June 26, 2017

Regulations Division
Office of General Counsel
Department of Housing and Urban Development
451 7th Street, SW, Room 10276
Washington, DC 20410-0500

Re: [Docket No. FR-6021-N-01] Proposed Changes to the Methodology Used for Estimating Fair Market Rents

To Whom It May Concern:

On behalf of the National Association of Housing and Redevelopment Officials (NAHRO), I would like to offer the following comments to the United States Department of Housing and Urban Development (HUD or the Department) in response to the notice of proposed material changes for estimation of Fair Market Rents (FMRs) titled “Proposed Changes to the Methodology Used for Estimating Fair Market Rents” published in the Federal Register on May 26, 2017.2

Formed in 1933, NAHRO represents over 23,000 housing and community development individuals and agencies. Collectively, our members manage over 970,000 public housing units, 1.7 million Housing Choice Vouchers, and receive over $1.5 billion in Community Development Block Grant (CDBG) and HOME Investment Partnerships (HOME) Program funding to use in their communities. NAHRO is unique in our ability to represent Public Housing Agencies, Local Redevelopment Agencies, and other HUD grantees of all sizes and geography.

NAHRO is cautiously optimistic about the changes that HUD is proposing to make to the methodology used in calculating FMRs. NAHRO is pleased that HUD acknowledges that “extreme year-to-year fluctuations in FMRs can cause difficulties in program operations.”3 NAHRO is also pleased that HUD acknowledges that “FMRs are either not timely enough or not based on enough local information.”4 NAHRO encourages HUD to continue to refine its methods for FMR calculation so that published FMRs better represent actual prices in rental markets and so that vulnerable households are not additionally cost-burdened.

1 All citations are informal.

Stephen W. Merritt, PHM, President; Carl S. Richie, Jr., NCC, NAHRO Fellow, Senior Vice President; Julie Brewen, Vice President-International Research and Global Exchange; Donna Brown-Rega, Vice President-Member Services; Donovan Duncan, Vice President-Community Revitalization and Development; Duane Hopkins, Vice President-Professional Development; Richard Leco, PHM, Vice President-Commissioners; Regina Mitchell, SPHM, PHM, Vice President-Housing; Adrianne Todman, Chief Executive Officer.

e-mail: nahro@nahro.org

website: www.nahro.org
While fluctuations of FMRs and inaccurate FMRs are both problems, there are now statutory tools that Congress has given to PHAs to help mitigate the former problem (i.e., the harmful effects of volatile FMRs). With the passage of the Housing Opportunity Through Modernization Act of 2016, Congress gave PHAs the ability to hold harmless payment standards when the FMRs they are based on decrease. In some instances, this provision enables PHAs to potentially mitigate some of the harmful effects of erratic or volatile FMRs. Of course, while necessary, this provision is not sufficient to ensure smooth functioning of the Housing Choice Voucher Program, which still requires accurate FMRs that are not volatile over the span of a few years.

HUD is considering three material changes to the calculation of FMRs. First, HUD would add a second statistical validity check on base year rents before using them in calculating FMRs. Second, HUD would also add a second statistical check to the recent mover factor data (which is used to update base year rents), and HUD would like to use all-bedroom data before switching to a larger geographic area. Third, for Small Area FMRs, HUD would like to add a statistical check and calculate Small Area FMRs directly from the data in Zip-Code Tabulation Areas (ZCTA), instead of using its previous rent ratio methods. HUD also proposes to use one-bedroom or three-bedroom rents, if the two-bedroom rent data is not statistically reliable in the ZCTAs before switching back to the rent ratio method. Finally, HUD also proposes to link the ZCTA to the parent metropolitan area (HUD Metropolitan Fair Market Rent Area) as opposed to the Core Based-Statistical Area the ZCTA is currently linked to.

It appears that HUD is trying to identify areas with statistically reliable data and then use the most recent data from those areas (as opposed to multiple-year averages) to calculate FMRs. It also appears that HUD is trying to use data from local geographies (whether it is one-bedroom or three-bedroom data) before switching to broader geographies to once again increase the accuracy of FMRs. At this time, NAHRO thinks that these steps are appropriate ways to try to refine FMR methodology. NAHRO does note that the underlying constraint, the quality of the data, is the limiting factor in creating accurate FMRs.

NAHRO encourages HUD to calculate the costs of gathering its own national survey data to create accurate FMRs and to publish this on the HUDUser website. NAHRO also encourages HUD to ask for funding to properly gather the appropriate data in its next budget request.

This letter mirrors the structure of the Department’s notice. It briefly provides a description of each change and then offers NAHRO’s commentary on the change. Finally, it concludes by restating the recommendation above.

**Base Year Rent Changes**

HUD currently uses 5-year American Community Survey (ACS) data to determine base rents for most FMR areas. Before HUD uses the ACS estimates for two-bedroom unit rents within the FMR area, HUD checks the statistical validity of the data by only using ACS estimates for two-bedroom unit rents that are in FMR areas where the margin of error is less than 50 percent. HUD is proposing to add a second test of statistical validity by only using ACS estimates of two-bedroom unit rents where there are more than 100 observations. For areas that do not pass this two-step statistical reliability test, HUD will use an average of the base rents over the three most recent years (if there’s data for at least 2 of those years). If that data is not available, then HUD will use data for the next largest geographical area.

---

As NAHRO understands this change to the methodology, it appears that HUD is trying to increase the accuracy of FMRs, while making sure the FMRs are not volatile because of a few outlier observations. By only using single-year base rent estimates that include at least 100 observations, there is a smaller likelihood that outlier observations will throw off any particular estimate. In these instances, where the data is (relatively) reliable, using the latest data (as opposed to three-year averages) ensures greater accuracy in FMRs. In those instances, where the data is not statistically reliable, HUD uses three-year averages to once again ensure that outlier observations do not have a disproportionate effect on the final FMR. NAHRO thinks that this may be a sensible change and is cautiously optimistic that it will increase the accuracy of those FMRs that are calculated without the three-year averages, without unduly increasing the volatility of those FMRs.⁶

Recent Mover Factor Changes

In calculating FMRs, HUD updates the base year rents with a recent mover factor (if the recent mover factor is greater than the two-bedroom, standard quality 5-year ACS gross estimate). In gathering recent mover factor data, HUD starts with as small a geography that passes its statistical reliability test, but switches to a larger geographic area, if the smaller area does not meet the statistical reliability test. HUD would like to, again, add a second statistical reliability test so that HUD only uses recent mover data with at least 100 observations. Additionally, HUD proposes that before using data from a larger geographic area, HUD checks to see if data aggregated across “all-bedroom” count units is statistically reliable for the FMR area. If it is, HUD would like to use this data. HUD believes that this will preserve the use of local data when possible.

NAHRO, again, believes that these are both reasonable changes in calculating the recent mover factor. Adding a second statistical reliability check (i.e., making sure there are at least a 100 observations) helps ensure greater accuracy by using the latest available data when possible (without averaging prior years), while reducing volatility by limiting the effect of outlier observations. Then checking to see if the “all-bedroom” count units is statistically reliable will allow the use of local data before switching to a broader geography, again potentially increasing accuracy by focusing on local data when possible. Again, NAHRO is cautiously optimistic that this will lead to more accurate FMRs without increasing volatility.

Small Area FMR Methodology Changes

Currently, in calculating Small Area FMRs, HUD calculates a rent ratio by dividing the median gross rent across all bedrooms for the Small Area ZCTAs by the median gross rent of the parent metropolitan area. To reduce volatility, HUD averages the three most current ratios and multiplies this ratio against the most recent two-bedroom FMR for the parent metropolitan area.

HUD’s first proposed change is to calculate Small Area FMRs directly from the standard quality gross rents provided to HUD by the Census Bureau that are statistically reliable. HUD proposes to use the same tests as described above to determine statistical reliability (i.e., a margin of error less than 50 percent and using data with at least 100 observations). HUD also proposes to use two-bedroom gross rents, then one-bedroom gross rents, and then three-bedroom gross rents, if the two-bedroom gross rent data is not statistically reliable, then HUD will use the one-bedroom or three-bedroom gross rents and convert it to a

---

⁶ NAHRO does question the usefulness of the first test of statistical validity. How useful is data that has a margin of error of 49 percent or 30 percent? At the same time, NAHRO understands that this is best available data to which HUD has access.
two-bedroom rent and will average the latest three years of gross rents for stability. If none of those options have reliable data, then HUD will continue using the rent ratio method.

Finally, HUD proposes to link the ZCTA to the parent metropolitan area (HUD Metropolitan Fair Market Rent Area) as opposed to the Core Based-Statistical Area the ZCTA is currently linked to. If no HUD Metropolitan Fair Market Rent Area exists, then HUD will continue to link the ZCTA to the Core Based Statistical Area.

Again, NAHRO is cautiously optimistic about all three of these changes. Using a more rigorous statistical check will hopefully provide a check against outliers skewing data. Using local data by using one-bedroom or three-bedroom rates to calculate two-bedroom rates when the two bedroom rate is not statistically reliable will allow for the use of more local data in more situations hopefully ensuring greater local accuracy of small area FMRs. Finally, linking the ZCTA to the HUD Metropolitan Fair Market Rent Area when possible, instead of the CBSA, will again ensure more local data is used, hopefully creating more accurate Small Area FMRs.

From NAHRO’s perspective, it appears that the lack of quality national data is the limiting factor in producing accurate FMRs. Though HUD is doing its best to compensate with methodological changes, these will never be a good substitute for appropriate data. For this reason, NAHRO encourages HUD to calculate the costs of gathering its own national survey data to create accurate FMRs and to publish this on the HUDUser website. NAHRO also encourages HUD to ask for funding to properly gather the appropriate data in its next budget request.

NAHRO greatly appreciates the Department seeking input for these material changes in calculating FMRs. If the Department has any additional questions or concerns about this comment letter, please do not hesitate to contact us.

Sincerely,

Tushar Gurjal
Policy Analyst, Section 8 Programs