

Appendix B: Explanation of Fair Market Rent

Excerpts from Notice of Final Fair Market Rents (FMRs) for Fiscal Year 2006, available at www.huduser.org/datasets/fmr/fmr2006f/FY2006FMR_Preamble.pdf.

Department of Housing and Urban Development
[Docket No. FR-4995-N-03]

Final Fair Market Rents for the Housing Choice Voucher Program and Moderate Rehabilitation Single Room Occupancy Program for Fiscal Year 2006

AGENCY: Office of the Secretary, HUD

ACTION: Notice of Final Fair Market Rents (FMRs) for Fiscal Year 2006

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I. Background

Section 8 of the U.S. Housing Act of 1937 (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 final FY2006 FMRs are the first to be calculated using the revised Office of Management and Budget (OMB) statistical area definitions that were issued in 2003. The new definitions are county-based.

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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.) Final FY2006 FMRs are published on or before October 1, 2005, as required by section 8(c)(1) of the USHA.

III. Proposed FY2006 FMRs

On June 2, 2005 (70 FR 32402), HUD published proposed FY2006 FMRs. In the proposed FY2006 FMRs notice, HUD advised that the assessment, as directed by HUD's regulations, on eligibility or ineligibility for 50th percentile FMRs would be addressed by a subsequent notice. The subsequent notice on 50th percentile FMRs was published on August 25, 2005, and is further discussed in Section VII of this notice.

As noted in the preamble to the proposed FMRs, the FMRs for FY2006 were based on a change in metropolitan area definitions. HUD is using the county-based statistical areas as defined by OMB, with some modifications. The only modifications made are to permit OMB-defined metropolitan areas to be divided into more than one FMR area when necessary to minimize changes in FMRs due solely to the use of the new definitions. All proposed metropolitan FMR areas consist of areas within new OMB metropolitan areas. In general, any parts of old metropolitan areas, or formerly nonmetropolitan counties, that would have more than a 5 percent increase or decrease in their FMRs as a result of implementing the new OMB metropolitan definitions are defined as separate FMR areas.

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All RDD results are being implemented with the exception of the reduction for New Orleans. This area experienced such massive losses to its rental housing inventory that the survey results are no longer valid.

IV. FMR Methodology

As detailed in the June 2, 2005, notice, the FY2006 FMRs are based on current OMB metropolitan area definitions. These definitions have the advantages that they are based on more current (2000 Census) data, use a more relevant commuting interchange, and generally provide a better measure of current housing market relationships. HUD had three objectives in defining FMR areas for FY2006: (1) to incorporate new OMB metropolitan area definitions so the FMR estimation system can employ new data collected using those definitions; (2) to better reflect current housing markets; and (3) to minimize the number of large changes in FMRs due to use of the new OMB definitions. The proposed FMR area definitions were developed to achieve these objectives as follows:

- FMRs were calculated for each of the new OMB metropolitan areas using 2000 Census data.
- Subparts of any of the new areas that had separate FMRs under the old OMB definitions were identified, and 2000 Census Base Rents for these subparts were calculated. Only the subparts within the new OMB metropolitan area were included in this calculation (e.g., counties that had been excluded from the new OMB metropolitan area were not included).
- Metropolitan subparts of new areas that had previously had separate FMRs were assigned their own FMRs if their

2000 Census Base Rents differed by more than 5 percent from the new OMB area 2000 Census Base Rent.

- Formerly metro counties removed from metro areas get their own FMRs.
- Proposed FY2006 FMRs were calculated using the same information used to compute FY2005 Final FMRs plus additional update factors.

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A. Data Sources

FY2005 and FY2006 FMRs for most areas were based on 2000 Census data updated with more current survey data. 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 HUDUSER website at: www.huduser.org/datasets/fmr/CensusRentData/. The area-specific data and computations used to calculate final FY2006 FMRs and FMR area definitions can be found at www.huduser.org/datasets/fmr/fmrs/.

B. FMR Updates From 2005 to 2006

The 2000 to 2005 update factors in the Revised Final FY2005 FMRs, published February 28, 2005 (70 FR 9778), are used to update the metropolitan area to the new OMB definition, as modified by HUD. All new FMR areas that are part of a new metropolitan area are updated with the same 2005-to-2006 metropolitan area update factor, except where RDDs were performed at the subarea level.

Specifically, local Consumer Price Index (CPI) data is used to move rents from the end of 2003 to the end of 2004 and the same 15-month trending factor is then applied. Regional RDD surveys were used to provide update factors for areas without local CPI estimates. Regional RDDs, however, were not conducted in 2004 in anticipation of the arrival of American Community Survey (ACS) data. Data from the 2004 ACS was not available in time for inclusion in the final FY2006 FMR publication. Therefore, for proposed FY2006 FMRs, census region CPI data for Class B and C size cities is being used to update areas without local CPI update factors. Once full-scale ACS data collections start to become available in the latter part of 2006, sample sizes will be large enough to estimate FMRs for the larger metropolitan areas on an annual basis and for other areas on a two- to four-year basis.

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D. Large Bedroom Rents

FMR estimates are calculated for two-bedroom units. This is the most common type of rental unit and, therefore, the easiest to accurately survey and analyze. After each Decennial Census, rent ratios between two-bedroom units and other unit sizes are calculated. These ratios are then used to calculate FMRs in future years after a two-bedroom FMR is calculated. This is done because it is much easier to obtain accurate two-bedroom estimates, and then to use pre-established cost relationships with other bedroom sizes to update those rent estimates, than it is to develop independent FMR estimates for each bedroom size. A publicly releasable version of the data file that permits derivations of rent ratios from the 2000 Census, as well as

demonstrations of how the data are used, are available at www.huduser.org/datasets/fmr/fmr.html.

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 is made 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. 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 in New York City 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 final 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 (e.g., efficiency rents were not allowed to be higher than one-bedroom rents and four-bedroom rents were set at a minimum of 3 percent higher than three-bedroom rents).

For nonmetropolitan counties with few rental units and 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 new estimation method had less than 200 two-bedroom Census-tabulated observations.

E. State Minimums

In response to comments received on the FY2005 and the proposed FY2006 FMRs, a state minimum policy similar to that used prior to FY2005 has been implemented. The rationale for having a state minimum FMR is that some low-income, low-rent nonmetropolitan counties have Census-based FMR estimates that appear to be below long-term operating costs for standard quality rental units and raise concerns about housing quality. Housing quality problems are limited in most parts of the country and have little impact on FMR estimates. The exception to this generality within the continental United States

occurs in some nonmetropolitan areas with unusually low rents. State minimum FMRs have been set at the respective state-wide median nonmetropolitan rent level, but are not allowed to exceed the U.S. median nonmetropolitan rent level. This change primarily affects small nonmetropolitan counties in the South with low rents.

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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. No new exception requests were filed.

All approved exceptions to these rents that were in effect in FY2005 were updated to the midpoint of FY2006 using the same data used to estimate the Housing Choice Voucher program FMRs. If the result of this computation was higher than 40 percent of the rebenchmarked 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.

VII. 50th Percentile FMR Area Designation

An interim rule published on October 2, 2000 (65 FR 58870), established 50th percentile FMRs for 39 FMR areas. That notice required a periodic review of areas eligible for 50th

percentile FMRs. The notice published on August 25, 2005 (70 FR 50138), provided updated information on which areas met the 50th percentile FMR eligibility criteria and requested public comments on the proposed changes. Because FY2006 FMRs have to be issued for effect before public comments on the August 25, 2005, notice can be considered, the FMRs published in this notice do not implement any of the proposed FMR reductions from the 50th to the 40th percentile level. This notice does, however, provide 50th percentile FMRs for the newly eligible areas designated in the August 25, 2005, notice.

HUD asks that areas please take special note that unless information is submitted that changes the results of the eligibility determinations issued in the August 25, 2005, notice, the proposed reductions in FMRs from the 50th to the 40th percentile for selected areas will be implemented in a subsequent notice. HUD intends to issue this subsequent notice as quickly as possible after review and consideration of the public comments on the August 25, 2005, notice.

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VIII. Katrina Disaster Area FMRs

The Secretary of HUD has authority to modify FMRs to meet changes in rents resulting from declared federal disasters. HUD's past natural disaster policy has been to allow PHAs in Federal Emergency Management Agency (FEMA)-designated disaster areas to request exception FMRs of 110 percent of published FMRs, and to allow them to retain use of those FMRs for a two-year period. The Department is fully aware that the Katrina disaster is much larger in scope than previous disasters and that the FMRs in this publication are based on pre-Katrina data. Communities far outside FEMA-designated

disaster areas are being significantly impacted by displaceds seeking housing. HUD's Office of Public and Indian Housing will be issuing a notice within the next few weeks that addresses how PHAs may obtain disaster-related exception FMRs to meet local needs.

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This document can be found in its entirety at www.huduser.org/datasets/fmr/fmr2006f/FY2006FMR_Preamble.pdf.