Fair Market Rents

Fair Market Rents (FMRs) are used, among other things, to determine payment standard amounts for the Housing Choice Voucher (HCV) program. FMRs are gross rent estimates that include shelter plus utilities (though they exclude tenant-paid utilities like telephone service). Normally, they are set at the 40th percentile rent (the dollar amount below which 40 percent of the standard quality rental units are rented).

In previous years, two major concerns about FMRs were that they were inaccurate and excessively volatile. The concern about inaccuracy still remains, as does the concern about excessive volatility, although the latter concern has been partially alleviated by the passage of the Housing Opportunity Through Modernization Act of 2016 (HOTMA) and changes made by the new Small Area FMR rule. Creating accurate and stable FMRs would greatly enhance the efficacy of the HCV program.

As in previous years, NAHRO does not believe that the FMRs 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. The source of the data remains the same as last year.

Inaccurate FMRs can lead to additional programmatic costs. In instances where a PHA believes that its FMRs are inaccurate, it is faced with the additional burden of having to apply for waivers from HUD for exception payment standards, though there is no guarantee that HUD will approve them. While HUD has made it easier to utilize higher payment standards in some instances (e.g., when the household is serving a person with a disability), the best solution is not exception payment standards, but rather accurate FMRs.

NAHRO is cautiously optimistic about the changes that HUD has made to the methodology used in calculating FMRs, including additional statistical checks to provide a buffer against outlier data. NAHRO is pleased that HUD acknowledges that “FMRs are either not timely enough or not based on enough local information.” NAHRO encourages HUD to continue to refine its methods for FMR calculation so that published FMRs better represent actual prices in rental.

Another, now partially alleviated, concern regarding FMRs is their year-to-year volatility. There is a provision in HOTMA that allows PHAs to hold harmless payment standards when there has been a reduction in an area’s FMR partially alleviates some concerns about volatility. The new Small Area FMR rule also has a provision that limits decreases in FMRs (and Small Area FMRs) to no more than 10 percent a year, which is also helpful in reducing volatility. Another Small Area FMR rule provision allows a PHA to lower a payment standard if the FMR (or Small Area FMR) is reduced, but not all the way to within the new range of the new FMR (or Small Area FMR).

While the HOTMA provision is welcome, it does not completely solve the problems associated with volatility. Reforming the FMR methodology to ensure smaller year-to-year shifts in FMRs is still required. HUD has previously indicated that it takes FMR volatility seriously, and it should continue to think about ways that it can reduce volatility.


**ADDITIONAL RESOURCES:**
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