



DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

[Docket No. FR-6021-N-03]

**Fair Market Rents for the Housing Choice Voucher Program
and Moderate Rehabilitation Single Room Occupancy Program
Fiscal Year 2018; Revised**

AGENCY: Office of the Assistant Secretary for Policy Development and Research, HUD.

ACTION: Notice of revised fiscal year (FY) 2018 fair market rents (FMRs) and discussion of comments on FY 2018 FMRs.

SUMMARY: This notice updates the FY 2018 FMRs for eight areas based on new survey data: Hawaii County, HI; Hood River County, OR; Jonesboro, AR HUD Metro FMR Area (HMFA); Santa Cruz-Watsonville, CA Metropolitan Statistical Area (MSA); Santa Maria-Santa Barbara, CA MSA; Seattle-Bellevue, WA HMFA; Urban Honolulu, HI MSA; and, Wasco County, OR. All comments received on the FY 2018 FMRs are also discussed.

DATES: Applicability: The revised FY 2018 FMRs for these eight areas are applicable beginning **[INSERT DATE 30 DAYS AFTER DATE OF PUBLICATION IN FEDERAL REGISTER]**.

FOR FURTHER INFORMATION CONTACT: Questions on how to conduct FMR surveys or concerning further methodological explanations may be addressed to Marie L. Lihn or Peter B. Kahn, Economic and Market Analysis Division, Office of Economic Affairs, Office of Policy Development and Research, telephone 202-402-2409. Persons with hearing or speech impairments may access this number through TTY by calling the toll-free Federal Relay Service at 800-877-8339 (toll-free).

Questions related to use of FMRs or voucher payment standards should be directed to the respective local HUD program staff.

For technical information on the methodology used to develop FMRs or a listing of all FMRs, please call the HUD USER information line at 800-245-2691 (toll-free) or access the information on the HUD USER website: <http://www.huduser.gov/portal/datasets/fmr.html>.

FMRs are listed at the 40th or 50th percentile in Schedule B. For informational purposes, 40th percentile recent-mover rents for the areas with 50th percentile FMRs will be provided in the HUD FY 2018 FMR documentation system at

https://www.huduser.gov/portal/datasets/fmr.html#2018_query and 50th percentile rents for all FMR areas are published at <http://www.huduser.gov/portal/datasets/50per.html>.

SUPPLEMENTARY INFORMATION: On September 1, 2017 HUD published the FY 2018 FMRs, requesting comments on the FY 2018 FMRs, and outlining procedures for requesting a reevaluation of an area's FY 2018 FMRs (82 FR 41637). This notice revises FY 2018 FMRs for eight areas that requested reevaluation and provided data to HUD to allow for a reevaluation, and provides responses to the public comments HUD received on the previous notice referenced above.

I. Revised FY 2018 FMRs

The FMRs appearing in the following table supersede the use of the FY 2017 FMRs for these eight areas. The updated FY 2018 FMRs are based on surveys conducted by the area public housing agencies (PHAs) and reflect the estimated 40th percentile rent levels trended to April 1, 2018.

The FMRs for the affected area are revised as follows:

	FMR by Number of Bedrooms in Unit				
2018 Fair Market Rent Area	0 BR	1 BR	2 BR	3 BR	4 BR
Hawaii County, HI	877	1009	1322	1663	1936
Hood River County, OR	696	901	1090	1586	1739
Jonesboro, AR, HMFA	493	613	743	1046	1047
Santa Cruz-Watsonville, CA MSA	1253	1477	1965	2615	2961
Santa Maria-Santa Barbara, CA MSA	1393	1636	1917	2603	3030
Seattle-Bellevue, WA HMFA	1363	1529	1878	2719	3219
Urban Honolulu, HI MSA	1352	1527	2031	2954	3525
Wasco County, OR	708	798	1062	1440	1835

The FY 2018 FMRs are amended and are available on the HUD USER website:
<http://www.huduser.gov/portal/datasets/fmr.html>. The FY 2018 Small Area FMRs (SAFMRs)
for the revised metropolitan areas have also been updated and may be found at
<https://www.huduser.gov/portal/datasets/fmr/smallarea/index.html>.

II. Public Comments on FY 2018 FMRs

A total of 18 comments were received and posted on regulations.gov,
<https://www.regulations.gov/docketBrowser?rpp=25&so=DESC&sb=commentDueDate&po=0&dct=PS&D=HUD-2017-0051>. Fifteen of these comments were requests for reevaluation of the
FY 2018 FMRs. HUD granted requests for reevaluation for 13 FMR areas, and rejected one
area's request, by Department of Human Services for Monmouth County, NJ, because this
requestor did not administer at least half of the housing choice voucher families as required.
HUD discussed these requests for reevaluation in a posting available at

https://www.huduser.gov/portal/datasets/fmr.html#2018_data.

These 13 areas continued to use FY 2017 FMRs until the PHAs provided local survey rent data, which was due no later than January 5, 2018. Only eight of these 13 areas have continued to use FY 2017 FMRs because they provided sufficient data. HUD published a list of the five FMR areas not providing data on January 8, 2018 stating that the FY 2018 FMRs become applicable on January 8, 2018 (https://www.huduser.gov/portal/datasets/fmr.html#2018_data). This notice provides the reevaluated FY 2018 FMRs for these eight areas.

General Comments

Most of the comments discussed inaccuracies of the FMRs and a need for more current and local data. There were also comments on HUD's methodology, especially HUD's failure to use more local forecasts for the trend factor and a request to use vacancy data to adjust FMRs. Several commenters also asked HUD to agree to use FMRs revised by PHA surveys for three years as FMRs and as an input to the Renewal Funding Inflation Factors. These comments and their responses are discussed in greater detail below.

Comment: FMRs do not represent accurate on-the-ground rental market prices. The accuracy of FMRs is a function of the underlying data set and the methodology used to convert the data set to the FMRs, and the source of the data is unchanged from last year. More current and more local data should be used.

HUD Response: The American Community Survey (ACS) continues to be the primary source of gross rent data used in the calculation of the FMRs as it is the only known statistically reliable data source that provides comprehensive information on gross rents paid collected in a consistent manner nationwide. The ACS data HUD acquires is adjusted for housing quality and calculated at the 40th percentile rent for the FMR areas. HUD does point out that the data used

to calculate FY 2018 FMRs is one year more current than the data used to calculate FY 2017 FMRs. HUD uses the most current ACS data available when calculating the FMRs. As an example, consider the publication timeline for the FY 2018 FMRs. The FY 2018 FMRs were calculated in June and July of 2017 for publication by September 2017, but the 2016 ACS data was not released until September through December of 2017. Therefore, during calculation of FY 2018 FMRs, the 2015 ACS data was the most current available ACS data. FMRs use a 40th percentile standard quality gross rent paid by recent movers, which requires a special tabulation from the Census that is provided by June of the year following the release of the data. HUD augments the most current available ACS data with the annual change in gross rents measured by the Bureau of Labor Statistics' Consumer Price Index (CPI), measured between 2015 and 2016 for the FY 2018 FMR, and a forecasted trend factor to align the calculated FMRs with the Fiscal Year for which the FMRs are applicable.

Comment: HUD should use local and regional forecasts of the CPI rather than national forecasts.

HUD Response: HUD has evaluated the use of more local forecasts for a trend factor, but has only been able to develop forecasts based on national inputs. The lack of consistent local data reduces the effectiveness of the local forecast.

Comment: HUD's use of Office of Management and Budget (OMB) metropolitan area definitions continues to be a problem in setting FMRs. HUD should not have changed the area definitions in FY 2006 based on the new OMB definitions and this change is continued through the changes to area definitions for FY 2016. HUD has the discretion to not accept the OMB definition changes and should exercise this discretion rather than continue to follow its past practice of updating area definitions with the OMB changes.

HUD Response: While the commenter is correct that HUD is not required to adopt OMB metropolitan area definitions for the calculation of FMRs, HUD believes there are compelling reasons to continue to use these area definitions. OMB defines metropolitan areas primarily based on commuting interchange patterns that also offer a good approximation of areas within which housing units are in competition with one another. These patterns change over time with growth and decline in jobs and populations. HUD's use of updated OMB metropolitan area definitions in estimating FMRs recognizes these changes in housing markets. The commuting interchange patterns coupled with other factors comprise the standards that have come to be known as "core based statistical areas" (75 FR 37246)¹. The core based statistical areas are the metropolitan and micropolitan statistical areas published by OMB. For the purposes of calculating and publishing FMRs, HUD uses the metropolitan statistical areas (and subdivisions thereof) delineated using the core based statistical area standards.

Further, the accuracy of the annual FMR values lies in the accuracy of the underlying statistical information used to calculate the FMRs. As HUD has established numerous times, the only known source of information on gross rents paid that is collected and distributed in a consistent manner across the country is the American Community Survey (ACS). As stated by OMB, "The purpose of the Metropolitan and Micropolitan Statistical Area standards is to provide nationally consistent delineations for collecting, tabulating, and publishing Federal statistics for a set of geographic areas" (75 FR 37249). The ACS uses the OMB metropolitan area definitions in collecting its rent (and other) data. Therefore, it is imperative that HUD continue to base the FMR calculations on OMB metropolitan area definitions, as updated.

The commenter also asserts that HUD's continued use of OMB metropolitan area

¹ 2010 Standards for Delineating Metropolitan and Micropolitan Statistical Areas; Notice. Federal Register, June 28, 2010.

definitions “remain one of the biggest contributors to erratic and by extension inaccurate FMR and SAFMR estimates.” HUD has employed numerous strategies to address the accuracy and to attenuate the variability in the FMRs precisely due to changes in metropolitan area definitions. For example, HUD modified the OMB-defined metropolitan areas in the FY 2006 FMR implementation if the underlying gross rent or area median family income data exhibited more than a five percent difference in the subject area’s FMR or area median family income calculation. More recently, HUD has discontinued the practice of using metropolitan area wide base rents, when local values are statistically reliable, for counties newly added to metropolitan areas. HUD uses data specific to the county when available and uses the smallest encompassing geography for recent mover gross rent update factors and CPI update factors when local data is not available.

Comment: HUD should use more timely data when calculating FMRs. HUD should work to develop a method to incorporate more recent data into its published FMRs rather than continue to rely on PHA-funded studies to correct inaccuracies in FMRs. PHAs are not well suited to conduct surveys and compile sophisticated statistical analyses. This is a function that would be better suited for HUD’s Office of Policy Development and Research (PD&R).

HUD Response: There is no other data on gross rents paid that is consistently collected on a nationwide basis, available to HUD, that is more current than the data we receive from the ACS dataset. HUD recognizes the housing quality data limitations of the ACS dataset and uses a combination of ACS survey responses and a public housing “cut-off” rent calculated from HUD administrative data to identify and eliminate these low rent units from the distribution of gross rents paid before a 40th percentile rent is calculated. Propriety rental data cannot be used in establishing FMRs because it is not consistently available for all areas and is not statistically

representative of the market it covers. Some of these sources focus on rents for major apartment projects only. Other sources that include single family homes, which are at least 30 percent of the rental market in major metropolitan areas and a greater portion in rural areas, are typically compiled from internet-based ads. These online listings of rents are akin to newspaper ads and newspaper ads have been excluded as a source of rent data for FMRs since the mid-1980s due to a directive issued by HUD's Inspector General.

HUD currently lacks funding to conduct surveys of area rents to adjust FMRs. HUD would need to obtain budget authority to conduct surveys as well as OMB approval under the Paperwork Reduction Act for the survey mechanism. HUD is subject to stricter federal rules for conducting surveys than PHAs, which means that it would take longer for HUD to pass these hurdles before being able to conduct surveys. HUD would also likely have to weigh competing needs for surveys based on a limited budget. HUD has provided technical assistance, significant at times, in compiling and analyzing the data collected by PHAs.

Comment: Allow PHAs to use other survey methodologies for at least half of the FMR Area. HUD should allow PHAs to conduct valid rent studies for their portion of an FMR area for the purposes of appealing the portion of the FMR in their service area and for RFIF purposes. These agencies do not have the necessary funding to conduct or secure services to conduct rental market survey for the entire FMR area.

HUD Response: FMRs are area-wide assessments of the 40th percentile of gross rents paid by recent movers for standard quality housing units. Surveys or other methods of collecting data in a portion of the metropolitan area may not be representative of rents across the entire area. Issues pertaining to FMRs in portions of the FMR area are best addressed through Exception Payment Standards which are defined at 24 CFR 982.503. HUD requires PHAs

representing at least half of the voucher holders in a given FMR area to acknowledge and agree that a survey is necessary because the FMR directly impacts the PHAs' administration of their HCV program. HUD includes this requirement to ensure that the decision to request an FMR reevaluation is supported by PHAs that administer at least half of the vouchers under lease in the metropolitan area.

Comment: HUD should use valid rent studies in FMRs, small area FMRs (SAFMRs) and renewal funding inflation factors (RFIF) for three years. Depending on the date on which HUD approved a PHA's rent survey, HUD's use of that data in subsequent years resulted in a dilution of its value for purposes of determining RFIFs for areas.

HUD Response: HUD will use the rent surveys conducted by PHAs to modify FMRs for such time until the majority of the ACS data supersedes the survey. For a large metropolitan area where the FMR is estimated from local one-year ACS data, the survey can be used until the ACS data is of the same year (for those conducted up through June), and in the following year for those conducted from July and on. For smaller areas that rely on five-year ACS data, they will continue to have FMRs based on the local survey until more than half of the five-year ACS data is newer, which means they will be used for more than three years.

Historically, HUD has included survey-based FMRs in the next RFIF calculation following the applicability date of the newly revised FMRs. In some cases, the year of the RFIF containing the initial survey based FMR matches the year of the first implementation of the survey and in other cases the survey based FMR is included in the following year's RFIF calculation. Regardless of when the survey based FMR is included in the RFIF calculation, the survey-based FMRs remain part of the calculation until the survey is no longer used in the calculation of the FMRs.

Comment: PHAs should freeze FMRs and payment standards during FMR appeals.

PHAs should be awarded HAP funds upon successful appeal of changes to the HUD-approved inflation factor adjustment.

HUD Response: The Housing Opportunities Through Modernization Act (HOTMA) specifies that newly posted FMRs do not go into effect in areas that have initiated valid reevaluation requests. Existing FMRs remain in effect until the reevaluation process is complete and reevaluated FMRs have been posted and become applicable. With regards to the portion of the comment concerning the awarding of HAP funds, reevaluated FMRs are included in the next calculation of RFIFs following the end of the reevaluation process. Should the renewal funding calculations and awards occur before the reevaluation process is complete, under current HUD policy, the survey-based FMR increase is incorporated into the calculation of the RFIFs in the following year.

Comment: HUD should request a reallocation of a portion of the \$41.5 million that the Department receives so that it can begin to conduct its own rent studies.

HUD Response: The budget item of \$41.5 million covers the cost of conducting the American Housing Survey, the Survey of Construction, the Survey of Market Absorption, the Rental Housing Finance Survey, and the Manufactured Housing Placement Survey. There are no excess funds in that amount that could be used to conduct area rent surveys to adjust FMRs, so additional funds would have to be made available for area rent surveys. HUD would also need a contract to spend these additional funds for surveys and would have to receive approval under the Paperwork Reduction Act from OMB (required for any data collection activity of 10 or more respondents (in this case tenants)).

Comment: For certain rural areas the FMR is too high.

HUD Response: Unfortunately, in many cases these are small areas that do not have enough ACS data for locally calculated FMRs. These areas typically have FMRs set at the state minimum FMR. Where available, HUD publishes the rents below the state minimum for use as public housing flat rents. A PHA that believes the FMR for a rural county is too high for purposes of HCV administration may request HUD approval to establish a payment standard lower than the basic range in accordance with 24 CFR 982.503(d).

Comment: The zero bedroom and one-bedroom FMRs are the same. Please verify.

HUD Response: This is correct. HUD does not allow the zero-bedroom FMR to be greater than the one-bedroom FMR, so where it would be higher, it is set at the one-bedroom FMR. Zero-bedroom units, or efficiencies, represent a much smaller segment of the rental market population than one-bedroom units and their rents may be skewed in some areas by a preponderance of the units in newer buildings and/or buildings with better amenities.

Comment: Small Area FMRs should not be required. SAFMRs will increase the complexity in administering the voucher program by increasing the number of payment schedules. Also, many ZIP Codes where voucher holders live have lower SAFMRs that will force voucher holders out of neighborhoods where they have lived their entire lives to areas away from their support groups.

HUD Response: Small Area FMRs (SAFMRs) are required in the administration of the housing choice voucher (HCV) program in a limited number of metropolitan areas where voucher holders are highly concentrated in areas of concentrated low income and where SAFMRs are likely to be an effective tool in helping HCV holders access units in higher opportunity areas.

HUD included provisions in the SAFMR rule to provide PHAs the ability to maintain

payment standards at current levels for in-place tenants should the PHA choose to do so.

To assist with the administrative complexity of converting to SAFMRs, HUD has tasked a Technical Assistance provider to develop training materials and to conduct in-person trainings for all PHAs who are required to implement SAFMRs.

III. Environmental Impact

This Notice makes changes in FMRs for two FMR areas and does not constitute a development decision affecting the physical condition of specific project areas or building sites. Accordingly, under 24 CFR 50.19(c)(6), this Notice is categorically excluded from environmental review under the National Environmental Policy Act of 1969 (42 U.S.C. 4321).

Dated: February 13, 2018.

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Secretary, Office of Policy Development,
Office of Policy Development and
Research.

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