July 21, 2023

Regulations Division
Office of General Counsel
Department of Housing and Urban Development
451 7th Street SW, Room 10276
Washington, DC 20410–0001
Submitted electronically to https://www.regulations.gov/commenton/HUD-2023-0041-0001.

Re: Proposed Changes to the Methodology Used for Calculating Fair Market Rents [Docket No. FR–6401–N–01]

Dear Sir or Madam:

On behalf of the undersigned organizations, please find our comments on the above-referenced Notice of Proposed Changes to the Methodology Used for Calculating Fair Market Rents (FMRs). Our organizations represent a diverse group of housing providers, including private property owners, managers, lenders, housing cooperatives and public housing authorities (PHAs) who provide rental housing for families and individuals across the country. We thank you for the opportunity to provide our industries' perspectives on the above-referenced Notice. We strongly support the Housing Choice Voucher (HCV) program, which provides rental assistance and choice to over two million households who live in privately owned housing.

In the *Federal Register* notice, HUD is soliciting comments on altering the methodology regarding the recent mover calculations and the continued use of private data providers in calculating fair market rents. We thank you for your explanations in the *Federal Register* notice regarding our previous comments on the FMR methodological changes and we look forward to continuing to work with your department to develop the most timely and accurate data representing local real estate markets.

<u>Background</u>

Section 8 of the United States Housing Act (42 U.S.C. 1437f) authorizes housing assistance payments to aid lower-income families in renting safe and decent housing. FMRs are established by HUD for different geographic areas to dictate the amount for these payments. FMRs are used across a variety of HUD programs including the Housing Choice Voucher (HCV) program, some expiring project-based Section 8 contracts, and the HOME Investment Partnerships program.

The FMR is intended to be the amount a resident would need to pay for gross rent (shelter rent plus utilities) in a privately owned, decent and safe rental housing unit of a modest (non-luxury) nature with suitable amenities. HUD is tasked with calculating the FMR as their best effort to estimate the 40th percentile gross rent paid by recent movers into standard quality units in each FMR area. In addition, all rents subsidized under the HCV program must meet reasonable rent standards.

On July 29, 2021, the Census Bureau announced that it would not release standard 1-year estimates from the 2020 American Community Survey (ACS) because of the impacts of the COVID-19 pandemic on data collection. This necessitated alterations in HUD's methodology for calculating FMRs, as the 1-year ACS estimates were used as the source for estimates of 40th percentile gross rents paid by recent movers. HUD solicited comments on the proposed methodological change to use six private data sources (RealPage average effective rent per unit, Moody's Analytics REIS average gross revenue per unit, CoStar Group average effective rent, CoreLogic, Inc. single-family combined 3-bedroom rent index, ApartmentList Rent Estimates, and Zillow Observed Rent Index). HUD also solicited comments on using the same six private data sources, in combination with the CPI, to trend the data forward to the current year, rather than using the CPI exclusively for that purpose.

HUD is now soliciting comments on several items: changing the definition of "recent mover" and retaining several questions related to expanding "the use of rent inflation factors calculated by private sector sources as was first done for FY 2023 FMRs."

Comments

1. We agree with the methodological changes to the recent mover definition described in this notice. Changing the data source to the 1-year ACS estimates is appropriate now that the 2021 ACS data is available. We also agree that it is appropriate to change the recent mover definition to be someone who has moved into the unit in the past 11 months for the same reasons discussed in the notice. Real estate markets have changed rapidly in the past few years, and it is best to attempt to use the most up-to-date reliable data source available.
2. We agree in part with the second request for comments regarding the use of private data sources. Our previous comment letter in 2022 to FR—6334—N—01 noted our concerns regarding the use of private data providers. Our concerns were largely centered around one main issue: there was little to no transparency available to determine the validity and reliability of the private data providers. Since then, however, research from the Cleveland Fed and the BLS has yielded two interesting findings—the relationship between the CPI rent of primary residence measurement and the rental rates paid by new or renewing leaseholders, as well as the relationship between these numbers and two of the private data providers suggested: Zillow and CoreLogic. This allows for some transparency into two of the providers that are recommended to be used. In light of this, we would recommend that instead of utilizing a "3 sources" approach that appears to be arbitrary, HUD should use the two private data providers that have been established as having a relationship already. The same methodology used to determine the relationship between these data sources and CPI could be used for the remaining four data providers, and if a similar relationship is found, we would recommend their use as well.
3. It is unclear from the notice the reason for selection bias; If bias arises because a private data source doesn't capture a representative sample of rents in a local area, that invalidates the private data source and it should not be used. If bias only arises because of the geographic gaps in the private data sources, so that not all local areas are captured, then there's no reason averaging over the geographies that are captured should match an overall national average.
4. It is difficult to comment on the weighting factors and geographic location question with the information given, primarily because there is limited information on the possible nearest neighbor approach. We would request that further research is done before adopting any sort of alternative approach—what variables are used to define distance between local areas, for example? An analysis should be conducted to show that these variables do a very good job of explaining differences in rent inflation—quite similar to demonstrating you have explanatory variables that do a good job of explaining variation in a dependent variable in a regression model.

Conclusion

We thank you for the opportunity to comment on the proposed methodology changes. We are excited to see that HUD continues to attempt to identify the best data sources possible to establish FMR and would request that HUD also prioritizes transparency so that stakeholders can replicate these FMRs. Thank you for your consideration of our comments. Please feel free to contact Paul Emrath, Ph.D. (pemrath@nahb.org), Caitlin Sugrue Walter, Ph.D. (cwalter@nmhc.org), Michelle Kitchen (mkitchen@nahb.org) or Lisa Blackwell (lblackwell@nmhc.org) if you have questions about these comments.

Sincerely,

Institute of Real Estate Management
National Affordable Housing Management Association
National Apartment Association
National Association of Home Builders
National Association of Housing Cooperatives
National Leased Housing Association
National Multifamily Housing Council