



RENTAL HOUSING

HUD Can Improve Its Process for Estimating Fair Market Rents

Highlights of [GAO-05-342](#), a report to the Ranking Minority Member, Subcommittee on Housing and Transportation, Committee on Banking, Housing, and Urban Affairs, U.S. Senate

Why GAO Did This Study

The Department of Housing and Urban Development (HUD) annually estimates fair market rents (FMR) for standard quality rental units throughout the United States. Among other uses, FMRs help determine subsidies for almost 2 million low-income families in the nation's largest rental assistance program. However, concerns exist that FMRs can be inaccurate—often, too low, preventing program participants from finding affordable housing. Also, HUD will soon derive FMRs from a new source, the American Community Survey (ACS), which processes data somewhat differently than HUD's current data sources, including the decennial census. You asked us to review (1) how HUD estimates FMRs, (2) how accurate FMRs have been, (3) how ACS data may affect accuracy, and (4) other changes HUD can make to improve the estimates.

What GAO Recommends

To improve the usefulness of its FMR estimates, GAO recommends that HUD fully document its methods for estimating FMRs by following all of its data quality guidelines; use, to the extent possible, state-level ACS data to update the fiscal year 2006 FMRs; and develop a mechanism to assess the accuracy of future FMRs. In response to a draft of this report, HUD agreed to better document methods for estimating FMRs and said it is exploring options to assess accuracy.

www.gao.gov/cgi-bin/getrpt?GAO-05-342.

To view the full product, including the scope and methodology, click on the link above. For more information, contact David G. Wood at (202) 512-8678 or woodd@gao.gov.

What GAO Found

According to HUD, the typical process for estimating FMRs includes benchmarking, or developing baseline rents for each FMR area (generally county-based) using census data or other surveys for the years between censuses; adjusting those rents to bring them up to date; and seeking public comment before finalizing the numbers. HUD generally uses Consumer Price Index and telephone survey data to adjust baseline rents—that is, to account for rent changes since data used for baseline estimates were collected and to project the estimates into the next fiscal year (when they will be in use for subsidy purposes). HUD then lists the proposed FMRs in the *Federal Register* for public comment. These comments can lead to changes in FMRs, but only when they include new data or lead HUD to conduct a new survey.

About 69 percent of all areas had FMR estimates in use in 2000 that were within 10 percent of rents indicated by the 2000 decennial census—the most accurate comparison data available for each FMR area. This represents an improvement over HUD's 1990 estimates, as the table below shows. Similarly, about 73 percent of 153 areas whose FMRs HUD rebenchmarked after 2000 were within 10 percent of rents derived from recent surveys. In general, GAO found that areas that are rebenchmarked with more recent data tended to have FMRs in the most accurate range (within 10 percent).

Using ACS data could improve the accuracy of FMRs by allowing HUD to benchmark more areas more frequently than is possible with current data sources, using more recent data—a factor that GAO's analysis suggests is related to accuracy. HUD's first use of ACS data will be to update existing baseline estimates for the fiscal year 2006 FMRs; HUD expects to use ACS data to set baseline rents for some fiscal year 2008 FMRs.

HUD could improve its FMR estimation process by consistently following its guidelines relating to the transparency of FMRs and ensuring that it can assess the accuracy of ACS-based FMRs. Transparency would be improved by fully documenting the estimation process so that FMRs can be independently reproduced. Even ACS-based FMRs may not always be accurate, and HUD's policies require mechanisms to correct information it disseminates.

Accuracy of HUD's Fiscal Years 2000 and 1990 FMR Estimates

Fiscal year	Compared with decennial census rents—percentage of FMRs that were:				
	Higher by 20% or more	Higher by 10% to 19.9%	Within 10%	Lower by 10% to 19.9%	Lower by 20% or more
2000	2%	8%	69%	19%	2%
1990	25	30	39	4	2

Sources: GAO analysis of HUD data (2000 figures) and HUD (1990 figures).