

APPENDIX B: Explanation of Fair Market Rent

Excerpts from Notice of Final Fair Market Rents for Fiscal Year 2014. Full document available at: <http://bit.ly/1fMvHkM>

Department of Housing and Urban Development
[Docket No. FR-5725-N-02]

Final Fair Market Rents for Fiscal Year 2014 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) 2014.

...

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,

¹ 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.

analyze the comments, and publish final FMRs. (See 24 CFR 888.115.) For FY 2014 FMRs, HUD has considered all comments submitted in response to its August 5, 2013 (78 FR 47339) proposed FY 2014 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 areas¹ 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 2013 there were 20 areas using 50th-percentile FMRs. Of these 20 areas, only one area, the Bergen-Passaic, NJ HMFA, has completed three years of program participation and is due for reevaluation. Voucher tenant concentration in the Bergen-Passaic, NJ HMFA has decreased below what is required to be eligible for a 50th percentile FMR and the area has “graduated” from the 50th percentile program. Under current 50th percentile regulations, the Bergen-Passaic, NJ HMFA will be evaluated annually and may return to the program in the future.

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

...

III. Proposed FY2014 FMRs

On August 5, 2013 (78 FR 47339), HUD published proposed FY 2014 FMRs with a comment period that ended September 4, 2013. 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 (Regulations.gov— <http://www.regulations.gov/> %23!docketDetail;D=HUD-2013-0073).

IV. FMR Methodology

The FY 2014 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. The February 28, 2013 OMB area definition update has not been incorporated in the FMR process due to the

timing of the release and the availability of ACS data. HUD will work toward incorporating these new area definitions into the Proposed FY 2015 FMR calculations; however, this is dependent on the availability of ACS data conforming to the new area definitions.

A. Base Year Rents

The U.S. Census Bureau provided special tabulations of 5-year ACS data collected between 2007 through 2011 to HUD in June 2013. For FY 2014 FMRs, HUD updates the base rents set in FY 2013 using the 2006–2010 5-year data with the 2007–2011 5-year ACS data.²

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 2013, all areas are assigned as a base rent the estimated two-bedroom standard quality 5-year gross rent from the ACS.³

The 2011 ACS is not used as the base rent for 11 areas based on surveys conducted in 2012 and 2013 by HUD or by PHAs. The FY 2013 FMRs were revised for seven areas, based on surveys conducted in 2012 by the PHA (for Hood River, OR) and by HUD (for Cheyenne, WY, Odessa, TX, Burlington, VT, Mountrail County, ND, Ward County, ND, and Williams County, ND). Two surveys conducted by HUD in 2012 were not included in the revised FY 2013 FMR publications because HUD wanted to provide the opportunity to comment on the proposed decreases. The survey results for these areas (Flagstaff, AZ and Rochester, MN) replaced the base rent of the 2011 ACS for the proposed FY 2014 FMRs. The PHAs that administer programs in the Oakland, CA metropolitan area conducted a survey in 2013, and submitted results in time to replace the 2011 ACS base rent for the proposed FMRs. The Danbury, CT survey conducted by HUD was not completed in time to be included in the proposed FY 2014 publication, but is included in this final publication.

B. Recent Mover Adjustment Factor

The calculation of the recent mover factor for FY 2014 is similar to the methodology used in FY 2013, with the only difference being the use of updated ACS data. 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.⁴ The following describes the process for determining the appropriate recent mover factor.

In general, HUD uses the 1 year ACS based two-bedroom based two-bedroom recent mover gross rent estimate from the smallest geographic area encompassing the FMR area for which the estimate is statistically reliable to calculate the recent mover factor. HUD calculates some areas' recent mover factors using data collected just for the FMR area.

Other areas' recent mover factors are based on larger geographic areas. For metropolitan areas that are sub-areas 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 2007–2011 standard quality two-bedroom gross rent and the 1 year 2011 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 2014 Final FMR documentation system available at: <http://www.huduser.org/portal/datasets/fmr/fmrs/docsys.html&data=fmr14>. This process produces an "as of" 2011 recent mover two-bedroom base gross rent for the FMR area.⁵

C. Updates from 2011 to 2012

The ACS-based "as of" 2011 rent is updated through the end of 2012 using the annual change in CPI from 2011 to 2012. As in previous years, HUD uses Local CPI data coupled with Consumer Expenditure Survey (CEX) 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. Additionally, HUD is using CPI data collected locally in Puerto Rico as the basis for CPI adjustments from 2011 to 2012 for all Puerto Rico FMR areas. Following the application of the appropriate CPI update factor, HUD converts the "as of" 2012 CPI adjusted rents to "as of" December 2012 rents by multiplying each rent by the national December 2012 CPI divided by the national annual 2012 CPI value. HUD does this in order to apply an exact amount of the annual trend factor to place the FY 2014 FMRs as of the mid-point of the 2014 fiscal year.

D. Trend from 2012 to 2014

As in FY 2013, HUD continues to calculate the trend factor as the annualized change in median gross rents as measured across the most recent 5 years of available 1 year ACS data. The national median gross rent in 2006 was \$763 and \$871 in 2011. The overall change between 2006 and 2011 is 14.15 percent and the annualized change is 2.68 percent. Over a 15-month time period, the effective trend factor is 3.365 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.

²The only difference in survey data between the 2006–2010 5-year ACS data and the 2007–2011 5-year ACS data is the replacement of 2006 survey responses with survey responses collected in 2011. The 2007, 2008, 2009, and 2010 survey responses remain intact.

³For 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 2011 5-year ACS, HUD uses the two-bedroom state non-metro rent for non-metro areas.

⁴For 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.

⁵The ACS is not conducted in the Pacific Islands (Guam, Northern Marianas and American Samoa) or the U.S. Virgin Islands. As part of the 2010 Decennial Census, the Census Bureau conducted a "long-form" sample surveys for these areas. The results gathered by this long form survey were expected to be available late in 2012; however, these data have not yet become available. Therefore, HUD uses the national change in gross rents, measured between 2010 and 2011 to update last year's FMRs for these areas.

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.

When calculating FY 2013 FMRs, HUD 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. The bedroom ratios used in the calculation of FY 2014 FMRs were unchanged from those calculated using 2006–2010 ACS data. The bedroom ratios for Puerto Rico were calculated for the FY 2014 FMRs using the 2006–2010 Puerto Rico Community survey. HUD will continue to use the same bedroom ratios until the 5-year ACS from 2011–2015 is released, probably in time for the FY 2018 FMRs.

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. (The maximums for the three-bedroom and four-bedroom FMRs are irrespective of the adjustments discussed in the next paragraph.) 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). The bedroom ratios for Puerto Rico follow these constraints.

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 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 to zero-bedroom (efficiency) FMR.

For low-population, nonmetropolitan counties with small or statistically insignificant 2006–2010 5-year estimates ACS recent-mover 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 sizes.

V. Manufactured Home Space Surveys

The FMR used to establish payment standard amounts for the rental of manufactured home spaces (pad rentals including utilities) in the HCV program is 40 percent of the FMR for a two-bedroom unit. HUD will consider exceptions of the manufactured home space FMRs where public comments present statistically valid survey data of manufactured home space rent (including the cost of utilities) for the entire FMR area.

All approved exceptions to these rents based on survey data that were in effect in FY 2013 were updated to FY 2014 using the same data used to estimate the HCV program FMRs. This computation is compared to the new payment standard of 40 percent of the new two-bedroom FMR for the area, and if higher, the exception remains and is listed in Schedule D. No additional exception requests were received in the comments to the FY 2014 FMRs and all areas with manufactured housing exception rents in FY 2013 continued to have exception rents for FY 2014.

VI. Small Area Fair Market Rents

Public housing authorities in the Dallas, TX HMFA, along with the Housing Authority of the County of Cook (IL), the City of Long Beach (CA) Housing Authority, the Chattanooga, (TN) Housing Authority, the Town of Mamaroneck (NY) Housing Authority, and the Laredo, (TX) Housing Authority continue to be the only PHAs managing their voucher programs using Small Area Fair Market Rents (SAFMRs). These FMRs are listed in the Schedule B addendum. The department is working to secure more housing authority participants in its Small Area FMR Demonstration program. SAFMRs are calculated using a rent ratio determined by dividing the median gross rent across all bedrooms for the small area (a ZIP code) by the similar median gross rent for the metropolitan area of the ZIP code. This rent ratio is multiplied by the current two-bedroom rent for the entire metropolitan area containing the small area to generate the current year two-bedroom rent for the small area. In small areas where the median gross rent is not statistically reliable, HUD substitutes the median gross rent for the county containing the ZIP code in the numerator of the rent ratio calculation. For FY 2014 SAFMRs, HUD continues to use the rent ratios developed in conjunction with the calculation of FY 2013 FMRs based on 2006–2010 5-year ACS data.⁶

...

VII. Public Comments

A total of 59 comments were received and posted on the regulations.gov site (<http://www.regulations.gov/#!docketDetail;D=HUD-2013-0073>), which is also linked on the HUD User FMR page <http://www.huduser.org/portal/datasets/fmr.html>). Most comments contested FMR reductions compared with the FY 2013 FMRs and some contested reductions in FMRs over several years. A majority of the comments, assisted by a form letter provided by an advocacy organization, criticized the variability in FMRs from year-to-year for smaller metropolitan and nonmetropolitan areas and requested an analysis of the FY 2006 FMRs compared with the 2006 one-year data.

⁶ HUD has provided numerous detailed accounts of the calculation methodology used for Small Area Fair Market Rents. Please see our Federal Register notice of April 20, 2011 (76 FR 22125) for more information regarding the calculation methodology. Also, HUD's Final FY 2014 FMR documentation system available at (<http://www.huduser.org/portal/datasets/fmr/fmrs/docsys.html&data=fmr14>) contains detailed calculations for each ZIP code area in participating jurisdictions.