Rent Reasonableness

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The term “Rent Reasonableness” refers to the process by which housing authorities and agencies which administer HUD funds for assisted housing verify that landlords are asking market-level rents for units participating in federally funded programs. “Rent Reasonableness” applies to the Housing Choice Voucher program, Public Housing, site-based subsidized housing, tax-credit subsidized housing and other programs.

The Code of Federal regulations stipulates the following:

Sec. 982.507 (b) Rent to Owner: Reasonable Rent

(b) Comparability. The HA must determine whether the rent to owner is a reasonable rent in comparison to rent for other comparable unassisted units. To make this determination, the HA must consider:

(1) The location, quality, size, unit type, and age of the contract unit; and (2) Any amenities, housing services, maintenance and utilities to be provided by the owner in accordance with the lease.

The philosophy behind this regulation can be stated as “Why should the government pay more to rent a privately-owned rental unit than the general public?”

Housing authorities have some freedom in choosing their method of determining rent reasonableness. In general, housing authorities administer their rent reasonableness process in one of three ways:

1) Unit to Unit Comparison – the HA compares each asking rent to non-assisted asking or contract rents in the same neighborhood. This approach might be considered a limited “rent appraisal.”

2) Unit to Market Comparison – the HA compares each asking rent to a simple market average determined by averaging units in each submarket.

3) Unit to Market Comparison, Statistical approach – the HA uses a vendor provided “AVM” or automated valuation model to determine whether the asking price falls within a specified range of market rents. Such a system is based upon a mathematical algorithm, which are typically proprietary calculations built from various statistical analyses of the local rental market.

In each approach, HUD requires that actual market data be available and documented to support the conclusion of “Reasonable” Vs “Not Reasonable”.

Rent Reasonableness is not the only rental determination in the assisted housing rent to owner calculation. The available funds are restricted by the “Fair Market Rent” a rental amount set every year by HUD statisticians which represents the 40th or 50th percentile of gross rents by bedroom size for a metro area, i.e. the bottom of the market.

In the first year of a subsidy contract, the tenant’s ability to pay is also a factor, as any reasonable rent that is over the “Fair Market Rent” may require the tenant to pay additional funds in excess of the subsidy. Tenants are restricted to paying no more than 40% of their income for all rental expenses including any non-reimbursed utilities. If the reasonable rent does not exceed the subsidy, tenants must pay an amount equal to no more than 30% of their income. Extremely low income tenants may be exempted from paying anything.

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