

# Proposals To Update the Fair Market Rent Formula

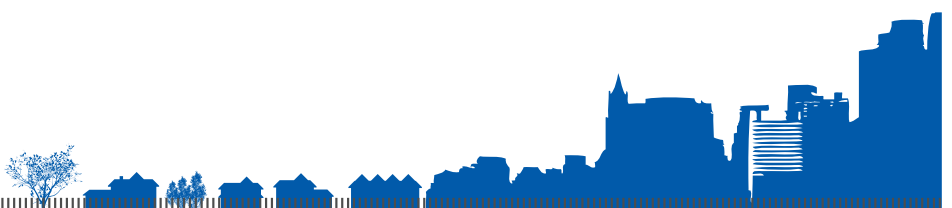
Prepared by

**U.S. Department of Housing and Urban Development**  
**Office of Economic Affairs**  
**Office of Policy Development and Research**

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## Introduction

The Senate report<sup>1</sup> accompanying the Consolidated Appropriations Act, 2018, directs the U.S. Department of Housing and Urban Development (HUD) to submit a report “describing proposals to update the Fair Market Rent (FMR) formula to more accurately reflect the current housing market.” In accordance with this request, HUD offers this report, which examines these issues in the following sections.

- Overview of FMRs: What They Are, How They Are Used, and How They Are Calculated.
- Accuracy of FMRs.
- Avenues for Improvement in FMR Calculation.
  - The Trend Factor.
  - The Inflation Update Factor.
  - The Gross Rent Basis.
- ACS Timeliness.
- Summary and Future Actions.

## Overview of FMRs: What They Are, How They Are Used, and How They Are Calculated

HUD annually estimates FMRs for more than 600 metropolitan areas and nearly 2,000 nonmetropolitan county FMR areas. By law, the final FMRs for use in any fiscal year (FY) must be effective at the start of the fiscal year, October 1, and must be posted for at least 30 days before becoming effective.

FMRs are estimates of gross rent used in administering HUD’s public and assisted housing programs. FMRs include the shelter rent plus the cost of all necessary utilities, and exclude the cost of telephones, cable or satellite television service, and internet service. HUD sets FMRs with the goal that a sufficient supply of rental housing is available to program participants within each FMR area. To accomplish this objective, FMRs must be both high enough to include a selection of units and neighborhoods and low enough to serve as many low-income families as possible. The level at which FMRs are set is expressed as a percentile point within the rent distribution of standard-quality rental housing units.<sup>2</sup> The current FMR definition sets this level at the 40th percentile rent, or the dollar amount below which 40 percent of the standard-quality rental housing units are rented.<sup>3</sup> The 40th percentile rent is drawn from the distribution of rents

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<sup>1</sup> “Transportation, and Housing and Urban Development, and Related Agencies Appropriations Bill, 2018,” U.S. Senate Report 115–138, ordered July 27, 2017. <https://www.congress.gov/115/crpt/srpt138/CRPT-115srpt138.pdf>.

<sup>2</sup> A standard-quality rental housing unit has the following attributes: occupied rental unit paying cash rent; specified renter on 10 acres or less; with full plumbing; with full kitchen; unit more than 2 years old; and meals not included in rent.

<sup>3</sup> FMRs were initially set at the 45th percentile but were reduced to the 40th percentile beginning with FY 1995 FMRs. Most areas remain at the 40th percentile rent. However, certain areas are assigned the 50th percentile rent. An interim final rule published on October 2, 2000, established the 50th percentile FMRs and the eligibility criteria

of all units that recent movers occupy.<sup>4</sup> Rents that recent movers pay capture the most current rents charged in the market. This nuance is opposed to “stayers” who may not be paying the most current market rent due to clauses in their leases that limit the amount rents may change from year to year or have other long-term renter discounts. HUD is required to ensure that FMRs exclude nonmarket and luxury rental housing in their computation.<sup>5</sup> Therefore, HUD excludes all units falling below a specified rent level determined from public housing rents in HUD’s administrative data as likely to be either assisted housing or otherwise at a below-market rent and units in buildings less than 2 years old, which tend to be at the very top of the rent distribution or otherwise collect premium rents, because the units are new. In many nonmetropolitan areas, HUD sets the FMR at a state nonmetropolitan minimum that is above the best estimate of the 40th percentile rent. This practice recognizes that a smaller number of rental units is available in these areas and that very low rents may be insufficient for the long-term maintenance of the housing units.

FMRs primarily determine payment standard amounts for the Housing Choice Voucher program. HUD also uses FMRs to determine initial renewal rents for some expiring project-based Section 8 contracts, initial rents for housing assistance payment contracts in the Moderate Rehabilitation Single Room Occupancy program, rent ceilings for rental units in both the HOME Investment Partnerships program and the Emergency Solution Grants program, maximum award amounts for Continuum of Care recipients and the maximum amount of rent a recipient may pay for property leased with Continuum of Care funds, and minimum values for flat rents in public housing units.

Some uncertainty is inherent in the FMR calculation process because it is designed to anticipate expected rents for a future fiscal year. In the context of the Housing Choice Voucher program, existing program regulations account for this uncertainty. For example, public housing agencies (PHAs) may set payment standards within 90 to 110 percent of the FMR without HUD approval. PHAs may further request payment standards based on 50th percentile FMRs (that is, higher than 40th percentile FMRs) in cases in which the use of 40th percentile FMRs has produced low lease-up rates (known as success rate payment standard amounts).<sup>6</sup> To address problems with the geographic scale of FMR areawide calculations, PHAs may also request payment standards outside of the 90-to-110 percent range for a portion of an FMR area. These are known as exception payment standards.<sup>7</sup>

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to select areas that would be assigned 50th rather than the normal 40th percentile FMRs. The objective was to give public housing agencies a tool to assist them in deconcentrating voucher beneficiaries.

<sup>4</sup> *Recent movers* are defined as renter households that moved to their present residences within the past 2 years.

<sup>5</sup> The FMR regulations at 24 CFR 888.111(b) state that FMR means the rent, including the cost of utilities (except telephone), as established by HUD, pursuant to this subpart, for units of varying sizes (by number of bedrooms) that must be paid in the market area to rent privately owned, existing, decent, safe and sanitary rental housing of modest (nonluxury) nature with suitable amenities.

<sup>6</sup> “Voucher Tenancy: Payment Standard Amount and Schedule,” 24 CFR 982.503(e).

<sup>7</sup> “Voucher Tenancy: Payment Standard Amount and Schedule,” 24 CFR 982.503(c).

## Accuracy of FMRs

In general, it is difficult to measure the accuracy of FMRs for the simple reason that no single, widely accepted measure of gross rents exists to use as a benchmark to compare with the FMRs. Commercial sources of rent data, marketed for property managers and commercial real estate investors, do not cover the entire rental market in terms of both their geographic scope and the types of properties for which they provide statistics. For example, two vendors provide estimates of effective rents<sup>8</sup> in multifamily properties of 40 apartments or more, which represents only 16 percent of the nation’s rental market.

Still, HUD can take reasonable steps to judge the accuracy of the FMRs, starting with an analysis of the main component of FMR calculation—estimates of gross rent as determined by the American Community Survey (ACS). Table 1 shows median gross rents for large multifamily properties as measured by the ACS and by a private firm, Axiometrics. The differences are minimal and attributable to the slight differences in methodology and scope. Given this comparison, along with the high response rate<sup>9</sup> of the ACS and the U.S. Census Bureau’s general expertise in survey administration, HUD can therefore, at a broad level, feel confident about the use of ACS data as the foundation for calculating FMRs.

**Table 1: Comparison of ACS Gross Rents With Commercial “Effective” Rent**

	2012	2013	2014	2015	2016
ACS-measured <sup>a</sup> national median gross rent, recent movers, 50 or more apartments in building	\$1,020	\$1,063	\$1,133	\$1,202	\$1,260
Axiometrics national average effective rent, 40 or more units in building	\$1,038	\$1,092	\$1,148	\$1,223	\$1,275

ACS = American Community Survey.

<sup>a</sup> HUD calculations based on ACS Public Use Microdata Samples.

Additionally, HUD can evaluate the non-ACS portions (the inflation component and the trend factor, discussed in the following sections) of its FMR calculation by retroactively comparing prior years’ FMRs with the contemporaneous ACS-measured estimates of gross rent. For example, HUD can compare the 2016 ACS estimate of the 40th percentile gross rent with the FY 2016 FMR. To quantify the accuracy of this comparison, HUD determines whether the actual ACS rent is within the “payment standard range,” or 90 to 110 percent of the FMR, in recognition of PHAs’ ability to choose any payment standard within that window. Table 2 shows that since 2009, FMRs have captured the ACS-measured gross rents reasonably well.

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<sup>8</sup> Effective rent is the price at which a particular unit (or set of units) leases after factoring in all concessions and discounts and is calculated over the lease period.

<sup>9</sup> The response rate varies from year to year but for 2016, it was 94.7 percent.

**Table 2: Number of FMR Areas With ACS Rent Within 90 to 110 Percent of FMR<sup>10</sup>**

	2009		2010		2011		2012	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Areas not within payment standard range	8	6.3	20	15.3	24	16.6	9	5.7
Areas within payment standard range	118	93.7	111	84.7	121	83.4	148	94.3
	2013		2014		2015		2016	
	Count	Percent	Count	Percent	Count	Percent	Count	Percent
Areas not within payment standard range	9	6.3	10	6.9	13	9.6	15	11.2
Areas within payment standard range	133	93.7	135	93.1	122	90.4	119	88.8

ACS = American Community Survey. FMR = Fair Market Rent.

## Avenues for Improvement in FMR Calculation

Each FMR may be broken into three components—a base rent representing the 40th percentile gross rent paid by recent movers into standard-quality dwelling units, an inflation-based update factor, and a trend factor. Each of these three components is addressed below beginning with the trend factor and ending with the base rent.

### FMR Component: The Trend Factor

HUD is required by statute to ensure the FMRs are “trended so the rentals are current for the year to which they apply.”<sup>11</sup> Because HUD calculates FMRs in advance of each fiscal year, HUD currently fulfills this statutory requirement by calculating a forecast of gross rent inflation, known as the “trend factor.” Prior to FY 2016, the trend factor was simply the national average annual rent growth of the past 5 years. In FY 2016, after the economic recession and the corresponding recovery had caused current rent growth to diverge from past trends, HUD replaced this backward-looking measure of rent growth with a forward-looking measure. The

<sup>10</sup> The comparison is restricted to areas that meet HUD’s preferred metric for evaluating the quality of ACS estimates, which is that the estimate must have a margin of error that is less than 50 percent of the estimate, and the estimate must be based on at least 100 survey cases. Consequently, the number of areas meeting these criteria changes from year to year.

<sup>11</sup> “Low-Income Housing Assistance,” 42 U.S.C. 1437(f)(c)(1)(A) effective on January 3, 2012.

current trend factor is calculated based on a forecast model of gross rent with national-level macroeconomic data as predictors.

Although the current approach has produced forecasts that are accurate with respect to national changes in gross rent, it will produce inaccurate FMRs for areas that have sharply higher or lower rent growth relative to national changes. For example, Table 3 shows the top and bottom metropolitan areas by actual rent growth, as measured using the gross rent component of the Consumer Price Index, compared with the national average trend factor that was used to calculate FMRs in the corresponding period.

**Table 3: Comparison of Rent Inflation Between Selected Metropolitan Areas and the Nation**

<b>Metropolitan Area</b>	<b>2016–2017 Rent of Primary Residence Inflation (%)</b>
Dallas-Fort Worth-Arlington, TX	7.0
Portland-Salem, OR	7.0
Seattle-Tacoma-Bellevue, WA	6.9
<b>National average—CPI</b>	<b>3.8</b>
<b>National average—forecasted prior to 2017</b>	<b>3.6</b>
St. Louis, MO	2.3
Northeast region	2.2
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	1.9

CPI = Consumer Price Index.

It is HUD’s intention to replace the national trend factor with a more localized measure of anticipated rent growth. HUD has not determined the exact methodology for these local trend factors. Options range from a naïve approach that would apply the past rate of inflation for a given metropolitan area to a forecasting model like the current national trend factor approach but implemented at the regional and metropolitan area levels. HUD could also assign a trend factor based on rental market categories from a recent comprehensive housing market analysis, where available. A comprehensive housing market analysis report categorizes a rental market as “balanced” where the quantity of rental units demanded equals the quantity supplied, “tight” where the quantity of rental units demanded is greater than the quantity supplied, and “soft” where the quantity of rental units demanded is less than the quantity supplied. Under these classifications, a balanced market may receive a trend factor equal to the nationally calculated forecast value, a tight market would get a trend factor higher than the national factor, and a soft market would get a trend factor lower than the national factor.

It is important to consider the drawbacks of any proposed change in methodology. First, even accurately calculated local trend factors could introduce more year-to-year volatility in FMRs, as rent changes at the local level are more variable than national average changes. Second, producing accurate forecasts of inflation is more difficult at the local level than at the national level due to the lack of local data for the forecasting model. Finally, for areas where local rent

growth has lagged the national average, the switch to a local inflation measure would mean FMRs would grow more slowly than they have in the past, potentially disrupting program operations.

Recent regulatory changes in the calculation of FMRs may address some of these drawbacks. Specifically, 24 CFR 888.113(b) limits decreases in the annual change in FMRs to no more than 10 percent. Although limiting the amount FMRs may decline from one year to the next, this requirement does not eliminate volatility and may cause FMRs to remain artificially high in markets where rents are decreasing rapidly. Program operations in places where rent growth frequently outpaces the national average may benefit from a new methodology.

### **FMR Component: The Inflation Update Factor**

Prior to adjusting FMRs for forecasted inflation, HUD updates its estimates of gross rent using the most recently available estimates of *actual* inflation. This update is performed using an inflation adjustment factor that is based on a weighted average of two Bureau of Labor Statistics (BLS) Consumer Price Index (CPI) estimates: (1) Rent of Primary Residence and (2) Housing Fuels and Utilities Series. HUD is able to calculate and use inflation adjustment factors for the 23 metropolitan areas for which the BLS publishes local measures of inflation. Just under 48% of the population live in the metropolitan areas where local inflation adjustment factors are used. For the remainder of the country, HUD uses regional inflation adjustment factors.

The Rent of Primary Residence CPI is based on repeat surveys of a sample of rental housing units over 6-month periods, with adjustments for aging of the units and vacancies. For this reason, it is considered a strongly reliable measure of changes in rents, particularly in those areas for which BLS produces local estimates.<sup>12</sup> Table 4 shows a comparison of the most recent 3-year changes in annual gross rent as measured by local CPI compared with the change in gross rent measured by the ACS for the 10 largest metropolitan areas. With the exception of Los Angeles, the difference between these measures is typically less than 1 percentage point.

**Table 4: Comparison of Changes in Area Gross Rent With CPI Regional Gross Rent Factors, Selected Metropolitan Areas**

<b>Metropolitan Area</b>	<b>Average Annual Gross Rent Change 2013–2016 Measured by ACS</b>	<b>Average Gross Rent CPI Factor 2013–2016</b>
New York-Newark-Jersey City, NY-NJ-PA Metro Area	2.7%	2.5%
Los Angeles-Long Beach-Anaheim, CA Metro Area	3.7%	2.4%
Chicago-Naperville-Elgin, IL-IN-WI Metro Area	2.9%	2.0%

<sup>12</sup> Bureau of Labor Statistics. 2009. “How the CPI Measures Price Change of Owners’ Equivalent Rent of Primary Residence (OER) and Rent of Primary Residence (Rent).” <https://www.bls.gov/cpi/factsheets/owners-equivalent-rent-and-rent.pdf>.



Dallas-Fort Worth-Arlington, TX Metro Area	4.0%	3.8%
Houston-The Woodlands-Sugar Land, TX Metro Area	4.3%	3.7%
Washington-Arlington-Alexandria, DC-VA-MD-WV Metro Area	2.1%	2.8%
Miami-Fort Lauderdale-West Palm Beach, FL Metro Area	4.4%	3.4%
Atlanta-Sandy Springs-Roswell, GA Metro Area	4.3%	3.6%
Boston-Cambridge-Newton, MA-NH Metro Area	2.9%	3.9%
San Francisco-Oakland-Hayward, CA Metro Area	6.0%	6.1%

ACS = American Community Survey. CPI = Consumer Price Index.

For many areas, however, the use of a regional inflation adjustment factor will produce inaccuracies similar to those resulting from use of a national trend factor. Table 5 shows areas without a local CPI adjustment factor where a retroactive comparison of changes in gross rents with the regional CPI shows marked differences.

**Table 5: Comparison of Changes in Area Gross Rent With CPI Regional Gross Rent Factors, Selected HUD Metro FMR Areas and MSAs**

<b>FMR Area</b>	<b>Average Annual Gross Rent Change 2013–2016 Measured by ACS</b>	<b>CPI Region</b>	<b>Average Regional Gross Rent CPI Factor 2013–2016</b>
Knoxville, TN HUD Metro FMR Area	0.6%	South	2.6%
Manchester, NH HUD Metro FMR Area	0.6%	Northeast	2.8%
Jacksonville, FL HUD Metro FMR Area	1.0%	South	2.6%
Springfield, OH MSA	5.1%	Midwest	2.0%
Austin-Round Rock, TX MSA	5.8%	South	2.6%
Redding, CA MSA	6.9%	West	2.8%

ACS = American Community Survey. CPI = Consumer Price Index. FMR = Fair Market Rent. HUD = U.S. Department of Housing and Urban Development. MSA = Metropolitan Statistical Area.

It is important to remember that the results shown in Table 5 represent outliers. Still, the potential for improvement in the calculation of FMRs exists. For example, in 2018, following a geographic revision, the BLS publishes inflation estimates at the Census division level. This revision may enable HUD to replace the four regional CPI areas with nine divisions, making the inflation adjustment more granular. Additionally, for medium-size areas that do not have local CPIs, commercial estimates of rent inflation may be available. As previously discussed, several companies sell measures of market rents for property managers and commercial real estate investors. These rent estimates are not suitable for setting FMRs directly, because they do not attempt to represent the entire rental market. For example, several vendors provide rent estimates only for multifamily rental properties of 40 or more units. However, it is possible that these estimates would still be useful in measuring year-to-year rent inflation for areas that are not covered by a local CPI estimate.

The same tradeoffs associated with the shift to more localized trend factors would apply to the adoption of different inflation factors—namely, that such a switch would introduce more year-to-year volatility in FMR values. Additionally, HUD has a long commitment to transparency of showing the calculation steps that produce FMRs on its website. The use of commercial data would likely preclude such transparency, because data license agreements typically do not allow for the data in question to be freely republished.

### **FMR Component: The Gross Rent Basis**

HUD uses the ACS as the basis for gross rents paid by recent movers, because it is the only known source of consistently collected data on gross rents paid that is available nationally at a variety of geographic aggregations.<sup>13</sup> HUD works with the Census Bureau to obtain special tabulations of the ACS to meet the FMR requirements—40th percentile gross rents paid for standard-quality housing units occupied by recent movers. HUD uses a combination of 5- and 1-year ACS tabulations to determine the gross rent basis for each FMR area.

As stated previously, FMRs are calculated based on gross rents paid by recent movers. For the recent mover estimates to be timely, HUD must rely solely on the 1-year ACS data product for recent mover rents.<sup>14</sup> One-year ACS data are only available for communities with 65,000 or more in population, and 5-year ACS data are available for all geographies. For those areas with statistically valid 1-year recent mover estimates, HUD uses the ACS estimate directly in the calculation of FMRs. One-year recent mover data is available for FMR areas that account for approximately 70 percent of renter households. All these households are in metropolitan FMR

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<sup>13</sup> HUD must provide a mechanism for PHAs or other interested parties to request a reevaluation of the FMRs per the “Housing Opportunities Through Modernization Act,” 42 U.S.C. 1437(f)(c)(1)(B) enacted on July 31, 2016. To reevaluate an area’s FMRs, HUD needs data more current than the ACS data and BLS inflation data used to calculate the annual FMR. Such data must be sufficiently robust for HUD to be able to calculate a 40th and 50th percentile two-bedroom equivalent recent mover gross rent for the FMR area. HUD does not require a survey to be conducted if such information is available. Should the information not be available, the only method for acquiring such information is via a survey administered across the FMR area.

<sup>14</sup> Using the previous example, 5-year ACS data available for the calculation of FY 2019 FMRs were collected between 2012 and 2016. Respondents from the early range of years are not considered recent movers when these data are used to calculate FMRs.

areas. Of the roughly 30 percent of renter households without recent mover rent estimates from the 1-year ACS, about 60 percent live in metropolitan FMR areas. In all FMR areas without statistically reliable 1-year recent mover gross rent estimates, HUD must construct a recent mover estimate using 5-year gross rents paid for standard-quality dwelling units coupled with a recent mover adjustment factor. The recent mover adjustment factor measures the difference in gross rents paid by recent movers and non-recent movers. This factor is computed using the next smallest geographic area that encompasses the FMR area in question and has the necessary 1-year ACS data. This combination of 5- and 1-year data introduces a potential source of measurement error into the FMR process.<sup>15</sup>

The Census Bureau’s 5-year ACS tabulations aggregate 5 years of ACS responses to generate statistics for the area surveyed. For dollar-denominated statistics such as gross rent, the Census Bureau adjusts each survey response from the year of the survey response to the final year of the 5-year aggregation using the change in the Consumer Price Index for All Urban Consumers (CPI-U). For example, to obtain a 2016 value, a survey response from 2013 is multiplied by the ratio of the CPI-U index value from 2016 and the CPI-U index value from 2013. To the extent that the change in gross rents between 2013 and 2016 differs from the change in general prices, the basis for the FMR calculation will be underreported or overreported.

Table 6 illustrates how changes in gross rent can differ from changes in general prices for various intervals within the 5-year period ending in 2016. National inflation is measured using the CPI-U index, and national gross rent inflation is measured using HUD’s gross rent index which is based on CPI rent and utility components.<sup>16</sup>

**Table 6: National Price Inflation and National Gross Rent Inflation**

<b>Years</b>	<b>CPI-U</b>	<b>GR-CPI</b>
2012 to 2016	4.5%	12.3%
2013 to 2016	3.0%	9.3%
2014 to 2016	1.4%	5.7%
2015 to 2016	1.3%	3.0%

CPI-U = Consumer Price Index for All Urban Consumers. GR-CPI = gross rent Consumer Price Index.

HUD cannot directly correct error in FMRs resulting from differing inflation of gross rents, because the data it receives from the Census Bureau for its FMR calculations have already been adjusted using the CPI and weighted to ensure the survey statistics are representative of the

<sup>15</sup> Each estimate available from the ACS is presented with a margin of error estimate for that estimate. The margin of error measures the error that is attributable to sampling error in the survey. Sampling error is the error caused by estimating a parameter using a sample instead of calculating the parameter from the whole population. Sampling error is the difference between the sample statistic and the actual, but unknown, value being surveyed.

<sup>16</sup> HUD computed a national gross rent inflation index for each year using a weighted average approach, where 80 percent of the value is derived from the Rent of Primary Residence component of the CPI, and 20 percent is derived from the Fuels & Utilities component within the Housing component of the CPI.

overall population.<sup>17</sup> One way that HUD could adjust for this issue is to multiply each standard-quality base rent by the average of the gross rent inflation factors divided by the national price inflation factors. Before implementing any such adjustment, HUD needs to consult with the Census Bureau to ensure that HUD's adjustment mechanism is reasonable. It is important to remember that a large portion of this error is ameliorated by the implementation of recent mover rents and as described in the following paragraph.

Another potential source of error inherent in HUD's use of ACS data is the adjustment factor that HUD constructs to account for recent mover gross rents in areas with insufficient 1-year data to measure recent mover gross rents paid directly. In these cases, HUD constructs a recent mover adjustment factor by taking the recent mover gross rent from the 1-year tabulation and dividing it by the standard-quality gross rent from the 5-year tabulation from the smallest geographic area encompassing the FMR area in question. The main source of measurement error in this case is the difference between the actual growth in recent mover gross rents for the FMR area and the growth in recent mover gross rents for the encompassing area which is large enough to have 1-year data on recent mover gross rents paid. This measurement error is likely largest in nonmetropolitan counties where the next smallest geography unit includes all nonmetropolitan portions of the state. Unfortunately, by the nature of this issue, HUD cannot quantify the magnitude of this potential source of error, because the actual statistic (gross rents paid by recent movers) is not available.

## **ACS Timeliness**

As mentioned previously, HUD bases the FMRs on ACS data because of the survey's high-quality estimates and geographic coverage. Unfortunately, the ACS data are generally collected approximately 3 years before the time that the FMRs take effect. Although HUD has focused on potential sources of error in the FMR estimates in this report, a common criticism of FMRs is that the data used to calculate FMRs are "too old." Even with the "age" of the ACS data, these data still represent the most current information available on actual gross rents paid collected consistently for all FMR areas and remains the best basis for calculating FMRs.

The most direct way for HUD "to more accurately reflect the current housing market" would be for HUD to forgo the use of the ACS and undertake its own survey program to collect recent mover gross rents that are more current than those the ACS provide. Depending on the size of HUD's survey program, it may be possible for HUD to collect data that are approximately 1 year more current than what is currently available. At a current cost estimate of approximately \$50,000 to \$80,000 per FMR area, an FMR-focused survey program would represent a significant duplication in the investment of federal dollars in collecting such information between the ACS and HUD survey program.

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<sup>17</sup> The Census Bureau provides 5-year ACS values that are sample-weighted and CPI-adjusted. The values are constructed from responses that are reweighted each year so that the gross rent statistic is representative of the area's demographics as of the final year of the 5-year period. The gross rent estimate is adjusted to the final year using the ratio method described in the main text using the CPI-U index. A readily available alternative index that is known to introduce less error than the national CPI does not exist.

## Summary and Future Actions

This report focuses on the potential causes of inaccuracies in the three components of the FMR calculation—the trend factor, the inflation update, and the recent mover base rents. As the exhibits in the report show, contemporaneous measures of rents suggest that HUD’s FMRs do a good job of approximating 40th percentile gross rents paid in most markets; nevertheless, some areas exist where HUD could improve the FMR calculations. HUD intends to continue to study these areas, refine our strategies for improvement, and request public comments on proposed adjustments in a future FMR notice of proposed calculation method changes.

To improve the accuracy of FMRs, HUD will continue to —

- Study data sources and methods for producing local rent forecasts to improve the trend component.
- Study data sources and methods for improving the inflation factor component.
- Address issues with ACS data that may affect the accuracy of base rents.

Finally, there are practical limits to how much HUD can improve the accuracy and timeliness of FMRs. In addition, as discussed above, greater accuracy can produce more volatile estimates which in turn can cause operational difficulties. All of this suggests that future efforts may need to focus less on refining the FMR calculations and more on devising new administrative mechanisms to cope with market volatility and on improving tools such as additional payment standard flexibilities and broader exception payment standard usage.