Comparing Methodologies for Calculating FMRs and SAFMRs

On January 17, 2017, the final SAFMR rule went into effect. Public Housing Authorities (PHAs) are required to implement SAFMRs no later than April 1, 2018. Under the final rule, 24 areas will forego Fair Market Rent (FMR) standards, set across wide geographic areas, in favor of new Small Area Fair Market Rents (SAFMRs), which are set by zip codes. SAFMRs are optional for all other PHAs. The purpose of this brief guide is to explain the different methodologies used to calculate FMRs and SAFMRs, along with some of the implications of HUD's methodology. The guide also identifies shared limitations of both methodologies.

Is this relevant to me if I do not currently serve clients in one of HUD's mandatory SAFMR regions?

Yes, for three reasons. First, all Public Housing Authorities can choose to adopt SAFMRs. Second, HUD is strongly considering expanding SAFMRs more widely in the future. In fact, HUD already posts proposed SAFMR rents for every jurisdiction. Third, the areas that meet HUD's criteria may change from year to year. A city that does not currently meet HUD's SAFMR standard, may in fact meet HUD's standard in future years.

How are SAFMRs calculated?

SAFMR Methodology[1]	**Example: Zip Code 91901**[2]
1. Determining the median rent for a zip code. First, HUD looks at the median rent for a 2 bedroom standard quality unit, which excludes luxury units and units with rent levels below public housing rents as well as units with sub-standard features (i.e. lacks full plumbing). This median rent data is drawn from the three most recent years of the American Community Survey (ACS), the more detailed questionnaire that the Census Bureau administers every year. Usually, there is a three year lag before ACS data can be incorporated by HUD, so, for example, 2016 SAFMRs rely on 2011, 2012, and 2013 ACS data, with the two older years inflated using data on national rental price changes.	1. For zip code 91901, located in San Diego County, the average of the 2011, 2012, and 2013 ACS median rents for 2 bedroom standard quality units is $1,278.

[1] For a more detailed breakdown of the methodology, including steps taken to ensure statistical validity, see HUD's website.
[2] HUD's website also includes a detailed breakdown of this example.

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2. Determining the ratio between the median rent in a zip code and the median rent in the larger metropolitan area. Next, HUD divides the median rent determined in Step 1 by the median rent for a standard quality 2 bedroom unit in the broader metropolitan area to determine the rent ratio. The metropolitan area is referred to as the Metropolitan Statistical Area (MSA), which encompasses the urban core and surrounding suburbs and is determined by the Census Bureau.	2. Next, the median rent for zip code 91901, $1,278, is divided by the median rent for the San Diego - Carlsbad, CA MSA, $1,322. The resulting rent ratio is 0.966.
3. Determining the SAFMR by multiplying the ratio and the old FMR. Finally, the rent ratio is multiplied by the old two bedroom FMR to determine the SAFMR. To update the SAFMR for other bedroom sizes, HUD uses a bedroom ratio, which compares median rents by bedroom size for the metropolitan area.	3. Finally, the rent ratio of .966 is multiplied by the old FMR for the San Diego - Carlsbad, CA MSA, $1,499. The result is an SAFMR for zip code 91901 of $1,450.

How do the FMR methodology and the SAFMR methodology differ?

As you can see above, the new SAFMR methodology is "nested" inside the old FMR methodology: in the final step of the SAFMR methodology, the rent ratio is multiplied by the old FMR to determine the new SAFMR. The SAFMR methodology described above accounts for differences in rent levels across the region, but does not abandon the FMR methodology entirely. However, there are important differences between the data used in the FMR and SAFMR calculations. Three are discussed below:

	FMR	**SAFMR**
Determining rent levels	The FMR methodology uses the most recent 5 year ACS data.	The SAFMR methodology uses the most recent 3 year ACS data.
Accounting for varying rent levels across a region	Under the FMR methodology, HUD determined the rent level needed to access either 40% or 50% of the rental market for a broader metropolitan region. The 50% level was intended to increase access to higher rent areas in the metropolitan region.[3]	The FMR used as part of the SAFMR methodology's final step will ultimately only use 40% rents. Some of the initial SAFMR-qualifying areas will continue to use 50% rents for the remainder of the 3-year period, but all SAFMRs under the proposed rule will ultimately be calculated using the lower rent level.
Accounting for lags in ACS data	The FMR methodology incorporates three updates to account for the three year lag between the most	The SAFMR methodology only updates the two older years of ACS data using the national rental price

[3] For a full explanation, see HUD's methodology page.

	recent ACS data and the current FMR year. First, HUD multiplies the rent by a "Recent Mover Adjustment Factor," which divides the 5 year average from the most recent 1 year average to produce a ratio that accounts for rising prices. Second, HUD uses the most recent local Consumer Price Index data to update the FMR one year. Third, HUD uses national rent rate trends to update the FMR to the current year.	changes. So, for example, the 2016 SAFMRs use the average of 2013 ACS median rents, along with 2012 and 2011 adjusted-median rents. No other attempts are made to further update the 2013 data to 2016 local rent levels.[4]

[4] HUD only uses the median rent to determine the rent ratio. Unless the zip code encompasses a particularly turbulent market relative to the rest of the metropolitan area, there may be no effect.

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