
**DEPARTMENT OF HOUSING AND
URBAN DEVELOPMENT**

[Docket No. FR-5430-N-01]

**Proposed Fair Market Rents for the
Housing Choice Voucher Program and
Moderate Rehabilitation Single Room
Occupancy Program Fiscal Year 2011**

AGENCY: Office of the Assistant
Secretary for Policy Development and
Research, HUD.

ACTION: Notice of Proposed Fiscal Year
(FY) 2011 Fair Market Rents (FMRs).

SUMMARY: Section 8(c)(1) of the United States Housing Act of 1937 (USHA) requires the Secretary to publish FMRs periodically, but not less than annually, adjusted to be effective on October 1 of each year. Today's notice proposes FMRs for FY 2011 to be used to determine payment standard amounts for the Housing Choice Voucher (HCV) program, to determine initial renewal

rents for some expiring project-based Section 8 contracts, and to determine initial rents for Housing Assistance Payment (HAP) contracts in the Moderate Rehabilitation Single Room Occupancy program. Other programs may require use of FMRs for other purposes.

The proposed FY 2011 FMR areas are based on current Office of Management and Budget (OMB) metropolitan area definitions and include HUD modifications that were first used in the determination of FY 2006 FMR areas. Changes to the OMB metropolitan area definitions through December 2009 are incorporated. The principal city for three metropolitan areas changed, which resulted in a code change. In Alaska, there was a name change for a nonmetropolitan borough and two boroughs in Alaska were divided to make four new boroughs.¹ Proposed FY 2011 FMRs are based on 2000 Census data updated using more current survey data. For FY 2011, FY 2010 FMRs are updated using 2008 American Community Survey (ACS) data, and more recent Consumer Price Index (CPI)

¹The three metropolitan areas are: North Port-Bradenton-Sarasota, FL MSA, Crestview-Fort Walton Beach-Destin, FL MSA, and Steubenville-Weirton, OH-WV MSA. In Alaska, Prince of Wales-Ketchikan Census Area, AK is changed to Prince of Wales-Hyder Census Area, AK; the Alaskan borough of Skagway-Hoonah-Angoon is divided into Skagway and Hoonah-Angoon boroughs; and the Alaskan borough of Wrangell-Petersburg is divided into Wrangell and Petersburg boroughs.

rent and utility indexes. HUD continues to use ACS data in different ways based upon the number of two-bedroom standard-quality and recent-mover sample cases that are available in the FMR area or its Core-Based Statistical Area (CBSA).

This notice also proposes Small Area FMRs for the Dallas, TX HUD Metro FMR Area in accordance with a **Federal Register** Notice published May 18, 2010, (75 FR27808) announcing a Small Area FMR Demonstration project.

DATES: *Comment Due Date:* 30 days after publication.

ADDRESSES: Interested persons are invited to submit comments regarding HUD's estimates of the FMRs, as published in this notice, to the Office of General Counsel, Rules Docket Clerk, Department of Housing and Urban Development, 451 Seventh Street, SW., Room 10276, Washington, DC 20410-0001. Communications should refer to the above docket number and title and should contain the information specified in the "Request for Comments" section.

Submission of Hard Copy Comments. To ensure that the information is fully considered by all of the reviewers, each commenter who is submitting hard copy comments, by mail or hand delivery, is requested to submit two copies of its comments to the address above, one addressed to the attention of the Rules Docket Clerk and the other addressed to the attention of Economic and Market

Analysis Division staff in the appropriate HUD field office. Due to security measures at all federal agencies, submission of comments by mail often results in delayed delivery. To ensure timely receipt of comments, HUD recommends that any comments submitted by mail be submitted at least 2 weeks in advance of the public comment deadline.

Electronic Submission of Comments.

Interested persons may submit comments electronically through the Federal eRulemaking Portal at <http://www.regulations.gov>. HUD strongly encourages commenters to submit comments electronically. Electronic submission of comments allows the commenter maximum time to prepare and submit a comment, ensures timely receipt by HUD, and enables HUD to make them immediately available to the public. Comments submitted electronically through the <http://www.regulations.gov> website can be viewed by other commenters and interested members of the public. Commenters should follow instructions provided on that site to submit comments electronically.

No Facsimile Comments. Facsimile (FAX) comments are not acceptable.

Public Inspection of Comments. All comments and communications submitted to HUD will be available, without charge, for public inspection and copying between 8 a.m. and 5 p.m. weekdays at the above address. Due to security measures at the HUD Headquarters building, an advance appointment to review the public comments must be scheduled by calling the Regulations Division at 202-708-3055 (this is not a toll-free number). Copies of all comments submitted are available for inspection and downloading at <http://www.regulations.gov>.

FOR FURTHER INFORMATION CONTACT: For technical information on the methodology used to develop FMRs or a listing of all FMRs, please call the HUD USER information line at (800) 245-2691 or access the information on the HUD Web site <http://www.huduser.org/portal/datasets/fmr.html>. FMRs are listed at the 40th or 50th percentile in Schedule B. For informational purposes, 40th percentile recent-mover rents for the areas with 50th percentile FMRs will be provided in the HUD FY 2011 FMR documentation system at <http://www.huduser.org/portal/datasets/fmr/fmrs/>

[index.asp?data=fmr11](http://www.huduser.org/portal/datasets/50per.html) and 50th percentile rents for all FMR areas will be published at <http://www.huduser.org/portal/datasets/50per.html> after publication of final FY 2011 FMRs.

In addition to FMRs calculated across an entire metropolitan area, HUD will operate Small Area FMR demonstration projects for the HCV program in selected metropolitan areas. A copy of the **Federal Register** notice announcing this program can be accessed at http://www.huduser.org/portal/datasets/fmr/fmr2010f/Small_Area_FMRs.pdf. A system for looking up Small Area Rents based on Proposed FY2011 FMRs is available at http://www.huduser.org/portal/datasets/fmr/fmrs/index_sa.html.

Questions related to use of FMRs or voucher payment standards should be directed to the respective local HUD program staff. Questions on how to conduct FMR surveys or concerning further methodological explanations may be addressed to Marie L. Lihn or Peter B. Kahn, Economic and Market Analysis Division, Office of Economic Affairs, Office of Policy Development and Research, telephone 202-708-0590. Persons with hearing or speech impairments may access this number through TTY by calling the toll-free Federal Information Relay Service at 800-877-8339. (Other than the HUD USER information line and TDD numbers, telephone numbers are not toll-free.)

SUPPLEMENTARY INFORMATION:

I. Background

Section 8 of the USHA (42 U.S.C. 1437f) authorizes housing assistance to aid lower-income families in renting safe and decent housing. Housing assistance payments are limited by FMRs established by HUD for different geographic areas. In the HCV program, the FMR is the basis for determining the "payment standard amount" used to calculate the maximum monthly subsidy for an assisted family (see 24 CFR 982.503). In general, the FMR for an area is the amount that would be needed to pay the gross rent (shelter rent plus utilities) of privately owned, decent, and safe rental housing of a modest (non-luxury) nature with suitable amenities. In addition, all rents subsidized under the HCV program must meet reasonable rent standards. The interim rule published on October 2, 2000 (65 FR 58870), established 50th percentile FMRs for certain areas.

Electronic Data Availability: This **Federal Register** notice is available

electronically from the HUD User page at <http://www.huduser.org/datasets/fmr.html>. **Federal Register** notices also are available electronically from <http://www.gpoaccess.gov/fr/index.html>, the U.S. Government Printing Office Web site. Complete documentation of the methodology and data used to compute each area's proposed FY 2011 FMRs is available at <http://www.huduser.org/portal/datasets/fmr/fmrs/index.asp?data=fmr11>.

II. Procedures for the Development of FMRs

Section 8(c) of the USHA requires the Secretary of HUD to publish FMRs periodically, but not less frequently than annually. Section 8(c) states, in part, as follows:

Proposed fair market rentals for an area shall be published in the **Federal Register** with reasonable time for public comment and shall become effective upon the date of publication in final form in the **Federal Register**. Each fair market rental in effect under this subsection shall be adjusted to be effective on October 1 of each year to reflect changes, based on the most recent available data trended so the rentals will be current for the year to which they apply, of rents for existing or newly constructed rental dwelling units, as the case may be, of various sizes and types in this section.

HUD's regulations at 24 CFR part 888 provide that HUD will develop proposed FMRs, publish them for public comment, provide a public comment period of at least 30 days, analyze the comments, and publish final FMRs. (See 24 CFR 888.115.)

In addition, HUD's regulations at 24 CFR 888.113 set out procedures for HUD to assess whether areas are eligible for FMRs at the 50th percentile. Minimally qualified areas are reviewed each year unless not qualified to be reviewed. Areas are not qualified to be reviewed if they have been made a 50th percentile area within the last three years or have lost 50th percentile status for failure to de-concentrate within the last three years.

For FY 2010 there are 17 areas using 50th percentile FMRs. None of these areas were evaluated for the FY 2011 FMRs because they have not completed 3 years of program participation since their last review, so all 17 areas will continue to use 50th percentile FMRs. Ten of these current 50th-percentile FMR areas will be up for review again in computation of the FY 2012 FMRs, and are listed below:

FY 2011 50TH-PERCENTILE FMR AREAS SLATED FOR ELIGIBILITY EVALUATION IN FY 2012

FY 2011 50TH-PERCENTILE FMR AREAS SLATED FOR ELIGIBILITY EVALUATION IN FY 2012—Continued

Denver-Aurora, CO MSA	Hartford-West Hartford-East Hartford, CT HMFA.
Houston-Baytown-Sugar Land, TX HMFA	Kansas City, MO-KS, HMFA.
Milwaukee-Waukesha-West Allis, WI MSA	North Port-Bradenton-Sarasota, FL MSA.
Richmond, VA HMFA	Tacoma, WA HMFA.

The remaining 7 50th percentile FMR areas will complete three years in the program and be reviewed for the FY 2013 FMRs, as shown below:

FY 2011 50TH-PERCENTILE FMR AREAS SLATED FOR ELIGIBILITY EVALUATION IN FY 2013

Baltimore-Towson, MD MSA	Fort Lauderdale, FL HMFA.
Grand Rapids-Wyoming, MI HMFA	New Haven-Meriden, CT HMFA.
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD MSA	Washington-Arlington-Alexandria, DC-VA-MD HMFA.
West Palm Beach-Boca Raton, FL HMFA	

In addition to these 17 50th percentile FMR areas, a new area, Bergen-Passaic, NJ HMFA, meets all of the criteria to be eligible to use 50th percentile FMRs, so for FY 2011 there are 18 50th percentile FMR areas. Under current regulations, Bergen-Passaic, NJ HMFA, will be in the 50th percentile program for three years and re-evaluated when the FY 2014 FMRs are being calculated.

III. FMR Methodology

This section provides a brief overview of how the FY 2011 FMRs are computed. For complete information on how FMR areas are determined, and on how each area's FMRs are derived, see the online documentation at: <http://www.huduser.org/portal/datasets/fmr/fmrs/index.asp?data=fmr11>.

The FY 2011 FMRs are based on current OMB metropolitan area definitions and standards that were first used in the FY 2006 FMRs. OMB changes to the metropolitan area definitions through December 2009 are incorporated. As of December 2009, there was a change in the principal city of three metropolitan areas that resulted in a code change. These three metropolitan areas are: North Port-Bradenton-Sarasota, FL MSA, Crestview-Fort Walton Beach-Destin, FL MSA, and Steubenville-Weirton, OH-WV MSA. In Alaska, there was a name change for a nonmetropolitan borough, from Prince of Wales-Ketchikan Census Area, AK to Prince of Wales-Hyder Census Area, AK; and two other Alaskan boroughs were divided, from Skagway-Hoonah-Angoon to Skagway and Hoonah-Angoon boroughs; and from Wrangell-Petersburg to Wrangell and Petersburg boroughs.

A. Data Sources—2000 Census, the American Community Survey, and the Consumer Price Index

As in all post-FY 2006 FMR publications, FY 2011 FMRs start with base rents generated using Census 2000 long form survey data. They are updated with American Community Survey (ACS) data and Bureau of Labor Statistics Consumer Price Index (CPI) data. FY 2011 FMRs are FY 2010 FMRs updated by replacing the CPI data used for FY 2010 FMRs with ACS 2008 survey data and updated CPI data. Specifically, the FY 2010 rent (as of date: April, 2010) is deflated to June, 2007 by dividing it by 18 months of CPI data representing June 2007 through December 2008 inflation, and the usual 15 month trend factor. This June 2007 rent is the best rent estimate available using only ACS survey data available last year and eliminating all other update data. It is this rent that will be updated with additional ACS data and new CPI data.

In order to preserve additional information gathered by HUD through random digit dialing (RDD) surveys, areas surveyed after June 2007 are updated separately, the details of which can be found at the Web site listed above.

B. Updates from 2007 to 2008—2008 ACS

ACS survey data continues to be applied to areas based on the type of area (CBSA, metropolitan subarea, or non-metropolitan county), the amount of survey data available, and the reliability of the survey estimates. Both one- and three-year ACS 2008 data are used to update June 2007 rents. All

areas are updated with the change from 2007 to 2008 in state or metropolitan one-year standard quality median rents. HUD considered using the change in the three-year 2005–2007 ACS to three-year 2006–2008 ACS in place of the change from 2007 one-year ACS to 2008 one-year ACS, but the nature of the 3 year data mutes the effects of the more recent data, which HUD finds more important for achieving the objectives of the HCV program. So HUD used the change in ACS one year data from 2007 to 2008 for the update in all cases. Beginning with the FY 2010 FMRs, HUD tests these rent changes for statistical significance³

$$z = \frac{EST_1 - EST_2}{\sqrt{SE_1^2 + SE_2^2}}$$

before applying them to the appropriate base rent. Any state- or metropolitan-level change that is not statistically significant is not applied. That is, the updated 2008 rent is the same as the 2007 rent if the applicable update factor does not represent a statistically significant change. HUD applied this test as a measure to minimize fluctuations in rents due to survey error. HUD uses metropolitan-level rent changes for CBSA areas and subareas that have more than 200 standard quality sample cases in 2007 and 2008. All other areas are updated with state-level rent changes. For subareas, State and CBSA change factors continue to be selected based on which factor brings the subarea rent closer to the CBSA-wide rent. HUD updates subareas that have 200 or more local standard quality survey observations with their local area update factor.

²HMFA stands for HUD Metropolitan FMR Area.

³The change is considered statistically significant if Z > 1.645 where (see equation above) and EST₁ = ACS 2008 Estimate, EST₂ = ACS 2007 Estimate,

SE₁=Standard Error of Estimate 1 and SE₂=Standard Error of Estimate 2.

After all areas have been updated with a standard quality median rent change, HUD evaluates further local areas with estimates that reflect more than 200 one-year recent mover cases. If the updated rent is outside the confidence interval of the ACS recent mover estimate, the updated rent is replaced with the ACS recent mover rent estimate. In areas without 200 or more one-year ACS recent mover observations, but with 200 or more three-year ACS recent mover observations, HUD uses the three year estimate⁴ if it is statistically different from the updated 2008 rent based on the standard quality median rent change. This process estimates a June 2008 rent.

C. Updates from 2008 to 2009

ACS 2008 data updates the June 2007 rents used in the FY 2010 FMRs forward by 12 months to June 2008. HUD uses six months of 2008 and 12 months of 2009 CPI rent and utilities price index data to update the June 2008 rents to the end of 2009. HUD uses Local CPI data for FMR areas with at least 75 percent of their population within Class A metropolitan areas covered by local CPI data. HUD uses Census region CPI data for FMR areas in Class B and C size metropolitan areas and nonmetropolitan areas without local CPI update factors.

D. Updates from 2009 to 2011

The national 1990 to 2000 average annual rent increase trend of 3 percent is applied to end-of-2009 rents for 15 months, to derive the proposed FY 2011 FMRs.

The area-specific data and computations used to calculate proposed FY 2011 FMRs and FMR area definitions can be found at <http://www.huduser.org/portal/datasets/fmr/fmrs/index.asp?data=fmr11>.

E. Bedroom Rent Adjustments

HUD calculates the primary FMR estimates for two-bedroom units. This is generally the most common size of rental units and, therefore, the most reliable to survey and analyze. After each Decennial Census, HUD calculates rent relationships between two-bedroom units and other unit sizes and uses them to set FMRs for other units. HUD does this because it is much easier to update two-bedroom estimates and to use pre-established cost relationships with other bedroom sizes than it is to develop

independent FMR estimates for each bedroom size. HUD did the last update of bedroom-rent relationships using 2000 Census data. A publicly releasable version of the data file used for the derivations of rent ratios is available at <http://www.huduser.org/portal/datasets/fmr/CensusRentData/index.html>.

HUD made adjustments using 2000 Census data to establish rent ratios for areas with local bedroom-size intervals above or below what are considered reasonable ranges, or where sample sizes are inadequate to accurately measure bedroom rent differentials. Experience has shown that highly unusual bedroom ratios typically reflect inadequate sample sizes or peculiar local circumstances that HUD would not want to utilize in setting FMRs (e.g., luxury efficiency apartments that rent for more than typical one-bedroom units). HUD established bedroom interval ranges based on an analysis of the range of such intervals for all areas with large enough samples to permit accurate bedroom ratio determinations. These ranges are: efficiency FMRs are constrained to fall between 0.65 and 0.83 of the two-bedroom FMR; one-bedroom FMRs must be between 0.76 and 0.90 of the two-bedroom FMR; three-bedroom FMRs must be between 1.10 and 1.34 of the two-bedroom FMR; and four-bedroom FMRs must be between 1.14 and 1.63 of the two-bedroom FMR. HUD adjusts bedroom rents for a given FMR area if the differentials between bedroom-size FMRs were inconsistent with normally observed patterns (i.e., efficiency rents are not allowed to be higher than one-bedroom rents and four-bedroom rents are not allowed to be lower than three-bedroom rents).

HUD further adjusts the rents for three-bedroom and larger units to reflect HUD's policy to set higher rents for these units than would result from using unadjusted market rents. This adjustment is intended to increase the likelihood that the largest families, who have the most difficulty in leasing units, will be successful in finding eligible program units. The adjustment adds bonuses of 8.7 percent to the unadjusted three-bedroom FMR estimates and adds 7.7 percent to the unadjusted four-bedroom FMR estimates. The FMRs for unit sizes larger than four bedrooms are calculated by adding 15 percent to the four-bedroom FMR for each extra bedroom. For example, the FMR for a five-bedroom unit is 1.15 times the four-bedroom FMR, and the FMR for a six-bedroom unit is 1.30 times the four-bedroom FMR. FMRs for single-room

occupancy units are 0.75 times the zero-bedroom (efficiency) FMR.

For low-population, nonmetropolitan counties with small 2000 Census samples of recent-mover rents, HUD uses Census-defined county group data to determine rents for each bedroom size. HUD made this adjustment to protect against unrealistically high or low FMRs due to insufficient sample sizes. The areas covered by this estimation method had less than the HUD standard of 200 two-bedroom, Census-tabulated observations.

IV. Manufactured Home Space Surveys

The FMR used to establish payment standard amounts for the rental of manufactured home spaces in the HCV program is 40 percent of the FMR for a two-bedroom unit. HUD will consider modification of the manufactured home space FMRs where public comments present statistically valid survey data showing the 40th-percentile manufactured home space rent (including the cost of utilities) for the entire FMR area.

All approved exceptions to these rents that were in effect in FY 2010 were updated to FY 2011 using the same data used to estimate the Housing Choice Voucher program FMRs if the respective FMR area's definition remained the same. If the result of this computation was higher than 40 percent of the new two-bedroom rent, the exception remains and is listed in Schedule D. The FMR area definitions used for the rental of manufactured home spaces are the same as the area definitions used for the other FMRs. Areas with definitional changes that previously had exception manufactured housing space rental FMRs are requested to submit new surveys to justify higher-than-standard space rental FMRs if they believe higher-space rental allowances are needed.

V. Methodology for Small-Area FMRs

Use of metropolitan area-wide FMRs allows HUD's Section 8 Voucher Tenants access to different parts of a metropolitan area; however, because FMRs generally are set at the 40th percentile of the metropolitan rent distribution, certain neighborhoods may not have many units available in the FMR range. That is why HUD has an exception rent policy that allows payments standards to be set much higher (or much lower) than the FMR, but this policy is dependent on a showing of program need in terms of whether or not suitable housing is available. To make all of an FMR area accessible to our clients, HUD is researching ways to set FMRs at a more

⁴ The recent mover estimate from the three year data includes all those who moved in the most recent 24 month period. That means that no 2006 survey data are included in this "three-year" recent mover classification and the likelihood of having a valid (with 200 or more sample cases) three-year recent mover rent is lower for these estimates.

granular level. Currently, HUD is proposing that small areas be defined by U.S. Postal Service ZIP codes, as the basis for publishing FMRs in metropolitan areas. For non-metropolitan areas, HUD would continue to use counties as the basis for publishing FMRs.

The most recent data regarding rents, incomes and other socio-economic information collected by the U.S. Census Bureau comes from the ACS. At this time, only one-year and three-year ACS tables are available. ACS five-year data are expected to have sufficient data at the Small Area level available to permit the calculation of statistically reliable FMRs for many ZIP codes in metropolitan areas. However, the first publication of five-year ACS data does not begin until the fourth quarter of 2010, so for the Small Area FMR Demonstration Projects, HUD must use a different data source; HUD will use data from the 2000 Decennial Census to estimate the rental rate relationship between the OMB-defined CBSA and each ZIP code within the given metropolitan area.⁵

Before a rental relationship can be determined, HUD first eliminates any records where there were zero occupied units for occupants paying cash rent. HUD then aggregates these rental distribution data for each CBSA and calculates a median (50th percentile) gross rent across all bedroom sizes. These CBSA median gross rents serve as the denominator in the rental rate relationship calculation. HUD then aggregates the rental distributions for each ZIP code within a given CBSA (ZIP codes can cross county boundaries; therefore, there may be multiple records for each ZIP code within a single CBSA, and HUD aggregates these multiple records). HUD calculates a median gross rent for each ZIP code (or ZIP code part for ZIP codes spanning CBSA boundaries). HUD restricts the use of ZIP code level median gross rents to those areas that have at least 1,000 cash rental unit observations.⁶

HUD calculates the rental rate relationship in the following manner for

those ZIP codes within the metropolitan area that have 1,000 or more cash rental units:

$$\text{Rental Rate Ratio} = \frac{\text{Median Gross Rent for ZIP Code area}}{\text{Median Gross Rent for CBSA}}$$

The rental rate relationship is capped at 150 percent for areas that would otherwise be greater. If the ZIP code within the CBSA does not have 1,000 cash rental units, then the rental rate relationship is calculated as:

$$\text{Rental Rate Ratio} = \frac{\text{Median Gross Rent STCO}}{\text{Median Gross Rent of the CBSA}}$$

where STCO is the County within the State containing the ZIP Code.⁷ For metropolitan areas, FMRs will be calculated and published for each small area. HUD chose ZIP Codes because they localize rents, and a unit's ZIP Code is easily identified both by PHAs and by tenants.

The individual ZIP-code-level two-bedroom FMR for each part of the FMR area is the product of the rental rate ratio and the two-bedroom FMR for that area's CBSA as calculated using methods employed for past metropolitan area FMR estimates and as specified in this Notice. HUD then compares this product to the state non-metropolitan minimum two-bedroom rent for the state the area is located in and if the ZIP code rent determined using the rental rate ratio is less than the minimum, the ZIP code rent is set at the non-metropolitan minimum for that state. HUD estimates the relationship between two bedroom units and other bedroom sizes from decennial census data and then holds it constant until superseded by more recent data. HUD will calculate Small Area FMRs for other bedroom sizes based on the bedroom size relationships estimated for the large area of geography. HUD anticipates updating the bedroom rental rate ratios with the release of five-year ACS data (covering 2005 through 2009), and then once every five years when the five-year ACS sample is completely replaced.⁸ The final calculated rents are then rounded to the nearest \$10.⁹

Small Area FMRs for all metropolitan areas are available for viewing and download on the Internet at: <http://www.huduser.org/portal/datasets/fmr.html>. These have been updated using proposed FY 2011 FMRs as the basis and posted on the Web site. HUD is publishing proposed Small Area FMRs for the Dallas, TX HUD Metro FMR Area in this notice as HUD has determined that the Dallas area will be a participant in the Small Area FMR Demonstration project.

VI. Additional Participation in the Small Area FMR Demonstration Project

Additional eligible PHAs may request participation in the Small Area Demonstration Project. To be eligible, the PHA or a group of PHAs must represent at least 80 percent of the Section 8 voucher tenants in a metropolitan area. Any PHA that is part of the Demonstration Project must use payment schedules based on these Small Area FMRs, beginning October 1, 2010 or when they are designated as a Small Area Demonstration Project in a subsequent **Federal Register** Notice. HUD assumes that the need for rent reasonableness studies will be reduced by using Small Area FMRs and is requesting information on rent reasonableness study results for Small Area FMR Demonstration Project areas. HUD is requesting that participating PHAs provide HUD with information on how long it takes tenants to find housing, and if this is less than the time spent when metropolitan FMRs were used; the distribution of tenants in areas above and below the metropolitan FMR; and the payment standards used for the Small Area FMRs. HUD would also request information on landlord actions in areas where the Small Area FMR is significantly lower or higher than the metropolitan FMR, and on tenants' interest in using vouchers in the new higher rent areas. HUD also would like to hear if the PHAs are experiencing any administrative issues.

VII. Request for Public Comments

HUD seeks public comments on FMR levels for specific areas. Comments on FMR levels must include sufficient information (including local data and a full description of the rental housing

⁵ Note that some ZIP Codes span metropolitan area boundaries so that a ZIP Code may contain parts of a metropolitan area and one (or more) nonmetropolitan county (counties), or part of another metropolitan CBSA. As in current FMR policy, nonmetropolitan counties would not be broken along ZIP code or any other lines under the Small-Area FMR policy. ZIP Codes that span more than one metropolitan CBSA would have different FMRs in each CBSA as they do under current metropolitan FMR policy.

⁶ HUD anticipates that 1000 cash renter occupied units in the 2000 Census will approximate statistically valid samples of rental units in the 5-year ACS tabulations.

⁷ For ZIP codes that cross county boundaries, the Median Gross Rent in the numerator is calculated as the rental unit weighted average of the Median Gross rents for each county containing the ZIP code.

⁸ The current decennial data is not robust enough to lead us to believe that updating bedroom ratios on a more frequent basis would provide many changes. The current bedroom ratios are constrained by ranges that reflect the average relationship to the 2-bedroom rent and for the 3-bedroom and 4-bedroom rents bonuses have been added to assist with the operation of the Section 8 program.

⁹ Calculation parameters such as the 150% cap and the rounding of Small Area FMRs to the nearest \$10 were topics for public comment as requested

in HUD's May 18, 2010 **Federal Register** Notice (75 FR 27808). The comment period for that notice ended on July 19, 2010. The parameters listed in this notice may be changed subject to the comments filed in relation to the May 18, 2010 notice or based on the comments filed in response to this notice. As an example, the May 18, 2010 notice discussed rounding Small Area FMRs to the nearest \$25; however, in response to comments, and further analysis by HUD, rounding to the nearest \$10 is proposed in this notice.

survey methodology used) to justify any proposed changes. Changes may be proposed in all or any one or more of the unit-size categories on the schedule. Recommendations and supporting data must reflect the rent levels that exist within the entire FMR area.

For the supporting data, HUD recommends the use of professionally conducted RDD telephone surveys to test the accuracy of FMRs for areas where there is a sufficient number of Section 8 units to justify the survey cost of approximately \$35,000–\$50,000. Areas with 2,000 or more program units usually meet this cost criterion, and areas with fewer units may meet it if actual rents for two-bedroom units are significantly different from the FMRs proposed by HUD.

PHAs in nonmetropolitan areas may, in certain circumstances, conduct surveys of groups of counties. HUD must approve all county-grouped surveys in advance. PHAs are cautioned that the resulting FMRs will not be identical for the counties surveyed; each individual FMR area will have a separate FMR based on the relationship of rents in that area to the combined rents in the cluster of FMR areas. In addition, PHAs are advised that counties where FMRs are based on the combined rents in the cluster of FMR areas will not have their FMRs revised unless the grouped survey results show a revised FMR statistically different from the combined rent level.

PHAs that plan to use the RDD survey technique should obtain a copy of the appropriate survey guide. Larger PHAs should request HUD's survey guide entitled "Random Digit Dialing Surveys: A Guide to Assist Larger Public Housing Agencies in Preparing Fair Market Rent Comments." Smaller PHAs should obtain the guide entitled "Rental Housing Surveys: A Guide to Assist Smaller Public Housing Agencies in Preparing Fair Market Rent Comments." These guides are available from HUD USER on 800–245–2691, or from HUD's Web site, in Microsoft Word or Adobe Acrobat format, at the following address: <http://www.huduser.org/datasets/fmr.html>.

Other survey methodologies are acceptable in providing data to support comments, if the survey methodology can provide statistically reliable, unbiased estimates of the gross rent. Survey samples should preferably be randomly drawn from a complete list of rental units for the FMR area. If this is not feasible, the selected sample must be drawn to be statistically representative of the entire rental housing stock of the FMR area. Surveys must include units at all rent levels and

be representative by structure type (including single-family, duplex, and other small rental properties), age of housing unit, and geographic location. The Decennial Census should be used as a means of verifying if a sample is representative of the FMR area's rental housing stock.

Most surveys cover only one- and two-bedroom units, which has statistical advantages. If the survey is statistically acceptable, HUD will estimate FMRs for other bedroom sizes using ratios based on the Decennial Census. A PHA or contractor that cannot obtain the recommended number of sample responses after reasonable efforts should consult with HUD before abandoning its survey; in such situations, HUD may find it appropriate to relax normal sample size requirements.

HUD will consider increasing manufactured home space FMRs where public comment demonstrates that 40 percent of the two-bedroom FMR is not adequate. In order to be accepted as a basis for revising the manufactured home space FMRs, comments must include a pad rental survey of the mobile home parks in the area, identify the utilities included in each park's rental fee, and provide a copy of the applicable public housing authority's utility schedule.

While HUD is soliciting comments concerning the implementation of small area FMRs and the small area FMR Demonstration Project under **Federal Register** notice (75 FR 27808), comments may be filed under this notice on the small area FMRs for specific areas. HUD will publish a separate notice requesting volunteers for participation in a small area FMR Demonstration project. The forthcoming notice will include criteria for determining how volunteers will be selected. HUD is particularly interested in comments concerning the proposed small area FMRs in the Dallas, TX HMFA and any other area where commenters can show that the small area FMRs based on Proposed FY 2011 FMRs are substantially out of line with local area housing conditions.

Accordingly, the Fair Market Rent Schedules, which will not be codified in 24 CFR part 888, are proposed to be amended as shown in the Appendix to this notice:

Dated: July 29, 2010.

Jean Lin Pao,

General Deputy Assistant Secretary for Policy Development and Research.

Fair Market Rents for the Housing Choice Voucher Program Schedules B and D—General Explanatory Notes

1. Geographic Coverage

a. Metropolitan Areas—Most FMRs are market-wide rent estimates that are intended to provide housing opportunities throughout the geographic area in which rental-housing units are in direct competition. HUD is using the metropolitan CBSAs, which are made up of one or more counties, as defined by the Office of Management and Budget (OMB), with some modifications. HUD is generally assigning separate FMRs to the component counties of CBSA Micropolitan Areas. FMRs in small area demonstration projects are specific to ZIP codes within a given Metropolitan area.

b. Modifications to OMB Definitions—Following OMB guidance, the estimation procedure for the FY 2011 proposed FMRs incorporates the current OMB definitions of metropolitan areas based on the CBSA standards as implemented with 2000 Census data, but makes adjustments to the definitions to separate subparts of these areas where FMRs or median incomes would otherwise change significantly if the new area definitions were used without modification. In CBSAs where subareas are established, it is HUD's view that the geographic extent of the housing markets are not yet the same as the geographic extent of the CBSAs, but may become so in the future as the social and economic integration of the CBSA component areas increases. Modifications to metropolitan CBSA definitions are made according to a formula as described below.

Metropolitan area CBSAs (referred to as MSAs) may be modified to allow for subarea FMRs within MSAs based on the boundaries of old FMR areas (OFAs) within the boundaries of new MSAs. (OFAs are the FMR areas defined for the FY 2005 FMRs. Collectively they include 1999-definition MSAs/Primary Metropolitan Statistical Areas (PMSAs), metro counties deleted from 1999-definition MSAs/PMSAs by HUD for FMR purposes, and counties and county parts outside of 1999-definition MSAs/PMSAs referred to as nonmetropolitan counties.) Subareas of MSAs are assigned their own FMRs when the subarea 2000 Census Base Rent differs by at least 5 percent from (*i.e.*, is at most 95 percent or at least 105 percent of) the MSA 2000 Census Base Rent, or when the 2000 Census Median Family Income for the subarea differs by at least 5 percent from the MSA 2000 Census Median Family Income. MSA subareas, and the remaining portions of MSAs after subareas have been determined, are referred to as HMFAs to distinguish these areas from OMB's official definition of MSAs.

The specific counties and New England towns and cities within each state in MSAs and HMFAs are listed in Schedule B.

2. Bedroom Size Adjustments

Schedule B shows the FMRs for zero-bedroom through four-bedroom units. The FMRs for unit sizes larger than four bedrooms are calculated by adding 15 percent to the four-bedroom FMR for each extra bedroom. For example, the FMR for a five-bedroom unit is 1.15 times the four-bedroom FMR, and the FMR for a six-bedroom unit is 1.30 times the four-bedroom FMR. FMRs for single-room-occupancy (SRO) units are 0.75 times the zero-bedroom FMR.

3. Arrangement of FMR Areas and Identification of Constituent Parts

a. The FMR areas in Schedule B are listed alphabetically by metropolitan FMR area and by nonmetropolitan county within each state. The exception FMRs for manufactured home spaces in Schedule D are listed alphabetically by state.

b. The constituent counties (and New England towns and cities) included in each metropolitan FMR area are listed immediately following the listings of the

FMR dollar amounts. All constituent parts of a metropolitan FMR area that are in more than one state can be identified by consulting the listings for each applicable state.

c. Two nonmetropolitan counties are listed alphabetically on each line of the nonmetropolitan county listings.

d. The New England towns and cities included in a nonmetropolitan county are listed immediately following the county name.

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