July 5, 2019

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

Re: [Docket No. FR-6161-N-01] Proposed Changes to the Methodology Used for Estimating Fair Market Rents¹

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 titled “Proposed Changes to the Methodology Used for Estimating Fair Market Rents” published in the Federal Register on Wednesday, June 5, 2019.

Formed in 1933, NAHRO represents over 20,000 housing and community development individuals and agencies. Collectively, our members manage over 970,000 public housing units, 1.7 million Housing Choice Vouchers (HCVs), 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 has the unique ability to represent public housing agencies, local redevelopment agencies, and other HUD grantees of all sizes and geography.

Following a brief introduction, this letter is divided into two brief sections. The first section provides a background on recent methodological and administrative changes to FMRs and payment standards and summarizes the current proposed methodological changes to FMRs. The second section provides NAHRO’s recommendations.

Background
In the past, NAHRO has had two primary issues with the calculation of FMRs. First, NAHRO did not believe that the published FMRs accurately represented on-the-ground rental market conditions. Second, NAHRO was concerned about the volatility of the FMRs, which made program planning difficult.

One of the complaints of many of NAHRO’s members was that the FMRs did not represent accurate on-the-ground rental market prices. This is especially true in rapidly gentrifying metropolitan areas, where the FMRs tended to lag behind the true market rental prices in certain neighborhoods. This discrepancy between the actual rental prices and the FMRs resulted in payment standards which were set too low causing voucher success rates to be lower. Additionally, these inaccurate FMRs have the potential to additionally cost burden families. In areas where the published FMRs are too high relative to actual market costs, PHAs¹ per voucher HAP costs increase, resulting in fewer households being served.

¹ All citations are informal.

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The second primary complaint from NAHRO’s members was the excessive volatility of the FMRs. Members noted that FMRs could have extreme shifts from year to year. This created a system where program planning was extremely difficult because it was impossible to know how much an FMR would shift, which could cause a change in payment standards and potentially cost burden a family.

To its credit, HUD has partially alleviated these problems in recent years. In 2016, HUD adopted a “forward trending” methodology, which may create FMRs that better represent accurate true market rental prices.\(^2\) Previously, HUD trended forward looking at variables in the past. The Department also adopted methodological changes in how it calculates Small Area FMRs.\(^3\) NAHRO was cautiously optimistic that those changes would result in more accurate Small Area FMRs.\(^4\) While NAHRO believes that there’s still more work to be done before FMRs fully represent the true market rental prices, NAHRO does acknowledge and commend the steps that HUD has taken in response to NAHRO’s prior comment letters to mitigate the deleterious effects of this issue.

The Department has also addressed the volatility concern. Fair Market Rents and Small Area FMRs no longer decline by more than 10 percent from one year to the next.\(^5\) Additionally, in those instances where FMRs do decline, housing agencies have the option to hold harmless those payment standards for current program participants.\(^6\) Housing agencies also have the ability to either lower payment standards within the range of the lowered FMR or to lower payment standards to some intermediate range between the old FMR and the new lower FMR.\(^7\) All of these provisions have helped to address the volatility concern by limiting decreases in FMRs and giving PHAs options for how payment standards can be lowered to follow the FMR.

On August 31, 2018, HUD published the Fiscal Year (FY) 2019 FMRs on their website, and announced its publication in a notice in the Federal Register. In the notice, HUD noted that the new FMRs were calculated using the same methodology that the FY 2018 FMRs used. The notice also noted that calculation of Renewal Funding Inflation Factors (RFIFs)—the inflation factor used to inflate eligible renewal funding from one year to the next—would still be calculated using FMRs based on research surveys.

On June 5, 2019, HUD published a notice in the Federal Register titled “Proposed Changes to the Methodology Used for Estimating Fair Market Rents.”\(^8\) Currently, HUD calculates FMRs by using American Community Survey (ACS) data to calculate a gross rent (shelter rent plus utilities) for the year three years before the fiscal year of the new FMRs are published (e.g., ACS data is used to calculate the gross rent for 2017 for the FY 2020 FMRs). The Department then updates this gross rent through the end of the next year using the annual change in certain components of the Consumer Price Index (CPI). Finally, the Department uses a trend factor (incorporating assumptions from the President’s Budget) to estimate the final FMRs. In using a trend factor, the Department utilizes a forecast of the Gross Rent Index. The forecast of the Gross Rent Index “is made up of two independently

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\(^6\) The statutory authority for this provision comes from the Housing Opportunity Through Modernization Act of 2016 (HOTMA), while the regulatory implementation occurred in the final Small Area FMR rule.

\(^7\) The final Small Area FMR rule added these additional options beyond the “hold harmless” option outlined in the HOTMA legislation.

forecasted components of the Consumer Price Index: “Housing, Shelter, Rent of Primary Residence” and “Housing, Fuels and Utilities.” The forecasts are combined “using long-term average expenditure combination factors of approximately 80 percent and 20 percent.” This method is used for certain areas where the model can produce reliable forecasts. Other areas use a regionally based local trend factor.

**Three Models**

The Department is considering using one of three models to update the Gross Rent Index depending on the region and whether the model provides reliable forecasts in a particular region. These models were examined by a multidisciplinary HUD research team.⁹

- **National Input Model (NIM)** – this model would incorporate a forecast of national residential fixed investment from the Bureau of Economic Analysis National Income and Product Accounts into the “Housing, Shelter, Rent of Primary Residence” component of the Gross Rent Index. The NIM did not produce as good results for the “Housing, Fuels and Utilities” component of the Gross Rent Index.

- **Pure Time Series (PTS)** – for forecasting the “Housing, Fuels and Utilities” component of the Gross Rent Index, the PTS model—using previous values of local fuel and utilities index—produced the best results in certain areas.

- **Local Input Model (LIM)** – a Local Input Model where forecasts are based on exogeneous variables (i.e., variables whose value is determined outside the model) such as local building permit data and employment data for the “Housing, Shelter, Rent of Primary Residence” and electricity prices for “Housing, Fuels and Utilities” components.

While the research team recommended that HUD use the National Input Model for primary residence rental calculation and Pure Time Series model for the forecast of the fuels and utilities, HUD would like to choose to use a different model depending on the location, in the hope that a particular model for a particular location will provide the most accurate forecast. The Department will include the model specification it uses to calculate local trend factors for each area in the online Fair Market Rent Documentation System.

**Changes to Small Area FMR Methodology**

Currently, when calculating small area FMRs (FMRs calculated over zip code geographies), where zip code level estimates are not available, HUD assigns a small area FMR based on the estimate of the gross rent for the county. This has the effect of producing small area FMRs based on much larger geographies, which are not accurate for the zip code over which the small area FMR is produced.

The Department is proposing to change this. In those areas where there are not zip code level estimates—i.e., zip code tabulation areas (ZCTA) do not have reliable data—HUD will see if the ZCTA is bordered by ZCTAs with reliable data. If half of these neighboring ZCTAs have reliable data, then HUD will use the weighted average as the basis for the small area FMR estimate.

**NAHRO’s Recommendations**

The National Association of Housing and Redevelopment Officials, as it has in the past when HUD has made changes to its trending methodology (e.g., in 2016), is cautiously optimistic that the changes will lead to more accurate FMRs. Nonetheless, NAHRO has some recommendations moving forward.

**Publish all the data from the different methodologies**

The National Association of Housing and Redevelopment Officials believes that all of the applicable models should be applied to each geographic area for which there is data available and the FMRs using all of the methods should be published on HUD’s website. While in most instances, it may be true that HUD’s staff will pick the appropriate

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methodology for each geographic area, there should be transparency about other estimated FMRs that HUD may have picked. A PHA or another entity that relies on FMRs may be able to make a case for the use of another FMR for their geographic area.

Provide Funding for Research Surveys
As previously asked in prior comment letters, the Department should provide funding to PHAs that wish to conduct research surveys to help in recalculating their FMRs. Although several of NAHRO’s members regularly conduct these surveys, we are certain that more would like to as well, but are unable to because of financial constraints. While it is true that Congress controls the amount of funding that HUD receives, HUD can still request additional funding for this purpose in its Presidential budget. The National Association of Housing and Redevelopment Officials urges HUD to request this funding from Congress to ensure more accurate FMRs in those jurisdictions where FMRs are typically underreporting true rental prices.

The National Association of Housing and Redevelopment Officials has made this recommendation previously. To our knowledge, the Department has not responded to this recommendation. We remind the Department that responding to each argument within comment letters ensures that the Department’s actions are not arbitrary and capricious. Specifically, the Department should respond as to why it has not provided funding in the President’s proposed budget (NAHRO understands any final budget is controlled by Congress).

Additionally, the Department should consider proposing in its President’s budget statutory language that would allow for special administrative fees to be used for funding research surveys.

Continue to Refine its Methodology for Calculating FMRs
As previously mentioned in prior comment letters, NAHRO was pleased that HUD “replaced the historical-based annualized change in gross rent trend factor with a forward-looking forecast.” Using “national forecasts of the rent and utility components of [the Consumer Price Index]” makes more sense in calculating FMRs than looking to the past and trending forward. We are cautiously optimistic about the use of local data in the most recent notice. As NAHRO has previously stated, HUD should continue to think innovatively about ways that it can change the methodology to accurately capture rental prices. Each methodological change that brings HUD’s FMRs closer to actual rental prices results in much better on-the-ground results for the HCV program participants.

Evaluating the New FMR Methodology
Since ACS data is the most accurate national data set available, HUD should focus its evaluation on the non-ACS portions of the FMR (i.e., the inflation and trend factors). Evaluating the non-ACS components of the FMR can be achieved by comparing FMRs with prior ACS estimates of the 40th percentile gross rent. Although there will be a lag between when the FMR is published and the appropriate ACS estimate is ready, this can be worked around by applying the new methodology to past data and comparing it with past ACS estimates. Additionally, NAHRO recommends that HUD define an acceptable methodology as one that has fewer than 3 percent of areas that are not within the payment standard range of the FMRs for the previous 5 years. The Department should continue to restrict the comparison to areas that 1) have a margin of error that is less than 50 percent of the estimate and 2) have an estimate that must be based on at least 100 survey cases.

New Administrative Mechanisms to Cope with Inaccurate FMRs
The National Association of Housing and Redevelopment Officials strongly agrees with HUD’s suggestion to Congress that “future efforts may need to focus . . . more on devising new administrative mechanisms to cope with

market volatility and on improving tools such as additional payment standard flexibilities.”

We recommend that HUD look into expanding the payment standard range. It is currently set at between 90 percent to 110 percent of the FMR. We recommend that HUD look at expanding it (without the use of a waiver) to 70 percent to 130 percent of the FMR; 80 percent to 120 percent of the FMR; or 85 percent to 115 percent of the FMR. The Department can check the efficacy of the expanded range by evaluating the expanded payment ranges the same way it would evaluate a new FMR methodology (by comparing it to ACS estimates to see what percentage of the ACS estimates fall within the FMRs with expanded payment ranges). While a statutory change is required to enact the new payment range, HUD should publish this comparison on its website and provide a report to Congress. Additionally, in its next President’s budget, if the payment standard change comparison is favorable, HUD should propose the statutory change.

As always, NAHRO greatly appreciates the opportunity to comment on these proposed methodological changes for FMRs. We look forward to working with HUD in the future to further refine the Department’s methodology to ensure the greatest accuracy in calculating FMRs.

Sincerely,

Tushar Gurjal
Policy Analyst

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