NATIONAL LOW INCOME HOUSING COALITION

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Department of Housing and Urban Development
Washington, DC 20472

RE: Proposed Changes to the Methodology Used for Calculating Fair Market Rents; Docket No. FR-6334-N-01

The National Low Income Housing Coalition (NLIHC) is dedicated to achieving racially and socially equitable public policy that ensures people with the lowest incomes have quality homes that are accessible and affordable in communities of their choice. Our members include state and local housing coalitions, residents of public and assisted housing, nonprofit housing providers, homeless service providers, fair housing organizations, researchers, public housing agencies, private developers and property owners, local and state government agencies, faith-based organizations, and concerned citizens. While our members include the spectrum of housing interests, we do not represent any segment of the housing industry. Rather, we focus on housing policy and funding improvements for extremely low-income people who receive assistance and those who need it.

Accurate Fair Market Rents (FMRs) are critical to ensuring that housing assistance programs that serve the lowest income renters work as intended. If Fair Market Rents are set too low, for example, Housing Choice Voucher recipients may find it nearly impossible to find a private market rental that meets Public Housing Agencies' (PHAs) payment standards. Given exorbitant rent increases over the last year and a half, it is critical that FMRs reflect current rental prices in order for voucher recipients to find and maintain safe, stable, and affordable housing.

NLIHC generally supports HUD's efforts to improve its methodology for calculating FMRs so that they better reflect current rental prices. The current methodology relies on American Community Survey (ACS) data that is at least three years old, an inflation factor based on the Consumer Price Index (CPI) to adjust the ACS data for inflation, and a trend factor to adjust for projected CPI. This methodology can be slow to capture significant rent increases partly because the CPI captures the change in rent for all renters rather than those who have just recently moved. Recently moved renters with a new lease tend to pay higher rents. FMRs are typically intended to represent the 40th percentile of rents of households who have recently moved. Yet, analysis comparing FMRs to actual 40th percentile of recent movers' rents shows that in a sample of metropolitan areas with comparable ACS data between 2015 and 2019, the majority of MSAs had recent mover rents that increased at a faster rate than FMR estimates. This phenomenon was true even before the exorbitant rent

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increases in 2021 and 2022, and the disparity has likely gotten worse. Between 2020 and 2021, rents increased 9% nationally.[1] Out of 345 metropolitan counties, 65 experienced a rent increase of more than 15%, and only 11 experienced a rent decrease.[2] Rents continued to increase into 2022 – between the first half of 2021 and the first half of 2022, rents increased 16%.[3] These rent increases were not isolated in a few large metros either. In 294 out of 345 metropolitan counties, rental prices for two-bedroom apartments increased over $100 between the first quarter of 2021 and the first quarter of 2022.[4]

Given these recent increases, we encourage HUD to analyze and assess the feasibility of using observed CPI data or private data sources to adjust rents forward from the 2020 American Community Survey to 2022, rather than to 2021. HUD's typical methodology relies on a CPI update factor to adjust rents forward one year, and a forecasted gross rent index, or "trend factor," to adjust rents forward two additional years. HUD should assess whether adjusting FMRs forward two calendar years using observed inflation data from the CPI or private data sources results in more accurate FMR estimates.

NLIHC supports HUD's proposed use of private data sources as an alternative to the CPI in its calculation of FY 2023 FMRs for certain FMR areas. These private data sources may provide a more accurate and timelier picture of the change in rents experienced by families moving today**.** Three of the six data sources identified by HUD, however, did not appear to be readily available to the public. Given that the limited availability of data hinders a comprehensive evaluation of the impact of this proposed change, we recommend that renters are held harmless in FY 2023. In FMR areas where private data sources result in inflation adjustments lower than the standard CPI adjustment, HUD should continue to use CPI data.

Beyond FY 2023, NLIHC recommends HUD work with other federal agencies to explore the feasibility of using existing public data sources as an alternative to the CPI to update recent mover rent calculations. Using private data sources may introduce several limitations: HUD will have less control over methodological changes to these data sources, private sources may lack transparency on their estimates and methodology, and obtaining data from private sources may introduce added costs. Given these limitations, we suggest HUD explore new methodologies using publicly available data to estimate recent mover rents. This could include, for example, creating a modified CPI measure that specifically captures inflation in recent mover rents, rather than rents from all renters. HUD should work with other federal agencies, such as the Bureau of Labor Statistics and the U.S. Census Bureau, to identify and evaluate novel methodologies.

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[1] Apartment List. (2022). National-level historic estimates (2017-present).
[2] Apartment List. (2022). County-level historic estimates (2017-present).
[3] Apartment List. (2022). National-level historic estimates (2017-present).
[4] NLIHC. (2022). Out of Reach: The High Cost of Housing.

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Without further information and analysis, NLIHC does not support the use of private data sources as an alternative to the CPI-based inflation adjustment in calculating FMRs beyond FY 2023. NLIHC discourages the use of data that are not publicly available or that lack methodological transparency. Though HUD requested feedback on their proposed change, NLIHC could readily access rent estimates from only three of the six data sources identified in the request for comments, making it difficult to evaluate the potential impacts of the proposed changes and provide substantive feedback. If HUD does adopt the use of private data sources, the methodology and estimates of these data sources should be made readily available by either HUD or the data provider.

HUD should make public the criteria the Department uses to select private data sources and should ensure that those sources provide statistically valid representations of FMR areas' rental housing market. While HUD listed six potential data sources to estimate rent-inflation, HUD gave no explanation about the criteria it used to select these sources. If HUD moves forward with using private data sources in its methodology to calculate FMRs, criteria on how these data sources were chosen should be made available.

Private data sources chosen by HUD should not only be readily accessible to the public and provide methodological transparency, but these sources should be representative of the entire rental housing market. For example, CoreLogic's Single Family Rent Index may not be appropriate if it only captures rents of single-family homes, as pricing for single-family homes may be systematically different than multi-family apartments. Additionally, private data sources that solely use data from listings on their own platforms are likely to produce estimates that are skewed to the higher end of the market.

Given the potential variation in rent-inflation estimates across the six private data sources identified by HUD, as well as the potential for year-to-year volatility in these data sources, we agree with HUD that estimates from multiple data sources should be combined for a given metropolitan area. This will help smooth estimates, particularly for data sources that are susceptible to year-to-year volatility.

Due to the limitations of the 1-Year ACS data, recent exorbitant rent increases, and the CPI's delay in fully capturing rent increases for recent movers, we agree that incorporating private data sources into the methodology to calculate FMRs could serve as a short-term solution for FY 2023. We need more information, however, to determine whether private data sources are appropriate in the long-run and therefore cannot currently support a permanent change.

Sincerely,

Diane Yentel

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