

Flat Rent Guidance

HUD FLAT RENT REQUIREMENTS

OFFICE OF PUBLIC AND INDIAN HOUSING



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Guidance

FY2015 Appropriations Act

- Maintains FY2014 rent increase phase-in requirements, and
- Requires that flat rents be set no less than the lower of:
 1. 80% of Fair Market Rent (FMR)
 2. 80% of Small Area Fair Market Rent (SAFMR), or Unadjusted Rent (*when applicable*)
- Establishes exception flat rent option when 80% of FMR or SAFMR is not reflective of local market conditions.



Flat Rent Options Overview

1. Option I: 80% of FMR

- (FMR x 80%) – Utility Allowance

2. Option II: 80% of SAFMR

- (SAFMR x 80%) – Utility Allowance
- Areas where HUD does not publish a SAFMR, HUD will permit PHAs to use 80% of the unadjusted rent to satisfy this option.

3. Option III: Flat Rent Exception

- If a PHA does not believe 80% of FMR or SAFMR is reflective of its local market, a PHA may submit an exception flat rent based on a PHA produced market analysis.



Timelines - Options I, II, and III

FMR Updates

- HUD posts new FMRs annually. Typically, the final FMR rates for the current Fiscal Year (FY) are effective on or around October 1.

FMR Implementation

- PHAs have 90-days from the effective date of new FMRs to either implement FMR-based flat rents (Options I or II) or submit an exception flat rent request (Option III). This would mean, in a typical year PHAs have until December 31.

FMR Effective Duration

- Rents remain effective until the sooner of:
 1. The end of the 90-day period commencing the next effective date of HUDs final FMR (typically, December 31), or
 2. The date which the PHA updates and makes effective its flat rents schedule based on that FY FMR; whichever comes first.

Flat Rent Extensions

- PHAs may request a 2-year extension of previously approved exception flat rent. Extension requests are due to HUD no later than 90-days after the effective date of the final FMRs published by HUD (typically, December 31).



Websites

(HUD Published FMR, SAFMR, Unadjusted Rent)

FMR:

<https://www.huduser.gov/portal/datasets/fmr.html>

SAFMR:

<https://www.huduser.gov/portal/datasets/fmr/smallarea/index.html>

Unadjusted Rent:

<https://www.huduser.gov/portal/datasets/fmr.html> (select the Data tab)



Option III - Flat Rent Exception

Applicability

- HUD only requires flat rent exception requests when PHAs are setting flat rents at an amount that is lower than the lesser of:
 - 80% FMR, or
 - 80% SAFMR (or 80% of Unadjusted Rent; when applicable)
- If a PHA does not believe 80% of FMR or SAFMR is reflective of its local market, a PHA may submit an exception flat rent based on a PHA produced market analysis.



Flat Rent Exception Requests – Submission Information

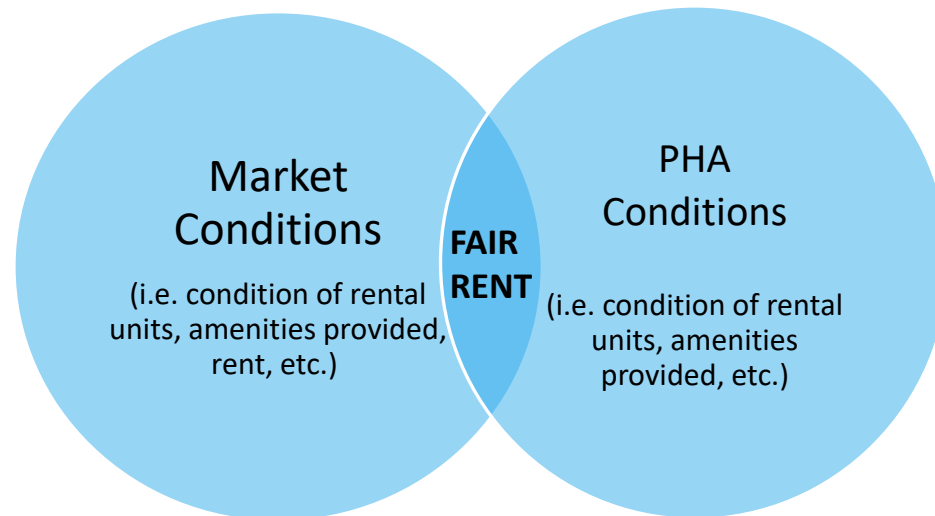
Flat Rent Exception Request Submissions Must Include:

1. The address, including unit numbers(s) and AMP number(s) of the units or property for which the PHA is seeking an exception flat rent.
2. Market analysis and any supplemental documentation.
3. Proposed flat rent schedule.



What is a Market Analysis?

- There is no one standard methodology of how to conduct a market analysis.
- A Flat Rent Exception Market Analysis should collect and analyze the local rental market conditions to determine the average and appropriate rent for an area.
- There must be a clear connection between the market conditions and the PHA conditions in order to determine the appropriate flat rent.



Market Analysis Content Requirements

1. Narrative explanation and/or Excel representation of methodology used to compare public housing units to unassisted market rate units in the area.
2. Narrative discussion of the factors used to establish a proposed rent schedule. Factors may include:
 - Location, quality, size, unit type, age of unit;
 - Amenities, housing services, maintenance; and
 - Utilities the PHA and/or the landlord pay under the applicable lease.
3. A key explaining the calculations used to determine the valuation of each factor.



Steps to Conducting a Market Analysis

1. Select Comparable Market Rate Units
2. Compare PHA Units to Comparable Market Rate Units
3. Make Adjustments and Develop a Key
4. Calculate Flat Rent
5. Finalize Narrative and Explain Methodology



Selecting Comparable Market Rate Units

Only three (3) comparable market rate units per bedroom size are required.

Market rate units should be selected with the following factors in mind:

- **Location:** physically located in the same market as the PHA property.
- **Quality:** comparable physical condition.
- **Age:** developments closest in age to the PHA property.
- **Size:** comparable bedroom size (square footage) and number of bathrooms.
- **Type:** unsubsidized by a government or non-profit agency.



Comparing PHA Units to Comparable Market Rate Units

“Apples to Apples”



Subject - PHA



Comparable Market Rate Units



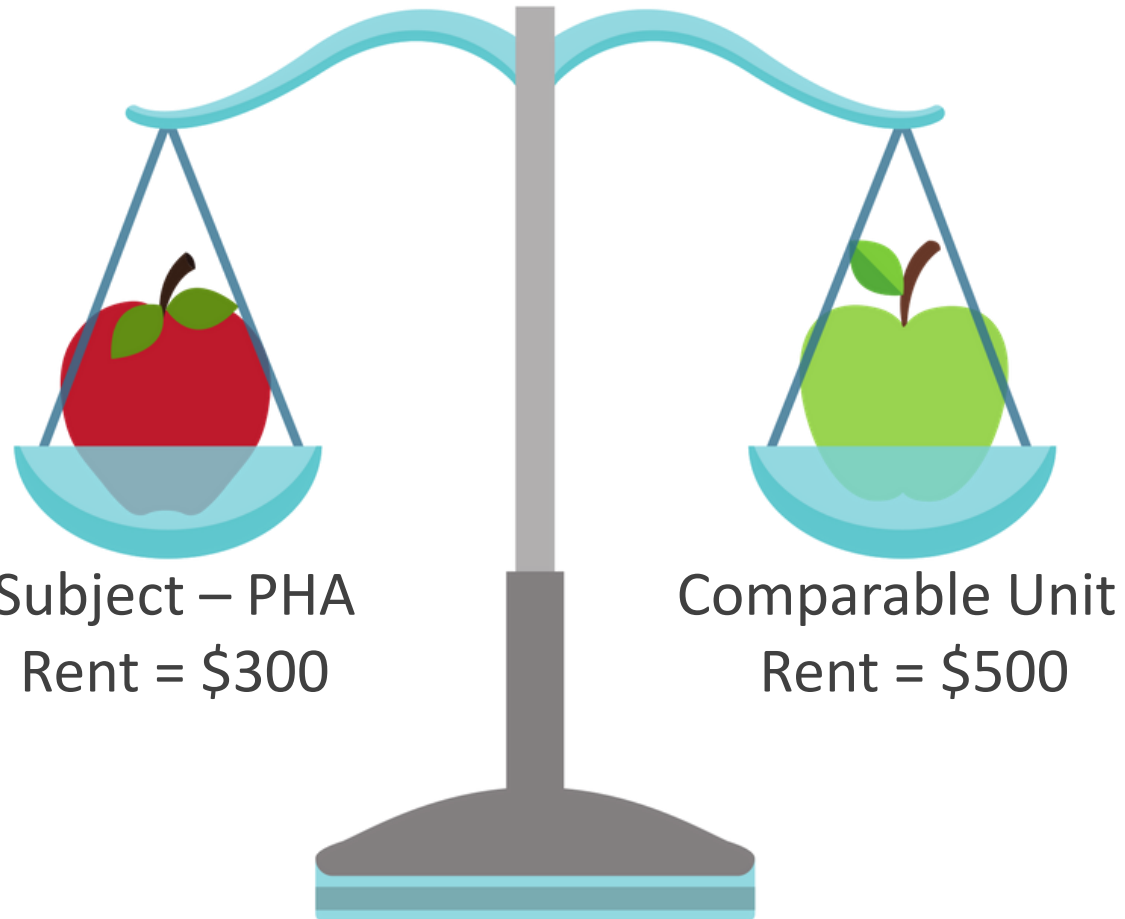
Comparing PHA Units to Comparable Market Rate Units

The market analysis does not need to include all amenities listed below but should evaluate factors relative to the local rental market.

- **General Condition:** Age, unit square footage, parking, closet size, curb appeal, etc.
- **Location:** Proximity to parks, schools, grocery stores, public transit, etc.
- **On-Site amenities:** Playground, laundromat, daycare, maintenance, etc.
- **In-Unit Amenities:** Carpet, dishwasher, window treatments, refrigerator, laundry, bathroom quantity, etc.
- **Building Style:** Apartment, duplex, single family home.



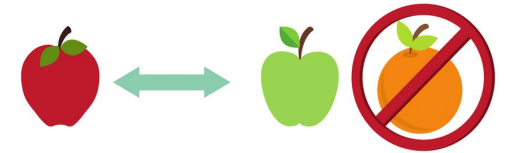
Making Adjustments and Developing a Key



A market analysis should identify and compare the amenities and general conditions and adjust for differences in order to determine the fair market rent for PHA units.



Comparing PHA Units to Comparable Market Rate Units



The market analysis should evaluate both the public housing and market rate units and adjust for differences in order to determine the fair market rent for the public housing units.

	PHA	Comp 1	Comp 2	Comp 3
Rent	\$300	\$400	\$385	\$500
Age	1965	1985	2005	1973
Year Renovated				2012
Refrigerator (Y/N)	Yes	Yes	Yes	Yes
Dishwasher (Y/N)	No	Yes	Yes	No
Laundry (Y/N)	Hook Ups	On-Site	Hook Ups	In Unit
Carpet (Y/N)	No	Yes	Yes	Yes

What are the differences in the PHA and Market Rate units?



Making Adjustments and Developing a Key

Take into account who pays the utilities

	Utility Responsibility			
	Electric	Gas	Water/Sewer	Trash
Comp 1	Resident Paid	N/A	PHA Paid	PHA Paid
Comp 2	Resident Paid	N/A	PHA Paid	PHA Paid
Comp 3	Resident Paid	N/A	PHA Paid	PHA Paid
PHA	PHA Paid	N/A	Tenant Paid	PHA Paid

The market analysis should find the “total out of pocket expense” for a resident.



Making Adjustments and Developing a Key

Utility Responsibility				
	Electric	Gas	Water/Sewer	Trash
Comp 1	Tenant Paid	N/A	Landlord Paid	Landlord Paid
Comp 2	Tenant Paid	N/A	Landlord Paid	Landlord Paid
Comp 3	Tenant Paid	N/A	Landlord Paid	Landlord Paid
PHA	PHA Paid	N/A	Resident Paid	PHA Paid

In this scenario:

- **Electricity** is PHA paid, therefore it is included in the rent amount. Whereas, the tenant must pay for electricity in addition to the rent amount for the comparable unit. Therefore, the amount spent on electricity must be added to adjust the comparable units rent.
- **Water/Sewer** is paid by residents at the PHA and included in the comparable rent. Therefore, the cost of utility should be deducted from the comparable rent.
- **Trash** is paid for at both the PHA and Comparable units by the Landlord; no adjustments need to be made.



Calculating Flat Rent

	PHA	Comp 1	Adj.	Comp 2	Adj.	Comp 3	Adj.
Rent		\$400		\$385		\$500	
Age	1965	1985	-\$10	2005	-\$20	1973	
Year Renovated						2012	-\$20
Refrigerator (Y/N)	Yes	Yes		Yes		Yes	
Dishwasher (Y/N)	No	Yes	-\$10	No		Yes	-\$10
Laundry (Y/N)	On-Site	On-Site		Hook-Ups	\$5	In Unit	-\$10
Carpet (Y/N)	Yes	Yes		Yes		Yes	
Electric (Included in Rent?)	Yes	No	\$30	No	\$30	No	\$30
Water/Sewer (Included in Rent?)	No	Yes	-\$40	Yes	-\$40	Yes	-\$40
Garbage (Included in Rent?)	Yes	Yes		Yes		Yes	
Adjusted Rent			\$370		\$360		\$450

- Make adjustments to comp units according to what amenities and utilities are included in the PHAs rent.
- This will find the value of that unit in the market via an “adjusted rent”.



Calculating Flat Rent

2 Bedroom	Proposed Rent
Comp 1	\$370
Comp 2	\$360
Comp 3	\$450
Proposed Rent	\$393

- Average the adjusted rents from the market analysis to find the flat rent exception for each bedroom size.



Making Adjustments and Developing a Key

Key	
Age	\$5 for every 10 years
Air Conditioning	Central \$0
	Window - \$5
	Neither - \$10
Curb Appeal	Good \$0
	Better \$5
	Best \$10
Housing Type	Apartment
	Duplex \$10
	House \$15

Include:

- Any formulas used for Adjustments.
- Multipliers for when comps do not have certain bedroom sizes.
- Differentiation and valuing of categories.



Finalize Narrative and Explain Methodology

After making any necessary amenity adjustments and establishing a proposed flat rent schedule, PHAs should develop and finalize their narrative, explaining their methodology.

Narratives should include explanatory justifications for any comparable inconsistencies. For example, when:

1. There is an insufficient number of comparable market rate units;
2. An analysis compares different types of units (i.e., multifamily and single-family units of the same bedroom size);
3. An analysis compares units that are not located in close proximity.

Documentation and explanation is 



Finalize Narrative and Explain Methodology

PIC Number

Bedroom Size	Proposed Rent
1 BR	\$375
2 BR	\$417
3 BR	\$503
4 BR	\$600

- Include the Proposed Flat Rents clearly in your market analysis
 - Specify AMP Numbers



Common Issues with the Market Analysis

- Lacking utility data
- Lacking the minimum 3 comparable units
- Arbitrarily assigning amenity values
- Placing apples with oranges without an explanation
- Assigning different monetary values for similar amenities without explanation
- Using subsidized units as comparables
- Using comparables from other states



Flat Rent Exception Review Process – New Submissions

PHAs have 90 days from the effective date of new FMRs (typically published October 1) to submit a flat rent exception request. This would mean PHAs have until December 31, in a typical year.

During Reviews:

- While HUD reviews a PHAs exception request, the PHA may continue to utilize its current flat rent schedule.

Incomplete Submissions:

- HUD will provide the PHA with the opportunity to address deficiencies before disapproving.
- PHAs must respond in writing no later than 15 days after receiving HUDs notification of insufficient submission.
- While awaiting response from HUD, the PHA may continue to utilize its current flat rent schedule.



Flat Rent Exception Disapprovals

If a PHA cannot provide sufficient information to justify its exception after given the opportunity to make corrections, HUD will deny the request.

If Denied:

- The PHA must immediately revise its flat rent rates using an applicable FMR (Options I and II), and the updated flat rents must be applied to any intake or reexamination that takes effect 60-days after the denial date.



Flat Rent Exception Extensions

Flat rent exception requests must be approved by HUD on an annual basis unless the PHA requests an extension.

Extensions: PHAs may request a 2-year extension of previously approved flat rent exceptions under the following circumstances:

1. The market analysis accompanying the previously approved request is no more than 2 years old;
2. Local market conditions remain unchanged; and
3. The PHA submits the extension request to HUD no later than 90 days after the effective date of the final FMRs published by HUD (December 31).



Flat Rent Exception Extensions

If during the 2-year renewal period the PHA becomes aware of a change in local market conditions that would impact the market, the PHA must:

1. Discontinue the use of the current flat rent exception and use one of the applicable FMRs (Option I or II); or
2. Conduct a new market analysis and submit a new flat rent exception request to HUD for approval.

The PHA may continue to use the current flat rent exception amounts until HUD issues a decision.



Frequently Asked Questions

1. What is the maximum increase for flat rents?

- 35% maximum annual increase.

2. When can the PHA submit a request?

- PHAs can submit flat rent exception requests once FMR and SAFMR data is effective for the respective fiscal year, which is usually October 1. PHAs have a 90-day window from the effective date to submit their flat rent exception (new request or extension request).

3. The market analysis calculated the appropriate market rent at \$500. Should the flat rent be set at \$500 X 80% = \$400?

- No, the rent should be set at \$500 based on the results of the market analysis. Not 80% of the results of the market analysis.

4. Can neighboring PHAs submit a joint waiver request?

- Yes, if they are in a shared rental market and they share an executive director.

5. Can a PHA submit an extension request with minor modifications or changes to its previously approved rents?

- No, the PHA must submit a new exception request.



Questions?

General Questions and to Submit an Exception or Extension Request:
flatrentexceptionrequests@hud.gov

