

## Appendix B: Explanation of Fair Market Rent

Excerpts from Notice of Final Fair Market Rents for Fiscal Year 2007. Full document available at [www.huduser.org/datasets/fmr/fmr2007f/FY2007F\\_FR\\_Preamble.pdf](http://www.huduser.org/datasets/fmr/fmr2007f/FY2007F_FR_Preamble.pdf).

Department of Housing and Urban Development  
[Docket No. FR-5068-N-02]

### **Final Fair Market Rents for the Housing Choice Voucher Program and Moderate Rehabilitation Single Room Occupancy Program for Fiscal Year 2007**

**AGENCY:** Office of the Secretary, HUD

**ACTION:** Notice of Final Fair Market Rents (FMRs) for Fiscal Year (FY) 2007

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#### **I. Background**

Section 8 of the U.S. Housing Act of 1937 (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 areas. In the Housing Choice Voucher 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 Housing Choice Voucher program must meet reasonable rent standards.

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#### **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 this section.

The Department’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.) Final FY2007 FMRs are published on or before October 1, 2006, as required by section 8(c)(1) of the USHA.

### **III. Proposed FY2007 FMRs**

On June 15, 2006 (71 FR 34726), HUD published proposed FY2007 FMRs. As noted in the preamble to the proposed FMRs, the FMRs for FY2007 reflect minor changes that allow further modifications of the core-based statistical areas (CBSA), as defined by the Office of Management and Budget (OMB), based on median family income differences between the CBSA and the CBSA components defined by FY2005 FMRs. All proposed metropolitan FMR areas consist of areas within new OMB metropolitan areas. In general, any parts of old metropolitan areas, or formerly nonmetropolitan counties, that would have more than a 5 percent increase or decrease in their FMRs or median family incomes as a result of implementing the new OMB metropolitan definitions are defined as separate FMR and income limit areas (provided that there are enough recent mover renter household observations in the 2000 Census data).

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### **IV. FMR Methodology**

The FY2007 FMRs are based on current OMB metropolitan area definitions that were first used in the FY2006 FMRs. These definitions have the advantages that they are based on more current (2000 Census) data, use a more relevant commuting interchange standard, and generally provide a better measure of current housing market relationships. HUD had three objectives in defining FMR areas for FY2006: (1) To

incorporate new OMB metropolitan area definitions so the FMR estimation system can employ new data collected using those definitions; (2) to better reflect current housing markets; and (3) to minimize the number of large changes in FMRs due to use of the new OMB definitions. These objectives continue to apply to the proposed FY2007 FMRs, and area definitions were developed to achieve these objectives as follows:

- FMRs were calculated for each of the new OMB metropolitan areas using 2000 Census data.
- Subparts of any of the new areas that had separate FMRs under the old OMB definitions, and that had a sufficiently large 2000 Census count of recent mover renter households in standard quality units, were identified, and 2000 Census Base Rents for these subparts were calculated. Only the subparts within the new OMB metropolitan area were included in this calculation (e.g., counties that had been excluded from the new OMB metropolitan area were not included).
- Metropolitan subparts of new areas that had previously had separate FMRs were assigned their own FMRs if their 2000 Census Base Rents differed by more than 5 percent from the new OMB area 2000 Census Base Rent.
- Formerly metropolitan counties removed from metropolitan areas get their own FMRs.
- For FY2007 FMRs, an additional comparison was made to determine if new sub-areas should be created. Metropolitan subparts of new areas that had previously had separate FMRs were assigned their own FMRs if their 2000 Census Median Family Income differed by more than 5

percent from the new OMB area 2000 Census Median Family Income.

#### **A. Data Sources**

FY2007 FMRs are based on 2000 Census data updated with more current survey data. At HUD's request, the Census Bureau prepared a special publicly releasable Census file that permits almost exact replication of HUD's 2000 Base Rent calculations, except for areas with few rental units. This data set is located on HUD's HUDUSER Web site at <http://www.huduser.org/datasets/fmr/CensusRentData/>. The area-specific data and computations used to calculate final FY2007 FMRs and FMR area definitions can be found at <http://www.huduser.org/datasets/fmr/fmrs/>.

#### **B. FMR Updates From 2006 to 2007**

Local Consumer Price Index (CPI) data is used to move rents from the end of 2004 to the end of 2005 for Class A cities covered by local CPI data. Census region CPI data is used for Class B and C size cities and nonmetropolitan areas without local CPI update factors.

#### **C. Additional Rent Surveys and Other Data**

The Department regularly obtains additional rent survey data to update the 2000 Census rent data in selected areas. Random Digit Dialing (RDD) telephone rent surveys meeting the Department's statistical criteria for updating FMRs covering 11 additional areas were conducted by HUD in the June-July 2006 period and completed in time for use in this publication. In addition, one public housing authority (PHA) survey was submitted.

... [See HUD notice for table providing RDD results]

HUD is directed by statute to use the most recent data available in its FMR publications. These RDD survey results are being implemented in this final notice FY2007 FMR publication consistent with that requirement.

The RDD surveys conducted in the Gulf of Mexico areas (Beaumont-Port Arthur, Dallas, Hattiesburg, Houston, Jackson, Little Rock, San Antonio, and Shreveport) used 6 months as the recent mover time period, instead of the normal 15 months. This shorter time period was used to determine with greater accuracy how the evacuees from the Katrina and Rita hurricanes impacted rental-housing markets in these areas. Because most of these areas had relatively soft rental markets before the hurricanes, the additional renters were absorbed without significant rental housing cost increases.

HUD also used the shorter time period definition of recent mover for the Island County, WA survey in an attempt to measure the impact of the September 2005 addition of a naval air squadron on the local rental housing market. Again, a 6-month recent mover definition was used. This area received an increase in its FMR for FY2007.

#### **D. FMRs by Bedroom Size**

FMR estimates are calculated for two-bedroom units. This is the most common type of rental unit and, therefore, the easiest to accurately survey and analyze. After each Decennial Census, rent ratios between two-bedroom units and other unit

sizes are calculated. These ratios are then used to calculate FMRs in future years. This is done because obtaining accurate two-bedroom estimates and then using pre-established cost relationships with other bedroom sizes to update those rent estimates is much easier than developing independent FMR estimates for each bedroom size. A publicly releasable version of the data file that permits derivations of rent ratios from the 2000 Census, as well as demonstrations of how the data are used, are available at <http://www.huduser.org/datasets/fmr/CensusRentData/index.html>.

The rents for three-bedroom and larger units continue to reflect HUD's policy to set higher rents for these units than would result from using normal 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.

A further adjustment is made for areas with local bedroom-size intervals above or below what are considered to be 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). Bedroom interval ranges were established based on an analysis of the range of such intervals for all areas with large enough samples to permit accurate bedroom ratio determinations. The final ranges used were: efficiency units are constrained to fall between 0.65 and 0.83 of the two-bedroom FMR, one-bedroom units must be between 0.76 and 0.90 of the two-bedroom unit, three-bedroom units must be between 1.10 and 1.34 of the two-bedroom unit, and four-bedroom units must be between 1.14 and 1.63 of the two-bedroom unit. Bedroom rents for a given FMR area were then adjusted if the differentials between bedroom-size FMRs were inconsistent with normally observed patterns (e.g., efficiency rents were not allowed to be higher than one-bedroom rents and three-bedroom rents were not allowed to be higher than four-bedroom rents.)

For nonmetropolitan counties with few rental units and small Census recent-mover rent samples, Census-defined county group data were used in determining rents for each bedroom size. This adjustment was made to protect against unrealistically high or low FMRs due to insufficient sample sizes. The areas covered by this new estimation method had less than 200 two-bedroom Census-tabulated observations.

#### **E. State Minimums**

In response to comments received on the FY2005 and the proposed FY2006 FMRs, a state minimum policy similar to

that used prior to FY2005 has been implemented. The rationale for having a state minimum FMR is that some low-income, low-rent nonmetropolitan counties have Census-based FMR estimates that appear to be below long-term operating costs for standard quality rental units and raise concerns about housing quality. Housing quality problems are limited in most parts of the country and have little impact on FMR estimates. The exception to this generality within the continental United States occurs in some nonmetropolitan areas with unusually low rents. State minimum FMRs have been set at the respective state-wide median nonmetropolitan rent level, but are not allowed to exceed the U.S. median nonmetropolitan rent level. This change primarily affects small nonmetropolitan counties in the South with low rents.

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## **VI. Manufactured Home Space Surveys**

In general, the FMR used to establish payment standard amounts for the rental of manufactured home spaces in the Housing Choice Voucher program is 40 percent of the FMR for a two-bedroom unit. HUD modified manufactured home space FMRs for Santa Rosa-Petaluma, California (Sonoma County) based on survey data showing the 40th percentile manufactured home space rent (including the cost of utilities) for the entire FMR area. The new manufactured home space exception FMR is shown in Schedule D.

All approved exceptions to these rents that were in effect in FY2006 were updated to the midpoint of FY2007 using the same data used to estimate the Housing Choice Voucher program FMRs. If the result of this computation was higher

than 40 percent of the rebenchmarked 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.

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