

Section 8 Existing Housing Program: Contract Rent Annual Adjustment Factors and Fair Market Rent Indexation ¹

1. Overview

Section 8 of the U.S. Housing Act of 1937 provides for annual rent adjustments for housing units assisted under this section. The Department of Housing and Urban Development develops the rent adjustment factors, called Annual Adjustment Factors (AAFs), on the basis of Consumer Price Index (CPI) data on changes in residential rent and utility costs. HUD publishes the AAFs annually in the Federal Register.

Specific details about how AAFs are applied can be found in notices published by HUD's Offices of Housing and of Public and Indian Housing; this paper concentrates on the rent indices used to update FMRs.

The rent indices are calculated annually, in time for the publication of proposed FMRs ("Fair Market Rents for the Section 8 Housing Assistance Payments Program"). AAFs for existing HAP contracts are also published in the Federal Register ("Section 8 Housing Assistance Payments Program Contract Rent Annual Adjustment Factors; Final Rule"; 24 CFR Part 888).

HUD's published AAFs are shown in two schedules, one for adjusting the rent of units where the highest-cost utility (usually heating)² is included in the contract rent (termed "Highest Utility Included" in the tables) and the other for units where the tenant pays for the highest-cost utility ("Highest Utility Excluded").

Separate AAF schedules are published for a total of about 123 areas: (a) about 119 separate metropolitan areas, including counties that are currently designated as non-metropolitan, but are part of the metropolitan area defined in the local Bureau of Labor Statistics Consumer Price Index (CPI) survey; and (b) the four Census Regions for those metropolitan and non-metropolitan areas that are not covered by the local CPI surveys.

¹ Prepared by the Economic and Market Analysis Division, Office of Policy Development and Research, Department of Housing and Urban Development. Portions were derived from earlier descriptions issued in 1981, 1991 and 1999.

² A landlord who pays for heat or air conditioning (where the latter is the highest-cost utility) gets an adjustment listed as "Highest Utility Included;" this adjustment is based on a gross rent concept. Where tenants pay for their own heat (or air conditioning), the AAF is listed under the column "Highest Utility Excluded;" the landlord in this case gets a rent adjustment based on a shelter rent concept.

2. CPI-Based Rent Indices

2.1 Summary

Consumer Price Index data on changes in residential rents and fuel and other utilities are available for a total of 119 HUD-defined AAF areas, which are the same as Fair Market Rent areas.³ For each area,

1. The change in the residential rent and utilities components are taken from the most recent CPI annual average change data;
2. A shelter rent factor is calculated by eliminating the effect of the heating costs included in the rent of many CPI survey units; and
3. A gross rent factor is calculated by weighting the shelter rent and utility components with the corresponding components from the 2000 Census, updated as shown later in this paper.

2.2 Detailed Description

2.2.1 The CPI Survey

The Consumer Price Index survey is conducted monthly by the Bureau of Labor Statistics, and made available in early-February of each year, covering the previous year.⁴ The residential rent component of the CPI is based on a sample of about 37,000 rental units in urban areas throughout the country. The fuel and other utilities component of the CPI, however, are not collected from renters. Homeowners provide fuel and utilities survey data for each CPI area. The change in these amounts are about the same regardless of whether or not it is paid by a homeowner or a renter.

2.2.2 CPI and HUD Geography

The CPI survey is conducted at the Metropolitan Statistical Area (MSA) or Consolidated MSA (CMSA) level. HUD uses these data for all AAF areas (which are the same as FMR areas) within each CMSA. Thus, from the 29 MSAs and CMSAs in the CPI survey, HUD gets data for 30 MSAs and 89 HUD Metropolitan Fair Market Rent Areas (HMFA) or nonmetropolitan counties that HUD considers to be separate housing market areas even though OMB currently or previously includes them in MSAs.

3 Separate CPI surveys are actually only available for 29 CPI areas, which are generally Consolidated Metropolitan Statistical Areas (CMSAs) consisting of several Primary Metropolitan Statistical Areas each under the old Office of Management and Budget area definitions); these are applied to the AAF areas within them, of which there are 119. For example, the same CPI for rent is used for San Francisco as for Oakland because both are in the San Francisco-Oakland-San Jose, CA CMSA.

4 Thus, in February 2006 HUD processed 2004 and 2005 CPI data. These data are available from the BLS website www.bls.gov/cpi/, series SEHA (residential rent) and SAH2 (fuel and other utilities.) Before 1998 these series were known as SE2101 and SA22, respectively.

2.2.3 Shelter Rent Increase (Tenant Pays For Utilities)

The Residential Rent CPI index is a mixture of units with and without separate utility bills. For indexing purposes HUD first calculates a *Shelter Rent* CPI for each of the 119 CPI areas, which excludes the cost of heating, starting with the following weighted-average-type formula:

$$I = AR + (1-A)[CR + (1-C)U]$$

Solving for **R**:

$$R = [I - AU(1-C)]/[AC - A + 1]$$

Where:

- I CPI *Residential Rent Increase* factor. Source: CPI series SEHA.
- A Proportion of CPI sample where tenant pays separately for heating. Source: annual special tabulation of Consumer Expenditure Survey (CEX), which is used to weight the CPI survey. Prepared for HUD by the Bureau of Labor Statistics.
- 1-A Proportion of CPI sample where heating is included in the rent (landlord pays for heating.)
- C Ratio of Shelter Rent to Gross Rent. Basic source: 2000 Census, ratio of medians for this area; this is updated annually using the ratio created in the AAF process.
- 1-C Ratio of Utilities to Gross Rent.
- R** *Shelter Rent* increase factor (what is solved for)
- U CPI Utility increase factor for fuel and other utilities. CPI series SAH2.

2.2.4 Gross Rent Increase Factor (Landlord Pays For Utilities)

For units where the landlord supplies utilities as part of the rent, a gross rent increase factor is calculated. Using the same variables as above, and the calculated value of the shelter rent increase factor (R), the *gross rent increase factor* is:

G	=	$C * R + (1 - C) U$	OR:
	=	Gross Rent _{this year} /Gross Rent _{last year}	

The gross rent factor is used to update the FMR (see below.)

3. How Rent Ratios Are Used

3.1 Fair Market Rents

For each FMR area that is covered by a CPI survey, the CPI-based gross rent change factor (Variable G in Table 1) is applied to this year's Final FMR to get next year's Proposed FMR. For an area that is not covered by an area CPI survey, the CPI for the Census Region is used.

Surveys of individual FMR areas, whether done by the metropolitan American Housing Survey or individual RDDs⁵, supersede the ratio-trended FMRs. For these areas in subsequent years the gross rent index is applied, as described in the previous paragraph.

3.2 Relationship Between AAFs and Proposed FMRs

Each year's Proposed FMR contains data implicit in the same year's AAF. For example, the increase from the 2006 Final FMR to the 2007 Proposed FMR is the same as the factor found in the AAF publication applicable to the same fiscal year in Table 1 "Highest Cost Utility Included."

For example, for Bremerton-Silverdale, WA MSA, the FMR increased from \$767 to \$782 between FY2006 Final and FY2007 Proposed. This ratio, 1.020, is the same as the FY2007 AAF for rental units with turnover in that region/metro, "Highest Cost Utility Included." For Jackson County, NC (South Region), the FMR increased by 4.0 percent, identical to the AAF factor of 1.040.

Where an American Housing Survey, area-specific RDD survey, or other survey has been used to determine the FMR, that figure supersedes the AAF-based FMR. For subsequent years without specific surveys, the regular increase factors are applied.

⁵ For a detailed description of the RDD process applicable to individual FMR areas, see HUD's publication "Random Digit Dialing Surveys: A Guide to Assist Larger Housing Agencies in Preparing Fair Market Rent Comments."