Flat Rent Guidance

HUD FLAT RENT REQUIREMENTS
OFFICE OF PUBLIC AND INDIAN HOUSING
MANAGEMENT AND OCCUPANCY DIVISION
2018
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Guidance

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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:
  1. 80% of Fair Market Rent (FMR)
  2. 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)**
Option to extend previously approved exception requests for up to 2 years.

PHAs administering ceiling rents must use line 10b (flat rent) on the HUD Form-50058 to report applicable maximum rents.

HUD minimum rents may not exceed Low Income Housing Tax Credit (LIHTC) maximum rents (when applicable).

New flat rent exception requests, or extension request submission deadline: December 31 (in a typical year).

Flat rent exception market analyses submissions must value PHA local market conditions.
Flat Rent Options Overview

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

2. **Option II: 80% of SAFMR**
   - \((\text{SAFMR} \times 80\%) - \text{Utility Allowance}\)
     - 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).
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

➢ 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)

➢ 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.
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?

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

➢ 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 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

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

2. 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.

3. 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.
➢ **Age:** developments closest in age to the PHA property.
➢ **Size:** comparable bedroom size (square footage) and number of bathrooms.
➢ **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

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
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>Rent</td>
<td>$300</td>
<td>$400</td>
<td>$385</td>
<td>$500</td>
</tr>
<tr>
<td>Age</td>
<td>1965</td>
<td>1985</td>
<td>2005</td>
<td>1973</td>
</tr>
<tr>
<td>Year Renovated</td>
<td></td>
<td></td>
<td>2012</td>
<td></td>
</tr>
<tr>
<td>Refrigerator (Y/N)</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Dishwasher (Y/N)</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>Laundry (Y/N)</td>
<td>Hook Ups</td>
<td>On-Site</td>
<td>Hook Ups</td>
<td>In Unit</td>
</tr>
<tr>
<td>Carpeting (Y/N)</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
</tbody>
</table>
Making Adjustments and Developing a Key

Take into account who pays the utilities.

<table>
<thead>
<tr>
<th>Comp</th>
<th>Electricity</th>
<th>Gas</th>
<th>Water/Sewer</th>
<th>Trash</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comp 1</td>
<td>Tenant Paid</td>
<td>N/A</td>
<td>Landlord Paid</td>
<td>Landlord Paid</td>
</tr>
<tr>
<td>Comp 2</td>
<td>Tenant Paid</td>
<td>N/A</td>
<td>Landlord Paid</td>
<td>Landlord Paid</td>
</tr>
<tr>
<td>Comp 3</td>
<td>Tenant Paid</td>
<td>N/A</td>
<td>Landlord Paid</td>
<td>Landlord Paid</td>
</tr>
<tr>
<td>PHA</td>
<td>PHA Paid</td>
<td>N/A</td>
<td>Tenant Paid</td>
<td>PHA Paid</td>
</tr>
</tbody>
</table>

Study should find the “total out of pocket expense” for a tenant.
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; no adjustments need to be made.

<table>
<thead>
<tr>
<th>Utility Responsibility</th>
<th>Electricity</th>
<th>Gas</th>
<th>Water/Sewer</th>
<th>Trash</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comp 1</td>
<td>Tenant Paid</td>
<td>N/A</td>
<td>Landlord Paid</td>
<td>Landlord Paid</td>
</tr>
<tr>
<td>Comp 2</td>
<td>Tenant Paid</td>
<td>N/A</td>
<td>Landlord Paid</td>
<td>Landlord Paid</td>
</tr>
<tr>
<td>Comp 3</td>
<td>Tenant Paid</td>
<td>N/A</td>
<td>Landlord Paid</td>
<td>Landlord Paid</td>
</tr>
<tr>
<td>PHA</td>
<td>PHA Paid</td>
<td>N/A</td>
<td>Tenant Paid</td>
<td>PHA Paid</td>
</tr>
</tbody>
</table>
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>$400</td>
<td></td>
<td>$385</td>
<td></td>
<td>$500</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>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Dishwasher (Y/N)</td>
<td>No</td>
<td>Yes</td>
<td>-$10</td>
<td>No</td>
<td>Yes</td>
<td></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>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Electricity (Included in Rent?)</td>
<td>Yes</td>
<td>No</td>
<td>$30</td>
<td>No</td>
<td>$30</td>
<td>No</td>
<td>$30</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>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted Rent</td>
<td></td>
<td>$370</td>
<td></td>
<td>$360</td>
<td></td>
<td>$450</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 find the value of that unit in the market via an “adjusted rent”.

20
Calculating Flat Rent

<table>
<thead>
<tr>
<th>2 Bedroom</th>
<th>Proposed Rent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Comp 1</td>
<td>$370</td>
</tr>
<tr>
<td>Comp 2</td>
<td>$360</td>
</tr>
<tr>
<td>Comp 3</td>
<td>$450</td>
</tr>
<tr>
<td>Proposed Rent</td>
<td>$393</td>
</tr>
</tbody>
</table>

• Average the adjusted rents from the Market Study to find the Exception Flat Rent for Each Bedroom size.
Making Adjustments and Developing a Key

<table>
<thead>
<tr>
<th>Key</th>
<th>Include:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age</td>
<td>• Any formulas used for Adjustments.</td>
</tr>
<tr>
<td>Age</td>
<td>• Multipliers for when comp’s do not have certain bedroom sizes.</td>
</tr>
<tr>
<td>Air Conditioning</td>
<td>• Differentiation and valuing of categories.</td>
</tr>
<tr>
<td>Central $0</td>
<td>$5 for every 10 years</td>
</tr>
<tr>
<td>Window - $5</td>
<td>Good $0</td>
</tr>
<tr>
<td>Neither - $10</td>
<td>Better $5</td>
</tr>
<tr>
<td></td>
<td>Best $10</td>
</tr>
<tr>
<td>Curb Appeal</td>
<td>Apartment</td>
</tr>
<tr>
<td></td>
<td>Duplex $10</td>
</tr>
<tr>
<td>Housing Type</td>
<td>House $15</td>
</tr>
<tr>
<td>Apartment</td>
<td></td>
</tr>
</tbody>
</table>
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 proximity.

Documentation and explanation is
Finalize Narrative and Explain Methodology

### PIC Number

<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.
- Specify AMPs Numbers
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.
### Estimates of Market Rent by Comparison

**Public Reporting Burden:**

Public reporting burden for this collection of information is estimated to average 19 hours per response, including the time for reviewing instructions, searching existing data sources, gathering and maintaining the data needed, and completing and reviewing the collection of information. You are not required to respond to this collection of information unless the collection displays a currently valid OMB control number.

This information is being collected under Public Law 101-622, which requires the Department of Housing and Urban Development to implement a system for mortgage insurance that would result in competitive terms in accordance with the Freedom of Information Act.

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Data</th>
<th>Data</th>
<th>Adjustments</th>
<th>Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Unit Type</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Subject Property (Address)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A. Comparable Property No. 1 (address)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B. Comparable Property No. 2 (address)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- 3. Effective Date of Rental
- 4. Type of Project/Stories
- 5. Floor of Unit in Building
- 6. Project Occupancy %
- 7. Concessions
- 8. Year Built
- 9. Sq. Ft. Area
- 10. Number of Bedrooms
- 11. Number of Baths
- 12. Number of Rooms
- 13. Balcony/Terrace/Patio
- 14. Garage or Carport
- 15. Equipment
  - a. A/C
  - b. Range/Oven
  - c. Refrigerator
  - d. Disposal

[https://www.hud.gov/program_offices/administration/hudclips/forms/hud9](https://www.hud.gov/program_offices/administration/hudclips/forms/hud9)
Flat Rent Exception Review Process – New Submissions

PHAs have 90-days from the effective date of new FMRs (typically published October 1) to submit a flat rent exception 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 Submissions:**
- HUD will provide the PHA with two (2) opportunities to address 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 a 2 year extension of previously approved flat rent exceptions 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).
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.
Role of the Field Office

The Field Office plays a critical role in the Flat Rent Exception Process due to:

1. Local knowledge of the rental markets;
2. Relationships with Public Housing Authorities.

The Field Office review process follows:

1. The Field Office Director designates a reviewer and forwards the form e-mail with the FO Checklist to the reviewer.
2. The reviewer will then review the documents in the SharePoint Page for the current fiscal year within 10 days.
3. The reviewer will then complete the FO Checklist, upload to the SharePoint Page, and send a confirmation e-mail to FlatRentExceptionRequests@hud.gov.
Field Office Reviewer Checklist

1. Quantity and Quality of Comparable Units
2. Basic Comparables
3. Amenities
4. Utilities
5. Calculations
6. FO Recommendation
Find PHA Documents

1. Select PHA
2. Click “…”
3. Select “View Item”
4. Download attachments
Uploading FO Checklist in SharePoint

Upload FO Checklist:

1. Click “…”
2. Choose "Edit Item"
3. Complete, sign, and upload FO checklist
4. Attach file
5. Complete “FO Reviewer Name” and “FO Approval Date”
6. Save
Frequently Asked Questions

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

2. When can the PHA submit for FY 19?
   • PHAs can submit Flat Rent Exception Requests once FMR and SAFMR data is issued for FY 2019. Typically around 1 October.

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.
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
Questions?