MATCHING LOCAL RENTAL MARKETS

STRATEGY: MATCHING LOCAL RENTAL MARKETS

Matching payment standards to align with various neighborhoods within a PHA's service area helps to make sure that the right number of units are affordable to voucher families throughout the service area. The goal of this strategy is to reduce landlord's experiences with submitting a gross rent (utilities plus rent to owner) that is turned down because the amount exceeds the affordability limit.

Who: **All PHAs, regardless of size or location, with a relatively high volume of families needing extended search times or are failing to lease up with their voucher.**

Cost: $ $$ $$$

Implementation Considerations: ○ LOW ● **MEDIUM** ● **DIFFICULT**

Matching Local Rental Markets PHA Process Improvements

PHA Process Improvement	Matching Local Rental Markets
Increase Recruitment	X
Increase Retention	X
Improve Responsiveness	
Improve Tenant-Landlord Relationship	
Improve Inspections Process	
Minimize Bureaucracy	X

WHAT THIS IS AND WHY IT WORKS:
Matching local rental markets using carefully tailored payment standards helps public housing agencies (PHAs) increase the availability of units affordable to voucher families in all of the neighborhoods within their jurisdiction. Landlords want to receive the same amount of rent through the Housing Choice Voucher (HCV) Program as they would from a private market tenant. Ensuring that payment standards match the local market reduces the chances that PHAs will have to request the landlord to lower their rent for an HCV tenant. Matching local rents, as appropriate and feasible, increases the likelihood that the negotiated rent will more closely match the landlord's requested

rent. This allows the landlord to experience more of the financial benefits of the voucher program.

However, in some cases, PHAs may consider reducing their payment standards in less expensive neighborhoods to better align with the local market.

HUD recognizes that there are many different rental markets across the country and offers a range of policy options to PHAs to set appropriate payment standards. These options enable local decision-makers to choose the payment standards that fit their service area's housing market.

BACK TO BASICS: WHY PAYMENT STANDARDS ARE IMPORTANT

Payment standards are the maximum subsidy that a PHA can contribute towards an HCV family's rent and utility costs. PHAs typically establish payment standards using the Fair Market Rents (FMRs) or Small Area Fair Market Rents (SAFMRs) that HUD calculates and publishes annually by metropolitan statistical area or by non-metropolitan county. Using the FRMs or SAFMRs as a foundation, PHAs have a variety of options to align their payment standards with the rental markets in their service area. See the regulations that outline these options, 24 CFR § 982.503, or the resources listed at the end of this chapter.

However, without close monitoring of a PHA's payment standards and the private rental market, payment standards can get out of alignment with the market. PHAs tend to hear landlord complaints when the payment standards are too low, but payment standards can be set too high for certain neighborhoods as well. There are consequences to payment standards that are both too high and too low, as detailed below.

Below Market Payment Standards

In some markets the published FMRs may lag behind the private rental market within a PHA's service area, which may result in lower negotiated rents proposed by the PHA than what the landlord could receive from a private-market tenant. Payment standards that lag behind the current private rental market create a range

DEFINITIONS:

Fair Market Rent (FMR): This is a calculation provided by HUD on an annual basis where HUD estimates monthly gross rent (rent and utility expenses) amounts across a metropolitan statistical area or by non-metropolitan county. FMRs, set by bedroom unit count, are calculated such that approximately 40 percent of all rental units in the FMR area have gross rents at or below the FMR value.

Small Area Fair Market Rent (SAFMR): SAFMRs are the same as FMRs except that the calculation is based on a smaller geographic area. Rather than calculating affordable rents based on data from the metropolitan area, the amounts are calculated by ZIP Code. SAFMR calculations are only available in metropolitan areas. Links to published FMRs and SAFMRs are available at the end of this chapter.

Payment Standard: This is the maximum subsidy amount a PHA can contribute monthly towards gross rent for a voucher family. PHAs establish their payment standards based on the FMR or SAFMR for their jurisdiction except in special circumstances with approval from HUD.

Payment Standard Schedule: The payment standard dollar amounts by bedroom size along with an effective date, published by the PHA. Procedures for establishing and revising payment standards schedules are published in PHAs' Administrative Plans.

Basic Range: PHAs typically set their payment standards within 90 to 110 percent of the FMR or SAFMR, known as the "basic range."

of issues for landlords, voucher families, and PHAs. These issues can cause frustration for landlords, hardship for voucher families, and administrative inefficiencies for PHAs.

If a PHA has set the payment standard for an area below the rental market, clients may select properties assuming that the rent is affordable. If this happens and the rent is actually higher than the combined payment standard and the family's portion, the PHA may ask the landlord to lower the contract rent. If the negotiation is not successful, the PHA will inform the tenant that they must re-start their search and find a unit where the rent is within the payment standard. This results in frustration for the landlord, family, and the PHA.

Indeed, when PHAs set the payment standard below the actual rental market, many landlords may not participate in the HCV program because they can receive higher rent through the private rental market.

Below Market Payment Standards: Anytown PHA

Based on the FMR, the Anytown PHA set the payment standard for Anytown, USA 1-bedrooms at $800/month. Anytown is becoming a popular place to live and landlords are successfully renting average 1-bedrooms at $875/month.

In this example, landlords are setting rents that reflect the market, but the payment standards for Anytown, USA do not align with the current rental market. Anytown PHA might benefit from examining whether a change in payment standards would benefit the program.

In addition to individual frustrations for landlords and families, having below market payment standards can limit the availability of affordable rental units in opportunity areas, which tend to have higher rents. These neighborhoods, with more resources and amenities, are shown to have a lasting, long-term, positive impact on the economic mobility of children. Families may not search in high-opportunity areas because they may believe that rents in those locations are unaffordable with their voucher. Similarly, landlords may refuse to rent to voucher families in these high-opportunity neighborhoods because they know they can charge private market tenants higher rent.

Above Market Payment Standards

Payment standards that are higher than the private rental market rate mean that PHAs may pay more for some rental units, especially those in high-poverty neighborhoods, than the landlord could reasonably obtain on the private rental market. While the FMR is established such that 40 percent of all rental units have gross rents less than or equal to the FMR in the area, in less expensive neighborhoods the FMR and associated payment standard could make much more than 40 percent of the units affordable to voucher families.

PHAs must adhere to regulatory requirements surrounding rent reasonableness to ensure that the landlord is charging an appropriate rent for the unit given its location, number of bedrooms, age of the structure, unit and property amenities, and other factors. In some cases, rigorous rent reasonableness may serve the PHA's voucher families better than lowering payment standards especially in complex urban markets by maintaining broader rental neighborhood choice.

Alternatively, PHAs with mixed rental markets may want to consider adjusting their payment standards to a multi-tiered payment standard schedule to prevent over-subsidization of units in lower cost neighborhoods. See the *Housing Choice Voucher Program Guidebook*, Rent Reasonableness chapter for additional information.

Tip: Research studies such as *this HUD-funded report* find that landlords in some markets perceive voucher rents as higher than what they would get on the private rental market, described as a "voucher premium."

IMPLEMENTATION CONSIDERATIONS

This chapter discusses two options available to PHAs to set payment standards that fit their service area's housing market:

- Single-Tiered Payment Standards
- Multi-Tiered Payment Standards

The discussion below offers a summary of each option, with advantages and disadvantages, and steps to take when considering adjusting payment standards.

Single-Tiered Payment Standards

Traditionally, and without HUD notification or approval, PHAs may set their payment standards between 90 percent and 110 percent of the FMR, also known as the "basic range."

TIP: PHAs may vary the payment standard basic range based on bedroom size. Thus, a 1-bedroom unit may be set at 105 percent while a 2-bedroom unit may be set at 100 percent.

For PHAs operating in a jurisdiction that does not have a diverse housing market, a single-tiered payment standard schedule is likely appropriate. A single-tiered payment standard schedule sets a single payment standard across the jurisdiction for unit bedroom size. PHAs exclusively operating in a less expensive area may choose to set the payment standards closer to 90 percent of the FMR whereas PHAs operating in an expensive area may choose to set their payment standards closer to 110 percent.

Additional circumstances exist in which a PHA may increase or decrease their payment standards outside of the basic range of the FMR under certain parameters. Some PHAs also have the opportunity to provide HUD with their own market analysis to set their payment standards above the basic range pending HUD approval. This option may be particularly attractive to PHAs in rental markets experiencing dramatic changes. A comprehensive description of these options is detailed in the *Housing Choice Voucher Program Guidebook*, Payment Standards chapter.

Tip: HUD publishes the new fiscal year FMRs and SAFMRs no later than September 1 of each year. PHAs have 3 months after the new calculations go into effect on October 1st to make sure their payment standards are within the basic range of the FMRs (or SAFMRs where PHAs have fully implemented SAFMRs). Many PHAs use this opportunity to both update their payment standards and to consider if they need to raise their percentages up or down to keep up with the market. The Payment Standards Tools linked at the end of this chapter can help PHAs forecast increases or decreases in HAP costs when changing payment standards.

PHA HIGHLIGHT:

A PHA in California, in partnership with a neighboring PHA, chose to conduct their own rental market survey, sharing the cost. The PHAs felt that the FMR was too low to make their voucher families competitive in their market. The rental market had become much more competitive due to the recent forest fires in the area (increasing the demand for housing and decreasing the supply of housing) and the increase in rent prices were not reflected in HUD's FMR calculation. The PHA's survey led to a 9-percentage point increase in the FMRs and helped voucher families better compete in the tight housing market.

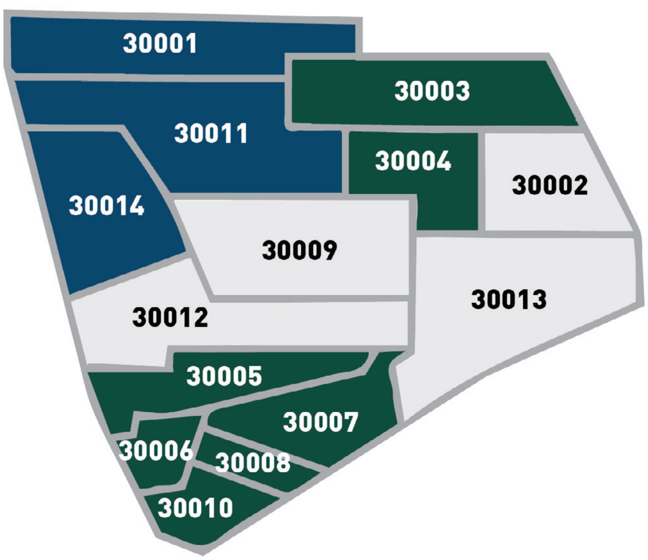
For more information on conducting a market survey, see the most recently available Federal Register notice of Fair Market Rents. The FY 2021 notice is linked here.

Multi-Tiered Payment Standards

PHAs may also develop multi-tiered payment standards where the payment standard varies depending on where the unit is within their jurisdiction. A multi-tiered strategy enables the PHA to better match their payment standards to the various private sub-markets within their service area. This option may be especially useful for PHAs with both high- and low-income neighborhoods within their jurisdiction. There are multiple regulatory options available to PHAs to develop multi-tiered payment standard systems.

First, PHAs located in metro areas may choose to implement SAFMRs, where the payment standard is based on a rental market analysis at the ZIP Code level rather than by the metropolitan statistical area (MSA). This allows the payment standards to be more closely aligned with the local rental market within a ZIP Code. PHAs may adopt SAFMRs within the basic range, 90 percent to 110 percent, of the published SAFMR. There are currently 24 metropolitan areas where SAFMRs are required by HUD, but other metropolitan PHAs can choose to opt in to using SAFMRs. Fully adopting SAFMRs requires HUD approval prior to implementation. In the example below, Anytown Housing Authority grouped their SAFMR payment standards into three tiers using the basic ranges within each SAFMR ZIP Code.

Anytown, USA Payment Standard Map



Anytown Payment Standard Schedule
1/1/2020-12/31/2020

	Voucher Bedroom Size				
ZIP CODES	**1**	**2**	**3**	**4**	**5**
30001, 30011, 30014	**$738**	**$804**	**$1,031**	**$1,346**	**$1,584**
30003; 30004, 30005, 30006, 30007, 30008, 30010	**$805**	**$877**	**$1,125**	**$1,468**	**$1,728**
30002, 30009, 30012, 30013	**$891**	**$968**	**$1,243**	**$1,617**	**$1,903**

PHAs may also choose to use SAFMRs as the basis for exception payment standards in their higher-priced ZIP Codes. Using SAFMRs for exception payment standards is a good option for PHAs who want to increase the affordability of units in low-poverty, high opportunity areas. Exception payment standards based on SAFMRs may be set within the basic range, 90 to 110 percent. The partial adoption method of using SAFMRs for exception payment standards only requires HUD notification. A PHA may lower their payment standards using SAFMR calculations without full SAFMR implementation as well, but if the payment standards fall below 90 percent of the metropolitan area based FMR, they have to meet certain conditions and receive HUD approval prior to implementation. For more information on SAFMR adoption see the *Implementing Small Area Fair Market Rents (SAFMRs) Implementation Guidebook*.

Tip: Making payment standards easily accessible online and in informational materials will help HCV families choose units where the rent will be affordable for the area.

A third option for a multi-tiered approach to payment standards is to group payment standards within the basic range of the FMRs. For example, a PHA may service low-income, middle-income, and high-income neighborhoods within their service area and adopt payment standards at 90 percent, 100 percent, and 110 percent of the FMR, respectively, for each area. This method does not require HUD approval or notification. This third option may be useful for PHAs where the boundary lines between higher-priced and lower-priced neighborhoods do not fall along ZIP Code boundaries.

Lastly, a PHA may request exception payment standards to increase their payment standards above 110 percent of the FMR in areas where the rental market proves to require a payment standard above 110 percent of the FMR. This method requires approval from HUD and may be justified in several ways. For specific instructions on developing exception rents under this framework, see 24 CFR § 982.503(c) or the *Housing Choice Voucher Program Guidebook*, Payment Standards chapter.

Reviewing Payment Standards

There are several steps a PHA can take to see if adjusting their payment standards or moving to a single-tiered or multi-tiered approach might be a good option:

1. Review voucher lease-up times and lease-up success rates. If it does not take long for voucher families to find housing, and most voucher families successfully lease-up, the PHA might be able to lower their payment standards and still maintain their good lease-up outcomes. On the other hand, if voucher families need extensions to search for housing or do not successfully lease up, the PHA may need to consider raising their payment standards.

2. Review affordability of incoming units. When considering raising payment standards, the PHA may also want to review the number of request for tenancy approval packets that are turned in where the unit is unaffordable and subsequently the rent has to be negotiated down or the tenant has to find another unit.

3. See where voucher families currently live. If they are fairly evenly dispersed throughout the service area, the community probably does not have a diverse or mixed market, which indicates that using a singular payment standard system may be a good option. If voucher families are clustered only in high-poverty communities, the PHA may want to consider a multi-tiered payment standard system.

4. Review rent burdens for families currently under lease. If the PHA is considering lowering the payment standard, the PHA should examine how many families in that area would take on an additional rent burden. On the other hand, if the PHA raises the payment standards in all areas or certain neighborhoods, how many families will no longer be rent burdened, or pay less in rent? A PHA may use HUD's *Payment Standard Tool* to accomplish this analysis. The full website address to the tool is available at the end of this chapter.

5. Estimate the costs over the potential benefits. Raising payment standards will cost the PHA more money per family over time; however, it could also improve voucher families' lease-up success rates and reduce families' rent burdens. Lowering the payment standard may enable the PHA to save money and serve more families without having a huge impact on families' lease-up rates or rent portions. HUD's Payment Standard Tool, linked at the end of this chapter, can be used to forecast the costs of changes to payment standards.

ADDITIONAL CONSIDERATIONS

PHAs should review their payment standards and payment standard policies on a regular basis to ensure that they continue to match rental market conditions within their service area. PHAs are required to review their payment standards at least annually when new FMRs and SAFMRs are published by HUD; however, some PHAs choose to review their payment standards with more frequency, especially those PHAs in markets with rapidly changing rents.

Moving to a multi-tiered payment standard system from a single-tiered system requires time and resources and should only be implemented after careful planning and review of available rental market data, trends in the geography of movers to and from low- and high-rent communities, and in concert with the PHA's strategic goals. There are significant startup costs to developing such a system, including updating the case management systems, training staff, and notifying voucher families and landlords of the changes. Further, depending on if the PHA chooses to increase or decrease their payment standards, HAP costs may go up or down – impacting the PHA's bottom line. A thorough discussion of the key items for consideration in moving to a multi-tiered payment standard system can be found in the *Implementing Small Area Fair Market Rents (SAFMRs) Implementation Guidebook*, chapter 2.3, full website address available at the end of this chapter.

Despite the costs of implementing and utilizing a multi-tiered payment standard system, significant benefits may be realized by the PHA, by landlords, and by families. The most obvious benefit is that the rents offered by the HCV Program will more closely align with rents in the private rental market.

When payment standards are carefully aligned to a PHA's rental market, everyone benefits.

Not a Good Fit?

For PHAs that are not yet ready to take on the work of developing a multi-tiered payment standard system, there are still steps the PHA can take to educate audiences, namely landlords and families, about their payment standards and how they work.

- PHAs can make their payment standards easily accessible to landlords and voucher families online. Making the payment standards readily available to these stakeholders can help reduce sunken costs caused by overpriced units and help families understand what they can afford. Published payment standards should be provided along with information on contract rent versus gross rent, and rent reasonableness. Some PHAs take this information sharing a step further and offer voucher families and landlords an online affordability calculator tool. The tool allows voucher families to enter in unit information and find out if a unit is affordable for them based on their income and the payment standard of the area and voucher size. There are several PHAs with affordability calculators on their websites that serve as examples.

- PHAs can designate staff to answer questions and provide resources to landlords and families inquiring about payment standards, affordability, and rent reasonableness.

SMALL AREA FMRS: A TALE OF TWO PHAS

Two PHAs are considering implementing SAFMRs for their voucher programs. Both housing authorities have higher-rent and lower-rent neighborhoods within their service areas. They use the following processes to decide if implementing SAFMRs is right for them.

The Housing Authority of Tinley Town

The Housing Authority of Tinley Town is in a metropolitan area and oversees about 5,000 vouchers in an economically mixed housing market. One of the strategic goals of the Housing Authority of Tinley Town is to create more options for their voucher families, measured by a 5 percent increase in the number of voucher families moving to low-poverty neighborhoods. Only a small percentage of current voucher families in their program currently live in low-poverty neighborhoods, despite the program having long voucher expiration terms and a high lease-up rate. From engagement with frontline staff, the administration learns that voucher families are not able to find affordable units in the low-poverty neighborhoods. The housing authority works with their housing market analyst to review the availability of rental units in their target low-poverty neighborhoods. The analyst finds an adequate number of rental units in two target ZIP Codes that are right next to each other.

The PHA leadership reviews the SAFMRs for the two ZIP Codes. They are significantly higher, at about 125 percent and 132 percent of the metropolitan FMR. If the housing authority sets the payment standards for the two ZIP Codes at 110 percent and the other at 105 percent of the SAFMR, they can use the same payment standard amounts for both ZIP Codes. Only a very small number of voucher families, less than 10, already live in the two ZIP Codes. Tinley Town does a simulation of voucher families moving into the two ZIP Codes at the higher payment standards using HUD's estimation tool and their own analytic tools and estimates that the additional HAP cost of increasing the payment standard will be between $20,000 and $48,000 per year. The PHA leadership considers this cost, along with the administrative costs of implementing a two-tiered payment standard system, and decides that the benefits of implementing the two-tiered system outweigh these costs. They begin making plans for implementation.

The Scenic City Housing Authority

The Scenic City Housing Authority has a similarly sized voucher population in a slightly larger jurisdiction than Tinley Town. The Housing Authority enthusiastically began looking into the option of full implementation of SAFMRs. The PHA wanted to offer their voucher families more geographic options and to better align their payment standards with their rental market. Scenic City also wanted the change to be cost neutral, where communities with lower payment standards would create new savings to pay for increases in higher payment standard areas.

Scenic City leadership began their analysis by reviewing the SAFMR payment standards in their service area. The city includes 52 ZIP Codes in their service area, which would be a challenging number of tiers to administer. However, setting the payment standards within the basic range, Scenic City could reduce the number of tiers to just 8. From there, the PHA began looking at where voucher families currently lived by tier using the HUD Payment Standard Tool to forecast changes over time.

The Scenic City Housing Authority was disappointed by the results. Eighty percent of current voucher families lived in ZIP Codes that would become the first tier or, to put it another way, the areas with the lowest payment standard. The SAFMR for those communities would have to be set at only 82 percent of the current FMR, making the rent burden higher for 55 percent of the voucher families living in those communities. PHAs can only reduce payment standards up to 10 percent per year, so the process would take several years to adjust the payment standard in those ZIP Codes. The regulations also require the PHA to maintain the higher payment standard amount for the first year (at the second annual re-examination) following a decrease in the payment standard and also allow PHAs, if they choose, to keep families at the same payment standard until they move out of their current unit or gradually decrease the payment standard. However, if Scenic City did not fully reduce the payment standards after the first year, their shift to SAFMRs might not become cost neutral. Scenic City was concerned about this potential big shift in rent burden for voucher families and their ability to adequately communicate such a change to voucher families and landlords.

Rather than doing a full adoption of SAFMRs, Scenic City briefly considered only changing the payment standards for a few of their most high-cost and low-cost ZIP Codes; however, they ultimately decided against the idea. Scenic City came back to the same concern for voucher families in the low income neighborhoods, where some of their most vulnerable voucher clients tend to reside. While a subset of voucher families in those areas were very transient and moved every 1 to 2 years, there was also a large population of elderly and disabled voucher families in those communities who would have difficulty with taking on an additional rent burden or moving into a new unit if they lowered the payment standards. Keep in mind, lowering payment standards outside of the basic FMR range also requires HUD approval and can only be done if certain conditions are met. Ultimately the Scenic City Housing Authority chose not to implement SAFMRs and to instead focus on landlord outreach in some of their middle-income neighborhoods and to review the rent reasonableness policies to ensure that they were not driving the market in their low-income neighborhoods. Scenic City will review the option again in several years.

RESOURCES

Fair Market Rents:
https://www.huduser.gov/portal/datasets/fmr.html

Fair Market Rents for the Housing Choice Voucher Program, Moderate Rehabilitation Single Room Occupancy Program, and Other Programs Fiscal Year 2021:
https://www.govinfo.gov/content/pkg/FR-2020-08-14/pdf/2020-17717.pdf

Housing Choice Voucher Program Guidebook, Rent Reasonableness Chapter:
https://www.hud.gov/sites/dfiles/PIH/documents/HCV_Guidebook_Rent_Reasonableness.pdf

Housing Choice Voucher Program Guidebook, Payment Standards Chapter:
https://www.hud.gov/sites/dfiles/PIH/documents/HCV_Guidebook_Payment_Standards.pdf

Implementing Small Area Fair Market Rents (SAFMRs) Implementation Guidebook:
https://files.hudexchange.info/resources/documents/SAFMRs-Implementing-Small-Area-Fair-Market-Rents-Implementation-Guidebook.pdf

Payment Standard Forecasting Tools:
https://www.hud.gov/program_offices/public_indian_housing/programs/hcv/Tools

PIH Notice 2018-01
https://www.hud.gov/sites/dfiles/PIH/documents/PIH-2018-01.pdf

SAFMR Final Rule:
https://www.huduser.gov/portal/datasets/fmr/fmr2016f/SAFMR-Final-Rule.pdf

Small Area Fair Market Rent Case Studies:
https://www.hudexchange.info/resource/5680/small-area-fair-market-rent-case-studies/

Small Area Fair Market Rents:
https://www.huduser.gov/portal/datasets/fmr/smallarea/index.html