
CHAPTER 8. VALUATION PROCESSING

8-1. GENERAL

- a. Units Extending over Other Units. When the condominium project is so designed (as in most walk-up apartments) that all or part of a living unit extends over or under another living unit, the project is processed in accordance with instructions for FHA Form 2264-B, 2019, 180 and 2264-A. Such processing is accomplished by personnel of the Technical Services Branch, or Chief Underwriter and is the responsibility of the Assistant Director for Technical Services or Chief Underwriter.
- b. Units Not Extending Over Other Units. When the sponsor has requested the use of the simplified administrative procedures (described in paragraph c. below) and when the project is composed of detached, semi-detached, row or walk-up apartment structures in which no part of a living unit extends over or under another living unit, the project may be processed by Section 203 underwriting procedures. In such cases, the units involved are essentially single family units, and the only lasting mortgage insurance is on the individual units. Such processing is accomplished by personnel of the Single Family Mortgage Insurance Branch, and is the responsibility of the Assistant Director for Single Family Mortgage Insurance (see Reference (1) of the Foreword).
- c. Administrative Procedures. Elsewhere in this Handbook basic information is set forth concerning standard administrative procedures for condominium projects. Where a sponsor can complete the construction of a condominium project not involving elevator construction without the need for insured advances, he may request the use of the simplified administrative procedures (including presale condition.

8-2. PROPOSED CONSTRUCTION.

- a. Condominium Processing uses the basic concepts of the Multifamily Processing Procedure. There are a maximum of three processing stages:
 - (1) Feasibility.
 - (2) Conditional Commitment.
 - (3) Firm Commitment.

- b. The Initial Processing Stage, whether feasibility alone or combined with conditional and/or firm commitment stage, must include all key decisions concerning project feasibility including the location, project size and type, sales price of units, construction budget, land value, presale requirements and tentative mortgage amounts both for the project and for the individual condominium units.
- 8-3. FEASIBILITY STAGE. This stage begins when the sponsor submits his proposal to the Field Office using the same forms which will also be used in Conditional Commitment and Firm Commitment Stages.
- a. Sponsor's Application. In FHA Form 3201, the sponsor's estimates in general terms are given regarding physical description of the project; size of units; equipment and services included in common expense; replacement cost of the project; the common expenses and common income the project will have after it is being operated under individual condominium ownership; the taxes to be paid individually; the insurance (if any) to be paid individually; the personal benefit expenses to be paid individually; and the sponsor's estimate of total cash required to complete and market the project. In FHA Form 3201, sponsor indicates his choice of commitment: FHA Form 3283 (Insurance of Advances); or FHA Form 3284 (Insurance Upon Completion).
- (1) In FHA Form 3280-A, sponsor indicates his proposed sale price for each condominium unit.
 - (2) Preliminary Architectural Exhibits should be included in the required exhibits at the Feasibility Stage in 3 stage processing. If the sponsor's proposal is based on sketch plans which he has already procured, copies of these should be submitted to HUD along with required material.
- b. Preliminary Review and Assignment. When the application, FHA Form 3201, is received by the Field Office, the MFC or Program Manager reviews the application and related exhibits to determine if they are sufficient for feasibility processing. If so, copies of the submission are prepared for simultaneous processing.

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- 8-4. VALUATION PROCESSING. Valuation processing in the Feasibility Stage will be accomplished as follows:
- a. Determine the market need for the purchase of condominium units in the location proposed. Comparison is made with other condominiums. If condominiums are not available in a community, conventional single-family properties or PUD properties offering similar facilities may form the basis of comparison with adjustments for differences.
 - b. Analyze site for acceptability and determine the land value in accordance with basic instructions. Site acceptability as proposed or as modified by site analysis is indicated on Page 4 of FHA Form 2264-B. The site is appraised and Page 4 of FHA Form 2264-B completed to the extent possible. At a minimum, the Value of Site Fully Improved is determined and recorded in Items 8 and 9 and the purchase price of land verified and other costs of the owner's investment in the site shown in Items 12 and 13, and items 14(1), (2) and (3) are completed. Please note that Item 9, Value of Site Fully Improved is an estimate of the value of the site after compliance with any requirements of off-site improvements to provide the site with needed utilities and streets. This Value of Site Fully Improved is also entered in Line 14-(1). The cost processor will show in Line H-43, Unusual Land Improvements, the excessive portion of the cost of piling, rock removal, filling, etc. The amount of unusual land improvements shown in Item H-43 will be entered in Line 14(2). Subtracting Line 14(2) from Line 14(1) results in Line 14(3), Warranted Price of Land Fully Improved (Replacement Cost Items Excluded) which amount is also entered in Line 79 of the Estimated Replacement Cost.
 - c. Size and composition of units are entered from sponsor's application form. Living area is shown for each apartment type. Living area is the area of a living unit measured from the inside faces of corridor and exterior walls, and from the inside faces of partitions separating the living unit from other living and/or commercial areas. Net rentable residential area is the sum of all living areas.
 - d. Enter equipment, services and facilities from sponsor's application.

- (8-4) e. Estimate the common expenses and the personal benefit expenses (owner's maintenance and utilities expenses). If the project most nearly resembles a multifamily rental project, estimate common expenses by appropriate adjustments to multifamily rental project data. If the project most nearly resembles row, townhouse or other single-family properties, utilize single-family expense data for each unit. Enter Conclusions on FHA Form 2264-B.
- f. Complete the valuation portion of the estimate of the replacement cost based upon the condominium as a project. Overhead and profit allowances selected by the cost analyst for the project replacement cost estimate will be those customarily used in projects similar to the subject. In remarks, the cost analyst will enter the additional percentage of overhead and profit and the dollar amount of additional overhead and profit applicable to Section 203(b) processing. The appraiser adds this additional overhead and profit to the total from the project replacement cost estimate and transfers the sum to the total line of Column 8 of FHA Form 180, to be used in allocating replacement cost to each unit. In computing all items which are a percentage of the project mortgage amount, use the mortgage amount indicated by the replacement cost formula. The multifamily fee schedule is applicable. In no instance may the combined application, commitment and inspection fees average less than \$50 per dwelling unit for new construction or \$40 per dwelling unit for rehabilitation or existing construction. (Additional fee will not be charged when the individual unit mortgages are committed.) See Section 234.506 of FHA Regulations. The project replacement cost will include marketing expense, the usual project allowances for legal and organization expense, and 1.5% FNMA Fee. AMPO, BSPRA and consultant fees are not permitted in Section 234. Note that the possible reduction of mortgage amount which may occur (if presale requirements are not met at the time of first endorsement) will not change, in any way, the estimated replacement cost of the project.
- g. Using the estimated replacement cost of project shown in Section H of FHA Form 2264-B, the appraiser develops a construction cost budget in Section M of FHA Form 2264-B.

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- h. Using FHA Form 2019, Estimates of Market Price by Comparison, the appraiser estimates the price of one benchmark unit of each unit type in the condominium, by comparison with similar condominium units. If condominium data is unavailable, sales

of cooperative apartments, properties in PUD's and single family homes may be used for comparison.

- i. On FHA Form 180, Condominium Analysis and Appraisal, the appraiser's estimates of Market Price of Unit are derived from estimates for benchmark units from FHA Form 2019. Using information previously recorded in FHA Form 2264B and FHA Form 2019, the appraiser now completes an appraisal of each condominium unit in a manner similar to a home Mortgage appraisal, and enters the maximum mortgage amount and monthly expenses applicable to each condominium unit on FHA Form 180. When FHA Form 180 is completed, the appraiser turns in FHA Form 2264B, FHA Form 2019 and FHA Form 180 to the Chief Appraiser or the Assistant Director, Technical Services Branch.

8-5. FEASIBILITY DETERMINATION. A finding of feasibility is justified:

- a. When Data Indicates and the sponsor agrees that he can plan and build the proposed project for the construction budget.
- b. When the Sponsor Agrees that he can successfully market the individual units using the maximum mortgage amount for each condominium unit as shown on FHA Form 3280-A.

8-6. PROJECT MORTGAGE LIMITATION IN PRESOLD PROJECTS. Processing as a multifamily rental project is unnecessary. The project mortgage amount for proposed construction projects will be determined (without use of the debt service criterion) by the mortgage credit processor using FHA Form 2264-A. In many cases, this mortgage amount may be as much as 90% of the estimated replacement cost of the project.

8-7. PROJECT MORTGAGE LIMITATION IN PROJECTS WHERE THE UNITS HAVE NOT BEEN PRESOLD. The appraiser should also be aware that for each proposed construction project, the mortgage credit processor will determine the lower project mortgage amount to be applicable in the event that 80% of the total value of the units has not been subscribed for by HUD-FHA approved Purchasers prior to first endorsement. In such case, the project mortgage amount will be reduced at first endorsement to an amount not exceeding the lesser of a or b below:

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- a. 80% of the Total Estimated Replacement Cost of Project
(Line H-80, FHA Form 2264-B.

- b. 85% of the sum of the condominium unit mortgage amounts.
- 8-8. REVISION OF COMMITMENT FORMS. The appraiser instructions provide for the entry of the lower project mortgage amount on the commitment for proposed construction, as follows:

"The mortgage amount shall be reduced to if, at the time of the first endorsement, 80% of the total value of all the units shall not have been subscribed for by HUD/FHA-approved condominium purchasers."

- 8-9. CONDITIONAL COMMITMENT STAGE. In this stage preliminary plans and another FHA Form 3201 are submitted by the sponsor. Plans are reviewed in the Valuation Section, if requested, to assure that the project is being designed and conceived as envisioned in the feasibility stage. In addition, when requested, the project is reanalyzed as necessary to resolve discrepancies between the decisions reached in the feasibility stage and changes created by the sponsor's new submission. Where necessary to resolve conflicts, individual items of expense are analyzed in depth. (See Reference (13) of the Foreword)

Market Price of Units should not change in this stage provided the preliminary drawings reflect conclusions and agreements reached during the Feasibility Stage of Processing. All key value conclusions are made during the Feasibility Stage.

- 8-10. FIRM COMMITMENT STAGE. When requested, final plans and specifications are examined for conformity with previous concepts and decisions agreed upon by HUD-FHA and the sponsor. With a design representative assigned to the project, there should be no changes in plans which are not fully approved by HUD-FHA as design progresses. In this stage, all processing not completed in previous stages is completed. For example, detailed estimates, off-site costs, verified sales price of the site and value of the land fully improved and "as is" for cost certification, if not already performed because of insufficient information, are completed. Also, any significant changes due to plan changes are made and the project reanalyzed as required.

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- 8-11. EXISTING CONSTRUCTION.
- a. Existing Multifamily Rental Projects which have been Previously Insured by HUD-FHA may be converted to condominium ownership. Processing will be the same as outlined above except that insurance of a project mortgage under the new processing will

not be required or permitted since a construction mortgage is unnecessary. There will be only two processing stages: Feasibility Stage and Commitment Stage leading to a blanket commitment for the individual mortgages. Commitment FHA Form 3275-A will be issued in the commitment stage.

- b. Existing Multifamily Rental Projects having between 4 to 11 Units may be processed under this program as above, for conversion to condominium, even though they have not been previously covered by an HUD-FHA insured mortgage.
- 8-12. REHABILITATION PROJECTS. Multifamily rental housing which needs substantial rehabilitation may be processed under Section 234 for rehabilitation and conversion to condominium. It is not required that the rental housing to be rehabilitated be previously covered by an HUD-FHA insured mortgage. Process in accordance with instructions for proposed construction with exceptions as follows:
- a. On FHA Form 2264-B, Sections A, B, C, D, E, F, G, and I, reflecting the operation of the project after rehabilitation and after conversion to condominium ownership. Do not complete Section H, Replacement Cost, at this time.
 - b. Using FHA Form 2019, estimate the market price, by comparison of one benchmark unit of each apartment type in the project after rehabilitation.
 - c. On FHA Form 180, list all condominium units by apartment type and floor of building and complete Columns 1 through 7 for all condominium units. Total the individual market prices of all condominium units, including commercial condominium units, if any. (Market Price of Unit for commercial units, will be derived from capitalization.)
 - d. The "As Is" Value of the property for rehabilitation will be the lesser of:
 - (1) The fair market value "as is" by comparison.

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- (8-12) (2) The actual acquisition cost of the property in the last arms length transaction, if within the last 12 months.
 - (3) The residual "as is" value, which is found by subtracting from the sum of the market prices of individual units after rehabilitation, the estimated rehabilitation costs (off-site and on-site) including contingency reserve,

carrying charges and financing, legal organization and marketing.

After the "as is" value has been determined the replacement cost estimate is made by completing Section H, of FHA Form 2264-B. The rehabilitation cost estimate is made in accordance with procedures in Reference (13) of the Foreword.

- e. Complete the Replacement Cost Ratio and all other columns in FHA Form 180 to reflect values and conditions after rehabilitation and after conversion to condominium ownership.