

# APPENDIX B:

## Explanation of Fair Market Rent

Excerpts from Notice of Final Fair Market Rents for Fiscal Year 2012. Full document available at <http://bit.ly/xoSioC> (PDF).

Department of Housing and Urban Development  
[Docket No. FR-5567-N-02]

### FINAL FAIR MARKET RENTS FOR FISCAL YEAR 2012 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) 2012.

#### 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 geographic areas. In the HCV 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 HCV program must meet reasonable rent standards. HUD’s regulations at 24 CFR 888.113 permit it to establish 50th percentile FMRs for certain areas.

#### 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 the market area.

HUD’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, consider public comments that contain statistically valid rental housing survey data that justify the requested change, and publish final FMRs. (See 24 CFR 888.115.) For FY 2012 FMRs, HUD has considered all comments submitted in response to its August 19, 2011 (76 FR 52058) proposed FY 2012 FMRs and has posted the comments and its responses at [www.huduser.org/portal/datasets/fmr.html](http://www.huduser.org/portal/datasets/fmr.html). HUD will, however, continue to analyze data provided by these public comments to determine whether changes are justified. HUD will publish any changes in the Federal Register.

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. Minimally qualified areas<sup>1</sup> are reviewed each year unless not qualified to be reviewed. 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. Areas are not qualified to be reviewed if they have been made a 50th percentile area within the last three years or have lost 50th percentile status for failure to de-concentrate within the last three years.

In FY 2011 there were 18 areas using 50th percentile FMRs. Of these 18 areas, 11 areas were allowed to continue as 50th percentile FMR areas, as listed below. There are 10 additional 50th percentile FMR areas, one that is new to the program, Sacramento-Arden-Arcade-Roseville, CA HMFA.<sup>2</sup> The other 9 areas failed to deconcentrate when evaluated for the FY 2009 FMRs, but are reinstated as 50th percentile FMRs. In summary, there are 21 50th percentile FMR areas in FY 2012. These areas are indicated by an asterisk in Schedule B, where all FMRs are listed by state. *[See the last page of Appendix A for information on 50th percentile areas.]*

<sup>1</sup>As defined in 24 CFR 888.113(c), a minimally qualified area is an area with at least 100 census tracts where 70 percent or fewer of the census tracts with at least 10 two-bedroom rental units are census tracts in which at least 30 percent of the two-bedroom rental units have gross rents at or below the two-bedroom FMR set at the 40th percentile rent. This is evaluated with 2000 Census tract data, while we are awaiting 2010 ACS data to be aggregated using 2010 Census tract definitions.

<sup>2</sup>HMFA is an acronym representing HUD Metropolitan FMR Area.

### III. PROPOSED FY 2012 FMRs

On August 19, 2011 (76 FR 52058), HUD published proposed FY 2012 FMRs with a comment period that ended September 19, 2011. Among the comments HUD received were several that questioned the FY 2012 FMRs for their respective market areas. HUD has considered all public comments received and has posted its response to these comments on its website at [www.huduser.org/portal/datasets/fmr.html](http://www.huduser.org/portal/datasets/fmr.html). HUD will continue to review data provided by the comments and will publish any revisions to the FY 2012 FMRs resulting from data submissions in a forthcoming *Federal Register* notice.

### IV. FMR METHODOLOGY

The FY 2012 FMRs are based on current OMB metropolitan area definitions and standards that were first used in the FY 2006 FMRs. OMB changes to the metropolitan area definitions through December 2009 are incorporated. There have been no area definition changes published by OMB since the publication of the FY 2011 FMRs; therefore, the FY 2012 area definitions are the same as those used in FY 2011.

#### A. Base Year Rents

The U.S. Census Bureau released standard tabulations of five-year ACS data collected between 2005 through 2009 in December of 2010. This is the first time that updated data are available for all FMR areas and their component geographies since the release of the 2000 Decennial Census data (previous ACS releases only covered areas with 20,000 or more in population). Because of this new data availability, HUD has the ability to estimate new base rents using the five-year ACS data.

FMRs are typically based on gross rents for recent movers (those who have moved into their current residence in the last 15 to 24 months). FMRs prior to FY 2012 were calculated from recent-mover gross rent estimates from the 2000 Census or from more current HUD-commissioned or PHA-commissioned rent surveys. However, due to the way the five-year data are constructed, recent-mover survey responses are not well defined. The five-year data are an aggregation of all survey data collected between January 2005 and December 2009 in a given area. Dollar values such as gross rents are transformed from the time period in which they were collected to an overall 2009 value using the national CPI. Attempting to limit the five-year data to those who have moved in the last 24 months severely limits the usefulness of the five-year data because this limitation automatically disqualifies at least 40 percent of the survey observations used in the five-year estimates. Consequently, all areas are assigned as a base rent the estimated two-bedroom standard-quality five-year gross rent from the ACS.<sup>3</sup> Because HUD's regulations mandate that FMRs must be published as recent-mover gross rents, HUD has created a recent-mover adjustment factor to apply to the standard-quality base rents assigned from the five-year ACS data.

Local area rent surveys conducted in 2010 by HUD or PHAs are used as base rents when the survey results are statistically different from the ACS-based rents. The surveys for Williamsport, PA, MSA and Pike County, HMFA were evaluated and are being used in place of the 2009 ACS data. A survey conducted in 2010 for the county group, Bradford-Sullivan-Tioga, PA, was also evaluated, but there was no statistical difference from the 2009 ACS data, updated to 2010.

#### B. Recent Mover Adjustment Factor

Following the assignment of the standard-quality two-bedroom rent described above, HUD applies a recent mover adjustment factor to these rents. The following describes the process for determining the appropriate recent-mover adjustment factor.

For non-metropolitan areas, HUD calculated the percentage change between the five-year standard-quality rent for the non-metropolitan portion of the state and the one-year recent-mover rent for the same area.<sup>4</sup> HUD then computes a z-score to determine if the five-year standard-quality rent and the one-year recent-mover rent are statistically different.<sup>5</sup> If the two rents have a statistically significant difference, the recent-mover adjustment factor is set at the difference between the state non-metropolitan one-year recent-mover rent and the state non-metropolitan five-year standard-quality rent expressed as a percentage of the state non-metropolitan five-year standard-quality rent. If the two rents are not statistically different, the recent-mover adjustment factor is set to 1.0.

For metropolitan areas, the recent-mover adjustment factor is calculated in a similar fashion. HUD selects the smallest geographic area which encompasses the metropolitan area in question that has at least 100 recent mover observations to use in the calculation of the recent-mover adjustment factor. For HUD-defined subareas of OMB defined metropolitan areas, this means that the recent-mover adjustment factor may be based on the recent-mover data for the subarea, the entire metropolitan area, the metropolitan portions of the state, or finally the entire state depending on which geographic level has 100 or more recent mover observations.<sup>6</sup> Once the area with 100 or more recent mover cases has been determined, HUD calculates a z-score comparing the one-year recent-mover two-bedroom gross rent with the five-year standard-quality two-bedroom gross rent for the recent-mover area. If the two rents are statistically different, HUD sets the recent-mover adjustment factor for the FMR area as the percentage change between the two rents for the recent-mover area. If the difference in rents is not statistically different, the recent-mover adjustment factor for the FMR area is set to 1.

For FMR areas without 100 recent-mover rents, a recent-mover adjustment factor is calculated at the smallest area level that does have 100 recent movers. For metropolitan areas, this order is subarea, metropolitan area, state metropolitan area, and state. For nonmetropolitan areas, the smallest area level is the state nonmetropolitan area, followed by the entire state. For an example of how the recent-mover adjustment factor is calculated for these areas, please review this methodology for Abilene, TX MSA and Baldwin County, AL, in the FY 2012 documentation system at <http://bit.ly/y29P0c>

<sup>3</sup> For areas with a two-bedroom standard quality gross rent from the ACS that have a margin of error greater than the estimate or no estimate due to inadequate sample in the 2009 five-year ACS, HUD uses the two-bedroom state non-metro rent for non-metro areas.

<sup>4</sup> HUD ensures that the recent mover estimate for each non-metropolitan portion of the state has at least 100 ACS sample observations. If any state non-metropolitan recent mover rent is based on fewer than 100 observations, the recent mover factor would be calculated based on the one-year recent mover data and five-year standard quality data for the entire state.

<sup>5</sup> The change is considered statistically significant if Z is greater than 1.645 where Z is equal to the change between the estimate for the one-year data and the five-year estimate, over the square root of the sum of the squared standard error for the one-year estimate and the squared standard error of the five-year estimate.

<sup>6</sup> For metropolitan areas that cross state boundaries, and where there are not 100 two-bedroom recent mover observations, HUD uses the weighted average update factors for the encompassing state metropolitan areas. HUD performs the Z-score test for statistical difference between the one-year recent-mover rent and five-year standard-quality rent separately for each state metropolitan part prior to computing the weighted average update factor.

(PDF). This process produces an “as of” 2009 recent mover two-bedroom base gross rent for the FMR area.<sup>7</sup>

## C. Updates from 2009 to 2010

The ACS data are updated through 2009 using the one-half of the change in annual CPI measured between 2008 and 2009. This data are further updated through the end of 2010 using the annual change in CPI from 2009 to 2010. As in previous years, 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 Census region CPI data for FMR areas in Class B and C size metropolitan areas and nonmetropolitan areas without local CPI update factors.

## D. Trend from 2010 to 2012

The national 1990 to 2000 average annual rent increase trend of 3 percent is applied to end-of-2010 rents for 15 months, to derive the proposed FY 2012 FMRs with a date of April 2012.

On March 9, 2011 (76 FR 12985), HUD published a notice requesting public comment regarding the manner in which it calculates the trend factor used in determining FMR estimates to meet the statutory requirement that FMRs be “trended so the rentals will be current for the year to which they apply.” HUD’s notice provided several proposed alternatives to the current trend factor and requested comments on the alternatives as well as suggestions of other ideas. These comments are discussed in further detail in the proposed FY 2012 FMR notice (76 FR 52058), but, in short, the commenters did not arrive at a consensus over how to change the trending methodology. Therefore, HUD will continue to consider the suggestions provided in the comments and make plans to implement a new methodology with the publication of FY 2013 Proposed FMRs.

## E. Bedroom Rent Adjustments

HUD calculates the primary FMR estimates for two-bedroom units. This is generally the most common size of rental units and, therefore, the most reliable to survey and analyze. Formerly, after each Decennial Census, HUD calculated rent relationships between two-bedroom units and other unit sizes and used them to set FMRs for other units. HUD did this 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. HUD did the last update of bedroom-rent relationships using 2000 Census data. A publicly releasable version of the data used for the derivations of rent ratios is available at [www.huduser.org/portal/datasets/fmr/CensusRentData/index.html](http://www.huduser.org/portal/datasets/fmr/CensusRentData/index.html).

HUD made adjustments using 2000 Census data to establish rent ratios for areas with local bedroom-size intervals above or below what are considered 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 that rent for more than typical one-bedroom units). HUD established bedroom interval ranges 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. HUD adjusts bedroom rents for a given FMR area if the differentials between bedroom-size FMRs were inconsistent with normally observed patterns (i.e., efficiency rents are not allowed to be higher than one-bedroom rents and four-bedroom rents are not allowed to be lower than three-bedroom rents).

HUD further adjusts the rents for three-bedroom and larger units to reflect HUD’s policy to set higher rents for these units than would result from using unadjusted 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.

For low-population, nonmetropolitan counties with small 2000 Census samples of recent-mover rents, HUD uses Census-defined county group data to determine rents for each bedroom size. HUD made this adjustment 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.

The 2010 Decennial Census did not collect the information necessary to update unit bedroom rent relationships. HUD intends to use the 2006-2010 five-year ACS data to update these relationships for the FY 2013 FMRs. HUD is choosing to wait until next year to ensure something closer to a consistent 10 year time period, but more importantly, because the 2010 ACS data will be published based on the 2010 Decennial Census geographic definitions.

## V. MANUFACTURED HOME SPACE SURVEYS

The FMR used to establish payment standard amounts for the rental of manufactured home spaces in the HCV 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.

<sup>7</sup> The Pacific Islands (Guam, Northern Marianas and American Samoa) as well as the U.S. Virgin Islands are not covered by ACS data. As part of the 2010 Decennial Census, these areas were covered by a long-form survey. The results gathered by this long form survey will not be available until 2012. Therefore, HUD uses the national change in gross rents, measured between 2008 and 2009 to update last year’s FMR for these areas. Puerto Rico is covered by the Puerto Rico Community Survey within the American Community Survey; however, the gross rent data produced by the 2005-2009 ACS are not sufficient to adequately house voucher holders in Puerto Rico. This is due to the limited ability to eliminate units that do not pass the voucher program’s housing quality standards. Consequently, HUD is updating last year’s FMRs for Puerto Rico using the change in rents measured from all of Puerto Rico measured between the 2008 and 2009. For details behind these calculations, please see HUD’s FY 2012 FMR documentation system available at: [www.huduser.org/portal/datasets/fmr/fmrs/docsys.html&data=fmr12](http://www.huduser.org/portal/datasets/fmr/fmrs/docsys.html&data=fmr12)

All approved exceptions to these rents that were in effect in FY 2011 were updated to FY 2012 using the same data used to estimate the HCV program FMRs. If the result of this computation was higher than 40 percent of the new 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.

## VI. PUBLIC COMMENTS

As previously stated, HUD is unable to respond to all comments received on the proposed FY 2012 FMRs in this notice because of the timing of the comment end date; however, these responses will be available by the publication date of this notice on HUD's Web site at [www.huduser.org/portal/datasets/fmr.html](http://www.huduser.org/portal/datasets/fmr.html). HUD was able, however, to make a minor methodological change, in response to a comment received, that eliminates a negative recent mover adjustment for the only area with one, Cape Coral-Fort Myers, FL MSA. HUD will continue to review data provided by the comments and publish any revisions to the FY 2012 FMRs resulting from data submissions in a forthcoming *Federal Register*.

## VII. FORMALIZE A PUBLICATION DATE FOR INCOME LIMITS

The FY 2012 Income Limits will be published on December 1, 2011. While the FY 2012 Income Limits do not benefit from any additional ACS data over what was included in the FY 2011 publication, they are updated with the FY 2012 FMRs for the purposes of evaluating areas of relatively high-or low-income to housing cost relationships and further updated with CPI to the end of 2010, trended to the mid-point of FY 2012 in a manner similar to what was done with the FY 2011 Median Family Income estimates and Income Limits. The FY 2013 Median Family Income estimates and Income Limits, published December 1, 2012, would be the first set of median family income estimates and income limits updated with ACS data collected from 2006-2010.