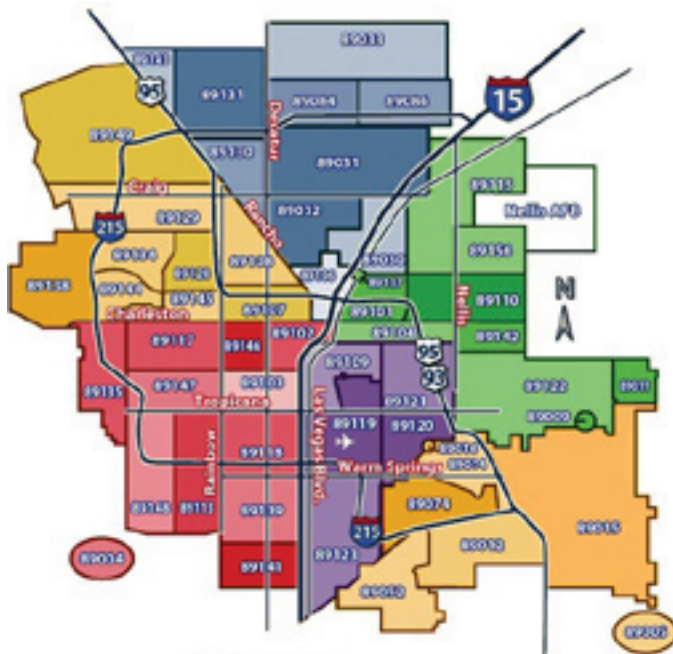


HUD Plans to Set Metropolitan Fair Market Rents for Very Small Areas

Demonstration Program's Risks Could Outweigh Benefits



In this demonstration, HUD is planning on using zip codes to determine FMRs. According to the USPS there are approximately 43,000 ZIP Codes in the United States. This number can fluctuate by a few thousand ZIP Codes annually, depending on the number of changes made. Image above shows the many codes in the Las Vegas, Nevada area.

Policy Summary:

For metropolitan areas, HUD plans to calculate future FMRs using 5 year aggregated American Housing Survey information rather than decennial census information, and HUD will set FMRs for Zip Code Tabulation Areas rather than for the very large areas used since 2005.

Calculating 40th percentile rents by zip code could 1) avoid paying rents above 40th percentile rents in low-cost Zip Codes and 2) permit voucher holders to move into more expensive rental housing in high-cost Zip Codes.

HUD plans to conduct a **12 month demonstration** of this method to assess administrative impacts of the policy, but will not investigate other impacts on participants, applicants, landlords or program costs.

Policy Benefit:

For Participants and Applicants: Voucher holders should have more opportunities to live in available rental housing in higher cost neighborhoods in metropolitan areas, potentially deconcentrating poverty.

Policy Risks:

For Housing Programs: Federal budgets for other assisted housing programs may suffer if the budget for the HCV programs rises significantly due to small area FMRs.

For Participants: Voucher holders living in low-cost zip codes could pay significant rent increases or have to move into lower quality lower cost housing.

For Applicants: Rising voucher costs could reduce the number of vouchers in use, increasing waiting periods.

For Applicants and Participants: Housing searches will become more complicated, with many more FMRs applicable only to zip codes. Landlords in

low-cost Zip Codes may not rent to voucher holders at lower FMRs and payment standards. Landlords in high-cost Zip Codes may not accept vouchers despite higher FMRs and payment standards.

For Landlords: Nearby housing in different Zip Codes or similar housing owned by a single landlord may have dramatically different FMRs and payment standards that may not make sense in the local rental housing market.

For Housing Authorities: HAs will need to cope with tens or hundreds of FMRs instead of one and will establish different payment standards in different Zip Codes. That may complicate rent reasonableness analyses. Briefing participants will be much more complicated, and HAs could face significant confusion among landlords. Recruiting participating landlords may become more complicated, and managing voucher and funding utilization will become much more complicated.

For HUD: Small metropolitan area FMRs expose the program and the department to 1) potential cost increases significantly higher than underlying inflation, 2) depressed voucher utilization again, and 3) lost good will among landlords, participants and applicants.

What Should Happen:

HUD should conduct a rigorous 5 year demonstration of the policy, and investigate the policy's impact on participants, landlords, local housing costs and national voucher costs as well as on program administration.



Policy makers are not yet aware of implications, particularly the risks, of this policy. Metropolitan HAs can help by reviewing small area FMRs for their jurisdiction (http://www.huduser.org/portal/datasets/fmr/fmrs/FY2011_code/select_geography_sa.odb), assess impacts on participants, landlords, applicants and program administrators, and inform policy makers of those impacts. Comment periods for HUD's demonstration and 2011 FMR notices are closed, but HAs can still send HUD comments and concerns with this proposed policy.

PHADA has submitted comments on HUD's proposed demonstration and its discussion of the demonstration in the 2011 FMR notice. Those letters are available at <http://www.phada.org/pdf/Small%20Area%20FMR%20Comments.pdf> and <http://www.phada.org/pdf/2011%20FMR%20Notice%20Comments.pdf>. ■