



January 28, 2022

Lopa P. Kolluri
Principal Deputy Assistant Secretary
Office of Housing and the Federal Housing Administration
U.S. Department of Housing and Urban Development

Ethan Handelman
Deputy Assistant Secretary
Multifamily Housing
U.S. Department of Housing and Urban Development

CC: Peggy Bailey, HUD Senior Advisor on Rental Assistance; Richard Cho, HUD Senior Advisor for Housing and Services

Re: Clarification on Valuation of Non-Shelter Services

Dear Principal Deputy Assistant Secretary Kolluri and Deputy Assistant Secretary Handelman,

Like HUD, LeadingAge is committed to advancing affordable senior housing as a platform for health and services. Because of this shared commitment, we urge HUD to reconsider its recently issued HUD memo, "Clarification on Valuation of Non-Shelter Services." The new policies set forth in the memo, and the overall HUD approach to reduce investments in non-shelter services, are in contrast with HUD's mission and with good and cost-effective asset management practices. Further, the memo fundamentally alters long-standing HUD policy without stakeholder engagement.

We value HUD's efforts to be good fiscal stewards of Section 8. However, HUD's November 15 memo results in a chilling effect on the valuation of services in all Section 8 properties undergoing a Rent Comparability Study. The memo will hurt mission-driven housing communities who are already struggling to offset the costs of reasonable and much-needed resident services at communities.

Further, the memo's impact will be worse in project-based Section 8 communities serving older adults due to the prevalence of Service Coordination, meal and transportation supports, and other non-shelter services generally provided to assist aging in place. The impact on older adult households served through project-based Section 8 will intensify as thousands of Section 202 PRAC units ready for conversion into the Section 8 program through the Rental Assistance Demonstration.

Artificially and unreasonably limiting services valuations of HUD properties is a harmful practice impacting preservation of the agency's affordable Multifamily Housing portfolio nationwide. As is, the memo has already broadly made the non-shelter services valuation component of Rent Comparability Studies more complex, less consistent, and more expensive, which suppresses incentives for owners to provide service-enriched spaces.

On behalf of our nationwide membership of mission-driven senior housing providers, we urge you to act urgently to withdraw the November 15 memo and engage with stakeholders to improve guidance for the property appraisal process for rent setting. Overall, we urge the agency to recommit to supporting resident services, as well as financial preservation and operations of HUD assets, at HUD-assisted housing communities.

Impacts of the HUD RCS Memo

Not only are the vast majority of services offered at HUD-assisted housing communities reasonable and appropriate, but they are a vital component of resident wellbeing and good asset management practices throughout the HUD Multifamily Housing portfolio. Long-standing HUD policy, per Chapter 9 of the Section 8 Renewal guide, has been to assign a value, based on appropriate comparables, to the presence of non-shelter services: “Appraisers should determine if the project provides non-shelter services. At projects for the elderly/disabled, appraisers should take special care to determine if the project provides emergency call systems, transportation, social or educational activities, service coordination, meals, laundry, or housekeeping” (9-11.B). The availability of these non-shelter services should be appraised regardless of funding source (9-12.C.4).

The November 15 memo makes far-reaching changes to these long-standing HUD policies for project-based Section 8 property appraisals and rent setting without undergoing the required public comment process. The result is a more difficult and inconsistent appraisal process, rather than a more effective one.

For example, the memo emphasizes the funding source for services as an impact on the valuation, which impacts non-profit properties who fundraise to offset costs of acceptable services at the property. The memo also emphasizes the need for a contractual obligation to provide certain services; because of the difficulty associated with updating lease agreements and house rules, this emphasis hampers owners in responding to community needs as they evolve or providing ad hoc services that contribute to a general culture of wellness at the property. Further, while the memo states that it applies to “non-shelter services and amenities” (line item #31 on HUD’s Rent Comparability Grid), the memo then also references valuation of Service Coordination (line #30 on the grid), confusing the scope of the memo’s directives.

The memo goes beyond clarification to adjust existing HUD guidance and reinterpret the Multifamily Assisted Housing Reform and Affordability Act (MARHA). Per the Administrative Procedures Act, policy changes of this magnitude should run through public notice and comment, leading to good policy representing a variety of stakeholder perspectives.

Encouraging Resident Health Outcomes and Effective Asset Management Practices

HUD’s portfolio of project-based Section 8 housing is an important resource across the country to allow older adults to age in their communities. Residents who do not have access to light-touch, place-based supports at home, including Service Coordination, transportation support, and similar non-shelter services, are more likely to need costly health interventions in less independent settings. This also results in expensive unit turnover at HUD properties, and other housing instability patterns impacting efficient asset management.

It is in HUD’s mission and interest to support both resident wellness and cost-effective asset management. To that end, rents need to be set at the right balance to encourage housing-based services that should reasonably be paid for by HUD, for which strong rent-setting processes and guidance are needed.

The memo signals an effort to limit HUD’s investment in services through rents – even services that are specifically mentioned in Chapter 9 as being part of the valuation and which have long been accepted as critical components of HUD housing serving older adults. The chilling effect on services provision will result in harmful impacts on the wellbeing of residents and on asset management in HUD-assisted housing across the country, again with a disproportionate impact on affordable senior housing.

Improving Rent Comparability Studies

There are parts of the Rent Comparability process that are inherently difficult. For example, LeadingAge members, and the appraisers our members work with, welcome actionable HUD clarity on how to appraise

a HUD property that does not have appropriate comparables; we also welcome benchmarking or methodology frameworks from HUD on how to value services that don't exist in comparable properties but that are accepted and in fact encouraged in HUD housing (most notably, Service Coordination programs).

Addressing these challenges in rent setting requires an acknowledgement by HUD of the unique attributes of a portfolio serving overwhelmingly non-white older adults and families with low incomes and high rates of chronic health conditions; it also requires a continued commitment from HUD to support resident wellbeing and asset management beyond bricks and mortar. Lastly, it requires consideration of the fact that the value of accessing a meal, a ride to the grocery store, or a call from a trusted Service Coordinator, when provided to the demographic served in HUD housing, is much higher than the value of these services when made available to the demographic generally served by market rate housing.

Emphasizing Common-Sense Guardrails

Instead of responding to isolated instances of unreasonable non-shelter services valuation, HUD's new memo will broadly impact the Section 8 portfolio: While otherwise intended, the result of the memo is not to emphasize common-sense guardrails for the RCS review process; instead, the memo issues new and hard to implement approaches for appraisers without adding clarity to the process.

To identify and restrain any bad actors in this space, we urge HUD to instead leverage and strengthen existing internal controls throughout the rent-setting process. For example, existing HUD guidance outlines specific appraiser qualification and due diligence requirements; in addition, HUD reviewers already carefully edit and adjust appraisals before approval, with much back and forth between individual appraisers, valuation supervisors, contracted reviewers, and HUD experts before a rent assessment is accepted. The process is far from "unchecked."

To the extent that there are weaknesses in the system of appraisals, we urge HUD to clarify the review process for completed appraisals and improve guidance and oversight over its field staff engaged in the work. Lastly, we also strongly encourage HUD to engage with a wide variety of stakeholders to weigh in on this type of policy change, ideally by opening Chapter 9 of the Renewal Guide for updates and public comment, and with a broader discussion with stakeholders on how HUD can better support resident health outcomes through service-enriched housing.

About LeadingAge

We represent more than 5,000 nonprofit aging services providers, including affordable senior housing providers and other mission-minded organizations that touch millions of lives every day. Our membership encompasses the continuum of services for people as they age, including those with disabilities. We bring together the most inventive minds in the field to lead and innovate solutions that support older adults wherever they call home.

We fully support HUD in its mission to serve the people of this country by creating strong, sustainable, inclusive communities and quality affordable homes for all. This memo is inconsistent with that mission. We look forward to continuing our work together to advance and preserve affordable senior housing across the country. Please do not hesitate to reach out with questions to jbilowich@leadingage.org.

Sincerely,

Juliana Bilowich
Director, Housing Operations and Policy