level for this unit type must be derived. Use the rent levels listed in Step 6(b) above to derive a new monthly Gross Rent Potential (GRP).

$______ for units with turnover X ___ (No. of Units) = $______
$______ for units with no turnover X ____ (No. of Units) = $______

Add the two numbers which you just calculated to derive total GRP:

$____________ + $__________ = $____________

Turnover GRP No Turnover GRP Total GRP

Divide Total GRP by the number of units for this unit type to obtain the new rent level for all ____BR units.

$_________ Total GRP divide by ____ units = $____________

New Rent Level

STEP 8: The new rent level for all ____BR units is approved at $______.

4

PART 2 ADJUSTMENTS WORKSHEET

FIELD OFFICE WORKSHEET FOR PROCESSING RENT INCREASES FOR AAF RENTS FOR NEW CONSTRUCTION AND SUBSTANTIAL REHABILITATION UNIT TYPES WHICH DO NOT EXCEED THE EXISTING HOUSING FAIR MARKET RENTS AND FOR ALL LMSA AND PD SECTION 8 CONTRACT TYPES.

(NOT FOR USE ON BUDGET BASED RENT INCREASES)

Property Name:_______________________________ Unit Type:_____

ESSENTIAL INFORMATION

Existing FMR Level for Unit Type $______ > Current Gross Rent for Unit Type $________

STEP 1: If this contract is a New Construction or a Substantial Rehab contract, then is the current gross rent for this unit type (before application of the below the Existing Housing FMR?;

OR

If this contract is an LMSA or PD contract, is the method of adjustment for gross rent the application of the AAF (as opposed to budget-based)? (NOTE: Budget-based rents are NOT processed under this Notice. See Chapter 7, Handbook 4350.1)
If the answer to the applicable question is YES, then proceed to Step 2.

If the answer to the applicable question is NO, and the first question is applicable, then this unit type should be adjusted under Part 1 of this Notice. This worksheet does not apply. Please find Part 1 Adjustments Worksheet at the beginning of Appendix 2.

If the second question is applicable and the answer is NO, then this Notice is not applicable and the rents should be adjusted under Chapter 7, Handbook 4350.1.

STEP 2: For units in which turnover occurred in the last year, use AAF Table 1 to calculate the rents. For units in which no turnover occurred in the last year use AAF Table 2 to calculate the rents. (NOTE: Throughout this Worksheet, when applying the published AAF, the factor of 1.000 should be used in all cases where the published factor is below 1.000.)

Turnover units

$__________ X $__________ = $________________
Current Gross Rent Table 1 Factor New Gross Rent Level

Units with no Turnover

$__________ X $__________ = $________________
Current Gross Rent Table 2 Factor New Gross Rent Level

STEP 3: The new gross rent level(s) for _____ unit type is:

$_______ for units with turnover (Number of Units______)
$_______ for units with no turnover (Number of Units______)

STEP 4: Since the calculation in Step 3 resulted in different rent levels for the same unit type, then a common rent level for this unit type must be derived. Use the rent levels listed in Step 3 above to derive a new monthly Gross Rent Potential (GRP).

$____ for units with turnover X _____ (No. of Units) = $__________
$____ for units with no turnover X ____ (No. of Units) = $__________

Add the two numbers which you just calculated to derive total GRP:

$_________ + $__________ = $_________
Turnover GRP No Turnover GRP Total GRP

Divide Total GRP by the number of units for this unit type to obtain the new rent level for all _____BR units.
$_________ Total GRP divided by _________ units = $_______

New Rent Level

STEP 5: The new rent level for all _____ BR units is approved at $____________.

APPENDIX 3

SAMPLE FORMAT FOR
OWNER’S CERTIFICATION OF COMPLIANCE WITH THE REQUIREMENTS OF
NOTICE: Annual Adjustment Factor Rent Increase Requirements Pursuant
to 42 U.S.C. 1437f(c)(2)(A).

Property Name:___________________________________

FHA Number:_______________________________________

Section 8 Contract Number:________________________

The attached represents a request for a rent increase for the
aforementioned property and the following unit type(s) (e.g. 1 BR,
2BR/2BA, 3 BR, etc.):

I certify as the owner of the property (or the agent empowered to act
on behalf of the owner) that all of the following items are true:

- Preparation of all copies of form HUD-92273 were completed
  by a state certified, general appraiser who does NOT have an
  identity of interest relationship with the project.

- If project funds were used to pay for the completion of
  form(s) HUD-92273, I certify that I am in compliance with
  the Contracting Guidelines set forth in Paragraph 6.50 of

- If a figure is submitted for the initial difference, this
  figure is the same dollar difference which existed between
  the original comparable used in underwriting (or the FMRS)
  and the contract rents at the time of initial occupancy. If
  no initial difference is submitted, then I authorize HUD to
  use 10% of the initial Section 8 contract rent for each unit
  type as the initial difference.

- The figures submitted with this request regarding the number
  of units in which turnover has occurred since the last @
  anniversary date are complete and accurate.

Under penalties and provisions of Title 18, United States Cost,
Chapter 47, Section 1001, the statements contained in this request
have been examined by me and to the best of my knowledge and belief
are true, correct and complete.

APPENDIX 4

OWNER

SAMPLE FORMAT FOR REPORTING UNIT TURNOVER
This form or any other format may be used for reporting the number of units in which turnover occurred since the last HAP contract anniversary date. This information need only be submitted for the unit types in which a rent increase is being requested under this Notice.

This information reflects the number of units in which turnover has occurred since__/__/__ (HAP Anniversary Date)

<table>
<thead>
<tr>
<th>Unit Type</th>
<th>Total Number of Units</th>
<th>Units have incurred turnover</th>
<th>Units did not incur turnover</th>
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</tbody>
</table>

____________________________________________
Owner/Agent
APPENDIX 5

APPENDIX 5 CONTAINS FORM HUD-92273 - ESTIMATES OF MARKET RENT BY COMPARISON.