

Appendix A: Data Notes, Methodologies, and Sources

Appendix A describes the data and methodological underpinnings of *Out of Reach*. Following a description of each subject, a link to the primary data source is provided. In some instances, supplementary material is also cited. Information on how to calculate and interpret the data can be found in the sections “Where the Numbers Come From” and “How to Use the Numbers,” which immediately follow the introduction at the front of the report.

Fair Market Rent Area Definitions

Each year, HUD determines Fair Market Rents (FMRs) for metropolitan and rural housing markets across the country. In metropolitan areas, HUD tries to use the most current Office of Management and Budget (OMB) metropolitan area definitions to define housing market boundaries for its FMR areas. Since FMR areas are meant to reflect cohesive housing markets, simply adopting the OMB definitions for administrative purposes is not always preferable. Also, significant changes to area definitions can affect current recipients. Thus, in keeping with guidance to all federal agencies from OMB, HUD modifies the boundaries in some instances for purposes of program administration.

Reacting to OMB’s sweeping post-census overhaul of metropolitan area definitions in 2003, HUD developed FY06 and FY07 FMR areas that incorporated these new definitions, but modified them if a county (or town) to be added to an FMR area under those definitions had 2000 rents or incomes that deviated

more than 5% from the newly defined metropolitan area.¹ HUD (and *Out of Reach*) refers to unmodified OMB-defined areas as Metropolitan Statistical Areas (MSAs) and modified areas as HUD Metro FMR Areas (HMFAs).

FY09 FMR areas incorporate the most recent (December 2007) OMB update of metropolitan area definitions. This update did not change the underlying geographic components of any FMR areas but did rename six to reflect the emergence of principal cities within the metropolitan areas.

In cases in which an FMR area crosses state lines, this report provides an entry for the area under both states. While the Housing Wage, FMR, and Area Median Income (AMI) values apply to the entire FMR area and will be the same in both states, other data such as the number of renter households and the minimum and renter wages apply only to the portion of the FMR area within that state’s borders.

HUD provides an online tool that illustrates the rationale behind each FMR area definition and the calculation of each FMR. HUD also publishes PDF and Excel files that list the counties and towns included in each area and their FY09 FMRs. These resources are available at www.huduser.org/datasets/fmr.html.

¹ See Appendices A and B in *Out of Reach 2006* for additional information on HUD’s methodologies and their effects on FMR area definitions.

Fair Market Rents

Since FY05, data from Census 2000 have provided the foundation for HUD's calculation of Fair Market Rents. From FY05 until FY07, FMRs were updated from year to year based on either the Consumer Price Index (CPI) or periodic Random Digit Dialing (RDD) surveys. Since FY08, however, information from the American Community Survey (ACS) – an annual survey conducted by the U.S. Census Bureau that is expected to replace the “long form” of the decennial census in 2010 – has provided more recent and more localized data on rental cost trends.

The way in which ACS data are used to develop FMRs depends on the size of the FMR area and the subsequent number of survey responses that it yields. For most areas, data on rent levels from the 2005 ACS are compared to Census 2000 data, and a 2001-05 update factor is calculated. If the area is large enough, the data are drawn from the specific FMR area; but for most, the update factors are based on rent data from more populous geographies (e.g., a metropolitan area, a portion of the state, or the entire state) of which they are a constituent part. Regardless, the update factor is used to project “base rents” from Census 2000 to 2005 intermediate rents.

The methodology differs somewhat for a handful of the largest FMR areas. For areas with enough recent movers responding to the survey, ACS data from 2005 are used to set 2005

intermediate rents rather than to update data from the last census.²

HUD uses a similar methodology and more recent ACS data to project intermediate rents to 2006. In the majority of cases, 2006 ACS data are simply used to trend the 2005 intermediate rents forward one year. The update factor is based on data from the FMR area itself if the ACS generated enough survey responses to develop a reliable rent figure; otherwise, the update factor is based on the change in rents at the state-level. And again, for some of the largest FMR areas, ACS data are used to directly determine the 2006 intermediate rents rather than to update previous estimates.

Regardless of the methodology used to develop them, 2006 intermediate rents are trended through 2007 using local or regional CPI data and then increased at an annual rate of 3% for five quarters to project FMRs to April 1, 2009.

Many RDDs conducted between 2001 and 2006 are not incorporated into current FMRs because ACS data are thought to be more reliable. However, RDDs conducted since 2006 are incorporated into the FY09 FMRs if they are significantly different than the ACS-based estimates. Specifically, RDDs show that rents in parts of Colorado, Texas, Utah, and Wyoming have increased substantially since 2006 as a result of higher demand from the oil and gas industry. The findings from RDDs conducted in these areas were incorporated into “revised final”

² See Appendix A in *Out of Reach 2007-2008* and an overview provided by HUD (www.huduser.org/datasets/fmr/fmrover_071707R2.doc) for more detailed information on HUD's incorporation of ACS data into the calculation of FY08 Fair Market Rents.

FY08 FMRs released after *Out of Reach* was published last year and are also reflected in the FY09 FMRs.

Additionally, HUD is currently conducting RDDs in three rental markets impacted by Hurricane Katrina: New Orleans, Hattiesburg, MS, and Pearl River County, MS. FMRs will be adjusted if the results of the surveys are significantly different from the published FY09 FMRs.

The methodological shift in calculating FMRs – from a reliance on CPI inflation factors and RDDs to the utilization of ACS data – is widely seen as an improvement and is expected to produce better estimates of local rents. For the roughly 2,600 FMR areas nationwide, the two-bedroom FMR is 3.8% higher, on average, than in FY08. However, this methodology can create more year-to-year variability and does produce a lower two-bedroom FMR in 82 instances.³

Like last year, this edition of *Out of Reach* compares an area's current FMR with its Census 2000 base rent. Census 2000 base rents for the current FMR area definitions, which are available through HUD's FMR Documentation System, make it possible to calculate the percentage increase in FMRs over the last nine years.⁴

Appendix B contains excerpts from HUD's Notice of Final Fair Market Rents and includes a link to the full document.

³ Excludes areas that have lower FMRs because HUD dropped their voucher payment standard from the 50th percentile to the 40th percentile.

⁴ This calculation is not influenced by changes in an area's designation as a 40th or 50th percentile FMR area and therefore represents the actual increase in rents over the nine-year period.

40th and 50th Percentile FMR Designation

According to an interim rule (65 FR 58870) published in 2000, HUD is required to set FMRs at the 50th percentile rent, rather than the 40th, in large metropolitan areas with concentrated poverty. This rule was established to expand rental opportunities by making units in less-impooverished areas affordable to Housing Choice Voucher holders. Once designated, the FMR area retains its 50th percentile rent for three years, at which time HUD reviews it for continuing eligibility.

Twenty-four of the 28 FMR areas with a 50th percentile voucher payment standard in FY08 were reviewed in preparation of this year's FMRs. Of these, 14 were deemed ineligible and thus assigned 40th percentile rents in FY09, either because their voucher tenants were no longer concentrated in high-poverty areas or because there was no evidence that the 50th percentile FMR was having the desired effect of moving voucher holders to less impoverished areas.

HUD determined that 10 of the reviewed areas continue to be eligible for 50th percentile FMRs, and an additional four were not yet up for review. An asterisk (*) is used to denote these 14 areas in *Out of Reach*.

The last page in this appendix lists which FMR areas are currently eligible for the 50th percentile rent and also explains why the former 50th percentile areas were deemed ineligible.

National, State, and Nonmetro Fair Market Rents

HUD calculates FMRs for metropolitan areas and nonmetro counties, but not for states, combined nonmetro areas, or the nation. The FMRs for these larger geographies provided in *Out of Reach* are calculated by NLIHC and reflect the weighted average FMR for the counties included in the larger geography. The weight used for FMRs is the number of renter households within each county from Census 2000.

HUD Area Median Income (AMI)

HUD calculates the AMI for families at the metropolitan level for more urbanized areas and at the county level for nonmetropolitan areas. The Census definition of “family” is two or more persons related by blood, marriage or adoption residing together. This family AMI value relates to the universe of all families and is not intended to apply to a specific family size.

As with updates to the FMRs, HUD is now using ACS data to develop income estimates.⁵ For most areas with a population of 20,000 persons or more, update factors based on both local and state income estimates from the ACS are compared to Census 2000 and are used to develop an income estimate for 2007; for less populous areas without ACS estimates and for areas where the estimates are deemed too statistically unreliable, only state income growth is used to update census income to 2007. The 2007 estimate is then projected to April 1, 2009, using an estimate of inflation and assuming 3% growth for five quarters.

⁵ HUD used three-year ACS estimates (2005-07) to develop FY09 median incomes and income limits. When HUD developed FMR estimates, only one-year estimates from 2006 were available.

Based on the incomes provided by HUD and applying the assumption that no more than 30% of income should be spent on housing costs (see below), *Out of Reach* calculates the maximum affordable rent for households earning the median income and 30% of the median (extremely low income). These calculations are presented in this book, and calculations corresponding to 50% and 80% of AMI are included in the online publication. It is important to note that these are straight percentages and do not include adjustments HUD uses in calculating its income limits for federal housing programs.

The median incomes for states and combined nonmetropolitan areas reported in *Out of Reach* reflect the average of local AMI data weighted by the total number of households.

A comprehensive list of the counties and towns included in FY09 income limit calculations can be found at www.huduser.org/datasets/il/il09/area_def.pdf.

The methodology for calculating median family income estimates and a discussion of HUD’s adjustments to subsequent income limits are provided in *FY2009 HUD Income Limits Briefing Material*, available at www.huduser.org/datasets/il/il09/IncomeLimitsBriefingMaterial_FY09.pdf.

Affordability

Out of Reach is consistent with federal housing policy in the assumption that no more than 30% of a household’s gross income should be consumed by gross housing costs. Spending

more than 30% of income on housing is considered “unaffordable.”⁶

Although *Out of Reach* explicitly addresses affordability in the rental housing market, housing affordability problems are not unique to renters. *The State of the Nation’s Housing: 2008*, published by Harvard University’s Joint Center for Housing Studies (www.jchs.harvard.edu/publications/markets/son2008/index.htm), includes an analysis of the affordability problems faced by homeowners.

Prevailing Minimum Wage

The federal minimum wage on January 1, 2009, was \$6.55 per hour. Although it is scheduled to increase to \$7.25 in July 2009, *Out of Reach* incorporates the federal minimum wage in effect at the time of publication.

According to data from the U.S. Department of Labor, the District of Columbia and 27 states had implemented a state minimum wage higher than \$6.55 by January 1, 2009. In place of the lower federal rate, *Out of Reach* incorporates the prevailing minimum wage in these states.

Among the statistics included in *Out of Reach* are the number of hours and subsequent full-time jobs a minimum wage earner must work to afford the FMR. If the reader would like to

⁶ The Housing and Urban-Rural Recovery Act of 1983 made the 30% “rule of thumb” applicable to all current rental housing assistance programs. See Pelletiere, D. (2008). *Getting to the heart of housing’s fundamental question: How much can a family afford?* Washington, DC: National Low Income Housing Coalition.

calculate the same statistics using a different wage, a simple formula can be used for the conversion:

$$\frac{[\text{hours or jobs at the published wage}] * [\text{published wage}]}{[\text{alternative wage}]}$$

For example, if one must work 75 hours per week to afford the FMR assuming a wage of \$6.55, the same FMR would be affordable in 68 hours assuming a wage of \$7.25 ($75 * \$6.55 / \7.25). For further guidance, see *Out of Reach’s* “Where the Numbers Come From” page or contact NLIHC research staff.

The Department of Labor (www.dol.gov/esa/minwage/america.htm) provides further information on state minimum wage laws.

Average Renter Wage

Recognizing that the minimum wage reflects the earnings of only the lowest income workers, *Out of Reach* also calculates an estimated mean renter hourly wage. This measure reflects the compensation that a typical renter is likely to receive for an hour of work by dividing average weekly earnings by 40 hours, thus assuming a full-time workweek. Earnings include several non-wage forms of compensation like paid leave, bonuses, tips, and stock options.⁷

The estimated mean renter hourly wage is based on the average weekly earnings of private (non-governmental) employees

⁷ Thus this measure is different from the Estimated Renter Median Household Income provided online, which reflects an estimate of what renter households are earning today and includes income not earned in relation to employment.

working in each county.⁸ Renter wage information is based on 2007 data reported by the BLS in the Quarterly Census of Employment and Wages. For each county, mean hourly earnings are multiplied by the ratio of median renter income to median total household income in Census 2000 to arrive at an estimated average renter wage. In 13 cases, this results in an upward adjustment. Nationally, however, the median renter household earned only 65% of the overall median household income in 1999.⁹

In roughly 3% of the counties, this downward adjustment to reflect the lower income of renters results in a hourly wage that is below the state's 2007 minimum wage. One likely explanation is that workers in these counties average fewer than 40 hours per week, but the mean renter wage calculation assumes weekly compensation is the product of a full-time workweek. For example, mistakenly assuming earnings from 20 hours of work were the product of a full-time workweek would underestimate the actual hourly wage by half, but it would also accurately reflect the true earnings of renters under the assumption of a full-time schedule.

Like last year, the estimated mean renter hourly wage reported in *Out of Reach* has been adjusted to the same “as of” date assigned to FMRs and AMIs by HUD (April 1, 2009, for this fiscal year)

⁸ Renter wage data for 30 counties are not provided in *Out of Reach* either because the BLS could not disclose the data for confidentiality reasons or because the number of employees working in the county was insufficient to estimate a reliable wage.

⁹ NLIHC's tabulations of 2006 ACS data indicate that the average hourly wage reported by renter households was roughly 77% of the average overall wage.

and uses the same methodology that HUD uses to project its income estimates. Because annual average values calculated from BLS data might be considered “as of” July 1 for the calendar year for which they are reported, the data are projected to year-end 2007 using a national inflation factor. An annual rate of 3% is then used to grow renter wages for five quarters to April 1, 2009.¹⁰

Wage data from the Quarterly Census of Employment and Wages are available through the Bureau of Labor Statistics at www.bls.gov/cew/home.htm.

Working Hours

Calculations of the Housing Wage and of the number of jobs required at the minimum or mean renter wage to afford the FMR assume that an individual works 40 hours per week, 52 weeks each year, for a total of 2,080 hours per year.

Seasonal employment, unpaid sick leave, temporary lay-offs, and job changes prevent many individuals from maximizing their earnings throughout the year. According to Current Employment Statistics data from late 2008 and early 2009, the average wage earner in the U.S. worked 33.3 hours per week, or roughly 1,730 hours per year.¹¹ And in related research, NLIHC finds that 29%

¹⁰ Following HUD's methodology for developing FY09 AMIs, a 3% growth rate was used to trend average renter wages from year-end 2007 to April 1, 2009. For FY08 AMIs and renter wages, a 3.5% growth rate was used.

¹¹ Bureau of Labor Statistics. (2009, March). *The employment situation: February 2009*. Washington, DC: U.S. Department of Labor.

of renter households that earn wage or salary income do not work as many as 40 hours per week, on average.¹²

These statistics should remind the reader that not all employees have the opportunity to translate an hourly wage into full-time, year-round employment. For these households, the Housing Wage underestimates the actual hourly compensation that a worker must earn to afford the FMR. Conversely, some households include multiple wage earners or single individuals that average more than 40 hours per week at work. For these, a home renting at the FMR would be affordable even if each worker earned less than the area's stated Housing Wage.

For an expanded report on hours and earnings as reported by the Bureau of Labor Statistics, see *The Employment Situation: February 2009* at www.bls.gov/schedule/archives/empisit_nr.htm#2009.

Putting the Housing Wage to the Test, a research note in which NLIHC explores the working characteristics of renter households and challenge the 40-hour per week assumption of our signature statistic, is available at www.nlihc.org/doc/ResearchNote_12-07.pdf.

Supplemental Security Income (SSI)

Out of Reach compares rental housing costs with the rents affordable to individuals receiving Supplemental Security Income (SSI) payments. The numbers in *Out of Reach* are based

¹² Wardrip, K. & Pelletiere, D. (2007). *Research note #07-03: Putting the Housing Wage to the test*. Washington, DC: National Low Income Housing Coalition.

on the maximum federal SSI payment for individuals in 2009, which is \$674 per month. *Out of Reach* calculations include supplemental payments that benefit all individual SSI recipients in the following six states because the payments are centrally administered by the Social Security Administration (SSA): California, Massachusetts, New Jersey, New York, Rhode Island, and Vermont.

Supplemental payments provided by an additional 40 states are excluded from *Out of Reach* calculations. For some, these payments are administered by the SSA but are available only to populations with specific disabilities, in specific facilities, or in specific household settings. For the vast majority, however, the supplements are administered directly by the states, so the data are not readily available. The only five states that do not supplement federal SSI payments are Arkansas, Mississippi, North Dakota, Tennessee, and West Virginia.

Since SSI payments are set at the state level, the published version of *Out of Reach* calculates the difference between each state's average two-bedroom FMR and the rent that is affordable for SSI recipients. Readers can calculate this gap for any geography by subtracting the rent affordable to an SSI recipient from the area's FMR.

Information on SSI payments is available through the Social Security Administration at www.socialsecurity.gov/ssi/index.htm. Information on state supplements can be found at www.ssa.gov/pubs/11015.pdf and at www.socialsecurity.gov/policy/docs/progdesc/ssi_st_asst/2008/ssi_st_asst08.pdf.

The Technical Assistance Collaborative, Inc., publishes a biennial report comparing Fair Market Rents with the incomes of SSI recipients. Recent editions of *Priced Out* can be found at www.tacinc.org/Pubs/PricedOut.htm.

Areas Affected by Hurricane Katrina

The loss of affordable rental units, the slow pace of recovery, and the demand for rental housing that has followed in the wake of Hurricane Katrina have continued to result in tight rental markets and rising rents in parts of the Gulf Coast region. In a notice published on March 6, 2006, updating the final FY06 FMRs, HUD initially increased the FMRs for the New Orleans-Metairie-Kenner, LA MSA and the Baton Rouge, LA HMFA by 35% and 25%, respectively, with a promise to monitor the situation for future rent increases.

Though there were no significant changes to these FMRs in FY07, HUD reduced the Baton Rouge “bonus” from 25% to 15% the following year. Combined with the methodological shift in updating FMRs described at the beginning of the appendix, FY08 FMRs for both metropolitan areas were only 1.2% higher than previous levels. However, HUD did increase the FY08 FMRs for Gulfport-Biloxi and Pascagoula, MS, by 20%, citing higher rents caused by the slow pace of reconstruction and higher insurance costs following the storm.

FY09 FMRs for these four Hurricane Katrina-affected areas are roughly 4% higher than last year’s, reflecting the CPI estimate of regional rent inflation. This methodology is a deviation from HUD’s standard update practices for FY09 FMRs (i.e., incorporating the increase in rents reported by the ACS between

2005 and 2006) because HUD continues to question the reliability of the survey data from these hurricane-affected areas.

As mentioned earlier in the appendix, RDDs are being conducted in New Orleans, Hattiesburg, MS, and Pearl River County, MS, and will be incorporated when results are finalized.

Additional Data Available Online

Data available in the print version of *Out of Reach* are limited in an effort to present the most important information clearly. Additional data can be found online at www.nlihc.org/oor2009/.

The *Out of Reach* methodology was developed by Cushing N. Dolbeare, founder of the National Low Income Housing Coalition.

Eligibility for 50th Percentile Fair Market Rent

In FY08, Fair Market Rents (FMRs) were set at the 50th percentile rent in 28 FMR areas where voucher tenants were concentrated in high-poverty areas. Compared with the typical 40th percentile rent, this higher voucher payment standard would provide tenants with housing options in less-impooverished areas. In setting FY09 FMRs, HUD reevaluated many of these areas and determined that 12 should have their FMR reduced to the 40th percentile payment standard because at least the same proportion of tenants continued to live in high-poverty areas (denoted below as “failed to deconcentrate”). In another two areas no longer eligible for the 50th percentile FMR, the share of tenants in concentrated poverty has decreased sufficiently that the higher rent standard is no longer warranted (“concentration below threshold”). Fourteen areas will keep their 50th percentile designation.

No Longer Eligible for 50th Percentile FMR

Failed to Deconcentrate

Austin-Round Rock, TX MSA
Baltimore-Towson, MD MSA
Fort Worth-Arlington, TX HMFA
Honolulu, HI MSA
Las Vegas-Paradise, NV MSA
New Haven-Meriden, CT HMFA
Orange County, CA HMFA
Phoenix-Mesa-Scottsdale, AZ MSA
Riverside-San Bernardino-Ontario, CA MSA
Tucson, AZ MSA
Virginia Beach-Norfolk-Newport News, VA-NC MSA
Washington-Arlington-Alexandria, DC-VA-MD HMFA

Concentration Below Threshold

Grand Rapids-Wyoming, MI HMFA
Providence-Fall River, RI-MA HMFA

Remains Eligible for 50th Percentile FMR

Albuquerque, NM MSA
Bradenton-Sarasota-Venice, FL MSA
Chicago-Naperville-Joliet, IL HMFA
Dallas, TX HMFA
Denver-Aurora, CO MSA
Fort Lauderdale, FL HMFA
Hartford-West Hartford-East Hartford, CT HMFA
Houston-Baytown-Sugar Land, TX HMFA
Kansas City, MO-KS HMFA
Milwaukee-Waukesha-West Allis, WI MSA
Richmond, VA HMFA
San Diego-Carlsbad-San Marcos, CA MSA
Tacoma, WA HMFA
West Palm Beach-Boca Raton, FL HMFA