Improving the Accuracy of Fair Market Rents in Areas with Rapidly Rising Rents

U.S. Department of Housing and Urban Development | Office of Policy Development and Research

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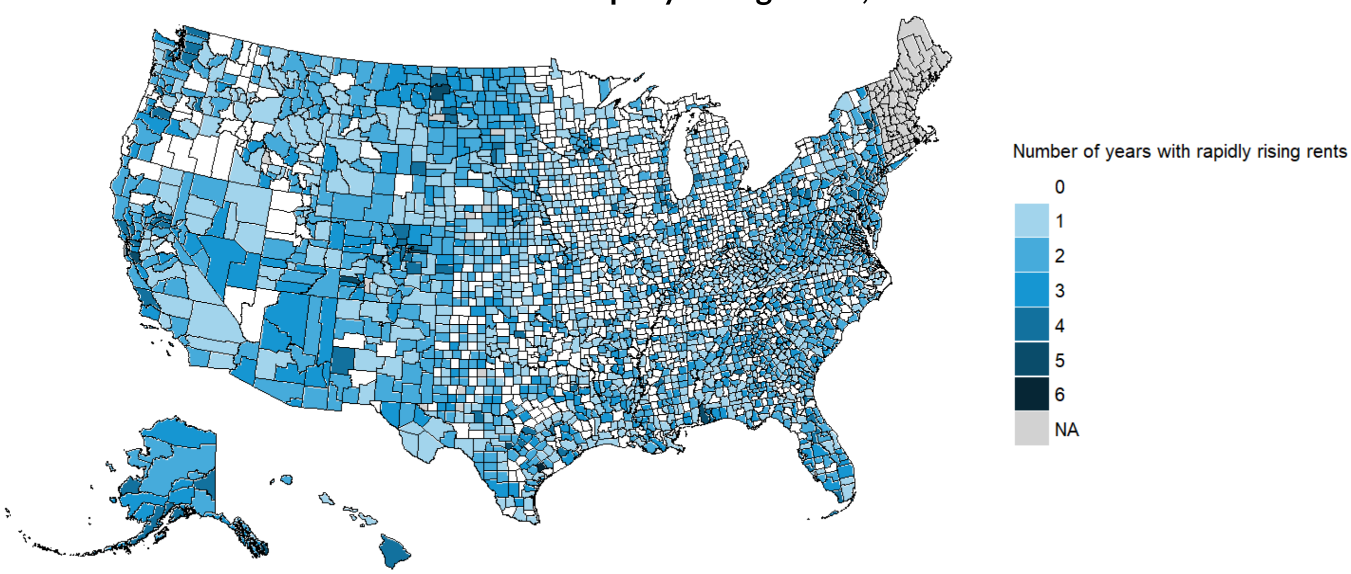
Accurate Fair Market Rents (FMRs) play a critical role in determining whether voucher households can secure safe, decent, and affordable housing through the private market. The U.S. Department of Housing and Urban Development (HUD) estimates FMRs every year to determine housing programs' payment standards and rent levels. If FMR estimates do not keep pace with rising rents, families using vouchers may struggle to maintain stable and decent housing access. In places where rent increases outpace FMR estimates, the negative implications of low or inaccurate FMRs may be even more severe. This fact sheet highlights ways to better identify areas with rapidly rising rents and provides viable approaches to improving HUD's FMR calculations.

WHERE ARE RENTS RISING RAPIDLY?

The authors defined areas with rapidly rising rents as any county that experienced more than a 10 percent rent increase in a single year or a high-cost county (in the top quintile) that experienced more than a 5 percent rent increase in a single year. By this definition, an average of 19.5 percent of counties saw rapidly rising rents each year between 2009 and 2010 and 2018 and 2019 (exhibit 1). Counties in Western states more frequently saw rapidly rising rents, whereas counties in the industrial Midwest saw rapidly rising rents less frequently.

EXHIBIT 1

Number of Years in Which Counties Saw Rapidly Rising Rents, 2009–10 to 2018–19



Note: The authors define a county as having rapidly rising rents if the county either has rents in the top 20th percentile nationally and experiences a rent increase of greater than 5 percent or has rents in the bottom 80th percentile nationally and experiences a rent increase of greater than 10 percent.

Source: Data are from the Urban Institute analysis of HUD American Community Survey extracts of gross rents from 2009 to 2019

WOULD MORE LOCAL DATA IMPROVE FMR ACCURACY?

HUD calculates FMRs for HUD metropolitan FMR areas and nonmetropolitan counties using local rent data adjusted with regional forecasts of future rent changes. We calculated six sets of alternative FMRs for U.S. counties that use local data to create unique forecasts for each. We designed our alternatives to maximize forecast accuracy by county and did not include adjustments to increase FMRs above statewide minimums or 90 percent of the previous year's FMR. Looking across counties in 2018, **five of the six alternative models were more accurate than HUD's FMRs according to average prediction error.** (Exhibit 2 depicts the accuracy for two of these models.) However, when FMRs were more than 10 percent off from actual rents, we found that **HUD more frequently set FMRs too high, whereas our models more frequently forecasted FMRs that were too low**. Relative to HUD's FMRs, the six sets of alternative FMRs performed similarly in counties with rapidly rising rents.

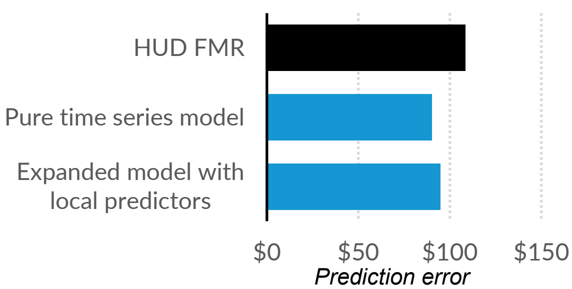
WANT TO LEARN MORE?

This fact sheet draws from the Urban Institute report *Alternative Fair Market Rents for Local Housing Markets.*

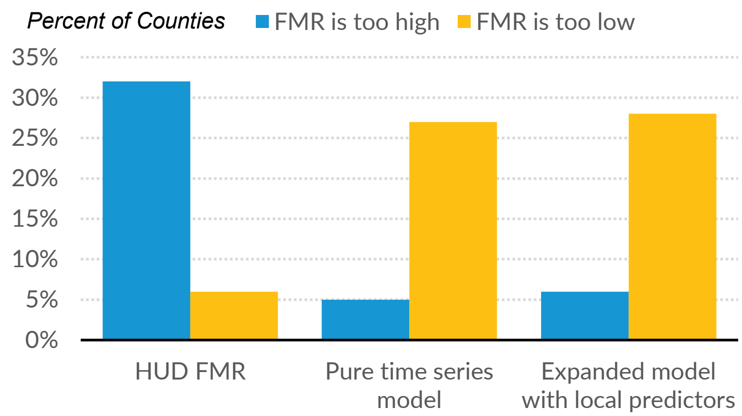
EXHIBIT 2

Predictive Accuracy of HUD's FMRs and Alternative Models, 2018

Prediction Error of HUD FMRs and Alternatives ($)



Counties Not Within 10 Percent of HUD FMRs and Alternatives



FMR = Fair Market Rent.

Notes: The left panel displays root mean squared prediction errors calculated between forecasted FY 2018 FMRs and the actual 40th percentile gross rents. The right panel displays the percentage of counties for which 40th percentile gross rents were less than 90 percent of the HUD's FMRs and alternatives (labeled as "FMR is too high") and the percentage of counties for which 40th percentile gross rents were more than 110 percent of HUD's FMRs and alternatives (labeled as "FMR is too low"). "HUD FMR" refers to FMRs that were in effect in FY 2018. The authors' analysis uses HUD's FMRs and 40th percentile gross rents for two-bedroom units. Methods used to calculate alternative FMRs can be found in the full report, "Alternative Fair Market Rents for Local Housing Markets." The pure time series model is "ARIMA model (A)," and the expanded model with local predictors is "expanded ARIMAX (A)."

Source: Teles, Daniel, Alyse D. Oneto, Yipeng Su, and Ananya Hariharan. 2022. *Alternative Fair Market Rents for Local Housing Markets.* Washington, DC: Urban Institute

MORE LOCAL DATA ARE NEEDED TO BETTER PREDICT FMRS IN MARKETS WITH RAPIDLY RISING RENTS

The study reveals that the best way to improve FMR calculations in areas with rapidly rising rents appears to be improving FMR calculations overall. Although more work needs to be done, this research shows that using more precise local data and focusing on smaller geographies could improve FMR estimates, especially with the growing shift toward localized payment standards and Small Area FMRs. Many of the datasets used in this study, for example, provide county-level but not ZIP Code-level data. As housing searches, job searches, and building and new construction permitting continue to shift online, greater data collection could help develop more accurate FMR calculations.

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