

Skyrocketing Rents Impact the Eastbay Disproportionately

The Problem

The United States Department of Housing and Urban Development (HUD) annually establishes Fair Market Rents (FMRs) that determine rent and subsidy levels for over x thousand (all HA vouchers+SPC+VASH+HUD-funded buildings [get from CAHI] + HOME/CDBG funded units from the Counties) (Contra Costa HA's number is 7,300) families in Alameda and Contra Costa Counties (the "Oakland-Fremont Metropolitan Statistical Area (MSA)").

In developing the 2016 FMRs HUD used a formula that relies on data from 2009-2013, which understates the impact of the higher rents subsequent to the 2009-2013 time period. (By definition, it captures none of the even higher rents of the 2014 and 2015 recent movers.)

To establish the current rent levels, the 2009-2013 data is brought forward to 2014 using the relevant regional or local change in gross rent Consumer Price Index (CPI). HUD then inflates that value to 2016, not by using a regional or local index, but by using a trend factor based on the most average annual change in national gross rents over the most recent 5 years. Doing so grossly understates the accelerating rent increases in Alameda and Contra Costa Counties that occurred in 2014 and 2015.

As unbelievable as it may seem to anyone who lives in the region, HUD's data model shows that rents are declining significantly in Alameda and Contra Costa. As a result, HUD's new 2016 FMRs for these two Counties will be reduced by as much as 10.6% starting in October, 2015.

Current data paints a far different picture of rents in these Counties. Zumper's National Rent Report for August 2015 showed that rents in Oakland jumped by 20% over the past year, more than any other major city in their study. This was the largest increase in the nation and occurred during much the same time period that HUD believes rents are declining. The most recent data from the real estate brokerage firm Marcus and Millichap show average rents for a two-bedroom apartment of \$2,172 in Alameda County and \$1,835 in Contra Costa County. This compares to HUD's new two-bedroom FMR of \$1,562 for the two Counties, down from \$1,585 last year.

The proposed FMRs reflect the following decreases:

Studio -1.35

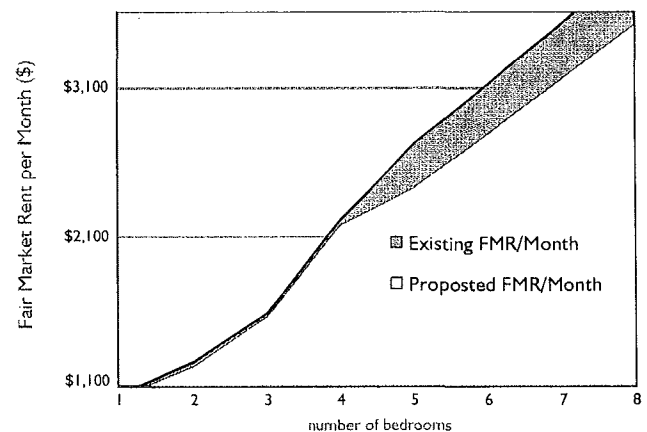
1 bedroom -1.98

2 bedroom -1.45

3 bedroom -1.63

4, 5, 6 bedroom -10.65

Monthly Fair Market Rent by Bedroom Size



Marcus and Millichap 2015

Lowering FMRs in the face of historic rent increases will have a significant, negative impact on the communities we serve and everyone on our programs, including seniors, veterans, the disabled and working families. Among the impacts being seen are the following:

- Families are being forced out of existing housing as landlords are raising the rent within market limits, but above what is affordable with the subsidy based on HUD's outdated FMR values;
- An increasing inability of many vets under the VASH program and participants on the Shelter Plus program to find housing, thus threatening the progress that has been made locally in reducing homelessness;
- Landlords are leaving the Section 8 program as negative perceptions of the program are reinforced based on the inability of participants to afford market-based rents in moderate rent areas of our jurisdictions; and
- An increasing concentration of voucher families in neighborhoods with lower rents, but less opportunity, lower performing schools, higher crime rates, etc.

The Impact

The Solution

Requested HUD Action

- Use the 2014 1-year ACS data and change the base 5-year period from 2009-2013 to 2010-2014.
- Determine a methodology to more adequately capture rapidly-changing rental markets such as the Oakland-Fremont, CA MSA where current rents are significantly higher than the historical rents used by HUD's model and also where the recent rate of increase in rents far outpaces the average national rental growth rate.
- Make final FMRs effective at least 120 days after the date of publication in order to allow housing authorities adequate time to implement going forward without having to correct work that has already been completed.
- Even with these steps, the housing programs in the Oakland-Fremont, CA MSA will still be required to hire a contractor to conduct a rent survey so that rents can be updated adequately in our market. This will be the second time in 3 years this has occurred at a cost of over \$50,000 each time. This is hard to fathom in a region nationally known for skyrocketing rents. HUD should reimburse the agencies for at least the cost of the new rent survey.

- **More families housed at market rates**
- **More landlords willing to participate in housing programs**
- **Reduced administrative burden for multiple PHAs and partnering non-profit housing and service providers**
- **Additional time to allow HUD to improve its methodology**

HUD's FMR Methodology

HUD develops the Fair Market Rents for metropolitan areas and non-metropolitan areas using the six steps shown below. Our "Solutions" address the flaws we've identified in HUD's methodology.

Step 1. 2009-2013 5-Year American Community Survey (ACS) estimates of 2-bedroom adjusted standard quality gross rents calculated for each FMR area are used as the new basis for FY2016, provided the estimate is statistically reliable. The test for reliability is whether the margin of error for the estimate is less than 50% of the estimate itself.

Step 2. HUD calculates a recent mover adjustment factor by comparing a 2013 1-year 40th percentile recent mover 2-bedroom rent to the 2009-2013 5-year 40th percentile adjusted standard quality gross rent.

Step 3. HUD calculates the appropriate recent mover adjustment factor between the 5-year data and the 1-year data and applies this to the 5-year base rent estimate.

Step 4. Rents are calculated as of 2014 using the relevant (regional or local) change in gross rent Consumer Price Index (CPI) from annual 2013 to annual 2014.

Step 5. All estimates are then inflated from 2014 to FY2016 using a trend factor based on the average annual change in national gross rents over the most recent 5 years.

Step 6. FY2016 FMRs are then compared to a State minimum rent, and any area whose preliminary FMR falls below this value is raised to the level of the State minimum.

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OAKLAND CITY COUNCIL

Resolution No. _____ C.M.S.

INTRODUCED BY COUNCIL PRESIDENT LYNETTE GIBSON MCELHANEY
AND COUNCILMEMBER DESLEY BROOKS

RESOLUTION OPPOSING THE REDUCTIONS PROPOSED BY THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT'S "FAIR MARKET RATE" FORMULA WHICH WOULD DECREASE THE SECTION 8 VOUCHER VALUE AND CAUSE HARM AND DISPLACEMENT TO LOW-INCOME OAKLAND TENANTS

WHEREAS, the City of Oakland faces a great housing crisis due to the lack of housing supply, the lack of production of new housing, a thriving economy in throughout the Bay Area, a growing demand to live in Oakland, and increased property values which incentivize owners to sell rental properties, which in many cases results in evictions or displacement of renters; and

WHEREAS, according to Zillow Real Estate Research, rental prices in Oakland increased 18.5% between August 2014 and August 2015; and

WHEREAS, the United States' Department of Housing and Urban Development ("HUD") Section 8 housing program is designed to house low-income residents in communities of choice, reverse patterns of concentrated poverty, and provide fair market rents to property owners to eliminate class bias in renting; and

WHEREAS, according to the Oakland Housing Authority, 13,000 Oakland residents hold Section 8 vouchers allowing families to live in dignity and security; and

WHEREAS, for each Metropolitan Statistical Area (MSA), HUD uses a formula to determine "Fair Market Rents" in order to determine a flat subsidy rate which Section 8 tenants will receive based upon the unit size they have been designated to rent; and

WHEREAS, HUD is currently proposing to decrease Fair Market Rent (FMR) values based upon stale data from as far back as 2009, which does not reflect the current rent increases that have affected Oakland and the Bay Area over the past year and which continue to rise; and

WHEREAS, the demand for Section 8 housing is great: the Alameda County Housing Authority opened its Section 8 wait list for one week in August, 2015 and received over 42,000 applications; and

WHEREAS, in Oakland, Section 8 voucher holders struggle to compete with the rising costs of rents that exceed what their vouchers provide; this is reflected in the low utilization rate of vouchers, which is at only 18.9% in 2015; now, therefore, be it

RESOLVED: That the Oakland City Council encourages HUD adjust its methodology in determining its Fair Market Rent so that it accurately reflects the cost of housing in our local rental markets, as the “national rate of change” is not an accurate measure for markets in high demand like Oakland; and be it

FURTHER RESOLVED: That the Oakland City Council opposes the reduction of “Fair Market Rents” for Oakland residents due to the rapidly rising rent prices and potential loss of Section 8 units and vouchers which will make low-income families more housing insecure, eviscerate socio-economic diversity and leave families vulnerable to homelessness and displacement; and be it

FURTHER RESOLVED: That the Oakland City Council supports the recommendations of the Housing Authority of Alameda County, East Bay Housing Organizations, Alameda County Community Development Agency, Alameda County Health Care Services Agency, and others as recourse to the adjust the methodology and to prevent potential harm upon Oakland Section 8 voucher holders:

- Use the 2014 1-year ACS data and change the base 5-year period from 2009-2013 to 2010-2014;
- Revise Step 3 of its methodology to adequately capture changes in MSAs like the Oakland-Fremont MSA where the rate of increase in rents accelerates in the latter part of the 5-year period;
- Revise Step 5 of its methodology to adequately capture changes in MSAs like the Oakland-Fremont MSA where the rate of increase in rents from 2014 to 2016 increased *far faster* than the national rate of change; and
- Since accomplishing the three above bullets will, beyond doubt, require more time to accomplish than housing programs in the Oakland-Fremont MSA can wait without creating a crippling impact on their programs, reimburse the consortium of local agencies paying for the rental study that they are currently commissioning to correct HUD’s proposed FMRs.

IN COUNCIL, OAKLAND, CALIFORNIA,

PASSED BY THE FOLLOWING VOTE:

AYES - BROOKS, CAMPBELL-WASHINGTON, GALLO, GUILLÉN, KALB, KAPLAN, REID AND PRESIDENT GIBSON MCELHANEY

NOES –

ABSENT –

ABSTENTION –

ATTEST: _____
LATONDA SIMMONS
City Clerk and Clerk of the Council of the City
of Oakland, California