

Appendix B: Explanation of Fair Market Rent

Excerpts from Notice of Final Fair Market Rents for Fiscal Year 2008. Full document available at www.huduser.org/datasets/fmr/fmr2008f/FR_Preamble_FY2008F.pdf

Department of Housing and Urban Development
[Docket No. FR-5152-N-02]

Final Fair Market Rents for Fiscal Year 2008 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 of Final Fair Market Rents (FMRs) for Fiscal Year (FY) 2008

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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 (nonluxury)

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 FY2008, no new areas became eligible for 50th percentile rents. Final FY2008 FMRs are published on or before October 1, 2007, as required by section 8(c)(1) of the USHA.

III. Proposed FY2008 FMRs

On July 12, 2007, at 72 FR 38398, HUD published proposed FY2008 FMRs. As noted in the preamble to the proposed FMRs, the FMRs for FY2008 reflect the use of the 2005 ACS data for metropolitan areas. For all areas, the update of the FMRs from the 2000 Census base rent to 2005 has largely been replaced by using ACS update factors. There are some areas where RDDs conducted between 2001 and 2005 are still being used, and some areas where the 2005 ACS data provides a new benchmark rent. In addition, the FY2008 FMRs include all changes made to metropolitan area definitions made by the Office of Management and Budget (OMB), as of December 2006.

During the comment period, which ended August 13, 2007, HUD received 30 public comments on the proposed FY2008 FMRs. Most of the comments received lacked the data needed to support FMR changes. The comments received are discussed in more detail later in this notice.

IV. FMR Methodology

The FY2008 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 December 2006 have been incorporated. This means there are

two new, one county metropolitan statistical areas (MSAs), and a few areas where MSA name changes add or delete a primary city name. These definitions have the advantages that they are based on more current (2000 Census) data, use a more relevant commuting interchange standard, 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 that the FMR estimation system can employ new data released according to 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. These objectives continue to apply to the FY2008 FMRs, and area definitions were developed to achieve these objectives, as follows:

- FMR Census Base Rents and Median Family Incomes 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, and that had sufficiently large 2000 Census counts of recent-mover renter households in standard-quality units, were identified, and 2000 Census Base Rents and Median Family Incomes for these subparts were calculated. Only the subparts within the new OMB metropolitan area were included in these calculations (e.g., counties that had been excluded from the new OMB metropolitan areas 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, or if their 2000 Census Median Family Income differed by more than 5 percent from the new OMB area 2000 Census Median Family Income.

- Former metropolitan counties removed from metropolitan areas get their own FMRs.

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A. Data Sources – 2000 Census and 2005 American Community Survey

FY 2008 FMRs are based on 2000 Census data updated with more current survey data. For the first time, HUD is using data from the Census Bureau’s ACS; the ACS data are from 2005, the full survey’s first implementation year. While the Census Bureau intends for the ACS to replace the Decennial Census sample “long form” for collecting detailed socio-economic data, the ACS has several important differences from the decennial long form. These include:

- The ACS is conducted on a continuous “rolling” basis throughout the year. As a result, survey responses do not correspond to a particular date, whereas the long form responses are 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, 2005.

- The ACS has about one-fifth the sample size 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.

In the FY 2008 FMRs, HUD is largely replacing the accumulated 2001- through-2005 FMR update factors from various sources with 2005 ACS data (RDDs performed between 2001 and 2005 will be used under certain conditions described below). HUD uses ACS data in different ways according to how

many two-bedroom, standard-quality and recent-mover sample cases are available in the FMR area or the CBSA. FMR areas are classified into four ACS data-availability categories:

ACS–1. FMR Areas that have at least 200 sample cases of two-bedroom, standard-quality rents. ACS–1 areas may be entire MSAs, subareas that are assigned the CBSA base rents, other subareas, or large nonmetropolitan counties.

ACS–2. FMR Areas that are subareas of CBSAs where the sub-area is not assigned the CBSA base rent, and the sub-area does not have at least 200 sample cases of two-bedroom, standard-quality rents, but the CBSA containing the sub-area does have at least 200 sample cases of two-bedroom, standard-quality rents.

ACS–3. FMR Areas that are MSAs or nonmetropolitan counties that have fewer than 200 sample cases of two-bedroom, standard-quality rents, or subareas of CBSAs that have fewer than 200 sample cases of two-bedroom, standard-quality rents.

ACS–4. FMR Areas that have at least 200 sample cases of two-bedroom, recent-mover rents. ACS–4 areas may be entire MSAs, subareas that are assigned CBSA rents, other subareas, or large nonmetropolitan counties. By definition, these areas are a subset of ACS–1 areas.

In ACS–1 FMR areas, the 2000 Census-to-2005 ACS update factor is the ratio of the 2005 ACS two-bedroom, standard-quality median rent to the 2000 Census two-bedroom, standard-quality median rent for the FMR Area.

In ACS–2 FMR areas, the 2000 Census-to-2005 ACS update factor is either: (1) the ratio of the 2005 ACS two-bedroom, standard-quality median rent to the 2000 Census two-bedroom, standard-quality median rent for the CBSA containing the FMR Area, or (2) the ratio of the 2005 ACS two-bedroom, standard-quality median rent to the 2000 Census two-bedroom, standard-

quality median rent for the entire state (or population-weighted average of states) containing the FMR area, whichever brings its 2005 updated rent closer to the value of its CBSA 2005 updated rent.

In ACS-3 FMR areas, the 2000 Census-to-2005 ACS update factor is the ratio of the 2005 ACS two-bedroom, standard-quality median rent to the 2000 Census two-bedroom, standard-quality median rent for the parts of the state not in ACS-1 or ACS-2 FMR areas; or the population-weighted average factor across such parts of the states containing each multi-state FMR area. In cases where there are fewer than 200 sample cases of 2005 ACS two-bedroom, standard-quality median rents in the parts of the state not in ACS-1 or ACS-2 areas, HUD uses, as the update factor, the ratio of the 2005 ACS two-bedroom, standard-quality median rent to the 2000 Census two-bedroom, standard-quality median rent for the entire state containing the FMR area.

In ACS-4 FMR areas, the local 2005 ACS recent-mover rent becomes a new base rent for 2005, if the updated 2000 Census base rent is outside its 90 percent confidence interval and the recent-mover median rent is greater than the local standard-quality median rent. This means that the ACS is used to replace the updated 2000 base rent with a 2005 local ACS base rent.

B. Data Sources – Legacy RDDs

The Department regularly obtains additional rent survey data to update the FMRs in the form of RDD telephone rent surveys meeting the Department's statistical criteria for updating FMRs. HUD conducted numerous RDD surveys between 2001 and 2005, and also accepted a number of non-HUD RDD surveys to update FMRs during this time period. Since these RDDs were performed according to the FMR area geography in place at the

time, they may not provide usable coverage of FY2008 FMR areas. RDD surveys performed between 2001 and 2005 are used to update or replace 2000 Census base rents in ACS-2 and ACS-3 FMR areas under the following conditions (in ACS-1 and ACS-4 FMR areas, the ACS results are deemed superior to legacy RDD results, and legacy RDDs are not evaluated):

- The RDD was the most recent RDD performed for the area.
- The RDD is “Accepted,” meaning the updated 2000 Census base rent for the RDD area (prorated to the RDD month) is outside the 95 percent confidence interval of the RDD.
- If the Accepted RDD area covers at least 75 percent of the population of the FMR area, and the FMR area's population in the Accepted RDD area is at least 75 percent of the Accepted RDD area, the new base rent is the Accepted RDD result. If these conditions do not hold, the RDD is not used.

FMR area base rents affected by Legacy RDDs from 2001 to 2005 are updated to 2005 using the prorated 2000 Census to 2005 ACS update factor (from the RDD month to June 2005) for the area.

C. FMR Updates From 2005 to 2006

Local CPI data is used to move rents from June 2005 to the end of 2006 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 is used for FMR areas in Class B and C size metropolitan areas and in nonmetropolitan areas without local CPI update factors.

D. FMR Updates from 2006 to 2008

The national 1990-to-2000 average annual rent increase trend of 3 percent is applied for 1.25 years (from December 2006 through April 2008).

E. Additional Rent Surveys and Other Data

Post-2005 RDDs are evaluated against the 2005 ACS-based rent trended to the RDD month by the appropriate proportion (root) of the 2005-to-2008 update factors. For example, if the RDD was conducted in August 2006, then the appropriate root (14/18) of the 2005-to-2006 CPI-based update is used to update the 2005 ACS rent. If the RDD was conducted in February 2007, then the entire CPI update factor is applied to the 2005 rent, and the appropriate root (2/15) of the December 2006-to-April 2008 update is applied. If the updated 2005 rent is outside the 95 percent confidence interval of the RDD, then the RDD is “Accepted.” Accepted RDD results are trended to April 2008 using the remainder of the 2005-to-2008 update factors.

The FMR bonuses related to the impact of Hurricane Katrina for Baton Rouge and New Orleans, which were first applied on March 6, 2006, are proposed to continue to be applied in the FY2008 FMRs. The 2005 ACS was conducted largely before the impact of Katrina, in particular its effects on the rental market, could be detected in the survey. Because the ACS indicates that the 2000-to-2005 FMR update factors for these areas should be lower than for other data sources used in FY2007 and earlier FMRs, HUD is adjusting the bonus percentages to 15 percent in Baton Rouge and 35 percent in New Orleans, since subsequent research shows that the tight rental market conditions in both areas indicate that FMRs should not be reduced.

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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>.

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 samples for recent-mover rents, 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 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 FY2007 were updated to FY2008 using the same data used to estimate the Housing Choice Voucher program FMRs, so long as the respective FMR area's definition remained the same. 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. 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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