

Fair Market Rents For The Section 8 Housing Assistance Payments Program

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Overview

Fair Market Rents (FMRs) determine the eligibility of rental housing units for the Section 8 Housing Assistance Payments program. Section 8 Rental Certificate program participants cannot rent units whose rents exceed the FMRs. FMRs also serve as the payment standard used to calculate subsidies under the Rental Voucher program. The U.S. Department of Housing and Urban Development (HUD) annually estimates FMRs for 354 metropolitan areas and 2,350 nonmetropolitan county FMR areas.

FMR Standard

FMRs are gross rent estimates. They include the shelter rent plus the cost of all utilities, except telephones. HUD sets FMRs to assure that a sufficient supply of rental housing is available to program participants. To accomplish this objective, FMRs must be both high enough to permit a selection of units and neighborhoods and low enough to serve as many low-income families as possible. The level at which FMRs are set is expressed as a percentile point within the rent distribution of standard-quality rental housing units. The current definition used is the 40th percentile rent, the dollar amount below which 40 percent of the standard-quality rental housing units are rented. The 40th percentile rent is drawn from the distribution of rents of all units occupied by recent movers (renter households who moved to their present residence within the past 15 months). Public housing units and units less than 2 years old are excluded.

Data Sources

HUD uses the most accurate and current data available to develop the FMR estimates. Three sources of survey data are used:

(1) *The 1990 decennial Census*, which provides statistically reliable rent data for use in establishing base year FMRs.

(2) *American Housing Surveys (AHS)*, which are conducted by the Bureau of Census for HUD and whose accuracy is comparable to that of the decennial Census. AHSs enable HUD to develop revisions between Census years for the 44 largest metropolitan areas that are surveyed on a revolving schedule of 11 areas annually.

(3) *Random digit dialing (RDD) telephone surveys*, which are based on a sampling procedure that uses computers to select statistically random samples of telephone numbers, dial and keep track of them, and tabulate the responses to the calls. RDD surveys are conducted for HUD by a contractor to: (a) develop the annual HUD regional gross rent change factors; and (b) develop 40th percentile FMR estimates of about 60 selected FMR areas per year. RDD regional rent change factors are developed annually for the metropolitan parts (exclusive of metropolitan areas with their own Consumer Price Index [CPI]) and nonmetropolitan parts of each of the 10 HUD regions.

Base year FMR estimates are updated and trended forward using CPI data for rents and utilities or HUD regional updating factors developed from the RDD surveys. CPI data are available for 102 metropolitan FMR areas. The RDD regional factors are used to update the base year estimates for all FMR areas that do not have their own CPI survey.

FMR Areas

HUD defines FMR areas as metropolitan areas and nonmetropolitan counties. With a few exceptions, the most current Office of Management and Budget (OMB) definitions of metropolitan areas are used. HUD uses the OMB definitions because of the generally close correspondence between them and housing market areas. FMRs are intended to be housing market-wide rent estimates that provide housing opportunities throughout the geographic area in which rental units are in direct competition. Exceptions include a small number of metropolitan areas whose revised OMB definitions encompass areas that are larger than HUD's definitions of housing market areas.

Calculation Process

HUD uses similar procedures to calculate FMRs, whether they are based on AHS metropolitan area surveys, decennial Census data, or RDD surveys. The main difference is in the way *base year* FMR estimates are developed from each of the sources of survey data. The procedures used to calculate FMRs and the differences in the base year estimates are explained below. Figure 1 provides a flow chart and Figures 2 through 4 provide numerical examples of the procedures keyed to the numbered steps associated with the different types of base year FMR estimates: AHS, Census, and RDD.

Based on Metropolitan American Housing Survey (AHS) (Figure 2)

AHS surveys cover 44 of the largest metropolitan areas, which contain half of the Nation's rental housing stock. The surveys are conducted on a 4-year cycle, 11 areas each year.

1. Develop Base Year FMR Estimates

HUD uses the AHS data to calculate the 40th percentile rent for the distribution of two-bedroom units occupied by recent movers. Public housing units, newly constructed units, and units that fail a housing quality test are excluded from the distribution before the calculation. This number then becomes the base year FMR estimate for the area.

2-3. Update Base Year FMR Estimates

Because of lags in processing the survey data, most AHS-based FMR estimates are put into effect 2 or 3 years after the data are collected. (a) If the FMR Area has its own CPI survey, the AHS base year gross rent estimate is divided into shelter rent and utility components, using the ratio of utilities to gross rents paid by renters who pay for their utilities. The shelter rent and utility components are then updated separately, using the local CPI data on rent and utility cost changes. (b) If the AHS area does not have its own CPI survey, the base year rent is updated with the applicable Regional RDD gross rent change factor computed by HUD.

4. Trending

The 40th percentile rent estimates are then trended, based on an annual projection factor, to the midpoint of the fiscal year in which they will be used. This step is done by prorating national rent data by the actual number of months between the date of the AHS survey and the midpoint of the fiscal year for which the FMRs apply.

5. Bedroom Size Adjustments

For most areas the ratios developed from the 1990 Census are applied to the two-bedroom FMR estimate to derive FMRs for other bedroom sizes. Exceptions to this procedure are made for areas with local bedroom intervals below the normal range. For these areas the bedroom intervals selected are the minimums determined after outliers had been excluded from the bedroom ratio distribution of all metropolitan areas. In addition the ratios used for three-bedroom and larger units are higher than those that would result from the actual market relationships. This step increases the likelihood that large families that are the most difficult to place will be successful in finding Section 8 eligible housing.

Based on Decennial Census (Figure 3)

1. Develop Base Year FMR Estimates

HUD uses Census data on units occupied by recent movers to calculate a 40th percentile rent for each FMR area.¹ Units that are newly constructed and those that have the types of housing deficiencies identifiable with Census data are removed before making the calculation. The resulting estimates differ from AHS-based FMR estimates because they include public housing units and are based on fewer measures of housing quality.

The 40th percentile rent estimate is then multiplied by an adjustment factor developed from AHS data to account for the additional housing quality measures available in the AHS and for the public housing units that are included in the Census counts. The housing quality adjustment factor is calculated separately for each FMR area. While it varies from area to area, the FMRs, on average, are increased by about 2 percent as a result.

2-4. Updating and Trending

After the base year estimates are developed, the procedures used to develop current FMRs are the same as in steps 2 through 5 above for the AHS areas with an additional step to update the Census base year estimates. Because RDD Regional data are not available before 1991, the Census estimates for areas without their own CPI surveys are updated using national CPI data for the 9-month period from April through December 1990.

5. Bedroom Size Adjustments

The bedroom size adjustment is the same as for the AHS-based FMRs.

¹However, the state minimum is used if it exceeds the Census data for the area; see the following section.

Based on Local RDD Surveys (Figure 4)

1. Develop Base Year FMR Estimates

HUD uses the RDD technique to obtain random samples of one- and two-bedroom units occupied by recent movers. One-bedroom rents are increased by the Census two-bedroom to one-bedroom ratio to convert them into two-bedroom-equivalent rents.

RDD surveys exclude public housing units, newly built units, seasonal units, units owned by relatives, and units not rented for cash. The surveys do not specifically exclude substandard units because there is no practical way to determine housing quality from telephone interviews. A HUD analysis conducted to address this issue has shown that the slight downward RDD survey bias caused by including some substandard units is almost exactly offset by the slight upward bias that results from surveying only units with telephones. Additional research on this topic is underway.

On average, between 8,000 and 12,000 telephone numbers need to be contacted to achieve the target survey level of at least 200 interviews of eligible recent movers. The RDD surveys have a high degree of statistical accuracy. There is a 95 percent likelihood that the 40th percentile recent-mover rent estimates are within 3 to 4 percent of the actual 40th percentile rent, and virtually all of the estimates are within 5 percent of the actual 40th percentile value.

2-4. Updating and Trending

Most RDD surveys are put into effect in the next available FMR year. For them all that is necessary is to trend the results with the standard projection factor for the number of months between the survey and the midpoint of the FMR year.

If the RDD is not used immediately, as is the case with the example shown here, the updating and trending is a little more complex. In brief, the updating is based on a combination of the standard trending factor and whichever local CPI or regional RDD rent change factors are applicable.

5. Bedroom Size Adjustments

The bedroom size adjustment is the same as for the AHS-based FMRs.

State Minimum FMRs for Nonmetropolitan Counties

For FY-1996 FMRs, HUD implemented a new minimum FMR policy, in response to numerous public concerns that FMRs in rural areas were too low to operate the program successfully. The new policy establishes the FMRs at the higher of the local FMR or the Statewide average FMR of nonmetropolitan counties, subject to a ceiling rent cap. This replaces a previous method for calculating FMRs in small nonmetropolitan counties. The state minimum also affects a small number of metropolitan areas whose rents would otherwise fall below the state minimum.

Review of Public Comments

HUD publishes FMRs in the *Federal Register*, first as proposed estimates for public comment and then for final effect. The proposed FMRs are usually published in mid-April, with a 60-day period allowed for comments. By law the final FMRs for use in any fiscal year must be published and available for use at the start of that fiscal year, on October 1.

The purpose of the public comments process is to identify areas where local government officials or residents believe the FMRs are too high or too low. Public Housing Agencies and other organizations responsible for operating the Section 8 programs submit most comments. To be considered for FMR revisions, the comments must include statistically valid rental housing survey data that justifies the recommended changes.

HUD prefers that the rental data be obtained through a well-conducted RDD survey. PHAs and other organizations that want to use the RDD survey technique may obtain a copy of *Random Digit Dialing Surveys: A Guide to Assist Larger Public Housing Agencies in Preparing Fair Market Rent Comments*. Small PHAs may wish to use the simplified methods described in *Rental Housing Surveys: A Guide to Assist Smaller Public Housing Agencies in Preparing Fair Market Rent Comments*. Both may be obtained from HUD USER at 1-800-245-2691.

FMR Exceptions

To ensure successful program operation, the Section 8 program rules allow for FMR exceptions to compensate for variations in rent levels and rental housing characteristics that exist within individual housing markets. Upon approval by HUD, a PHA may exceed the published FMRs by up to 20 percent for specified geographic submarkets of a larger FMR area. Requests for FMR exceptions may not be granted for more than 50 percent of an FMR area. Such requests must document the program-related need for the higher rents and show that the requested rent does not exceed the 40th percentile rent of units in the exception area. Geographic area exceptions are usually a small part of the entire FMR area.

Figure 1:
FMR Calculation Process

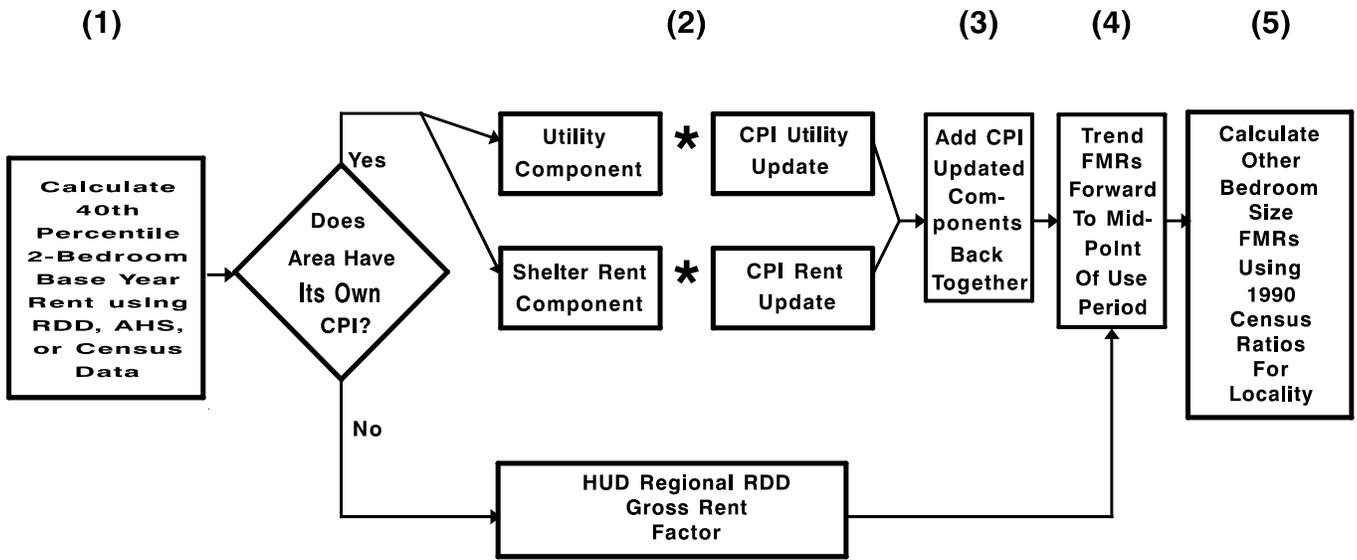


Figure 2: AHS-Based
Minneapolis-St Paul, Minnesota

- | | | |
|----|---|--------------|
| 1. | Base year FMR developed using December 1993 <i>AHS</i> survey: | \$568 |
| | - 40th percentile gross rent, for 2-bedroom units, recent movers only | |
| | - Exclude newly constructed, substandard, and public housing units | |
| 2. | Update using the <i>CPI</i> Survey: | |
| | - Separate gross rent of \$568 into: | |
| | Shelter rent component | \$494 |
| | Utilities component | \$74 |
| | - Update each component from January 1994 to December 1994 using <i>CPI</i> residential rent and utilities indices for this locality: | |
| | Shelter rent +1.8% increase | \$503 |
| | Utilities -0.09% decrease | \$73 |
| 3. | Add components back together to get <i>most current estimate possible with CPI data</i> : | \$576 |
| 4. | Trend result to April 1996, the midpoint of the fiscal year to be used, using a 3 percent annual projection factor (3.75% total) | \$598 |
| 5. | <i>Test result against previous year's FMR and confidence interval:</i> | |
| | - <i>Continue using last year's FMR</i> because 1993 AHS-based FMR (\$598) is lower than projected 1995 FMR (\$605), and both are within statistical confidence interval: | \$605 |
| 6. | FMRs for other bedroom sizes are calculated using 1990 Census ratios for the locality: | |

<u>EFF.</u>	<u>1BR</u>	<u>2BR</u>	<u>3BR</u>	<u>4BR</u>
.61	.78	1.00	1.36	1.53
\$369	\$474	\$605	\$820	\$928

Figure 3: Census-Based
(Camden County, Georgia)

1. Base year FMR developed using 1990 Census: \$405
- 40th percentile gross rent
 - only two-bedroom units
 - only recent movers
 - exclude newly constructed units
 - exclude substandard units
- 1990 FMR standard housing quality adjustment procedure was applied: \$412
- AHS data permit better housing quality adjustments than the 1990 Census. A comparison of AHS- and Census-based FMRs at the national level produces a factor which is used to adjust all FMRs without local AHS surveys (1.7%):
- The 1990 Census FMR as of April 1990 was updated to December 1990 using national CPI data for the 9-month period (3.0%): \$424
- 2-3. The FMR was updated with 4 years of HUD Region IV nonmetropolitan area RDD change factors, from January 1991 to December 1994 (7.6% total): \$456
4. The FMR was trended to April 1996, the midpoint of the 1996 fiscal year, with a 3.0 percent annual projection based on national CPI data (3.75% total): \$473
5. The FMRs for other bedroom sizes were calculated using 1990 Census ratios for the locality:

<u>EFF.</u>	<u>1BR</u>	<u>2BR</u>	<u>3BR</u>	<u>4BR</u>
.79	.89	1.00	1.39	1.64
\$374	\$422	\$473	\$658	\$777

Figure 4: RDD-Based
Eugene-Springfield, Oregon MSA

1. Base year FMR developed using an *RDD* survey conducted in June 1993:\$512
 - 40th percentile gross rent
 - 1 and 2-bedroom units
 - Recent movers only
 - Exclude newly constructed units
 - Exclude public housing units

- 2-3. Update using HUD Region X metropolitan area RDD change factors, from June 1993 to December 1994 (7.0% total): \$548

4. Project from January 1995 to April 1996 using national CPI (3.75% total): \$569

5. FMRs for other bedroom sizes were calculated using 1990 Census ratios for the locality:

<u>EFF.</u>	<u>1BR</u>	<u>2BR</u>	<u>3BR</u>	<u>4BR</u>
.56	.77	1.00	1.39	1.61
\$318	\$436	\$569	\$794	\$918