Income Limits
WORKING GROUP™
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July 24, 2023
Solomon Greene
Principal Deputy Assistant Secretary for Policy Development and Research
U.S. Department of Housing and Urban Development
451 7th Street, S.W.
Washington, DC 20410

Re: [Docket No. FR–66401–N–01] Comments on Proposed Changes to the Methodology Used for Calculating Fair Market Rents

Dear Principal Deputy Assistant Secretary Greene:

On behalf of the members of the Income Limits Working Group, we appreciate the opportunity to comment on the proposed changes to the methodology used for calculating fair market rents (FMR). The members of the Income Limits Working Group are stakeholders in the affordable housing community who work together to help resolve technical issues involving U.S. Department of Housing and Urban Development's (HUD) income and FMR policies. Our group includes nonprofit and for-profit developers, syndicators, investors, lenders, lawyers and other affordable housing professionals.

As you are aware, HUD's FMRs are the basis for setting rents for Housing Choice Vouchers (HCV), which allow low-income families to access safe and decent housing.

FMRs also are a critical part of the low-income housing tax credit (LIHTC) and residential rental tax-exempt private activity bond (PAB) programs. FMRs impact the income limits used both for determining who qualifies to live in LIHTC/PAB housing and how much tenants pay to rent that home in high housing cost (HHC) areas. In addition, many LIHTC and PAB housing units are occupied by tenants who are using HCVs, and FMRs play an important role in setting the high HOME rents.

Importance of Accurate FMRs

Accurate FMRs that reflect what is happening in the rental market is critical for HCV holders to continue to be able to find safe and decent housing. If the FMRs do not keep pace with the unprecedented rent growth, then it will become increasingly difficult for HCV holders to find safe and decent housing. Realtor.com indicates national median rent increased by 17% in the 2021, which is in stark contrast to the less than 4% increase in FMRs from 2021 to 2022. However, the incorporation of private source data for 2023 FMRs appear to be a step in the right direction of having FMRs more closely reflect the increases in market rents. The approximate 9% increase in FMRs is more in line with the Realtor.com estimated 11.6% rent increase in the top 50 metro areas in 2022, however, the FMRs still lagged behind market rate increases.

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In addition, the Senate FY24 THUD committee report on FMRs shared concerns that in some areas, fair market rents calculated by the Department continue to drop, despite increases in rent at the local level.

If FMRs do not grow commensurate with market rate rents, it will be increasingly difficult to find housing that is less than the HCV payment standard. HCV holders are allowed to pay no more than 40% of their income towards rent; if the HCVs cannot make up the difference, then households may not be able to utilize their HCVs. In a time of increased housing uncertainty – this would be a very undesirable outcome.

Impact to Existing Developments in High Housing Cost Adjustment Markets

Keeping FMRs lower than actual market rate rents also will impact a property's ability to service its existing debt, especially if FMRs increase at a slower rate than inflation. Rents that grow slower than inflation also are detrimental to a property's ability to cover operating expenses and debt service, especially in high inflationary times. Furthermore, some expenses, such as insurance, are increasing exponentially.

One working group member provided the following analysis of cost increases across their portfolio:

> Total average expenses per unit have increased by compound 6.6% between 2018 and 2021. Moreover, the single year annual growth in expenses between 2020 and 2021 is 11%. Over the same 4-year period, utility costs (which represent 20% of overall costs) increased 5% and insurance costs (which represent 18% of the overall cost per unit) have increased 18.5%. Owners have little choice other than to control the costs they can control, like payroll, which in this case increased 3.8% over the same time frame and represents 24% of the total per unit costs. The ability of property managers to compete in the current constrained labor force continues to put pressure on that cost as well. In addition, owners can only constrain costs for so long before the cost constrains lead to deferring critical maintenance that lessens the quality of the affordable homes.

This is not just a concern for LIHTC developments, it will be an issue for any property with a HUD insured mortgage, HOME Funds, and HCV tenants.

Comments on Proposed Changes

The Income Limit Working Group commends HUD on the thought and effort put into the proposed changes. As outlined above, FMRs that reflect the actual market rents is critical for affordable housing. We were pleased with HUD taking the extraordinary steps to incorporate private source data in the 2023 FMR and are encouraging HUD to continue using private source data for future FMRs.

We generally agree with the proposed changes. Regarding HUD's alternatives for using private sector rent data to update rent estimates we support using a combination of the private rent data and CPI factors.

Using private source data will help HUD calculate FMRs that are most in-line with what is happening in the rental market.

We applaud HUD's willingness to use private sector data for the CPI trend factor. However, similar to our comments submitted in relation to the 2023 FMR methodology, the working group is concerned that step 4 in the process "Tend Factor" only uses HUD's forecast of gross CPI as the trend factor and is not augmented by private data. Currently the private data being used is limited to data relating to 2021 and 2022 and does not factor in any 2023 actual private rent data or 2024 forecasts. To help the FMR accurately reflect the changes in market rents we continue to encourage HUD to use the most contemporaneous available rent data with the date the FMRs are published.

Conclusion

We thank you for your time in reviewing this letter. We would be happy to discuss these proposals and any questions or concerns you may have.

Yours very truly, Novogradac & Company LLP

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