COMMUNITY CHANGE

Housing Justice Explainer

What is HUD's "Fair Market Rent"?

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Across the US, landlords are raising rents, using inflation as an excuse. [1] This impacts all renters, but especially subsidized tenants who depend on accurate measures of Fair Market Rent. Fair Market Rent (FMR) is an area estimate of rent plus necessary utilities. [2] The U.S. Department of Housing and Urban Development (HUD) sets the FMR for each local housing market, since costs vary from place to place.

FMR does NOT include telephone, television, or internet service.

This document details facts about FMR, how it is calculated, and what you need to know about FMRs for the fiscal year 2023.

Facts

- Each year HUD calculates more than 2,600 FMRs in areas across the country. Click here to find the FMR of your area. Using HUD's "Query Tool," you can search by county or by metropolitan area.

- FMRs are used in a range of programs to determine flat rents, maximum rents, and funding amounts for HUD grantees.

- By law, HUD must publish FMRs at least 30 days before they go into effect on October 1st each year, which is the start of the federal government's fiscal year.

Some of these HUD programs include: Public Housing, Housing Choice Vouchers, the Housing Opportunities for Persons with AIDS, the Continuum of Care, the Moderate Rehabilitation Single Room Occupancy program, HOME rental assistance and the Emergency Solutions Grants program.

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[1] The Rent is Too Damn High." https://peoplesaction.org/wp-content/uploads/2022/08/Rent-Inflation-Memo_final2.pdf

[2] Generally, FMR is equal to the 40th percentile cost of rent in an area. This means, if there are 100 units in a hypothetical area, 40 of them would cost less than the FMR amount and 60 of them would cost more than the FMR amount.

HUD Calculates FMRs by Using a Three Step Process:

1. **First they use rent data from the Census:** HUD uses American Community Survey (5-Year) data of base rent for standard quality units. They then factor in a "Recent Mover" estimate of the cost of rent for tenants who have moved into a unit within the past two years. [3] Because data collection and analysis takes time, the Census data is usually several years behind. For example for 2022 FMRs, HUD used 2019 Recent Mover data, which did not take into account the impacts of the COVID pandemic on rents.

2. **Then they incorporate an "Inflation Adjustment Factor" for current inflation:** This data comes from a component of the Bureau of Labor Statistic's Consumer Price Index Estimates (CPI) that focuses on gross rents and housing fuels and utilities costs. [4] Unlike ACS Recent Mover data, CPI tracks existing rents and not the rents of people who recently moved in. This can underestimate the increases that often happen with new leases.

3. **Last, they include a "Trend Factor" for future inflation:** This data offers a forecast of rent increases using large scale economic data (called "macroeconomic data") in order to predict rent costs. The trend factor is also based on the gross rent component of the CPI. However, nationwide inflation estimates of the economy can underestimate rising costs and can also vary widely from year to year. [5]

Now that we have gone through how HUD calculates FMRs, next is an example of how HUD uses FMRs in a major housing subsidy program, the Housing Choice Voucher Program.

Housing Choice Voucher (HCV) Background

Families who receive a subsidy to rent from a private landlord through the Housing Choice Voucher program usually pay 30% of their income towards rent. [6] A local public housing authority (PHA) then pays the private landlord the difference between the tenant's share and total rent. But families can't just rent ANY unit they find and pay 30% of their income for it. The unit must be approved by the PHA as having a reasonable rent.

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[3] HUD excludes rent data for luxury units, units less than two years old (which likely cost more), and units with very low rent units (below public housing rents).

[4] The rent data is based on surveys that are repeated every six months with a sample of rental housing units, which includes adjustments for both the lag in data collection and vacant units.

[5] To guard against sudden drops in FMRs, under the current rules HUD cannot decrease FMRs by more than 10 percent from year to year within each area.

[6] To be eligible for the program, a family's income may not be higher than 50% of the area median income, and 75% of program participants must have an income at or below 30% of the area median income. (In addition to FMR, HUD also publishes median income levels by geographical area).

HCV, FMRs, and Payment Standards

HUD's annual publication of FMRs helps PHAs to determine the payment standard amount, or the maximum monthly assistance payment that it will provide for a participating family. [7] Payment standard amounts are set based on bedroom size, with assistance increasing with each additional bedroom. PHAs can set payment standards within 90 to 110 percent of the FMR without additional HUD approval.

Example: If the area FMR is $1,000, 90% FMR is $900 and 110% FMR is $1,100.

If payment standards are too low, landlords may not want to participate in the voucher program because they can get a higher rent from a market rate tenant. This decreases the pool of affordable housing.

PHAs can also request "exception payment standards" from HUD to set rents above this range, which could help families move to areas of higher opportunity. Keep in mind, *PHAs only receive a set amount of funding to use. If PHAs have to spend more for each family they help, the tradeoff is that they can help fewer families.*

Before approving a unit for the HCV program, the PHA uses FMR to ensure rent is reasonable. This is one way to guard against landlords charging more for rent for program participants (in most cases, reasonable is if it falls between 90-110 percent of FMR). If rent costs more than the maximum monthly assistance combined with a family's portion of rent, families may have the option of paying the difference.

For example, if the maximum assistance (payment standard) is $1,000, a rental unit costs $1,100, and a tenants income is $400 a month, the tenant's projected rent would be $120 or 30% of their income. They could cover rent if they paid the $120 plus the extra $100 above the payment standard. But, in this case their rent would be almost double ($220) and they would pay 55% of their income on rent, which exceeds the set cap of spending no more than 40% of your income on rent, otherwise known as the "affordability test." [8]

[7] 24 C.F.R 982.4
[8] A family's rent cannot exceed 40% of their adjusted monthly income for new leases.

Small Area Fair Market Rent (SAFMR)

HUD acknowledges rents are often too high for families to be able to afford it in certain areas, even with vouchers. Often families have few options but to live in areas with high poverty, low performing schools, and food deserts. In response, HUD requires PHAs in 24 metropolitan areas to use a different standard – Small Area Fair Market Rent (SAFMR). [9]

SAFMRs allow payment standards to better reflect the higher local housing costs, permitting families to have a wider pool of potential units to lease. In many cases, the use of SAFMR makes housing more accessible in places with greater opportunities, including better resourced schools, more access to parks and grocery stores, and lower rates of poverty. [10] For example, SAFMR applies in the metropolitan areas that include the following cities: Chicago, Washington, D.C., Dallas, Honolulu, San Diego, and Tampa. [11]

Besides the 24 metropolitan areas required to use SAFMR, all PHAs can request to use SAFMR to establish, in many cases, higher payment standards to increase rent subsidies for families within their jurisdictions. But again, with limited funding, PHAs make the hard choice of potentially providing assistance to more families or increasing rent subsidies to existing families in the program.

What You Need to Know About 2023 FMRs

The Census announced that it will not publish the 2020 ACS data that HUD uses to calculate FMRs because of disruptions caused by the pandemic. For fiscal year 2023 only, HUD used dated 2019 Census data (with inflated adjustments) and additionally updated this figure with private rent data sources, including Zillow, Moody's Analytics, CoreLogic, and others. As a result, fiscal year 2023 FMRs saw an increase of around 10%, when on average the year-over-year increase is around 4%.

Reach out to Jennifer Cossyleon at jcossyleon@communitychange.org with any questions and stay tuned for more updates on FMR and how it impacts families across the country.

[9] In rural areas, PHAs can use the higher of local FMR or the state-wide average FMR or non-metropolitan counties.
[10] "A Guide to Small Area Fair Market Rents" https://www.cbpp.org/research/housing/a-guide-to-small-area-fair-market-rents-safmrs
[11] "Guidance on Recent Changes in Fair Market Rent (FMR), Payment Standard, and Rent Reasonableness Requirements in the Housing Choice Voucher Program." https://www.hud.gov/sites/dfiles/PIH/documents/PIH-2018-01.pdf