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HUD Releases FY 2018 FMRs

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The U.S. Department of Housing and Urban Development (HUD) on Sept. 1 issued fair market rents (FMRs) for HUD fiscal year (FY) 2018, which will be effective Oct. 1, unless HUD receives a request for re-evaluation of specific area FMRs. FMRs in FY 2018 increased for the majority of the country–FY 2018 FMRs are higher than FY 2017 FMRs for approximately 76 percent of counties and are lower for approximately 22 percent of counties. The average change in FMR is an increase of approximately 3 percent.

Background

HUD is required to publish the FMRs at least annually to be effective Oct. 1 of each year. In general, the FMR for an area is an amount that would be needed to pay the rent and utilities of a privately owned, decent and safe rental housing unit of a modest nature with suitable amenities. FMRs are used to determine payment standards for the Housing Choice Voucher program, initial renewal rents for some expiring project-based Section 8 contracts, initial rent for housing assistance payment contracts in the Moderate Rehabilitation Single Room Occupancy program and rent ceilings in the HOME rental assistance program. In addition, the FMRs influence income and rent limits for the Low-Income Housing Tax Credit (LIHTC) program, tax-exempt bond (TEB) programs and other affordable housing programs.

FMRs are calculated as follows:

- Adjusted standard quality gross rents are set based on the 2011-2015 five-year American Community Survey (ACS) estimates of two-bedroom adjusted standard quality gross rents.
- HUD calculates a recent mover adjustment factor and applies this to the five-year base rent estimate.
- The 2015 adjusted standard quality gross rents calculated above are adjusted to 2017 using the relevant (regional or local) change in gross rent consumer price index (CPI) from annual 2015 to annual 2017.
- All estimates are then inflated from 2017 to FY 2018 using a national trend factor based on the forecast of gross rent changes through FY2018.
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Changes to FMR Calculation for 2018

HUD changed its methodology of calculating FMRs for the FY 2018 limits. These changes are as follows:

1. Add a "number of observations" criterion to the existing margin-of-error criterion when assessing the statistical reliability of ACS estimates. Before the FY 2018 limits, ACS estimates had a margin

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of error of 50 percent. The change will now pair the existing margin-of-error test with an additional requirement to have the estimates based on at least 100 observations in order to be used as base rents.

For areas where the five-year ACS data have a margin of error greater than 50 percent or have fewer than 100 observations, HUD will use the average of the base rents over the three most recent years that meet the statistical accuracy requirements.

This change ensures that estimates are not being determined by a handful of outliers and prevents the use of old data that could potentially misrepresent an area's current rents.

2. Use "all-bedroom" rents when calculating the recent mover factor when two-bedroom rents are not statistically reliable before moving to a larger encompassing geography's two-bedroom recent mover rents for this factor.

   If the "all-bedroom" one-year recent mover ACS data for the FMR area is statically reliable, HUD will use "all-bedroom" data to calculate the recent mover factor instead of using two-bedroom data from the next larger unit. However, if statistically reliable "all-bedroom" data is not available, HUD will continue to use base FMR areas' recent mover factors on larger geographic areas, following the same procedures as in FY 2017: HUD tests data from differently sized geographic areas from small to larger and bases the recent mover factor on the first statistically reliable sample size. This change will preserve the use of local information to the greatest extent possible.

3. Calculate Small Area FMRs directly, rather than using the ratio method, when statistically reliable information at the ZIP Code Tabulation Area (ZCTA) level is available. The ratio method will still be used when statistically reliable data was not available for individual ZCTA.

   For each ZCTA with statistically reliable gross rent estimates, using the expanded test of statistical reliability noted above, HUD will calculate a two-bedroom equivalent 40th percentile gross rent using the first statistically reliable gross rent distribution data from the following data sets (in this order): two-bedroom gross rents, one-bedroom gross rents and three-bedroom gross rents. If either the one-bedroom or three-bedroom gross rent data is used because the two-bedroom gross rent data is not statistically reliable, the one-bedroom or three-bedroom 40th percentile gross rent will be converted to a two-bedroom equivalent rent using the bedroom ratios for the ZCTA's parent metropolitan area. In order to add increased stability to these Small Area FMR estimates, HUD will average the latest three years of gross rent estimates. This change prevents larger areas from too heavily swaying smaller area rents. Additionally, the change keep FMRs area from being artificially inflated or deflated based on a larger area which might not reflect current local circumstances.

4. Link ZCTAs to the smallest metropolitan area available as their parent FMR area for the ratio method rather than defaulting to the Office of Management and Budget- (OMB-) defined metropolitan area (Core-Based Statistical Area, or CBSA) as the parent.

   This change allows HUD to take advantage of the differing recent mover factors available across subdivided OMB metropolitan areas. If no parent HUD FMR area exists, the ZCTA will continue to be liked to its parent CBSA.

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Impact on LIHTC and TEB Rent and Income Limits

For LIHTC and TEB properties, the changes are of most relevance to income limits for properties in high-cost housing areas where HUD uses the FMRs to calculate income and rent limits. For HUD FY 2017 there were 29 areas classified as high-housing-cost areas. There were even more areas impacted by the changes in FMRs but the change was so great that HUD reflects these areas as capped areas instead of high-housing-cost areas.

Due to the increases in FMRs, many areas will see an increase in the HUD-published multifamily tax subsidy project (MTSP) income limits. We have calculated 53 areas where the 2018 income calculated using the 2018 FMR will result in an increase over the 2017 income limit. The MTSP may be higher than the calculated amount if the area median income (AMI) or other HUD adjustment for the county has increased to a level that is greater than the high housing cost adjustment.

The list below shows the top 10 highest cost housing areas for 2017. Changes in income limits are capped at the greater of 5 percent or two times the change in national median income. Novogradac & Company predicts the national median income will increase by approximately 5.5 percent for 2018, resulting in a cap of 11 percent.

High-housing-cost areas with decreases in FMRs will likely see decreases in the HUD-published MTSP income limit. For existing LIHTC and tax-exempt bond (TEB) properties, income limits will not decrease because of the hold harmless policy under Internal Revenue Code Section 142. However, new LIHTC and TEB units may have lower rent and income limits. Please contact Thomas Stagg (425-453-5783 or Thomas.Stagg@novoco.com) to project income/rent limits for your county/property for 2018 and 2019. ❖

Projected High Housing Cost Areas

AREA NAME	2017 HUD 50% 4 PERSON MTSP	PROJECTED 2018 HUD 50% 4 PERSON MTSP WITHOUT CAP	PROJECTED 2018 CHANGE IN MTSP WITHOUT CAP	PROJECTED 2018 HUD 50% 4 PERSON MTSP WITH CAP*
San Francisco, CA HMFA	65800	91000	38%	73050
Oakland-Fremont, CA HMFA	52150	67900	30%	57900
San Jose-Sunnyvale-Santa Clara, CA HMFA	59700	73500	23%	66250
Santa Rosa, CA MSA	44050	53750	22%	48900
St. John Island, VI	34400	41950	22%	38200
San Benito County, CA HMFA	41800	49550	19%	46400
San Diego-Carlsbad, CA MSA	45450	52950	17%	50450
West Palm Beach-Boca Raton, FL HMFA	35950	41450	15%	39900
San Juan County, CO	31900	36100	13%	35400
Vernon Parish, LA	26850	29850	11%	29800

**Note: Changes in income limits are capped at the greater of 5 percent or two times the change in national median income. Novogradac & Company predicts the national median income will increase by approximately 5.5 percent for 2018, resulting in a cap of 11 percent.*

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