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DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

[Docket No. FR-6426-N-01]

**Small Area Fair Market Rents in the Housing Choice Voucher Program
Metropolitan Areas Subject to Small Area Fair Market Rents**

AGENCY: Office of the Assistant Secretary for Policy Development and Research and the Office of the Assistant Secretary for Public and Indian Housing, U.S. Department of Housing and Urban Development (HUD).

ACTION: Notice.

SUMMARY: In 2016, HUD completed a final rule requiring the use of Small Area Fair Market Rents (SAFMRs) in certain metropolitan areas to use in the administration of the Housing Choice Voucher (HCV) program. These areas were based on certain selection criteria and values. These criteria are: at least 2,500 HCVs must be under lease in the metropolitan FMR area; at least 20 percent of the standard quality rental stock within the metropolitan FMR area is in small areas (ZIP codes) where the Small Area FMR is more than 110 percent of the metropolitan FMR; the percentage of voucher families living in concentrated low-income areas within the area must be at least 25 percent; the measure of the percentage of voucher holders living in concentrated low-income areas relative to all renters within these areas over the entire metropolitan area exceeds 155 percent (or 1.55); and the vacancy rate for the metropolitan area is higher than 4 percent. This notice lists the metropolitan areas that will be subject to Small Area FMRs based on the final rule's requirement that HUD "make new area designations every 5 years thereafter as new data becomes available."

DATE: *Implementation date:* October 1, 2024.

FOR FURTHER INFORMATION CONTACT: Questions on this notice may be addressed to Peter Kahn, Associate Deputy Assistant Secretary, Office of Policy Development, Office of Policy Development and Research, HUD Headquarters, 451 7th Street SW, Room 8106, Washington, DC 20410, telephone number (202)–402–2409; or via email at SAFMR_Rule@hud.gov. HUD welcomes and is prepared to receive calls from individuals who are deaf or hard of hearing, as well as individuals with speech or communication disabilities. To learn more about how to make an accessible telephone call, please visit:

<https://www.fcc.gov/consumers/guides/telecommunications-relay-service-trs>.

This Federal Register notice will be available electronically from the HUD User page at <https://www.huduser.gov/portal/datasets/fmr.html>. Federal Register notices also are available electronically from <https://www.federalregister.gov>.

SUPPLEMENTARY INFORMATION:

I. Background

On November 16, 2016, HUD published a final rule entitled “Establishing a More Effective Fair Market Rent (FMR) System; Using Small Area Fair Market Rents (Small Area FMRs) in Housing Choice Voucher Program Instead of the Current 50th Percentile FMRs” (81 FR 80567) (“final rule” or “Small Area FMRs final rule”). As HUD explained in the 2016 Rule, Small Area FMRs complement HUD’s other efforts to support households in making informed choices about units and neighborhoods with the goal of increasing the share of households that choose to use their vouchers in low poverty opportunity areas. In the final rule, HUD announced amendments to HUD’s FMR regulations applicable to the HCV program. Also on November 16, 2016, HUD published a Federal Register notice entitled “Small Area Fair Market Rents in

Housing Choice Voucher Program Values for Selection Criteria and Metropolitan Areas Subject to Small Area Fair Market Rents” (81 FR 80678) (“November 2016 notice”) which established the values for the selection criteria and listed the initial metropolitan areas that are subject to SAFMRs implemented through the Small Area FMRs final rule.

The final rule included a requirement that HUD make new area designations every 5 years as new data becomes available. Because the PHAs operating in the areas mandated in the November 2016 notice began using SAFMRs beginning on April 1, 2018, it is now appropriate for HUD to undertake the evaluation of new data and identify additional areas where SAFMRs will be required.

II. Policy Development Process and Stakeholder Engagement

Staff from the Office of Policy Development and Research (PD&R) and the Office of Public and Indian Housing (PIH) engaged in a process of stakeholder outreach and policy development to learn about the implementation of SAFMRs. HUD engaged local PHAs, researchers, and key stakeholders, including fair housing groups, to better understand PHAs’ implementation of SAFMRs and their impact on families.

PD&R and PIH held listening sessions with PHAs in several metropolitan areas that were required to adopt SAFMRs under the 2016 rule. Overall, HUD heard from 19 PHAs across these metropolitan areas, as well as from a statewide agency managing the Housing Choice Voucher program.

HUD also met with researchers conducting research on the impacts of SAFMRs. PD&R has provided data licenses to four research teams to conduct SAFMR analyses, and two of those

teams presented initial findings using HUD's administrative data. (The other research teams do not yet have research findings to share.)

In the policy development process, HUD sought answers to two basic categories of questions:

- 1) What challenges did PHAs experience in the implementation and administration of SAFMRs? How could HUD improve the policy to make implementation easier?
- 2) How did the use of SAFMRs impact families with vouchers? Is there evidence that the use of SAFMRs expanded housing choices and opportunity, particularly their ability to access higher-rent, lower-poverty areas?

HUD listening sessions with PHAs focused on their experience with implementing SAFMRs, including administrative burdens. PHAs emphasized that implementation required changes to IT systems, staff training, revision of materials and briefings for tenants, and a process of landlord education. While experience varied, many PHAs found the implementation challenging in one or more of these areas, at least initially. Many PHAs also felt that the rollout of the initial SAFMRs happened too quickly, and that PHAs should have at least six months -- or perhaps a year -- to implement the program. Nearly all PHAs also emphasized the importance of additional training and technical assistance to implement SAFMRs.

The academic research teams' preliminary data analysis using HUD's administrative records identified the following key findings:

New voucher recipients were more likely to move to low-poverty neighborhoods after SAFMRs were implemented. The program reduced their overall concentration in low-rent, high-poverty neighborhoods. This finding held across demographic groups, including households of

color and those with children. However, the magnitude of these positive effects is modest. These findings for newly admitted families are consistent with those from prior studies, such as HUD's 2017 interim evaluation of the SAFMR demonstration at five sites. The latter study, however, found much larger increases in the share of existing voucher holders that moved to high-rent areas following SAFMR implementation.

SAFMRs did not affect the success of households with vouchers in leasing up (i.e., the number of households leasing up within 180 days), even for high-barrier households or those living in zip codes where SAFMRs were lower than FMRs.

These researchers have not yet examined the financial impacts of SAFMRs on PHAs, including the average HAP paid by PHAs. HUD's 2017 study found, however, that average per unit costs (PUCs) and housing assistance payments (HAPs) declined after SAFMR implementation, as increased costs in higher-rent areas were more than offset by lower costs in lower-rent areas.

HUD's staff undertook an analysis of PHA PUC information between 2015 and 2022. While the average PUC in the mandated metropolitan areas is higher than the average PUC in 2 control groups identified as part of the analysis, there is little discernible difference in the annual change in average PUC in each of these areas. In other words, PUCs did not rise more quickly in mandated metropolitan areas than in other metropolitan areas. The control groups were those areas that met four of the five criteria and three of the five criteria in 2016.¹

III. Selection Parameters for Identifying Small Area FMRs Area

¹ Note: All areas used as control groups met the 2,500 voucher units under lease criteria.

Following the outreach process, HUD's analysis of administrative data and the evaluation of updated selection criteria, HUD deliberated on the appropriate next steps. Following these deliberations, HUD committed to provide: adequate technical assistance, opportunities for peer-to-peer training, additional program materials, and additional training for HUD field office staff.

Through this notice, HUD is affirming the same selection values used to determine the first cohort of metropolitan FMR areas subject to SAFMRs for use in the administration of tenant-based assistance under the HCV program in this next round of determinations.²

Metropolitan FMR areas meeting the following requirements will be subject to Small Area FMRs consistent with 24 CFR 888.113(c):

(i) There are at least 2,500 HCVs under lease, counted using HUD administrative data as of December 31, 2022;

(ii) At least 20 percent of the standard quality rental stock, within the metropolitan FMR area is in small areas (ZIP codes) where the Small Area FMR is more than 110 percent of the metropolitan FMR, measured using HUD's special tabulations of American Community Survey (ACS) data through the distribution of Adjusted Standard Quality Rental Units, and FY 2023 Fair Market Rents;³

(iii) The percentage of voucher families living in concentrated low-income areas within the area must be at least 25 percent calculated using 2023 designations of Qualifies Census Tracts and 2021 ACS 5-year tabulations of renter occupied units;

² 24 CFR 888.113(c)(4) states, in part, that SAFMR designations are permanent; therefore, the first cohort of areas remain required SAFMR areas and were not reevaluated.

³ For criteria (ii) – (iv) the specifics of how the criteria is calculated is found in the Notice of Proposed Rulemaking, available at <https://www.huduser.gov/portal/datasets/fmr/fmr2016p/SAFMR-Notice-Proposed-Rule.pdf>.

(iv) The measure of the percentage of voucher holders living in concentrated low-income areas relative to all renters within these areas over the entire metropolitan area exceeds 155 percent (or 1.55) using the 2023 designations of Qualified Census Tracts; and

(v) The vacancy rate for the metropolitan area is higher than 4 percent calculated as the average of the vacancy rates for each area calculated from the 2018, 2019 and 2021 1-year ACS tabulations.⁴

The additional metropolitan FMR Areas that meet these requirements are as follows:

Akron, OH MSA
 Augusta-Richmond County, GA-SC HUD Metro FMR Area
 Beaumont-Port Arthur, TX MSA
 Birmingham-Hoover, AL HUD Metro FMR Area
 Buffalo-Cheektowaga-Niagara Falls, NY MSA
 Charleston-North Charleston, SC MSA
 Chattanooga, TN-GA MSA
 Cincinnati, OH-KY-IN HUD Metro FMR Area
 Cleveland-Elyria, OH MSA
 Columbus, OH HUD Metro FMR Area
 Dayton-Kettering, OH MSA
 Des Moines-West Des Moines, IA HUD Metro FMR Area
 Detroit-Warren-Livonia, MI HUD Metro FMR Area
 Fort Wayne, IN MSA
 Greensboro-High Point, NC HUD Metro FMR Area
 Harrisburg-Carlisle, PA MSA
 Indianapolis-Carmel, IN HUD Metro FMR Area
 Jersey City, NJ HUD Metro FMR Area
 Kansas City, MO-KS HUD Metro FMR Area
 Knoxville, TN HUD Metro FMR Area
 Los Angeles-Long Beach-Glendale, CA HUD Metro FMR Area
 Louisville, KY-IN HUD Metro FMR Area
 Memphis, TN-MS-AR HUD Metro FMR Area
 Miami-Miami Beach-Kendall, FL HUD Metro FMR Area

⁴ The calculation of the vacancy rate is defined in the Final Rule, available at <https://www.huduser.gov/portal/datasets/fmr/fmr2016f/SAFMR-Final-Rule.pdf>.

Mobile, AL HUD Metro FMR Area
Montgomery, AL MSA
Nashville-Davidson--Murfreeseboro--Franklin, TN HUD Metro FMR Area
Oklahoma City, OK HUD Metro FMR Area
Omaha-Council Bluffs, NE-IA HUD Metro FMR Area
Orlando-Kissimmee-Sanford, FL MSA
Oxnard-Thousand Oaks-Ventura, CA MSA
Phoenix-Mesa-Scottsdale, AZ MSA
Raleigh, NC MSA
San Jose-Sunnyvale-Santa Clara, CA HUD Metro FMR Area
Seattle-Bellevue, WA HUD Metro FMR Area
St. Louis, MO-IL HUD Metro FMR Area
Tucson, AZ MSA
Tulsa, OK HUD Metro FMR Area
Virginia Beach-Norfolk-Newport News, VA-NC HUD Metro FMR Area
Wichita, KS HUD Metro FMR Area
Winston-Salem, NC HUD Metro FMR Area

Consistent with the first cohort of Small Area FMR designated areas and as stated in 24 CFR 888.113(c)(4), these designations are permanent.

IV. Additional Information

Since the first cohort of mandatory Small Area FMR areas were required to begin using Small Area FMRs in the administration of the tenant-based voucher programs in April of 2018, this notice fulfills HUD's 5-year requirement under the Small Area FMR final rule. Setting the implementation date of this notice as October 1, 2024, provides sufficient time for PHAs operating in the newly announced required areas to acquire sufficient training and provides time for further market analysis to prepare to set their payments standards using Small Area FMRs instead of metropolitan area-wide FMRs. Finally, setting an implementation date of October 1, 2024, provides that PHAs operating in this second cohort of mandatory areas, under normal voucher program operations, must have their payment standards aligned with the Small Area

FMRs in their operating areas by January 1, 2025. Should a PHA operating in these 41 areas wish to begin using Small Area FMRs in the administration of their voucher programs prior to October 1, 2024, they will need to seek HUD permission pursuant to an opt-in decision by a PHA under 24 CFR 888.113(c)(3): "A PHA administering an HCV program in a metropolitan area not subject to the application of Small Area FMRs may opt to use Small Area FMRs by seeking approval from HUD's Office of Public and Indian Housing (PIH) through written request to PIH." Until the SAFMRs take effect for PHAs in the 41 metropolitan areas identified in this Notice, any decision by a PHA to use SAFMRs is an opt-in decision, consistent with 24 CFR 88.113(c)(3) and Section 5(b) of PIH Notice 2018-01.

If a PHA operating in one these 41 areas is unable to implement Small Area FMRs within the timeframes provided in this notice, they may petition HUD for a temporary exemption as specified in 24 CFR 888.113 (c)(4), which states in part, “HUD may suspend a Small Area FMR designation from a metropolitan area, or may temporarily exempt a PHA in a Small Area FMR metropolitan area from use of Small Area FMRs, when HUD by notice make a documented determination that such action is warranted. Actions that may serve as the basis of a suspension of Small Area FMRs are: (i) A Presidentially declared disaster area that results in the loss of a substantial number of housing units; (ii) A sudden influx of displaced households needing permanent housing; or (iii) Other events as determined by the Secretary.” For additional guidance, PHAs who want to petition HUD for an exemption should refer to section 9 of PIH Notice 2018-01, available at <https://www.hud.gov/sites/dfiles/PIH/documents/PIH-2018-01.pdf>.

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