NYU Furman Center

DATA BRIEF | JANUARY 5, 2018

# How Do Small Area FMRs Affect the Location and Number of Units Affordable to Voucher Holders?

*Updated on January 22, 2018

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# How Do Small Area Fair Market Rents Affect the Location and Number of Units Affordable to Voucher Holders?

*Updated 1/23/2018*

## INTRODUCTION

In November of 2016, the U.S. Department of Housing and Urban Development issued a final rule mandating the use of Small Area Fair Market Rents (FMRs) in 24 metropolitan areas as a strategy to allow housing choice voucher holders to rent homes in a wider variety of areas and reduce the number of voucher holders living in high-poverty neighborhoods.[1] The rule pegged the amount a voucher is worth ("the payment standard") to the rent in the Zip Code where a home is located rather than using the same payment standard for an entire metro area. In August of 2017, HUD announced it was delaying the mandatory implementation of Small Area FMRs for two years. As one justification for the suspension, the agency cited interim findings from the evaluation it commissioned in 2015 to study the implementation of Small Area FMRs in a few selected demonstration housing authorities. The interim report, publicly released in mid-August, 2017, found that while Small Area FMRs opened up options for voucher holders in high-rent areas, the aggregate number of rental units affordable to voucher holders fell by 3.4 percent.

To explore whether this same decline would occur in the 24 metropolitan areas named in the HUD rule, we have estimated (using the same methodology as the interim evaluation) how the location and number of affordable units in these 24 metros would change after a shift from a metro-wide FMR to small area FMRs. There are several reasons to doubt that this same decline would occur in the 24 metropolitan areas named in the HUD rule. First, in contrast to the initial

[1] Small Area FMRs are also mandated through a legal settlement in one of the 24 metropolitan areas (Dallas), regardless of the suspension.

pilot, the HUD rule required that *all* the housing authorities in a metropolitan area adopt Small Area FMRs. Second, HUD deliberately chose these 24 metropolitan areas because their market conditions made it likely that Small Area FMRs would expand options for voucher holders. And, indeed, our analysis shows that these differences between the pilot housing authorities and the final rule's 24 metros matter. Our empirical analysis finds that switching to Small Area FMRs would open up options for voucher holders in higher-rent ZIP Codes while reducing them in lower-rent ZIP Codes. It also finds that in aggregate, the number of units affordable to voucher holders in these metropolitan areas would *increase* with the use of Small Area FMRs. We estimate that 20 of the 24 metropolitan areas would see an increase in the number of affordable units while four would see a small decline. (As discussed below, other aspects of the rule can help to moderate these reductions.) Below we describe the history of the small area FMR rule in more detail, and then show the results of our analysis of how housing availability in the 24 metro areas would be affected by the rule.

## SMALL AREA FAIR MARKET RENTS

The Housing Choice Voucher Program, HUD's largest rental assistance program, provides subsidies to low-income households to help cover the cost of homes rented on the private market. Voucher households generally pay 30 percent of their income on rent, and the voucher pays the difference between this amount and the rent, up to a specified payment standard. Voucher holders can opt for units with rents above the payment standard, but they have to pay in full any amount that the rent exceeds the payment standard.

In theory, voucher holders can choose to live in any neighborhood. In practice, however, they tend to reside in high-poverty neighborhoods. One likely contributor to this concentration is that historically the program has established a single payment standard across an entire metropolitan area, based on the "Fair Market Rent" or FMR at the 40th percentile of that metropolitan area's rent distribution. With a single payment standard operating across a metropolitan area, the homes affordable to voucher holders tend to be concentrated in jurisdictions and neighborhoods with relatively low rents, which are often areas with high poverty rates and limited opportunities for advancement. To try to address this concentration, HUD issued an interim rule in 2000 that set FMRs at the 50th percentile of rents in a set of metropolitan areas where voucher holders were using vouchers in a very limited number of neighborhoods. But research found the 50th percentile rule only raised voucher costs and did little to encourage or enable voucher holders to move to a broader set of neighborhoods.[2] HUD introduced Small Area FMRs as an alternative strategy to enable more voucher holders to move into higher rent, higher opportunity areas, without significantly raising overall subsidy costs. With Small Area FMRs, payment standards are set at the level of the ZIP Code, pegged to the 40th percentile of rents within the ZIP Code, likely opening up more units for voucher holders in higher-rent neighborhoods, but also reducing the number of affordable units in lower-rent areas.

## SMALL AREA FMR DEMONSTRATION

In 2012, HUD selected five public housing authorities (PHAs) to participate in a Small Area FMR demonstration program (Chattanooga Housing Authority (TN), Housing Authority of Cook County (IL), Housing Authority of the City of Laredo (TX), Housing Authority of the City of Long Beach (CA), Town of Mamaroneck Housing Authority (NY)). The agency funded an evaluation to study the impacts of the adoption of Small Area FMRs in these five PHAs together with two housing authorities in the Dallas, TX metropolitan area, where Small Area FMRs were introduced in 2011 as part of a legal settlement (the Housing Authority of the City of Dallas and the Housing Authority of Plano).

The report showed that Small Area FMRs worked as expected, increasing the availability of homes in higher-rent areas and reducing the availability in lower-rent areas. In aggregate, however, the reduction in units available in lower-rent neighborhoods was larger than the increase in units available in higher-rent neighborhoods, leading to a 3.4 percent decline in the

[2] See Collinson, Robert, and Peter Ganong. "How Do Changes in Housing Voucher Design Affect Rent and Neighborhood Quality?" *American Economic Journal: Economic Policy*, 2017.

total number of rental units affordable to voucher holders, or renting at no more than the applicable FMR. But patterns varied across housing authorities, depending on the distribution of rental units. Long Beach was the only housing authority that saw a large (12%) decline in the number of units renting under the FMR. Given that the rental housing stock in this housing authority's catchment area is concentrated in lower rent ZIP Codes that saw a reduction in payment standard after the adoption of Small Area FMRs, large losses in lower-rent neighborhoods were not offset by gains in higher-rent and moderate-rent neighborhoods. Meanwhile, the Plano Housing Authority saw a large gain in the number of units affordable to voucher holders, as very few rental units in its catchment area were located in low-rent ZIP Codes. This large variation underscores that the effects of introducing Small Area FMRs in one set of housing authorities will not necessarily generalize to another.

## 2016 RULE

In November of 2016, HUD issued the final rule mandating the use of Small Area FMRs in 24 metropolitan areas, as a replacement for the 50th percentile rule. The final rule included several features that made it less likely that the number of units affordable to voucher holders would fall after the introduction of Small Area FMRs.

First, HUD mandated the use of Small Area FMRs in entire metropolitan areas to avoid employing Small Area FMRs in only those portions of metropolitan areas that are disproportionately composed of lower-rent ZIP Codes where payment standards would fall, as was the case in Long Beach.

Second, HUD identified the 24 metropolitan areas that would be subject to the Small Area FMR by analyzing where the concentration of voucher holders in high poverty neighborhoods was greatest and assessing where the agency deemed that Small Area FMRs were most likely to expand choices for voucher holders. In particular, the agency only chose metropolitan areas with an above-average share of rental units located in high-rent ZIP Codes, or ZIP Codes in which the Small Area FMR is more than 110% of the metropolitan area-wide FMR. In recognition that voucher holders may face unique challenges in finding homes in very tight housing markets, the final rule also exempted metropolitan areas with very low vacancy rates.

## CHANGE IN THE LOCATION AND NUMBER OF VOUCHER-AFFORDABLE UNITS IN 24 METROPOLITAN AREAS

As noted, the differences between the selection criteria used in HUD's Small Area FMR Final Rule and those used to choose the seven housing authorities studied in HUD's Small Area FMR evaluation make it unlikely that the 24 metropolitan areas identified in the Final Rule would see the same change in the number of affordable units. Certainly, the differences suggest that a distinct analysis is needed to understand how Small Area FMRs will affect the availability of affordable units in this set of 24 geographic areas.

We undertake such a test by replicating the methodology used in the interim evaluation of the Small Area FMR demonstration in the 24 metropolitan areas to which the rule would apply. Consistent with that evaluation, we define units as unaffordable if their rents exceed the applicable FMR.[3] Similar to the interim report, we count and compare the number of units with rents below the conventional FMR to the number with rents below the Small Area FMR in each ZIP Code in a metropolitan area.[4] Consistent with the report, we divide ZIP Codes into three groups: High-Rent, Moderate-Rent, and Low-Rent, defined as follows:

- Low-rent ZIP Codes: Small Area FMR less than 90 percent of FMR.
- Moderate-rent ZIP Codes: Small Area FMR between 90 and 110% of FMR.
- High-rent ZIP Codes: Small Area FMR more than 110 percent of FMR.

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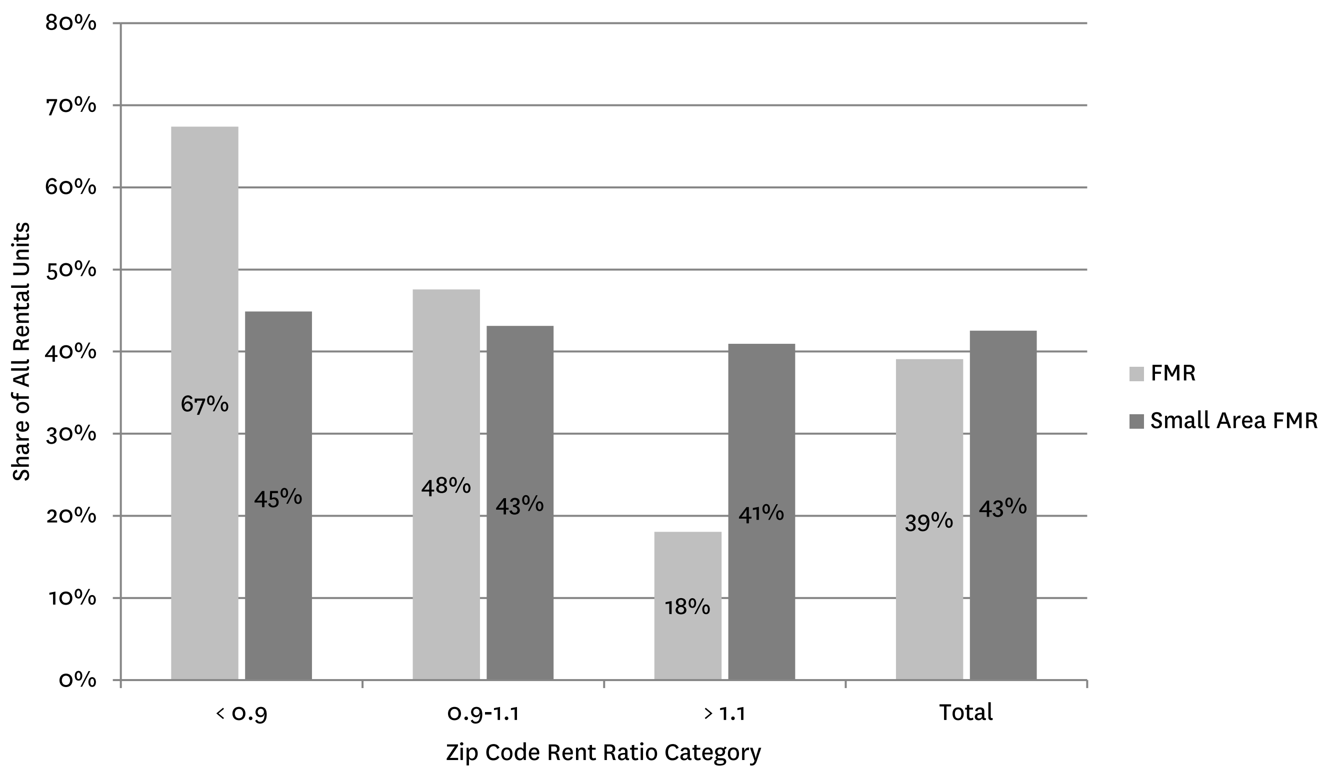
[3] For this analysis, we assume all payment standards are set at the applicable FMR, even though housing authorities have the flexibility to set them between 90 and 110 percent of the FMR.

[4] Note for the five metropolitan areas currently operating under a 50th percentile FMR (Philadelphia, San Diego, Bergen-Passaic, West Palm Beach, and Washington, DC), we use the 40th percentile of rents to define the metropolitan area FMR instead, as they will be required to use 40th percentile FMRs starting in 2019 or 2020, if Small Area FMRs are not adopted.

Figure 1 shows the aggregate change in the share of rental units in these groups of ZIP Codes that are affordable to voucher holders (or with rents below the FMR). Under metropolitan-wide FMRs, two thirds of units in low-rent ZIP Codes are affordable to voucher holders, while only 18 percent of those in high-rent ZIP Codes are affordable. Under Small Area FMRs, the share of units that are affordable increases greatly in high-rent ZIP Codes while dropping considerably in low-rent ZIP Codes, such that a similar share of units are affordable in all three groups of ZIP Codes. We see the same basic pattern in each of the 24 metropolitan areas.

**FIGURE 1: Share of Rental Units Below SAFMR and Metropolitan Area FMR**




Significantly, the gains in high-rent ZIP Codes outweigh the losses in lower-rent ZIP codes. Table 1 shows that overall, we would see an *increase* of almost 9 percent in the number of units affordable to voucher holders after the adoption of Small Area FMRs in these 24 metropolitan areas. Four of the 24 metropolitan areas show slight declines, however. In each case, reductions are less than five percent; Monmouth-Ocean, New Jersey and Gary, Indiana are the only metropolitan areas expected to see a decline of more than three percent.

### TABLE 1: Rental Units Affordable to Voucher Holders by Metropolitan Area

| | Total Rental Units | Affordable Units | | Share of Units Affordable | | Absolute Difference (Small Area FMR - FMR) | Percentage Change (Small Area FMR – FMR/FMR) |
|---|---|---|---|---|---|---|---|
| | | FMR | Small Area FMR | FMR | Small Area FMR | | |
| All SAFMR Areas | 6,400,441 | 2,500,661 | 2,723,176 | 39.1% | 42.5% | 222,515 | 8.9% |
| Atlanta-Sandy Springs-Roswell, GA HUD Metro FMR Area | 584,755 | 240,664 | 267,765 | 41.2% | 45.8% | 27,101 | 11.3% |
| Bergen-Passaic, NJ HUD Metro FMR Area | 170,781 | 57,675 | 64,241 | 33.8% | 37.6% | 6,566 | 11.4% |
| Charlotte-Concord-Gastonia, NC-SC HUD Metro FMR Area | 214,574 | 86,395 | 94,177 | 40.3% | 43.9% | 7,783 | 9.0% |
| Chicago-Joliet-Naperville, IL HUD Metro FMR Area | 870,900 | 324,163 | 343,921 | 37.2% | 39.5% | 19,758 | 6.1% |
| Colorado Springs, CO HUD Metro FMR Area | 71,519 | 25,781 | 28,470 | 36.0% | 39.8% | 2,689 | 10.4% |
| Dallas, TX HUD Metro FMR Area | 564,569 | 218,961 | 246,297 | 38.8% | 43.6% | 27,337 | 12.5% |
| Fort Lauderdale, FL HUD Metro FMR Area | 213,688 | 79,774 | 87,189 | 37.3% | 40.8% | 7,415 | 9.3% |
| Fort Worth-Arlington, TX HUD Metro FMR Area | 240,719 | 98,612 | 111,475 | 41.0% | 46.3% | 12,863 | 13.0% |
| Gary, IN HUD Metro FMR Area | 63,166 | 27,636 | 26,386 | 43.8% | 41.8% | -1,250 | -4.5% |
| Hartford-West Hartford-East Hartford, CT HUD Metro FMR Area | 121,203 | 49,104 | 48,484 | 40.5% | 40.0% | -621 | -1.3% |
| Jackson, MS HUD Metro FMR Area | 50,227 | 20,724 | 21,217 | 41.3% | 42.2% | 493 | 2.4% |
| Jacksonville, FL HUD Metro FMR Area | 145,936 | 58,417 | 64,203 | 40.0% | 44.0% | 5,787 | 9.9% |

| | Total Rental Units | Affordable Units | | Share of Units Affordable | | Absolute Difference (Small Area FMR - FMR) | Percentage Change (Small Area FMR – FMR/FMR) |
|---|---|---|---|---|---|---|---|
| | | FMR | Small Area FMR | FMR | Small Area FMR | | |
| Monmouth-Ocean, NJ HUD Metro FMR Area | 75,795 | 30,634 | 29,115 | 40.4% | 38.4% | -1,519 | -5.0% |
| North Port-Sarasota-Bradenton, FL MSA | 76,418 | 32,035 | 31,087 | 41.9% | 40.7% | -948 | -3.0% |
| Palm Bay-Melbourne-Titusville, FL MSA | 51,246 | 18,925 | 22,381 | 36.9% | 43.7% | 3,456 | 18.3% |
| Philadelphia-Camden-Wilmington, PA-NJ-DE-MD MSA | 581,531 | 240,731 | 245,718 | 41.4% | 42.3% | 4,987 | 2.1% |
| Pittsburgh, PA HUD Metro FMR Area | 220,210 | 87,734 | 88,737 | 39.8% | 40.3% | 1,003 | 1.1% |
| Sacramento--Roseville--Arden-Arcade, CA HUD Metro FMR Area | 229,769 | 93,206 | 97,508 | 40.6% | 42.4% | 4,303 | 4.6% |
| San Antonio-New Braunfels, TX HUD Metro FMR Area | 242,058 | 84,650 | 108,635 | 35.0% | 44.9% | 23,986 | 28.3% |
| San Diego-Carlsbad, CA MSA | 429,988 | 168,800 | 177,962 | 39.3% | 41.4% | 9,162 | 5.4% |
| Tampa-St. Petersburg-Clearwater, FL MSA | 330,210 | 135,180 | 142,669 | 40.9% | 43.2% | 7,489 | 5.5% |
| Urban Honolulu, HI MSA | 102,358 | 34,525 | 41,486 | 33.7% | 40.5% | 6,961 | 20.2% |
| Washington-Arlington-Alexandria, DC-VA-MD HUD Metro FMR Area | 612,177 | 235,311 | 273,627 | 38.4% | 44.7% | 38,316 | 16.3% |
| West Palm Beach-Boca Raton, FL HUD Metro FMR Area | 136,643 | 51,030 | 60,431 | 37.3% | 44.2% | 9,402 | 18.4% |

Of course these estimates do not determine where voucher holders will actually live. PHAs are allowed to set the payment standard at a level above the FMR and take other measures to allow more units to be affordable to voucher holders under Small Area FMRs. And of course, there are barriers to mobility other than the FMR; voucher holders may not learn about homes in higher-rent ZIP Codes, they may deem them as too far from current social, employment, and educational networks, or they may have difficulty finding a landlord willing to accept vouchers. These estimates simply replicate the analysis used in the interim report to predict changes in the number of units with rents affordable to voucher holders.

## CONCLUSION

This analysis underscores the value of analyzing in advance where Small Area FMRs are most likely to increase options for voucher holders in order to target the policy.  It shows that the impact of shifting to Small Area FMRs varies across markets.  It should also provide some reassurance to those concerned about a reduction in affordable units in the 24 metropolitan areas mandated to adopt Small Area FMRs. In these 24 metropolitan areas, the number of units affordable to voucher holders will actually *increase* by almost 9 percent in aggregate under Small Area FMRs.  This perhaps should not be surprising given that HUD selected these metropolitan areas precisely because the agency deemed that these were areas where Small Area FMRs would likely to expand choices for voucher holders.

That said, we estimate that four metropolitan areas will experience a small reduction in the number of affordable units.  Significantly, our analysis does not take into account the strategies that HUD's Final Small Area FMR Rule offers housing authorities to mitigate reductions in payment standards in low-rent ZIP Codes. In addition to the ability to set payment standards at 110 percent of the Small Area FMR, the rule also allows PHAs to request and receive approval to establish an even higher payment standard for a ZIP Code if needed "to ensure sufficient rental units are available for voucher families."[5] Further, for existing voucher holders who remain in place, it permits housing authorities to set payment standards anywhere between the newly applicable Small Area FMR rate or the previous FMR payment.  These four housing authorities may want to consider one of more of these strategies when adopting Small Area FMRs.

[5] Establishing a More Effective Fair Market Rent System; Using Small Area Fair Market Rents in the Housing, 81 Fed. Reg. 80567, pages 80567-80587 (November 16, 2016).

## METHODOLOGY

To estimate the number of rental units affordable under the Small Area FMR and FMR definitions in the 24 metropolitan areas named in the HUD rule, we use data that HUD provides at the Zip Code Tabulation Area (ZCTA) level, which we then aggregate up to metropolitan areas. Due to data availability, our analysis only considers one to three bedroom rental units (87% of all rental units nationally in 2016 according to the American Community Survey). The analysis is based on publically available files made available on HUD's Fiscal Year 2018 Fair Market Rent Documentation System.

We first associate each ZCTA to its metropolitan area, using the 2010 ZCTA to County Subdivision Relationship file, provided by the US Census Bureau, to adjust ZCTAs that cross HUD metro area boundaries. We then assign each ZCTA its FY 2018 Small Area FMR and FMR payment standards, and deflate the payment standards to 2015 dollars using the Comparison Rent Adjustment Factors file. Finally, we calculate the number of one to three bedroom rental units in each ZCTA that rented at or below the adjusted Small Area FMRs and FMRs. To do this, we use a special ZCTA-level dataset of rental units by bedroom size and rent increment (top coded at $3,500) from the 2011-2015 American Community Survey, which is posted on the HUD User website. Lastly, we aggregate the number of affordable rental units by ZCTA to the metropolitan areas.

The detailed code and data files for this analysis are available on the NYU Furman Center's GitHub repository.

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## ABOUT THE NYU FURMAN CENTER

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