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Guidance

FY2015 Appropriations Act
- Maintains FY2014 rent increase phase-in requirements, and
- Requires that flat rents be set no less than the lower of:
  - 80% of Fair Market Rent (FMR)
  - 80% of Small Area Fair Market Rent (SAFMR), or Unadjusted Rent (when applicable)
- Establishes exception flat rent option when 80% of FMR or SAFMR is not reflective of local market conditions.

Notice 2017-23 (Published: November 30, 2017)
- HUD minimum rents may not exceed LIHTC maximum rents.
- New flat rent exception request submission deadline: December 31.
- Flat rent exception market analyses submissions must value PHA local market conditions.
Flat Rent Options Overview

1. **Option I: 80% of FMR**
   - \((FMR \times 80\%) - \text{Utility Allowance}\)

2. **Option II: 80% of SAFMR**
   - \((SAFMR \times 80\%) - \text{Utility Allowance}\)
   - Areas where HUD does not publish a SAFMR, HUD will permit PHAs to use 80% of the unadjusted rent to satisfy this option.

3. **Option III: Flat Rent Exception**
   - If a PHA does not believe 80% of FMR or SAFMR is reflective of its local market, a PHA may submit an exception flat rent based on a PHA produced market analysis.
Timelines - Options I, II, and III

FMR Updates
➢ HUD posts new FMRs annually. Typically, the final FMR rates for the current Fiscal Year (FY) are effective on or around October 1.

FMR Implementation
➢ PHAs have 90-days from the effective date of new FMRs to either implement FMR-based flat rents (Options I or II) or submit an exception flat rent request (Option III). This would mean, in a typical year PHAs have until December 31.

FMR Effective Duration
➢ Rents remain effective until the sooner of:
   1. The end of the 90-day period commencing the next effective date of HUDs final FMR (typically, December 31), or
   2. The date which the PHA updates and makes effective its flat rents schedule based on that FY FMR; whichever comes first.

Flat Rent Extensions
➢ PHAs may request a 2-year extension of previously approved exception flat rent. Extension requests are due to HUD no later than 90-days after the effective date of the final FMRs published by HUD (typically, December 31).

FY2018 Due Dates - Exception Flat Rent and Flat Rent Extensions
For FY2018 only PHAs have until February 16, 2018 to submit Flat Rent Exception Requests or Flat Rent Exception Extension Requests.
Websites
(HUD Published FMR, SAFMR, Unadjusted Rent)

**FMR:**
https://www.huduser.gov/portal/datasets/fmr.html

**SAFMR:**
https://www.huduser.gov/portal/datasets/fmr/smallarea/index.html

**Unadjusted Rent:**
https://www.huduser.gov/portal/datasets/fmr.html#2018_data
Option III - Flat Rent Exception

Applicability

➢ If a PHA does not believe 80% of FMR or SAFMR is reflective of its local market, a PHA may submit an exception flat rent based on a PHA produced market analysis.

➢ HUD only requires flat rent exception requests when PHAs are setting flat rents at an amount that is lower than the lesser of:
  ➢ 80% FMR, or
  ➢ 80% SAFMR (or 80% of Unadjusted Rent; when applicable)
Flat Rent Exception Requests – Submission Information

Flat Rent Exception Request Submissions Must Include:

1. The address, including unit numbers(s) and AMP number(s) of the units or property for which the PHA is seeking an exception flat rent.
3. Proposed flat rent schedule.
What is a Market Analysis?

➢ A Flat Rent Exception Market Analysis should collect and analyze the local rental market conditions to determine the average and appropriate rent for an area.

➢ There is no one standard methodology of how to conduct a market study.

➢ There must be a clear connection between the market conditions and the PHA conditions in order to determine the appropriate flat rent.
Market Analysis Content Requirements

➢ Narrative explanation and/or excel representation of methodology used to compare public housing units to unassisted market rate units in the area.

➢ Narrative discussion of the factors used to establish a proposed rent schedule. Factors may include:
  ➢ Location, quality, size, unit type, age of unit;
  ➢ Amenities, housing services, maintenance; and
  ➢ Utilities the PHA and/or the landlord pay under the applicable lease.

➢ A key explaining the calculations used to determine the valuation of each factor.
Steps to Conducting a Market Analysis

1. Select Comparable Market Rate Units
2. Compare PHA Units to Comparable Market Rate Units
3. Make Adjustments and Develop a Key
4. Calculate Flat Rent
5. Finalize Narrative and Explain Methodology
Selecting Comparable Market Rate Units

Only three (3) comparable market rate units per bedroom size are required.

Market rate units should be selected with the following factors in mind:

➢ **Location**: physically located in the same market as the PHA property.
➢ **Quality**: comparable physical condition.
➢ **Size**: comparable bedroom size (square footage) and number of bathrooms.
➢ **Age**: developments closest in age to the PHA property.
➢ **Type**: unsubsidized by a government or non-profit agency.
Comparing PHA Units to Comparable Market Rate Units

“Apples to Apples”

Subject - PHA

Comparable Market Rate Units
Comparing PHA Units to Comparable Market Rate Units

The market study does not need to include all amenities listed below but should evaluate factors relative to the local rental market.

- **General Condition**: Age, unit square footage, parking, closet size, curb appeal, etc.
- **Location**: Proximity to parks, schools, grocery stores, public transit, etc.
- **On-Site amenities**: Playground, laundromat, daycare, maintenance, etc.
- **In-Unit Amenities**: Carpeting, dishwasher, window treatments, refrigerator, laundry, bathroom quantity, etc.
- **Building Style**: Apartment, duplex, single family home.
Making Adjustments and Developing a Key

Take into account who pays the utilities.

<table>
<thead>
<tr>
<th></th>
<th>Utility Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Electricity</td>
</tr>
<tr>
<td>Comp 1</td>
<td>Tenant Paid</td>
</tr>
<tr>
<td>Comp 2</td>
<td>Tenant Paid</td>
</tr>
<tr>
<td>Comp 3</td>
<td>Tenant Paid</td>
</tr>
<tr>
<td>PHA</td>
<td>PHA Paid</td>
</tr>
</tbody>
</table>
Making Adjustments and Developing a Key

In this scenario:

• **Electricity** is PHA paid, therefore it is included in the rent amount. Whereas, the tenant must pay for electricity in addition to the rent amount for the comparable unit. Therefore, the amount spent on electricity must be added to adjust the comparable units rent.

• **Water/Sewer** is paid by residents at the PHA and included in the comparable rent. Therefore, the cost of utility should be deducted from the comparable rent.

• **Trash** is paid for at both the PHA and Comparable units by the Landlord; therefore no adjustments need to be made.
Comparing PHA Units to Comparable Market Rate Units

The market study should evaluate both the public housing and market rate units and adjust for differences in order to determine the fair market rent for the public housing units.

<table>
<thead>
<tr>
<th></th>
<th>PHA</th>
<th>Comp 1</th>
<th>Comp 2</th>
<th>Comp 3</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Rent</strong></td>
<td></td>
<td>$450</td>
<td>$385</td>
<td>$512</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td>1965</td>
<td>1985</td>
<td>2005</td>
<td>1973</td>
</tr>
<tr>
<td><strong>Year Renovated</strong></td>
<td></td>
<td></td>
<td></td>
<td>2012</td>
</tr>
<tr>
<td><strong>Refrigerator (Y/N)</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td><strong>Dishwasher (Y/N)</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td><strong>Laundry (Y/N)</strong></td>
<td></td>
<td>On-Site</td>
<td>Connections</td>
<td>In Unit</td>
</tr>
<tr>
<td><strong>Carpeting (Y/N)</strong></td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
</tr>
</tbody>
</table>
Making Adjustments and Developing a Key

A market analysis should identify and compare the amenities and general conditions and adjust for differences in order to determine the fair market rent for PHA units.

Subject – PHA Rent = $300

Comparable Unit Rent = $500
## Calculating Flat Rent

<table>
<thead>
<tr>
<th></th>
<th>PHA</th>
<th>Comp 1</th>
<th>Adj.</th>
<th>Comp 2</th>
<th>Adj.</th>
<th>Comp 3</th>
<th>Adj.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rent</td>
<td></td>
<td>$450</td>
<td></td>
<td>$385</td>
<td></td>
<td>$512</td>
<td></td>
</tr>
<tr>
<td>Age</td>
<td>1965</td>
<td>1985</td>
<td>-$10</td>
<td>2005</td>
<td>-$20</td>
<td>1973</td>
<td></td>
</tr>
<tr>
<td>Year Renovated</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>2012</td>
<td>-$20</td>
</tr>
<tr>
<td>Refrigerator (Y/N)</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td>Yes</td>
<td></td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Dishwasher (Y/N)</td>
<td>Yes</td>
<td>-$10</td>
<td></td>
<td>Yes</td>
<td></td>
<td>Yes</td>
<td>-$10</td>
</tr>
<tr>
<td>Laundry (Y/N)</td>
<td>On-Site</td>
<td>On-Site</td>
<td>Hook-Ups</td>
<td>$5</td>
<td>In Unit</td>
<td>-$10</td>
<td></td>
</tr>
<tr>
<td>Carpeting (Y/N)</td>
<td>Yes</td>
<td></td>
<td></td>
<td>Yes</td>
<td></td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>Electricity (Included in Rent?)</td>
<td>Yes</td>
<td></td>
<td>$30</td>
<td>$30</td>
<td>$30</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water (Included in Rent?)</td>
<td>No</td>
<td>Yes</td>
<td>-$40</td>
<td>Yes</td>
<td>-$40</td>
<td>Yes</td>
<td>-$40</td>
</tr>
<tr>
<td>Trash (Included in Rent?)</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted Rent</td>
<td></td>
<td>$420</td>
<td></td>
<td>$360</td>
<td></td>
<td>$472</td>
<td></td>
</tr>
</tbody>
</table>

- Make adjustments to comp units according to what amenities and utilities are included in the PHAs rent.
- This will result in an adjusted rent.
Calculating Flat Rent

- Average the adjusted rents from the Market Study to find the Exception Flat Rent for Each Bedroom size.

<table>
<thead>
<tr>
<th>2 Bedroom</th>
<th>Proposed Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comp 1</td>
<td>$420</td>
</tr>
<tr>
<td>Comp 2</td>
<td>$360</td>
</tr>
<tr>
<td>Comp 3</td>
<td>$472</td>
</tr>
<tr>
<td>Proposed Rent</td>
<td>$417</td>
</tr>
</tbody>
</table>
# Making Adjustments and Developing a Key

<table>
<thead>
<tr>
<th>Key</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>$5 for every 10 years</td>
</tr>
<tr>
<td>Air Conditioning</td>
<td>Central $0</td>
</tr>
<tr>
<td></td>
<td>Window - $5</td>
</tr>
<tr>
<td></td>
<td>Neither - $10</td>
</tr>
<tr>
<td>Curb Appeal</td>
<td>Good $0</td>
</tr>
<tr>
<td></td>
<td>Better $5</td>
</tr>
<tr>
<td></td>
<td>Best $10</td>
</tr>
<tr>
<td>Housing Type</td>
<td>Apartment</td>
</tr>
<tr>
<td></td>
<td>Duplex $10</td>
</tr>
<tr>
<td></td>
<td>House $15</td>
</tr>
</tbody>
</table>

Include:

- Any formulas used for Adjustments.
- Differentiation and valuing of categories.
- Multipliers for when comp’s do not have certain bedroom sizes.
Finalize Narrative and Explain Methodology

After making any necessary amenity adjustments and establishing a proposed flat rent schedule, PHAs should develop and finalize their narrative, explaining their methodology.

Narratives should include explanatory justifications for any comparable inconsistencies. For example, when:

1. There is an insufficient number of comparable market rate units;
2. An analysis compares different types of units (i.e. multifamily and single family units of the same bedroom size);
3. An analysis compares units that are not located in close in proximity.

Documentation and explanation is ☐
Finalize Narrative and Explain Methodology

<table>
<thead>
<tr>
<th>Bedroom Size</th>
<th>Proposed Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 BR</td>
<td>$375</td>
</tr>
<tr>
<td>2 BR</td>
<td>$417</td>
</tr>
<tr>
<td>3 BR</td>
<td>$503</td>
</tr>
<tr>
<td>4 BR</td>
<td>$600</td>
</tr>
</tbody>
</table>

• Include the Proposed Flat Rents clearly in your study.
Estimates of Market Rent by Comparison

1. Unit Type
2. Subject Property Address
3. Comparable Property No. 1 Address
4. Comparable Property No. 2 Address

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Data</th>
<th>Data</th>
<th>Adjustments</th>
<th>Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Effective Date of Rental</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Type of Project/Stories</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Floor of Unit in Building</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Project Occupancy %</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Concessions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Year Built</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Sq. Ft. Area</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Number of Bedrooms</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9. Number of Baths</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10. Number of Rooms</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Balc./Terrace/Patio</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12. Garage or Carport</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>b. Range/Oven</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>c. Refrigerator</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>d. Disposal</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Common Issues with Market Analyses

➢ Lacking utility data.
➢ Lacking the minimum three (3) comparables units.
➢ Arbitrarily assigning amenity values.
➢ Placing apples with oranges without an explanation.
➢ Assigning different monetary values for similar amenities without explanation.
➢ Using subsidized units as comparables.
➢ Using comparables from other states.
➢ Lacking a methodological explanation.
Flat Rent Exception Review Process – New Submissions

PHAs have 90-days from the effective date of new FMRs (typically published October 31) to submit an exception flat rent request. This would mean PHAs have until December 31, in a typical year.

During Reviews:
- While HUD reviews a PHAs exception request, the PHA may continue to utilize its current flat rent schedule.

Incomplete Reviews:
- HUD will provide the PHA with two (2) opportunities to cure deficiencies before disapproving.
- PHAs must respond in writing no later than 30-days after receiving HUDs notification of insufficient submission.
- While awaiting response from HUD, the PHA may continue to utilize its current flat rent schedule.
Flat Rent Exception Disapprovals

If a PHA cannot provide sufficient information to justify its exception after two (2) requests for additional information, HUD will deny the request.

If Denied:

➢ The PHA must immediately revise its flat rent rates using an applicable FMR (Options I and II), and the updated flat rents must be applied to any intake or reexamination that takes effect 60-days after the denial date.
Flat Rent Exception Extensions

Flat rent exception requests must be approved by HUD on an annual basis unless the PHA requests an extension.

**Extensions:** PHAs may request an extension of previously approved exception flat rent under the following circumstances:

1. The market study accompanying the previously approved request is no more than 2 years old;
2. Local market conditions remain unchanged; and
3. The PHA submits the extension request to HUD no later than 90-days after the effective date of the final FMRs published by HUD (December 31).

*NOTE:* For FY2018 only PHAs have until **February 16, 2018** to submit Flat Rent Exception Extension Requests.
Flat Rent Exception Extensions

If during the 2-year renewal period, the PHA becomes aware of a change in local market conditions that would impact the market, the PHA must:

1. Discontinue the use of the current flat rent exception and use one of the applicable FMRs (Option I or II); or
2. Conduct a new market analysis and submit a new flat rent exception request to HUD for approval.

The PHA may continue to use the current flat rent exception amounts until HUD issues a decision.
Frequently Asked Questions

1. What is the maximum increase for flat rents?
   • 35% maximum annual increase.

2. Can a PHA set different flat rents for different PHA properties?
   • Yes, however, the PHA must provide an explanation (i.e. different locations: downtown vs. suburbs; different amenities; different sizes, etc.).

3. The market study calculated the appropriate market rent at $500. Should the flat rent be set at $500 x 80% = $400?
   • No, the rent should be set at $500 based on the results of the market study. Not 80% of the results of the market study.

4. Can neighboring PHAs submit a joint waiver request?
   • Yes, if they are in a shared rental market.

5. Can a PHA submit an extension request with minor modifications or changes to its previously approved rents?
   • No, they must submit a new exception request.
Questions?
Thank you!

For more information, contact a member of the Flat Rent Team!

General Questions and to Submit an Exception or Extension Request: flatrentexceptionrequests@hud.gov

The Flat Rent Team:

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Miranda Stern: miranda.k.stern@hud.gov

Aisha Turner: aisha.r.turner@hud.gov