



[Docket No. FR-6443-N-01]

Section 8 Housing Assistance Payments Program-Annual Adjustment Factors, Fiscal Year 2024

AGENCY: Office of the Assistant Secretary for Policy Development and Research, Department of Housing and Urban Development, HUD.

ACTION: Notice of fiscal year (FY) 2024 Annual Adjustment Factors (AAFs).

SUMMARY: The United States Housing Act of 1937 requires that certain assistance contracts signed by owners participating in the Department's Section 8 housing assistance payment programs provide annual adjustments to monthly rentals for units covered by the contracts. For owners subject to a Reserve for Replacement deposit requirement, HUD also requires that the amount of the required deposit be adjusted each year by the AAF. This notice announces FY 2024 AAFs for adjustment of contract rents on the anniversary of those assistance contracts. The factors are based on a formula using residential rent and utility cost changes from the most recent annual Bureau of Labor Statistics (BLS) Consumer Price Index (CPI) survey and market rents from a total of six possible private sector rent data sources. AAFs were historically based on the shelter and gross rent inflation factors used in HUD's Fair Market Rent (FMR) calculation, and this notice maintains that practice by updating the AAF methodology in line with the FMR methodology changes that HUD adopted for FY 2024.

DATES: The FY 2024 AAFs are effective **[INSERT DATE OF PUBLICATION IN THE FEDERAL REGISTER]**.

FOR FURTHER INFORMATION: Contact Ryan Jones, Director, Management and Operations Division, Office of Housing Voucher Programs, Office of Public and Indian Housing, 202-708-1380, for questions relating to the Moderate Rehabilitation programs (not the Single Room Occupancy program); Norman A. Suchar, Director, Office of Special Needs Assistance Programs, Office of Community Planning and Development, 202-402-5015, for questions

regarding the Single Room Occupancy (SRO) Moderate Rehabilitation program; Katherine Nzive, Director, OAMPO Program Administration Office, Office of Multifamily Housing, 202-402-3440, for questions relating to all other Section 8 programs; and Adam Bibler, Director, Program Parameters and Research Division, Office of Policy Development and Research, 202-402-6057, for technical information regarding the development of the schedules for specific areas or the methods used for calculating the AAFs. The mailing address for these individuals is: Department of Housing and Urban Development, 451 7th Street, SW, Washington, DC 20410. HUD welcomes and is prepared to receive calls from individuals who are deaf or hard of hearing, as well as individuals with speech or communication disabilities. To learn more about how to make an accessible telephone call, please visit <https://www.fcc.gov/consumers/guides/telecommunications-relay-service-trs>.

SUPPLEMENTARY INFORMATION: The AAFs are applied at the anniversary of Housing Assistance Payment (HAP) contracts for which rents are to be adjusted using the AAF for those calendar months commencing after the AAF effective date listed in this notice. The amount that an owner is required to deposit to the Reserve for Replacement account is also adjusted annually by the most recently published AAF, at the HAP contract anniversary. AAFs are distinct from, and do not apply to the same properties as, Operating Cost Adjustment Factors (OCAFs).

OCAFs are annual factors used to adjust rents for project-based rental assistance contracts issued under Section 8 of the United States Housing Act of 1937 and renewed under section 515 or section 524 of the Multifamily Assisted Housing Reform and Affordability Act of 1997 (MAHRA). HUD has published OCAFs for 2024 in the *Federal Register* at 87 FR 68513. The AAFs are also distinct from Renewal Funding Inflation Factors which help determine renewal funding for public housing agencies operating the Housing Choice Voucher program. A separate *Federal Register* notice, to be published following the passage of FY 2024 HUD appropriations, will contain the 2024 Renewal Funding Inflation Factors.

Tables showing AAFs will be available electronically from the HUD data information page at <http://www.huduser.gov/portal/datasets/aaf.html>.

I. Applying AAFs to Various Section 8 Programs

AAFs established by this notice are used to adjust contract rents for units assisted in certain Section 8 housing assistance payment programs during the initial (i.e., pre-renewal) term of the HAP contract. There are two categories of Section 8 programs that use the AAFs:

Category 1: The Section 8 New Construction, Substantial Rehabilitation, and Moderate Rehabilitation programs; and

Category 2: The Section 8 Loan Management Set-Aside (LMSA) and Property Disposition (PD) programs.

Each Section 8 program category uses the AAFs differently. The specific application of the AAFs is determined by the law, the HAP contract, and appropriate program regulations or requirements.

AAFs are not used in the following cases:

Renewal Rents. AAFs are not used to determine renewal rents after expiration of the original Section 8 HAP contract (either for projects where the Section 8 HAP contract is renewed under a restructuring plan adopted under 24 CFR part 401; or renewed without restructuring under 24 CFR part 402). In general, renewal rents are established in accordance with the statutory provision in MAHRA, as amended, under which the HAP is renewed. After renewal, annual rent adjustments will be provided in accordance with MAHRA.

Budget-based Rents. AAFs are not used for budget-based rent adjustments. For projects receiving Section 8 subsidies under the LMSA program (24 CFR part 886, subpart A) and for projects receiving Section 8 subsidies under the PD program (24 CFR part 886, subpart C), contract rents are adjusted, at HUD's option, either by applying the AAFs or by budget-based adjustments in accordance with 24 CFR 886.112(b) and 24 CFR 886.312(b). Budget-based adjustments are used for most Section 8/202 projects.

Housing Choice Voucher Program. AAFs are not used to adjust rents in the Tenant-Based or the Project-Based Voucher programs.

Reserve for Replacement. The amount that an owner is required to deposit to the Reserve for Replacement account is adjusted annually by the AAF at the HAP contract anniversary.

II. Adjustment Procedures

This section of the notice provides a broad description of procedures for adjusting the contract rent. Technical details and requirements are described in HUD notices H 2002-10 (Section 8 New Construction and Substantial Rehabilitation, Loan Management, and Property Disposition) and PIH 97-57 (Moderate Rehabilitation). HUD publishes two separate AAF Tables, Table 1 and Table 2. The difference between Table 1 and Table 2 is that each AAF in Table 2 is 0.01 less than the corresponding AAF in Table 1. Where an AAF in Table 1 would otherwise be less than 1.0, it is set at 1.0, as required by statute; the corresponding AAF in Table 2 will also be set at 1.0, as required by statute. Because of statutory and structural distinctions among the various Section 8 programs, there are separate rent adjustment procedures for the three program categories:

Category 1: Section 8 New Construction, Substantial Rehabilitation, and Moderate Rehabilitation Programs

In the Section 8 New Construction and Substantial Rehabilitation programs, the published AAF factor is applied to the pre-adjustment contract rent. In the Section 8 Moderate Rehabilitation program (both the regular program and the single room occupancy program), the published AAF is applied to the pre-adjustment base rent.

For Category 1 programs, the Table 1 AAF factor is applied before determining comparability (rent reasonableness). Comparability applies if the pre-adjustment gross rent (pre-adjustment contract rent plus any allowance for tenant-paid utilities) is above the published Fair Market Rent (FMR).

If the comparable rent level (plus any initial difference) is lower than the contract rent as adjusted by application of the Table 1 AAF, the comparable rent level (plus any initial difference) will be the new contract rent. However, the pre-adjustment contract rent will not be decreased by application of comparability.

In all other cases (i.e., unless the contract rent is reduced by comparability):

- Table 1 AAF is used for a unit occupied by a new family since the last annual contract anniversary.
- Table 2 AAF is used for a unit occupied by the same family as at the time of the last annual contract anniversary.

Category 2: Section 8 Loan Management Program (24 CFR part 886, Subpart A) and Property Disposition Program (24 CFR part 886, Subpart C)

Category 2 programs are not currently subject to comparability. Comparability will again apply if HUD establishes regulations for conducting comparability studies under 42 U.S.C. 1437f(c)(2)(C).

The applicable AAF is determined as follows:

- Table 1 AAF is used for a unit occupied by a new family since the last annual contract anniversary.
- Table 2 AAF is used for a unit occupied by the same family as at the time of the last annual contract anniversary.

Category 3: Reserve for Replacement

The amount of the deposit to the Reserve for Replacement account must be increased annually using the most recently published “Regional AAF with Highest Utility Excluded” for the region in which the project is located. This adjustment must be made without regard to vacancies.

III. When To Use Reduced AAFs (From AAF Table 2)

In accordance with Section 8(c)(2)(A) of the United States Housing Act of 1937 (42 U.S.C. 1437f(c)(2)(A)), the AAF is reduced by 0.01:

In Section 8 programs, for a unit occupied by the same family at the time of the last annual rent adjustment (and where the rent is not reduced by application of comparability (rent reasonableness)).

The law provides that:

[F]or any unit occupied by the same family at the time of the last annual rental adjustment, where the assistance contract provides for the adjustment of the maximum monthly rent by applying an annual adjustment factor and where the rent for a unit is otherwise eligible for an adjustment based on the full amount of the factor . . . 0.01 shall be subtracted from the amount of the annual adjustment factor (except that the factor shall not be reduced to less than 1.0), and the adjusted rent shall not exceed the rent for a comparable unassisted unit of similar quality, type and age in the market area. 42 U.S.C. 1437f(c)(2)(A).

Legislative history for this statutory provision states that “the rationale [for lower AAFs for non-turnover units is] that operating costs are less if tenant turnover is less” (see Department of Veteran Affairs and Housing and Urban Development, and Independent Agencies Appropriations for 1995, Hearings Before a Subcommittee of the Committee on Appropriations 103d Cong., 2d Sess. 591 (1994)). The Congressional Record also states the following:

Because the cost to owners of turnover-related vacancies, maintenance, and marketing are lower for long-term stable tenants, these tenants are typically charged less than recent movers in the unassisted market. Since HUD pays the full amount of any rent increases for assisted tenants in section 8 projects . . . HUD should expect to benefit from this ‘tenure discount.’ Turnover is lower in assisted properties than in the unassisted market, so the effect of the current inconsistency with market-based rent increases is exacerbated. (140 Cong. Rec. 8659, 8693 (1994)).

IV. How To Find the AAF

AAF Table 1 and Table 2 are posted on the HUD User website at <http://www.huduser.gov/portal/datasets/aaf.html>. There are two numeric columns in each AAF table. The first column is used to adjust contract rent for rental units where the highest cost utility is included in the contract rent, i.e., where the owner pays for the highest cost utility. The second column is used where the highest cost utility is not included in the contract rent, i.e., where the tenant pays for the highest cost utility.

The applicable AAF is selected as follows:

- Determine whether Table 1 or Table 2 is applicable. In Table 1 or Table 2, locate the AAF for the geographic area where the contract unit is located.
- Determine whether the highest cost utility is or is not included in contract rent for the contract unit.
- If highest cost utility is included, select the AAF from the column for “Highest Cost Utility Included.” If highest cost utility is not included, select the AAF from the column for “Highest Cost Utility Excluded.”

V. Methodology

AAFs are rent inflation factors. Two types of rent inflation factors are calculated for AAFs: gross rent factors and shelter rent factors. The gross rent factor accounts for inflation in the cost of both the rent of the residence and the utilities used by the unit; the shelter rent factor accounts for the inflation in the rent of the residence but does not reflect any change in the cost of utilities. The gross rent inflation factor is designated as “Highest Cost Utility Included” and the shelter rent inflation factor is designated as “Highest Cost Utility Excluded.” In the past, HUD has calculated AAFs based on the shelter and gross rent inflation factors used in FMR calculations. The source data for AAFs therefore came from the 23 local and 4 regional CPI components (rent of primary residence and household fuels and utilities) depending on the location of the AAF area. HUD maintains the practice of updating the AAF methodology in line

with the FMR methodology changes that HUD adopted for FY 2024. For FY 2024, HUD augmented the CPI data described above by including available private data sources along with the CPI data in calculating a weighted average shelter and gross rent inflation factor. The private measures of rent used by HUD are the RealPage average effective rent per unit, Moody's Analytics REIS average market rent, CoStar Group average effective rent, CoreLogic, Inc. single-family combined 3-bedroom median rent, Apartment List Rent Estimate, and Zillow Observed Rent Index.

In calculating the AAF from these data, HUD first takes the annual average of each statistic, then its year-to-year change. HUD then takes the mean of changes from all available sources for each area. Next, HUD takes an average of this private-sector measure of rent inflation with rent inflation as captured by the CPI for the area, where the private-sector measure is weighted at approximately 55.8 percent and the CPI rent inflation measure is weighted at approximately 44.2 percent. HUD has determined these weights by comparing the national average of the private rent changes and changes in CPI rent of primary residence to changes in the national average of recent mover rents from the ACS from 2017 through 2021. HUD weights the private data averages and overall CPI rent of primary residence in such a way as to minimize the root mean squared error between the resulting average and the ACS recent mover rents. For future AAFs, HUD will update the weights by adding the most recent years of ACS recent mover rents, private rent data, and CPI rent of primary residence to the analysis.

HUD uses a local measure of private rent inflation for markets that are covered by at least three of the six available sources of private rent data. HUD combines this local measure of rent inflation with either the local metropolitan area CPI rent of primary residence for the 23 areas where such data exist, or the regional CPI rent in areas without a local index. For areas without at least three of the six private rent data sources available, HUD uses a regional average of private rent inflation factors alongside the regional CPI rent of primary residence. HUD constructs the regional average by taking the rental unit weighted average of the change in rents of each area in

a region that does have private rent data coverage. This ensures that smaller areas that are not covered by the private sources directly still have current rental market conditions taken into account in the calculation of the rent inflation factor for such areas.

The results of the above calculation are the “utility excluded” AAF. For the “utility included” AAF, HUD averages the result of this step with the year-to-year change in the CPI housing fuels and utilities index for the area in order to make the resulting inflation measure reflective of gross rents.

VI. Area Definitions

To make certain that they are using the correct AAFs, users should refer to the Area Definitions Table section at <http://www.huduser.gov/portal/datasets/aaf.html>. Furthermore, users can also search for AAF area definitions using an online lookup tool available on HUD User at <https://www.huduser.gov/portal/datasets/aaf.html>. AAFs are based on the updated metropolitan area definitions published by the Office of Management and Budget (OMB) on September 14, 2018, and first incorporated by the Census Bureau into the 2019 American Community Survey (ACS) data and the corresponding FY 2022 FMRs. On July 21, 2023, OMB published Bulletin No. 23-01, which contains revisions to metropolitan area definitions. However, the Census Bureau has not yet incorporated these revisions into the data available to HUD, and therefore HUD is not using these new definitions for FY 2024.

Solomon Greene,

Principal Deputy Assistant Secretary for Policy Development and Research.

[Billing Code 4210-67]

[FR Doc. 2024-06798 Filed: 3/29/2024 8:45 am; Publication Date: 4/1/2024]