

Appendix B: Explanation of Fair Market Rent

Excerpts from Notice of Final Fair Market Rents for Fiscal Year 2011. Full document available at http://www.huduser.org/portal/datasets/fmr/fmr2011f/FY2010F_FMR_Preamble.pdf

Department of Housing and Urban Development
[Docket No. FR-5430-N-02]

Final Fair Market Rents for Fiscal Year 2011 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) 2011.

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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. Areas that currently have 50th

percentile FMRs are evaluated for progress in voucher tenant deconcentration after three years in the program. Continued eligibility is determined using HUD administrative data that show levels of voucher tenant concentration. The levels of voucher holder 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. For FY 2011, there were 17 areas that were designated as 50th percentile areas. None of the current 50th percentile FMR areas were evaluated this year because they have not completed three years of program participation. As listed below, 10 areas complete their three-year program period and will be evaluated to determine if they remain 50th percentile FMR areas in the proposed FY 2012 FMR publication.

As noted in the publication of proposed FY 2011 FMRs, an additional area qualified for 50th percentile FMRs and will be eligible for review with the proposed FY 2014 FMRs. This area is Bergen-Passaic, NJ HMFA.

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

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III. Proposed FY2011 FMRs

On August 4, 2010 (75 FR 46958), HUD published proposed FY 2011 FMRs. As noted in the preamble to the proposed FMRs, the FMRs for FY 2011 reflect the use of both one-year and three-year 2008 ACS data to update June 2007 rent estimates for each area. In addition, the FY 2011 FMRs include all changes made to metropolitan area definitions made by the Office of Management and Budget (OMB) as of December 2009.

During the comment period, which ended September 3, 2010, HUD received 16 public comments on the proposed FY 2011 FMRs. None of the comments HUD received included the data needed to support FMR changes. Several of these comments expressed that proposed FY 2011 FMRs are incorrect for their respective market areas. One commenter noted an inconsistency in the methodology that is corrected and discussed in the following methodology section. The rest of the comments received are discussed in more detail later in this notice.

IV. FMR Methodology

The FY 2011 FMRs are based on current OMB metropolitan area definitions that were first used in the FY 2006 FMRs. The changes OMB made to the Metropolitan Area Definitions in December 2009 are incorporated. As of December 2009, there was a change in the principal cities of three metropolitan areas that resulted in a code change. These three metropolitan areas are: North Port-Bradenton-Sarasota, FL MSA, Crestview-Fort Walton Beach-Destin, FL MSA, and Steubenville-Weirton, OH-WV MSA. In Alaska, there was a name change for a nonmetropolitan borough, from Prince of Wales-Ketchikan Census Area, AK to Prince of Wales-Hyder Census Area, AK; and two other Alaskan boroughs were divided, from Skagway-Hoonah-Angoon to Skagway and Hoonah-Angoon boroughs; and from Wrangell-Petersburg to Wrangell and Petersburg boroughs. 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 FY 2006 FMRs.

At HUD's request, the Census Bureau prepared a special publicly releasable census file that permits almost exact

replication of HUD's 2000 Census 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

As in all post-FY 2006 FMR publications, FY 2011 FMRs start with base rents generated using Census 2000 long form survey data. They are updated with American Community Survey (ACS) data and Bureau of Labor Statistics Consumer Price Index (CPI) data. FY 2011 FMRs are FY 2010 FMRs updated by replacing the CPI data used for FY 2010 FMRs with ACS 2008 survey data and updated with CPI data through the end of 2009. Specifically, the FY 2010 rent (as of date: April, 2010) is deflated to June 2007 by dividing it by 18 months of CPI data representing June 2007 through December 2008 inflation, and the usual 15 month trend factor. This June 2007 rent is the best and most recent rent estimate available using only ACS survey and eliminating all other update data. It is this rent that is updated with additional ACS data and new CPI data.

In order to preserve additional information gathered by HUD through random digit dialing (RDD) surveys, areas surveyed after June 2008 are updated separately, the details of which can be found at the Web site listed above.

B. Updates from 2007 to 2008—2008 ACS

ACS survey data continues to be applied to areas based on the type of area (CBSA, metropolitan subarea, or non-metropolitan county), the amount of survey data available, and the reliability of the survey estimates. Both one- and three-year ACS 2008 data are used to update June 2007 rents. HUD

considered using the change in the three-year 2005–2007 ACS to three-year 2006–2008 ACS in place of the change from 2007 one-year ACS to 2008 one-year ACS, but the nature of the 3 year data mutes the effects of the more recent data, which HUD finds more important for achieving the objectives of the HCV program. Consequently, HUD calculates update factors using the change in ACS one-year data from 2007 to 2008. Beginning with the FY 2010 FMRs, HUD tests these rent changes for statistical significance¹

$$Z = \frac{EST_1 - EST_2}{\sqrt{(SE_1^2 + SE_2^2)}}$$

before applying them to the appropriate base rent. Any state- or metropolitan-level change that is not statistically significant is not applied. That is, the updated 2008 rent is the same as the 2007 rent if the applicable update factor does not represent a statistically significant change. HUD applied this test as a measure to minimize fluctuations in rents due to survey error. Metropolitan level rent changes are used for CBSA areas and subareas that have more than 200 standard quality cases in 2007 and 2008. All other areas are updated with state level rent changes. For subareas, State and CBSA change factors continue to be selected based on which factor brings the subarea rent closer to the CBSA-wide rent. Subareas which have 200 or more local standard quality survey observations are updated with their local area update factor.

¹ The change is considered statistically significant if $Z > 1.645$ where (see equation above) and $EST_1 =$ ACS 2007. Estimate, $EST_2 =$ ACS 2006 Estimate, $SE_1 =$ Standard Error of Estimate 1 and $SE_2 =$ Standard Error of Estimate 2.

The error measurement test and ACS-based update factor is revised from the proposed FY 2011 FMRs, in response to a comment. The commenter noted that using a z-test that compared the 2008 rent to the 2007 rent was not logical for areas where the 2007 ACS rent was never used in the update, or where the z-test last year (evaluating the change from 2006 to the 2007 ACS rent) was not statistically significant and HUD applied an ACS update factor of one. To correct this oversight, HUD revised the FMR estimation process for areas where there was no statistically significant difference between the 2006 and the 2007 ACS rent result, where the ACS update equaled one. The z-test for these areas would be applied to the difference in the rent and error measurement for 2006 compared with 2008 ACS, rather than a comparison of 2007 to 2008 ACS.

After all areas have been updated with a standard quality median rent change, local areas with estimates that reflect more than 200 one-year recent mover cases are evaluated further. If the updated rent is outside the confidence interval of the ACS recent mover estimate, the updated rent is replaced with the ACS recent mover rent estimate. In areas without 200 or more one-year ACS recent mover observations, but with 200 or more three-year ACS recent mover observations, the three year estimate² is used if it is statistically different from the updated 2008 rent based on the standard quality median rent change. This process creates a June 2008 rent.

² The recent mover estimate from the three year data includes all those who moved in the most recent 24 month period. That means that no 2005 survey data are included in this three-year recent mover classification and the likelihood of having a valid (with 200 or more cases) three-year recent mover rent is lower for these estimates.

C. Updates From 2008 to 2009

ACS 2008 data updates the June 2007 rents used in the FY 2010 FMRs forward by 12 months to June 2008. HUD uses six months of 2008 and 12 months of 2009 CPI rent and utilities price index data to update the June 2008 rents to the end of 2009. HUD uses local CPI data for FMR areas with at least 75 percent of their population within Class A metropolitan areas covered by local CPI data. HUD uses CPI data aggregated to Census regions for FMR areas in Class B and C size metropolitan areas and nonmetropolitan areas without local CPI update factors.

D. Updates From 2009 to 2011

HUD applies the national 1990 to 2000 average annual rent increase trend of 1.03 to end-of-2009 rents for 15 months, to derive the proposed FY 2011 FMRs. HUD will publish an additional **Federal Register** notice this fall requesting alternatives to the use of this long-term historical trend factor. HUD is considering alternatives for trend factors that include historical average annual trend factors based on shorter time periods and trends based on projections linked to other government forecasts.

The area-specific data and computations used to calculate proposed FY 2011 FMRs and FMR area definitions can be found at <http://www.huduser.org/datasets/fmr/fmrs/index.asp?data=fmr11>.

E. Large Bedroom Rents

HUD's principal FMR estimate is 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, HUD calculates rent relationships between two-bedroom units and other unit sizes and uses these

relationships 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=fmr11>.

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.*, large numbers of 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. These ranges are: efficiency FMRs are constrained to fall between 0.65 and 0.83 of the two-bedroom FMR; one-bedroom FMRs must be between 0.76 and 0.90 of the two-bedroom FMR; three-bedroom FMRs must be between 1.10 and 1.34 of the two-bedroom FMR; and four-bedroom FMRs must be between 1.14 and 1.63 of the two-bedroom FMR. 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, HUD uses census-defined county group data 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. For FY 2011, HUD received no comments or data concerning manufactured home space rents.

All approved exceptions to these rents that were in effect in FY 2010 were updated to FY 2011 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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