



National Association of Housing and Redevelopment Officials

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July 06, 2018

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

Re: [Docket No. FR--6099-N--01] Section 8 Housing Assistance Payments Program--Fiscal Year 2018 Inflation Factors for Public Housing Agency Renewal Funding¹

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 "Section 8 Housing Assistance Payments Program--Fiscal Year 2018 Inflation Factors for Public Housing Agency Renewal Funding" published in the *Federal Register* on Wednesday, May 30, 2018.

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.

After a brief introductory section, this letter is divided into two sections. The first section provides background on the calculation of Renewal Funding Inflation Factors (RFIFs) and articulates the various options suggested by HUD for calculating RFIFs. The second section provides NAHRO's response to HUD's specific inquiries, while also providing thoughts on equity considerations, alternative methodologies, and additional funding.

The National Association of Housing and Redevelopment Officials makes the following recommendations:

1. In those instances where Public Housing Agencies (PHAs) can only sporadically conduct rent research surveys to calculate Fair Market Rents (FMRs), the Department should use its suggested method three (see below) to calculate RFIFs;

¹ All citations are informal.

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2. In those instances where PHAs can frequently conduct rent research surveys to calculate FMRs, the Department should continue to use the rent-survey FMRs to calculate the RFIFs;
3. The Department should continue to refine and improve the methodology for calculating FMRs until they represent on-the-ground rental prices;²
4. The Department should devote additional resources to develop a statistically valid, cheaper alternative to rent research surveys; and
5. Absent completely accurate FMRs or a cheaper alternative to rent research surveys, HUD should request--in its next budget--sufficient money to allow all PHAs that wish to conduct rent research surveys, to be able to conduct rent research surveys.

I. Background

Renewal Funding Inflation Factors are the inflation factors that HUD applies to renewal funding for the Housing Choice Voucher (HCV) Program. They adjust funding eligibility for PHAs so that PHAs can set appropriate payment standards in the voucher program to correspond to rising rental prices in various rental markets.³

The Department calculates RFIFs by first calculating a national average per unit cost (PUC). The national average PUC is based on forecasts of gross rent and tenant income.⁴ The forecast of gross rent is based on forecasts of various economic indices (e.g., Consumer Price Index [CPI] Rent of Primary Residence Index, the CPI Fuels and Utilities Index, etc.).⁵ The Department uses the forecast gross rent and thirty percent of the forecast average tenant income to calculate a “notional PUC.” The change in notional PUC between years is the expected national change in PUC.⁶ At the local level, inflation factors are calculated by the annualized change in an area’s FMR. The local inflation factors are then adjusted such that the voucher-weighted average of the local inflation factors equals the national inflation factor. In those instances where the local inflation factor would be negative, the local area is given an inflation factor of one (i.e., no inflation).⁷

In those years where PHAs use local rent survey data to update their FMRs, the updated FMRs may be higher than if that data had not been used. Since local inflation factors are based on percentage changes in FMRs, using local rent survey data some years, but not others, may cause inflation factors that do not accurately represent the underlying rental price increases in the rental market. Switching between using and not using local rent survey data different years will artificially inflate or deflate the RFIF.

The Department would like to know how it should incorporate changes in FMRs based on local rent survey data. There are five options provided by the Department. They are the following options [taken directly from the HUD notice]:

² NAHRO is aware and thankful of the strides that HUD has made in improving the accuracy of FMRs, particularly in its forecasting of older data, but still urges the Department to continue its methodological improvements.

³ See 83 Fed. Reg. 24,815 (2018).

⁴ 83 FR 24815.

⁵ 83 FR 24815-24816.

⁶ 83 FR 24816.

⁷ 83 FR 24816.

1. Maintain the current policy of including the survey-based FMR change in the first calculation of RFIFs following the implementation of the survey and continue using the change in FMRs while the survey is still in effect.⁸
2. Stop incorporating local rent surveys in the calculation of the FMR change component of the RFIF calculation.⁹
3. As with current policy, include the survey-based FMR change in the first calculation of RFIFs following the implementation of the survey. In subsequent years, while the survey is still being used in the calculation of the published FMRs, use the change in underlying rent data collected via the [American Community Survey] ACS. By doing this, the rent change component of the RFIF will be based on a local measure of actual year-to-year rent change.¹⁰
4. Instead of having a large increase in the FMR in the first year of using local survey data, with little to no inflation for the next several years, spread the increase over the expected usable life of the survey. HUD would do this by calculating the average annual change between the survey-derived rent and the ACS rent over a two- or three-year period. Surveys conducted in January through June generally are used in two FMR calculations and surveys conducted in July through December are typically used in three FMR calculations. By using the annual average increase as the FMR change component of the RFIF calculation, PHAs in areas submitting local survey data will ultimately have the full increase in their survey-based FMR realized in their inflation factors, but the distortive impacts of implementing the entire change in the first year of the use of the local survey-based rent will also be ameliorated. This would also likely lessen the mismatch between the RFIF and local rent growth rates at the transition back from survey data to ACS data.¹¹
5. Pursue another strategy recommended by commenters.¹²

II. NAHRO's Response

It is NAHRO's understanding that the goal of these methodological changes to the RFIFs is to ensure that the inflation factors accurately capture the growth in various rental housing markets. In making its recommendations, NAHRO is offering what it believes is the proper methodology to assess this growth.

a. RFIF Calculation

After consulting with its membership, NAHRO believes that the method that best captures the growth in housing markets is dependent on a PHA's ability to conduct rent research surveys. The methodology used for a PHA that is able to conduct rent research surveys every year should be different than the methodology used for a PHA that is only able to sporadically conduct rent research surveys.

⁸ 83 FR 24816.

⁹ 83 FR 24816.

¹⁰ 83 FR 24816.

¹¹ 83 FR 24816.

¹² 83 FR 24816.

i. Scenario 1 - PHAs Can Only Sporadically Conduct Rent Research Surveys

In those instances where a PHA does not have the ability to conduct rent research surveys every year resulting in some years with FMRs calculated based on rental surveys (rent-survey-FMRs) and some years without rent-survey-FMRs, the Department should use method three (see above). This method would allow HUD to incorporate the probable increase in rental prices in its inflation factors in those years where there has been a rent survey conducted. At those times when there has been a FMR change because of local survey data, the Department should include the survey-based-FMR change in the first calculation of RFIFs following the implementation of the survey. This will ensure that the inflation factor is capturing how much greater the actual rents are in the jurisdiction than what the ACS data indicates. In subsequent years, the Department should use the underlying rent data collected via the ACS because absent relevant new information from a rent survey, this is the best method to capture the increase in rental prices (additionally, using the rent-survey FMR one year and then the ACS FMR the next year would create an artificially low inflation factor).

ii. Scenario 2 - PHAs Can Frequently Conduct Rent Research Surveys

In those instances where a PHA does have the ability to conduct a rent research surveys every year, HUD should continue to use the rent-survey FMRs to calculate the RFIF as that data will be more timely for a local geography than the ACS data. It makes sense to continually use the rent-survey FMRs in calculating the RFIFs because these FMRs incorporate the latest data and would best capture growth in rental prices.

b. Equity Considerations

Given the finite nature of the national Housing Assistance Payments (HAP) funding pool, NAHRO understands that there may be some equity issues in creating local inflation factors which will control how much new money individual PHAs receive. We believe that by structuring inflation factor calculations by using the above method, where those PHAs that can conduct rent research surveys and those that can only conduct rent research surveys infrequently will still receive accurate inflation factors, ensures that new HAP funding is divided equitably and in a way that correlates with pricing trends in local markets.¹³

c. Alternative methodologies

Another point brought up by NAHRO's members is that if HUD were able to increase the accuracy of FMRs, then the rent-survey FMRs would not be needed. This could be done either by changing the methodology of determining FMRs (though NAHRO suspects that no amount of methodological change would create completely accurate FMRs for all markets) or through alternative data sets with more accurate data. As the ACS data set is the only option for a national data set at this time, NAHRO asks HUD to devote resources to think of other ways to collect rental market information.

One suggested alternative is to use a web data-scraping system to comb through an area's online rental postings to help calculate FMRs. Although NAHRO has mentioned this paper in the past, we ask that HUD once again look at *New Insights into Rental Housing Markets Across the United States: Web*

¹³ NAHRO also notes that the easiest way to ensure that PHAs are receiving equitable distributions of HAP that appropriately correlate with their rental market prices is to ensure that FMRs represent on-the-ground rental prices.

Scraping and Analyzing Craigslist Rental Listings.¹⁴¹⁵ The Department may want to research ways to adapt the web-scraping methodology so that it meets HUD's statistical validity requirements. Absent that, HUD may want to investigate other methods which are cheaper than rent surveys, but still meet HUD statistical validity requirements.¹⁶ We strongly recommend that HUD devote additional resources to creating this alternative.

d. Additional Funding

Absent changes in methodology, the use of a new methodological technique, or finding a new national dataset--in HUD's next budget request, the administration should ask for additional funding for rent research surveys. Given the inaccuracy of FMRs in rapidly growing rental markets, these rent research surveys are becoming a necessity in many jurisdictions. Absent the research survey, the ACS-calculated FMR is too low in many markets, creating the conditions for low success rates for many families. Thus, in many places the rental surveys are absolutely necessary for the proper functioning of the Housing Choice Voucher program. Given their importance to the program, NAHRO does not think it unreasonable for HUD to request enough money for every PHA that wishes to conduct a rent research survey have the option to conduct a rent research survey.

NAHRO greatly appreciates the Department seeking input in calculating RFIFs. If the Department has any additional questions or concerns about this comment letter, please do not hesitate to contact me at tgurjal@nahro.org.

Sincerely,



Tushar Gurjal
Policy Analyst, Section 8 Programs

¹⁴ Boeing, G., & Waddell, P. (2016). New Insights into Rental Housing Markets across the United States: Web Scraping and Analyzing Craigslist Rental Listings. *Journal of Planning Education and Research*, 37(4), 457–476. <https://doi.org/10.1177/0739456x16664789>.

¹⁵ NAHRO has previously mentioned this paper in its comment letter responding to the notice titled “Notice for Suspension of Small Area Fair Market Rent (Small Area FMR) Designations; Solicitation of Comment” published in the *Federal Register* on December 12, 2017. See <http://www.nahro.org/sites/default/files/searchable/NAHRO-Comment-Letter-Small-Area-FMR-Suspension-final.pdf>.

¹⁶ It is NAHRO's understanding that the University of Washington may be working on this. The Department may wish to reach out to them or find other research partners who can assist in this endeavor.