

# Appendix B: Explanation of Fair Market Rent

Excerpts from Notice of Final Fair Market Rents for Fiscal Year 2013. Full document available at: [www.huduser.org/portal/datasets/fmr/fmr2013f/FY2013\\_Final\\_FMR\\_Notice.pdf](http://www.huduser.org/portal/datasets/fmr/fmr2013f/FY2013_Final_FMR_Notice.pdf)

Department of Housing and Urban Development  
[Docket No. FR-5648-N-02]

## Final Fair Market Rents for Fiscal Year 2013 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) 2013.

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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 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.

<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 continues to be evaluated with 2000 Decennial Census information. Although the 2006–2010 5-year ACS tract level data is available, HUD's administrative data on tenant locations (used in the calculation of concentration) has not yet been updated to use the 2010 Census Tract area definitions. Once this administrative data is updated, HUD will implement the 5-year ACS data as the basis for determining if areas are minimally qualified for 50th percentile status.

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, analyze the comments, and publish final FMRs. (See 24 CFR 888.115.) For FY 2013 FMRs, HUD has considered all comments submitted in response to its August 3, 2012 (77 FR 46447) proposed FY 2013 FMRs and provides its responses later in this preamble.

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 concentration 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 tenant 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 2012 there were 21 areas using 50th-percentile FMRs. Of these 21 areas, 19 were allowed to continue as 50th percentile FMR areas. The two areas that are no longer in the 50th percentile program are Grand Rapids, MI and Washington, DC. The evaluation of Grand Rapids, MI showed that the concentration of HCV tenants fell below what is eligible for a 50th percentile FMR. This area may be re-evaluated next year. The Washington, DC area failed to deconcentrate which means that it is not eligible for a 50th percentile FMR program for a three-year period. PHAs in the Washington, DC area may seek payment standard protection under 24 CFR 982.503(f) from the HUD Field Office if the PHA scored the maximum number of points on the deconcentration bonus indicator in the prior year, or in two or the last three years.

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

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### III. Proposed FY2013 FMRs

On August 3, 2012 (77 FR 46447), HUD published proposed FY 2013 FMRs with a comment period that ended September 4, 2012. HUD has considered all public comments received and HUD provides responses to these comments later in this preamble. HUD does not specifically identify each commenter, but all comments are available for review on the Federal Government's Web site for capturing comments on proposed regulations and related documents ([www.regulations.gov/](http://www.regulations.gov/))

### IV. FMR Methodology

The FY 2013 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 2012 FMRs; therefore, the FY 2013 area definitions are the same as those used in FY 2012. HUD anticipates that OMB will publish new area definitions in 2013. Depending on the timing of this release, HUD will incorporate the new area definitions into either the FY 2014 or FY 2015 proposed FMRs.

## A. Base Year Rents

The U.S. Census Bureau provided special tabulations of 5-year ACS data collected between 2006 through 2010 to HUD in early to mid-2012. For FY 2013 FMRs, HUD used the 2006–2010 5-year ACS data to update the base rents set in FY 2012 using the 2005–2009 5-year ACS data.<sup>2</sup>

FMRs are historically based on gross rents for recent movers (those who have moved into their current residence in the last 24 months). However, due to the way the 5-year ACS data are constructed, HUD developed a new methodology for calculating recent-mover FMRs in FY 2012. As in FY 2012, all areas are assigned as a base rent the estimated two-bedroom standard quality 5-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 continues to apply a recent mover factor to the standard quality base rents assigned from the 5-year ACS data. Calculation of the recent mover factor is described in section B below.

No local area rent surveys were conducted in 2011 or 2012 by HUD or PHAs, but the surveys conducted in 2010, for Williamsport, PA and Pike County, PA supersede the 2006–2010 ACS data.

## B. Recent Mover Adjustment Factor

Following the assignment of the standard quality two-bedroom rent described above, HUD applies a recent mover factor to these rents. In preparation for calculating the proposed FY 2013 FMRs, the department reviewed the methodology for calculating the recent mover factor from the FY 2012 process and made several improvements. The primary change is that HUD no longer compares the standard quality gross rent to the recent mover gross rent to determine if the two statistics are significantly different.<sup>4</sup> For the FY 2012 FMRs, if the two rents were determined to be statistically different the recent mover factor was calculated as the percentage increase of the recent mover gross rent over the standard quality gross rent. In cases where the two gross rents were not statistically different, the recent mover factor was set to one. As described below, HUD calculates a similar percentage increase as the FY 2013 factor using data from the smallest geographic area containing the FMR area where the recent mover gross rent is statistically reliable.<sup>5</sup> The following describes the process determining the appropriate recent mover factor. The

revised recent mover factor process results in 91 percent of the FMR areas having a recent mover factor greater than one in FY 2013 compared with only 38 percent in FY 2012. In general, HUD uses the 1 year ACS based two-bedroom statistically reliable recent mover gross rent estimate from the smallest geographic area encompassing the FMR area to calculate the recent mover factor. Some areas’ recent mover factors will be calculated using data collected just for the FMR area. Other areas’ recent mover factor will be based on larger geographic areas. For metropolitan areas that are subareas of larger metropolitan areas, the order is subarea, metropolitan area, state metropolitan area, and state.

Metropolitan areas that are not divided follow a similar path from FMR area, to state metropolitan areas, to state. In nonmetropolitan areas the recent mover factor is based on the FMR area, the state nonmetropolitan area, or if that is not available, on the basis of the whole state. The recent mover factor is calculated as the percentage change between the 5-year 2006–2010 two-bedroom gross rent and the 1 year 2010 recent mover two-bedroom gross rent for the recent mover factor area. Recent mover factors are not allowed to lower the standard quality base rent; therefore, if the 5-year standard quality rent is larger than the comparable 1 year recent mover rent, the recent mover factor is set to 1. The process for calculating each area’s recent mover factor is detailed in the FY 2013 Final FMR documentation system available at: [www.huduser.org/portal/datasets/fmr/fmrs/docsys.html&data=fmr13](http://www.huduser.org/portal/datasets/fmr/fmrs/docsys.html&data=fmr13).

This process produces an “as of” 2010 recent mover two-bedroom base gross rent for the FMR area.

## C. Updates from 2010 to 2011

The ACS based “as of” 2010 rent is updated through the end of 2011 using the annual change in CPI from 2010 to 2011. 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. Following the application of the appropriate CPI update factor, HUD converts the “as of” 2011 CPI adjusted rents to “as of” December 2011 rents by multiplying each rent by the national December 2011 CPI divided by the national annual 2011 CPI value. HUD does this in order to apply an exact amount of the annual trend factor to place the FY 2013 FMRs as of the mid-point of the 2013 fiscal year.

## D. Trend from 2011 to 2013

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

<sup>2</sup> The only difference in the survey data between the 2005-2009 5-year ACS data and the 2006-2010 5-year ACS data is the replacement of the 2005 survey responses with the survey responses collected in 2010. The 2006, 2007, 2008 and 2009 survey responses remain intact.

<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 2010 5-year ACS, HUD uses the two-bedroom state non-metro rent for non-metro areas.

<sup>4</sup> The statistical comparison test used, the z-test, assumes that the samples from which the two statistics are calculated are independent. Because recent mover responders are also part of the standard quality responders, the two samples are not independent.

<sup>5</sup> For the purpose of the recent mover factor calculation, statistically reliable is where the recent mover gross rent has a margin of error that is less than the estimate itself. For example, if the estimate was 500 and the margin of error was 501, that estimate would not be used.

well as suggestions of other ideas. In its publication of the proposed FY 2012 FMRs on August 19, 2011, (76 FR 52058) HUD discussed these comments and announced that a new trend factor would be used in the FY 2013 FMRs. HUD calculates the trend factor as the annualized change in median gross rents as measured between the 1 year 2005 ACS and the 1 year 2010 ACS. The median gross rent was \$728 in 2005 and \$855 in 2010. The overall change is 17.45 percent and the annualized change is 3.27%. Over a 15-month time period, the effective trend factor is 4.1 percent.

## E. Bedroom Rent Adjustments

HUD calculates the primary FMR estimates for two-bedroom units. This is generally the most common sized rental unit 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 annually and to use pre-established cost relationships with other bedroom sizes than it is to develop independent FMR estimates for each bedroom size.

For FY 2013 FMRs, HUD has updated the bedroom ratio adjustment factors using 2006–2010 5-year ACS data using similar methodology to what was implemented when calculating bedroom ratios using 2000 Census data to establish rent ratios. HUD again made adjustments to the bedroom ratios using 2006–2010 5-year ACS data 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 0.59 and 0.81 of the two-bedroom FMR; one-bedroom FMRs must be between 0.74 and 0.84 of the two-bedroom FMR; three-bedroom FMRs must be between 1.15 and 1.36 of the two-bedroom FMR; and four-bedroom FMRs must be between 1.24 and 1.64 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).

Following the same methodology as was used when bedroom ratios were calculated using 2000 decennial Census long-form data, HUD continues to adjust 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 or statistically insignificant 2006–2010 5-year ACS gross rents, HUD uses state non-metropolitan data to determine bedroom ratios for each bedroom size. HUD made this adjustment to protect against unrealistically high or low FMRs due to insufficient sample size.

## 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.

All approved exceptions to these rents that were in effect in FY 2012 were updated to FY 2013 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. No additional exception requests were received in the comments to the FY 2013 FMRs. 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. Small Area Fair Market Rents

Public housing authorities that operate in the Dallas, TX HMFA continue to manage their voucher programs using Small Area Fair Market Rents (SAFMRs). The updated SAFMRs for Dallas are listed in Schedule B Addendum.

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## VII. Public Comments

A total of 75 comments were received and posted on the regulations.gov site ([www.regulations.gov/#!docket](http://www.regulations.gov/#!docket))

Most comments contested FMR reductions compared with the FY 2012 FMR and some contested reductions since the FY 2011 FMRs or earlier.

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