

HUD's Proposed Rule on Small Area Fair Market Rents



On June 16, 2016, HUD published a Notice of Proposed Rulemaking titled “Establishing a More Effective Fair Market Rent (FMR) System; Using Small Area Fair Market Rents (SAFMRs) in Housing Choice Voucher Program Instead of the Current 50th Percentile FMRs (FR-5855-P-02)” which proposes repealing the 50th Percentile FMR regulation as a tool to help Public Housing Agencies (PHAs) deconcentrate voucher tenants and replacing it with a regulation based on SAFMRs.

Why are we pursuing this change?

Under metro-wide Fair Market Rents (FMRs) set at the 40th percentile, there are many metropolitan areas in which Housing Choice Voucher (HCV) holders are highly concentrated in a few high poverty areas. In 2010, only **1 in 5** families with children used HCVs in a low-poverty neighborhood (<10% poverty).¹ Given the importance of neighborhood quality for a child's life outcomes, HUD needs a more effective strategy.

HUD's current policy to address voucher concentration (the 50th percentile policy) is ineffective. Under a 2000 interim rule, HUD increases FMRs in highly concentrated metropolitan areas to the 50th percentile. This raises voucher payment standards in all neighborhoods, including those already highly concentrated. Research finds that MSA-wide increases in FMRs (like the 50th percentile) have minimal effect on housing/neighborhood quality, but result in rents increasing (up to 89% of the increased subsidy benefitting landlords). The 50th percentile policy is not effective; it does not de-concentrate voucher tenants and contains evaluation criteria that add administrative complexity.

What is HUD's proposed solution?

The Proposed Rule proposes employing SAFMRs. HUD has instituted a SAFMR demo, via a court settlement in Dallas and in several PHAs, to test FMRs set at *individual zip codes* within a metro area, rather than metro-wide. This permits FMRs/payment standards to be higher in low poverty/high rent areas, and lower in high poverty/low rent areas. Evidence from Dallas is quite promising – suggesting de-concentration to lower poverty, lower crime neighborhoods at essentially the same total cost per voucher as using the 40th percentile metropolitan FMR.² Research and results from Dallas suggest SAFMRs could be both *more effective* and *less costly* than the 50th percentile FMR policy.

What are the key details of the Proposed Rule?

The Proposed Rule employs SAFMRs rather than the 50th percentile where voucher tenants are highly concentrated in high poverty neighborhoods, plus other administrative changes. The rule (1) better targets areas where the problem is largest and (2) SAFMRs are most likely to be useful.³ SAFMRs will be required in those areas⁴ but others may also opt in. A calculator is available [here](#) to examine areas likely to be included.

What is the proposed impact of this change?

SAFMRs are targeted to assisted families in the HCV Program. HUD proposes to implement SAFMRs in metropolitan areas where voucher holders are more likely than renters in general to be highly concentrated in areas of high poverty or relatively low income, and in which there is significant variability in rents (to ensure that SAFMRs are likely to be effective in providing choice). The primary beneficiaries of implementing SAFMRs are tenant based voucher holders, who have the choice of selecting a rental unit in the private marketplace. HUD is also asking for comment through the Proposed Rule on how SAFMRs should also be applied to *future* Project Based Voucher Units.

Additional information: FAQs: <https://www.huduser.gov/portal/datasets/fmr/smallarea/index.html>, Submit comments on the Proposed Rule: https://www.regulations.gov/#!documentDetail;D=HUD_FRDOC_0001-4489; Contact SAFMR_RULE@HUD.GOV. *Please note that this email address is limited to questions about the rule and is not a means of submitting public comment; comments submitted via email but not through regulations.gov (or by mail) may not receive a response.*

¹ Center on Budget and Policy Priorities, October 2014, “Creating Opportunity for Children: How Housing Location Can Make a Difference.”

² Robert Collinson and Peter Ganong, September 2014, “The Incidence of Housing Voucher Generosity” NBER.

³ The proposed rule applies to areas in which voucher households are relatively more concentrated than other renters in neighborhoods with higher poverty/lower incomes and where significant portions of the housing stock are in areas unreachable with metro FMRs.

⁴ For reference, areas that would be required to use SAFMRs if they were implemented as of June 2016 include the following (this list may change in the final rule): Sacramento--Arden-Arcade--Roseville, CA; San Diego-Carlsbad-San Marcos, CA; San Jose-Sunnyvale-Santa Clara, CA; Oakland-Hayward-Berkeley, CA; Oxnard-Thousand Oaks-Ventura, CA; Colorado Springs, CO; Hartford-West Hartford-East Hartford, CT; Washington-Arlington-Alexandria, DC-VA-MD; Fort Lauderdale-Pompano Beach-Deerfield Beach, FL; West Palm Beach-Boca Raton-Delray Beach, FL; Tampa-St. Petersburg-Clearwater, FL; Jacksonville, FL; North Port-Bradenton-Sarasota, FL; Palm Bay-Melbourne-Titusville, FL; Atlanta-Sandy Springs-Marietta, GA; Honolulu, HI; Chicago-Joliet-Naperville, IL; Gary, IN; Jackson, MS; Charlotte-Gastonia-Rock Hill, NC-SC; Bergen-Passaic, NJ; Monmouth-Ocean, NJ; Nassau County-Suffolk County, NY; New York, NY; Philadelphia-Camden-Wilmington, PA-NJ-DE-MD; Pittsburgh, PA; Dallas-Plano-Irving, TX; Fort Worth-Arlington, TX; San Antonio-New Braunfels, TX; Virginia Beach-Norfolk-Newport News, VA-NC; Tacoma-Lakewood, WA.