

Appendix B: Explanation of Fair Market Rent

Excerpts from Notice of Final Fair Market Rents for Fiscal Year 2009. Full document available at www.huduser.org/datasets/fmr/fmr2009f/FY09F_FMRs_Preamble.pdf.

Department of Housing and Urban Development
[Docket No. FR-5223-N-02]

Final Fair Market Rents for Fiscal Year 2009 for the Housing Choice Voucher Program and Moderate Rehabilitation Single Room Occupancy Program

AGENCY: Office of the Assistant Secretary for Policy Development and Research, HUD

ACTION: Notice.

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I. Background

Section 8 of the USHA (42 U.S.C. 1437f) authorizes housing assistance to aid lower-income families in renting safe and decent housing. Housing assistance payments are limited by FMRs established by HUD for different areas. In the Housing Choice Voucher program, the FMR is the basis for determining the “payment standard amount” used to calculate the maximum monthly subsidy for an assisted family (see 24 CFR 982.503). In general, the FMR for an area is the amount that would be needed to pay the gross rent (shelter rent plus utilities) of privately owned, decent, and safe rental housing of a modest (non-luxury) nature with suitable amenities. In addition, all rents subsidized under the Housing Choice Voucher program must meet reasonable rent standards. The interim rule published on October

2, 2000, (65 FR 58870), established 50th percentile FMRs for certain areas.

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II. Procedures for the Development of FMRs

Section 8(c) of the USHA requires the Secretary of HUD to publish FMRs periodically, but not less frequently than annually. Section 8(c) states in part, as follows:

Proposed fair market rentals for an area shall be published in the **Federal Register** with reasonable time for public comment and shall become effective upon the date of publication in final form in the **Federal Register**. Each fair market rental in effect under this subsection shall be adjusted to be effective on October 1 of each year to reflect changes—based on the most recent available data trended so the rentals will be current for the year to which they apply—of rents for existing or newly constructed rental dwelling units, as the case may be, of various sizes and types in this section.

The Department’s regulations at 24 CFR part 888 provide that HUD will develop proposed FMRs, publish them for public comment, provide a public comment period of at least 30 days, analyze the comments, and publish final FMRs (See 24 CFR 888.115).

In addition, HUD’s regulations at 24 CFR 888.113 set out procedures for HUD to assess whether areas are eligible for FMRs at the 50th percentile. For FY2009, no new areas became eligible for 50th percentile rents. Current areas are evaluated for

progress in deconcentration every three years after becoming 50th percentile areas. Continued eligibility is determined based on HUD administrative data that show levels of poverty concentration. The levels of poverty concentration must be above 25 percent and show a decrease in concentration since the last evaluation. At least 85 percent of the voucher units in the area must be used to make this determination. Twenty-four of the current 28 50th percentile FMR areas had been in the program for a three-year period and were reviewed to determine if deconcentration had occurred. A list of these 24 areas is shown below.

[See the last page of Appendix A for information on 50th percentile areas.]

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III. Proposed FY2009 FMRs

On June 12, 2008 (73 FR 33530), HUD published proposed FY2009 FMRs. As noted in the preamble to the proposed FMRs, the FMRs for FY2009 reflect the use of the 2006 ACS data to update 2005 rent estimates for metropolitan areas. In addition, the FY2009 FMRs include all changes made to metropolitan area definitions made by the Office of Management and Budget (OMB), as of November 2007.

During the comment period, which ended August 1, 2008, HUD received 26 public comments on the proposed FY2009 FMRs. None of the comments received included the data needed to support FMR changes. Several of the comments expressed concern over recent utility increases and the failure of the FY2009 FMRs to take into account these increases. There were also comments received on the loss of 50th percentile FMRs resulting from low reporting rates. The comments received are discussed in more detail later in this notice.

IV. FMR Methodology

The FY2009 FMRs are based on current OMB metropolitan area definitions that were first used in the FY2006 FMRs. The changes OMB made to the Metropolitan Area Definitions in November 2007 are incorporated. This means that there are six Metropolitan Statistical Area (MSA) name changes that reorder, add, or delete a primary city name. The area definitions based on 2000 Census data have the advantages of providing more relevant commuting interchange standards and more current measures of housing market relationships than those based on 1990 Census data and used prior to the FY2006 FMRs.

At HUD's request, the Census Bureau prepared a special publicly releasable census file that permits almost exact replication of HUD's 2000 Base Rent calculations, except for areas with few rental units. This data set is located on HUD's HUD USER Web site at <http://www.huduser.org/datasets/fmr/CensusRentData/>.

A. Data Sources – 2000 Census and American Community Survey

FY2009 FMRs are based on changes in rents measured by differences in ACS data collected in 2005 and 2006 and updated with CPI data. For FY2008 FMRs, HUD developed 2005 rent estimates based on updating 2000 Census gross rent data with more current survey data from the Census Bureau's 2005 ACS, the first full year of implementation for the ACS. FY2009 FMRs use data from the 2006 ACS to update these 2005 rent estimates. While the Census Bureau intends for the ACS to replace the Decennial Census sample "long form" for collecting detailed socioeconomic data, the ACS has several important distinctions from the decennial long form. These include:

- The ACS is conducted on a continuous “rolling” basis throughout the year, so survey responses do not correspond to a particular date, whereas the long form responses were as of the Census date of April 1. This has implications for the “as-of” date assumed for ACS-based rents. The “as-of” date for ACS-based rents is set at June 30 of the ACS year.

- The ACS has an initial sample size (before non-response attrition) of about one-fifth that of the decennial long form, which surveyed approximately one out of every six households. This means that an adequate sample size for one-year ACS data will be available only for very large population geographic areas, and that data for smaller areas will be accumulated over 3 or 5 years to form the basis of decennial long-form-equivalent estimates.

As detailed in the notices announcing the proposed and final FY2008 FMRs, HUD replaced the accumulated 2001 through 2005 FMR update factors from various sources with 2005 ACS data. The preamble for the final FY2008 FMR Notice (72 FR 55940) provides a description of how the 2005 ACS data, and in some cases Random Digit Dialing surveys (RDDs) conducted in 2001 through 2005, were used in the FY2008 FMRs. Further details regarding the calculation of FY2008 FMRs are available using HUD’s online Final FY2008 Documentation System, available at <http://www.huduser.org/datasets/fmr/fmrs/index.asp?data=fmr08>.

B. Updates From 2005 to 2006

State or local 2006 ACS data are used to update a June 2005-calculated gross rent from the FY2008 FMRs to June 2006. The same categories of use, depending upon the sizes of the available rental unit samples in the FMR areas, were applied to the 2006 ACS data as had been applied to the 2005 data. There are two

exceptions to the similarity of processing 2005 ACS data and 2006 ACS data. First, the update factor reflecting changes in rents for the parts of the state not included in FMR areas covered by local ACS data was discontinued for two reasons: (1) The variance in rent change between 2005 and 2006 for these areas was much larger than that for full states and it was not clear whether these changes reflected differences in markets or area composition, or if they reflected survey anomalies; and (2) basing an underlying geography on factors that change annually (such as the identity of FMR areas covered by local ACS data) and which cannot be determined until the survey data have been processed presents a complexity that could not be resolved in a manner that allowed for timely delivery of data. Consequently, for FY2009, all state-based update factors are calculated for the entire state.

Second, HUD-defined “HMFAs” in metropolitan areas (CBSAs) where no subarea uses the CBSA gross rent as the basis of its FMR, are no longer tested to determine which update factor, the state or the CBSA, brings the subarea closer to the CBSA. The state update factor is now used for these cases. This change was made because review of the data and discussions with field economists indicated that forcing these subareas toward CBSA-area values moved the rent in the wrong direction.

C. Updates From 2006 to 2007

The 2006 ACS data brought the 2005 data used in the FY2008 FMRs forward by 12 months to June 2006. The CPI is used to update the June 2006 FMRs to the end of 2007. Local CPI data are used for FMR areas with at least 75 percent of their population within Class A metropolitan areas covered by local CPI data. Census region CPI data are used for FMR areas in

Class B and C size metropolitan areas and nonmetropolitan areas without local CPI update factors.

D. Updates From 2007 to 2009

The national 1990 to 2000 average annual rent increase trend of 3 percent (1.03) is applied to end-of-2007 rents for 1.25 years, to derive the final FY2009 FMRs.

E. Additional Rent Surveys and Other Data

In early 2008, surveys were conducted in several areas of Wyoming, Colorado, Utah, and Texas where, as a result of increased oil and gas drilling activity, housing agencies have experienced significant rental housing market pressure. Most of these areas have experienced several years of problems managing the voucher program. These surveys show that rents in these areas are higher than previously estimated. All of these surveys met HUD standards for statistical significance (i.e., the survey result trended to April 2008 was statistically different from the April 2008 FY2008 FMRs at a 95 percent level of confidence). These RDD survey results became effective in FY2008 with the publication of the proposed FY2009 FMRs.

Three additional RDD surveys are underway. HUD is currently conducting surveys in New Orleans, Hattiesburg, MS and Pearl River County, MS in its ongoing effort to monitor rental housing markets in Katrina and Rita affected areas because of HUD's concern about FMR accuracy in these fluid housing markets and at the request of local PHAs. Results from these surveys will be published as soon as they are available.

The area-specific data and computations used to calculate proposed FY2009 FMRs and FMR area definitions can be found at <http://www.huduser.org/datasets/fmr/fmrs/index.asp?data=fmr09>.

F. Large Bedroom Rents

FMR estimates are calculated for two-bedroom units. This generally is the most common size of rental units, and therefore the most reliable to survey and analyze. After each decennial census, rent relationships between two-bedroom units and other unit sizes are calculated and used to set FMRs for other units. This is done because it is much easier to update two-bedroom estimates and to use pre-established cost relationships with other bedroom sizes than it is to develop independent FMR estimates for each bedroom size. This was last done using 2000 Census data. A publicly releasable version of the data file used that permits derivations of rent ratios is available at <http://www.huduser.org/datasets/fmr/CensusRentData/index.html>. Rent ratio derivations are also shown in the FMR documentation system at <http://www.huduser.org/datasets/fmr/fmrs/index.asp?data=fmr09>.

The rents for three-bedroom and larger units continue to reflect HUD's policy to set higher rents for these units than would result from using normal market rents. This adjustment is intended to increase the likelihood that the largest families, who have the most difficulty in leasing units, will be successful in finding eligible program units. The adjustment adds bonuses of 8.7 percent to the unadjusted three-bedroom FMR estimates and adds 7.7 percent to the unadjusted four-bedroom FMR estimates. The FMRs for unit sizes larger than four bedrooms are calculated by adding 15 percent to the four-bedroom FMR for each extra bedroom. For example, the FMR for a five-bedroom unit is 1.15 times the four-bedroom FMR, and the FMR for a six-bedroom unit is 1.30 times the four-bedroom FMR. FMRs for single-room occupancy units are 0.75 times the zero-bedroom (efficiency) FMR.

A further adjustment was made using 2000 Census data in establishing rent ratios for areas with local bedroom-size intervals above or below what are considered to be reasonable ranges or where sample sizes are inadequate to accurately measure bedroom rent differentials. HUD's experience has shown that highly unusual bedroom ratios typically reflect inadequate sample sizes or peculiar local circumstances that HUD would not want to utilize in setting FMRs (e.g., luxury efficiency apartments that rent for more than typical one-bedroom units). Bedroom interval ranges were established based on an analysis of the range of such intervals for all areas with large enough samples to permit accurate bedroom ratio determinations. The ranges used were: Efficiency units are constrained to fall between 0.65 and 0.83 of the two-bedroom FMR; one-bedroom units must be between 0.76 and 0.90 of the two-bedroom unit; three-bedroom units must be between 1.10 and 1.34 of the two-bedroom unit; and four-bedroom units must be between 1.14 and 1.63 of the two-bedroom unit. Bedroom rents for a given FMR area were then adjusted if the differentials between bedroom-size FMRs were inconsistent with normally observed patterns (i.e., efficiency rents were not allowed to be higher than one-bedroom rents and four-bedroom rents were not allowed to be lower than three-bedroom rents).

For low-population, nonmetropolitan counties with small census recent-mover rent samples, census-defined county group data were used in determining rents for each bedroom size. This adjustment was made to protect against unrealistically high or low FMRs due to insufficient sample sizes. The areas covered by this estimation method had less than the HUD standard of 200 two-bedroom census-tabulated observations.

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VI. Manufactured Home Space Surveys

The FMR used to establish payment standard amounts for the rental of manufactured home spaces in the Housing Choice Voucher program is 40 percent of the FMR for a two-bedroom unit. HUD will consider modification of the manufactured home space FMRs where public comments present statistically valid survey data showing the 40th percentile manufactured home space rent (including the cost of utilities) for the entire FMR area. HUD modified manufactured home space FMRs for Seattle-Bellevue, WA, based on survey data showing the 40th percentile manufactured home space rent (including the cost of utilities) for the entire FMR area.

All approved exceptions to these rents that were in effect in FY2008 were updated to FY2009 using the same data used to estimate the Housing Choice Voucher program FMRs if the respective FMR area's definition remained the same. If the result of this computation was higher than 40 percent of the re-benchmarked two-bedroom rent, the exception remains and is listed in Schedule D. The FMR area definitions used for the rental of manufactured home spaces are the same as the area definitions used for the other FMRs. Areas with definitional changes that previously had exceptions to their manufactured housing space rental FMRs are requested to submit new surveys to justify higher-than-standard space rental FMRs if they believe higher space rental allowances are needed.

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