# Use of Flat Rents in the **Public Housing Program**

Meryl Finkel Ken Lam Abt Associates Inc.

#### Abstract

The 1998 Quality Housing Work Responsibility Act (QHWRA) requires public housing agencies (PHAs) to offer the option of a flat rent (as opposed to an income-based rent) to residents of public housing. Flat rents are based on market rents and, therefore, the tenant rent does not vary with income. The U.S. Department of Housing and Urban Development (HUD) expected that by having the option of paying a flat rent, public housing residents would not be discouraged from working and increasing their income because their rent would not increase if their income increased. Similarly, QHWRA's flat-rent option was also expected to avoid creating disincentives for continued residency by families that are attempting to become economically self-sufficient.

HUD implemented the provision on flat rents in 1999. As of the end of 2005, about 105,000 families (of the more than 1.2 million public housing households) were identified on HUD's data system as paying either flat rents or ceiling rents.

This article uses extracts from HUD's Office of Public and Indian Housing Information Center data system to provide some basic information on the use of flat rents in public housing, including the types of PHAs, places, and families that have selected a flat rent, and changes that have taken place in these properties and for these families coincident with the use of flat rents.

The article shows that, although nearly all PHAs have at least some flat-rent units, the proportion of flat-rent units in each PHA is generally small. Households paying flat rents have much higher incomes compared with other public housing residents. Similarly, a much higher percentage of households paying flat rents reported that most of their income was from wages compared with other public housing households. Thus, flat rents appear to be succeeding in allowing residents in these units to increase their income through employment and to remain in their units even as their income increases. Rents in units where residents are paying flat rents are substantially higher than in other public housing units. At the same time, households paying flat rents are virtually always paying less than 30 percent of their income for rent. In other words, flat rents

#### Abstract (continued)

offer benefits to both the residents and the housing agencies. Residents pay less than they would under an income-based rent scenario and the PHAs receive a higher rent than they would from regular public housing tenants. Properties with flat-rent units have a higher degree of income mixing than other properties do. This finding is as expected because households in units with flat rents have higher incomes than most other public housing households do.

### **Background**

The 1998 Quality Housing Work Responsibility Act (QHWRA) required public housing agencies (PHAs) to offer the option of a flat rent (as opposed to an income-based rent) to residents of public housing. Flat rents are based on market rents and, therefore, the tenant rent does not vary with income. By having this option, the U.S. Department of Housing and Urban Development (HUD) expected that public housing residents would not be discouraged from working and increasing their income because their rent would not increase if their income increased. Similarly, QHWRA's flat-rent option was also expected to enable working families, as they become more self-sufficient, to continue to live in public housing, thereby providing possible positive role models to other public housing residents.

Before the implementation of QHWRA, HUD had permitted the use of ceiling rents, a provision that allowed PHAs to place a cap on the amount of income-based rent that could be charged for public housing. Ceiling rents were cost based, not market based. HUD's regulations implementing flat rents indicated that PHAs were permitted to retain ceiling rents that were authorized and established before October 1, 1999, for 3 years ending September 30, 2002. After that date, PHAs were allowed to continue to charge ceiling rents, but with several conditions. First, the ceiling rents had to be equal to the flat-rent (and, presumably, market-based) amounts. 1 Second, the ceiling rent had to be offered as an annual choice to families and had to be equal to at least the PHA's minimum rent amount.2

According to HUD's Office of Public and Indian Housing Information Center (PIC) data system, as of December 2005, about 105,000 families were identified as paying either flat rents or ceiling rents. More than one-third of these families were residents of units operated by the New York City

<sup>&</sup>lt;sup>1</sup> The existence of ceiling rents can be very beneficial for families with multiple income changes during the year. Although a family is given the option of selecting a flat rent only once a year, the ceiling rent can go into effect at any time during the year when the family's income changes. For example, if a family's income increases after the family declines the option of selecting a flat rent for that year and the family's income-based rent now exceeds the flat rent it would have paid, the ceiling rent can go into effect immediately and protect the family by capping its rent at the level it would have paid had it selected a flat rent.

<sup>&</sup>lt;sup>2</sup> Regardless of whether it is a ceiling rent, a flat rent, or an income-based rent, the family must pay at least the minimum rent amount as determined in the public housing agency's Admissions and Continued Occupancy Policy.

Housing Authority.<sup>3</sup> Besides these aggregate statistics, however, very little was known about the type of households and PHAs that have used flat rents.

This article uses annual extracts of data from HUD's PIC system to answer some basic questions about the use of flat rents in public housing. What types of PHAs are adopting flat rents in large numbers? What types of households are choosing flat rents? How has household income changed coincident with the use of flat rents? How have turnover and income changed in properties with concentrations of flat rents? The PIC data provide household-level observations on a rich array of programmatic, tenant demographic, and locational variables. Household identification numbers are available so that household information from different years can be linked to study changes over time.

#### Research Questions and Data Sources

The goal of this article is to describe the following aspects of the use of flat rents in public housing:

- Number and characteristics of PHAs using flat rents.
- Characteristics of households in units with flat rents.
- Changes in the use of flat rents by families during the 2003-through-2005 period.
- Assessments of flat rents relative to local rents and relative to income-based rents.
- Dispersion of flat rents across PHAs and a comparison of tract poverty in census tracts with concentrations of flat rents.
- Changes in wages and turnover in properties with flat rents compared with other properties.
- Income mixing in properties with flat rents compared with other properties.

We used a December 2005 extract from the PIC data system to describe the characteristics of PHAs, households, and locations of flat-rent units at a certain time. From this data file, we extracted the subset of households reported to be using flat rents at that time. We used cross-tabulations to examine the characteristics of those households and their housing agencies.

To describe changes in the use of flat rents over time, we used the annual PIC data system files for 2003 through 2005 and linked them by household identification number for all households that ever paid flat rents.4

To compare properties that had clusters of flat-rent residents with other properties, we used all household records on the 2005 PIC system. To document changes in wages and turnover in these so-called "cluster" properties relative to other properties required using a linked longitudinal file for all households in any PHA that had any households with flat rents.

<sup>&</sup>lt;sup>3</sup> Rental Integrity Monitoring reviews that Abt Associates Inc. conducted for HUD indicate that true market-based flat rents have never been implemented in New York City and that the income-based ceiling rents had not been increased from 1998 through 2006.

<sup>&</sup>lt;sup>4</sup> Although HUD implemented the provision on flat rents in 1999, all Office of Public and Indian Housing Information Center records for 2000 through 2002 had missing data for the field labeled "flat rent"; thus, the analysis includes only 2003-through-2005 data.

A key challenge in this study was identifying households paying flat rents and households paying ceiling rents among the general public housing population paying income-based rents in the PIC system.<sup>5</sup> Rent information for public housing households is reported on page 8 as line items 10(a) through 10(u) of HUD Form-50058. According to regulations, PHAs are required to offer every household the option of paying a flat rent. PHAs are supposed to report the flat-rent amount for each unit on line item 10(b) regardless of the household's decision to use flat rents or incomebased rents. Thus, a household record with a flat-rent amount does not imply that the household has selected to pay a flat rent. By the same token, a household record with a ceiling-rent amount does not imply that the household has selected to pay ceiling rents. Our examination of the 2000through-2005 PIC system data indicates that, until 2003, item 10(b) is never populated and, from 2003 through 2005, only 11 to 16 percent of the household records include a flat-rent amount. As a result, the work for this analysis is limited to the 2003-through-2005 period. Exhibit 1 shows the prevalence of flat rents and ceiling rents reported in the public housing stock during the 2000through-2005 period. Line item 10(u) explicitly identifies whether a household is paying a flat rent versus an income-based rent.

Exhibit 1 The Prevalence of Flat-Rent and Ceiling-Rent Amounts Reporting in the Public Housing Stock, 2000–05

	Year					
	2000	2001	2002	2003	2004	2005
Number of household records reporting neither a flat-rent nor ceiling-rent amount	499,643	516,985	463,605	495,783	571,999	589,220
(Percent)	56	51	54	52	55	53
Number of household records reporting a ceiling-rent amount	398,971	504,573	391,933	351,005	326,255	348,737
(Percent)	44	49	46	37	31	31
Number of household records reporting a flat-rent amount	0	0	0	88,461	115,652	143,925
(Percent)	0	0	0	9	11	13
Number of household records reporting both a flat-rent and ceiling-rent amount	0	0	0	25,590	29,451	33,383
(Percent)	0	0	0	3	3	3
Total (Percent)	898,614 100	1,021,558 100	855,538 100	960,839 100	1,043,357 100	1,115,265 100

Note: The presence of a household record with a flat-rent or ceiling-rent amount does not imply that the household is being charged the flat (or ceiling) rent.

<sup>&</sup>lt;sup>5</sup> Originally, HUD intended for agencies to update their flat rents annually to ensure that they remain market based; however, the final regulation is silent on how often the flat rents must be updated. Some agencies may not have recalibrated their flat rents since implementation.

For this analysis, we used an algorithm that HUD developed to identify which households are actually paying flat rents, ceiling rents, or income-based rents. The algorithm, described in appendix A, uses data from lines 10(b) and 10(u) and other data elements from the HUD form.

Exhibit 2 shows the distribution of public housing units by rent type during the 2003-through-2005 period. In 2005, more than 10 percent of the public housing residents were paying either flat rents or ceiling rents. As discussed earlier, beginning October 1, 2002, all PHAs were required to adjust their ceiling rents to the level required for flat rents. In the remainder of this article, we combine these two categories of public housing units and call them flat-rent units.

As indicated earlier, the New York City Housing Authority did not implement market-based flat rents as required by HUD regulations, and it did not increase its income-based ceiling rents during the 1998-to-2006 period. Thus, households in that agency that reported paying ceiling rents are not being charged market-based rents. It is likely other housing agencies may be following the same practice.

It is also worth noting that income information for households paying flat rents may not have been updated in the PIC system during the annual reexamination process. We understand that some agencies did not know that action/transaction code 12 (flat-rent annual update) existed and that they may have used code 2 (annual reexamination) without updating the income information. Conversely, agencies that used transaction code 12 may have updated income information because the agency had to calculate annually the income-based rent before offering the family an informed choice between rent types.

Another methodological challenge for this study was in determining empirically when a property has a cluster of flat-rent residents and when a census tract has a so-called "concentration" of flatrent units. To make this determination, we first examined the distribution of residents reported to

Exhibit 2

Number of Public Housing Households by Rent Type, 2003–05

		Year	
	2003	2004	2005
Number of households paying flat rent	37,663	43,774	50,574
(Percent)	4.6	5.3	5.8
Number of households paying ceiling rent	47,189	47,995	48,959
(Percent)	5.8	5.8	5.6
Number of households paying income-based rent	723,316	719,636	766,997
(Percent)	88.3	87.6	87.5
Number of households for which rent type is unknown	10,914	10,075	10,386
(Percent)	1.3	1.2	1.2
Total	819,082	821,480	876,916
(Percent)	100	100	100

Notes: Calculated using HUD's rent determination algorithm. Records with transaction/action type of "end-of-participation" are excluded.

be using flat rents by project, across the PHAs, and at the distribution of percents of public housing units with flat rents by tract. Using these empirical distributions, we determined a set of alternative cutoffs to define concentrations or clusters.

### **Study Findings**

This section presents the findings on aspects of the use of flat rents.

### Number and Characteristics of PHAs Using Flat Rents

Exhibit 3 shows the number of PHAs with any flat-rent units and the characteristics of those PHAs compared with PHAs that have no such units. Nearly all PHAs (88.6 percent) have at least some flat-rent units. The following points summarize our findings on the number and characteristics of PHAs using flat rents:

- The distribution of PHAs with flat rents by region is similar to the overall distribution of PHAs.
- Smaller PHAs, however, are less likely to have flat-rent units than are larger PHAs.
- High-performing PHAs, based on Public Housing Assessment System<sup>6</sup> scores, are more likely to have flat-rent units than are lower-performing PHAs.

Although most PHAs have some flat-rent units, the proportion of flat-rent units is generally small. Flat-rent units account for less than one-quarter of all PHA units in more than 80 percent of PHAs with flat-rent units (including 45.5 percent of PHAs with fewer than 10 percent of units). (See exhibit 4 for details.)

Overall, flat rents are paid for 99,533, or 11.5 percent, of all public housing units. Exhibit 5 presents information on the units with flat rents compared with other public housing units. The exhibit shows the following results:

- The New York/New Jersey region accounts for only 21 percent of all public housing units but for more than one-third (37 percent) of all flat-rent units. (Most flat-rent units in this region are in New York City, which, with 32,179 flat-rent units, accounted for about one-third of all flatrent units nationwide). In contrast, the Southeast/Caribbean region accounts for 29 percent of all public housing units but only 23 percent of flat-rent units.
- More than one-third of flat-rent units nationwide are in PHAs with more than 6,500 units (again, this number is mostly driven by New York City's 32,179 flat-rent units).
- Similarly, 65 percent of the flat-rent units nationwide are in high-performing PHAs (again, this number is driven by New York City's high-performer status).

<sup>&</sup>lt;sup>6</sup> HUD's Public Housing Assessment System categorizes the overall performance of each of the nation's public housing agencies (PHAs) by integrating assessments from four aspects of performance: (1) financial condition, (2) physical condition, (3) management, and (4) resident satisfaction. PHAs are categorized as high performers, standard performers, substandard performers, or troubled performers based on a combination of the scores from the four aspects of performance.

Exhibit 3 Characteristics of PHAs With Any Flat-Rent Units and PHAs That Have No Flat-Rent

	PHA Has Flat-Rent Units	PHA Has No Flat-Rent Units	All PHAs
Number of PHAs	2,782	322	3,140
Percent of total PHAs	88.6	10.3	100
		(percent)	
PHA location: HUD region		<u> </u>	
New England	4.7	10.9	5.3
New York/New Jersey	5.3	5.3	5.3
Mid-Atlantic	5.8	3.1	5.6
Southeast/Caribbean	26.2	19.6	25.5
Midwest	16.9	17.5	17.0
Southwest	21.9	24.6	22.2
Great Plains	11.7	5.9	11.1
Rocky Mountain	3.4	7.2	3.8
Pacific	2.5	2.8	2.5
Northwest	1.6	3.1	1.7
Total	100.0	100.0	100.0
PHA size category (units)			
1 to 249	72.4	92.5	74.5
250 to 499	14.8	6.2	13.9
500 to 1,249	8.2	1.3	7.5
1,250 to 6,599	4.1	0.0	3.7
6,600 or more	0.4	0.0	0.4
Total	100.0	100.0	100.0
PHA performance (PHAS) category			
High performer	48.4	37.3	47.2
Standard performer	43.7	49.2	44.2
Substandard-financial	4.1	6.3	4.3
Substandard-management	0.1	0.0	0.1
Substandard-physical	1.8	3.1	2.0
Troubled performer	2.0	4.1	2.2
Total	100.0	100.0	100.0
Average PHAS score	86.9	84.0	86.6

PHA = public housing agency. PHAS = Public Housing Assessment System.

Exhibit 4

Distribution of PHAs With Flat-Rent Units, by Proportion of Flat-Rent Units - 2005

Percent of Flat-Rent Units Among All PHA Units	Number of PHAs	Percent of PHAs
0 to 10	1,267	45.5
11 to 25	1,009	36.3
26 to 50	441	15.9
51 to 75	53	1.9
76 or more	12	0.4
Total	2,782	100.0

PHA = public housing agency.

Source: Office of Public and Indian Housing Information Center system (PIC system)

#### Exhibit 5

Characteristics of Units With Flat Rents and Other Public Housing Units - 2005

	Flat-Rent Units	Other Public Housing Units	All Public Housing Units
Number of housing units	99,533	766,977	866,510
Percent of all units	11.5	88.5	100
		(percent)	
PHA location: HUD region			
New England	3	7	7
New York/New Jersey	37	19	21
Mid-Atlantic	7	9	9
Southeast/Caribbean	23	30	29
Midwest	11	14	14
Southwest	10	10	10
Great Plains	4	4	4
Rocky Mountain	1	2	2
Pacific	4	5	5
Northwest	0	1	1
Total	100	100	100
PHA size category (units)			
1 to 249	23	20	20
250 to 499	13	15	15
500 to 1,249	14	17	17
1,250 to 6,599	15	25	24
6,600 or more	35	23	25
Total	100	100	100
PHA performance (PHAS) category			
High performer	65	47	49
Standard performer	31	46	45
Substandard-financial	2	3	3
Substandard-management	0	0	0
Substandard - physical	2	2	2
Troubled performer	1	2	2
Total	100	100	100

PHA = public housing agency. PHAS = Public Housing Assessment System.

#### **Characteristics of Households in Units With Flat Rents**

Exhibit 6 presents the characteristics of households in units with flat rents. The following list summarizes the characteristics:

· Households paying flat rents are less likely to include a resident who is disabled compared with households in other public housing units. (Only 12 percent of households in flat-rent units reported a head of household who was disabled compared with 22 percent of households in other public housing units.)

Exhibit 6 Characteristics of Households in Units Paying Flat Rents and Other Public Housing Units-2005 Data

	Flat-Rent Units	Other Public Housing Units	All Public Housing Units
Number of housing units	99,553	766,977	866,510
Percent of all units	11.5	88.5	100
Age of household head (average)	51.3	50.5	50.6
		(percent)	
Disability status of household head			
Yes	12	22	21
No	88	78	79
Total	100	100	100
Race/ethnicity of household head			
Non-Hispanic White	32	33	33
Non-Hispanic African American	46	43	44
Hispanic	19	21	21
Other	2	3	3
Total	100	100	100
Presence of children in household			
Yes	39	41	41
No	61	59	59
Total	100	100	100
Total household income (average)	\$28,150	\$9,426	\$11,659
Household income as percent of area median	52	17	21
Source of income			
Most of income from wages			
Yes	68	25	30
No	32	75	70
Total	100	100	100
Most of income from welfare			
Yes	1	12	11
No	99	88	89
Total	100	100	100

- The racial composition and average age were similar in flat-rent units and other public housing units, as was the probability of having children in the unit.
- Consistent with the goals of flat rents to promote employment and increased income, substantial differences were evident between the incomes of households paying flat rents and the incomes of other public housing households. Households paying flat rents had, on average, much higher incomes in absolute dollars (an average of \$28,150 per household compared with \$9,426 in other units) and relative to the local area median (an average of 52 percent of area median compared with 17 percent in other units).
- Residents paying flat rents were more likely to receive most of their income from employment
  compared with residents of other public housing. Of the households paying flat rent, 68 percent
  reported that most of their income was from wages compared with only 25 percent of residents
  in other public housing, and only 1 percent of households had most of their income from
  welfare compared with 12 percent of other public housing households.<sup>7,8</sup>

# Changes in the Use of Flat Rents by Families During the 2003-Through-2005 Period

To estimate changes in the use of flat rents, we identified households paying flat rents in 2003 and then tracked the rent type and income information of these households in 2004 and 2005. As described in the Research Questions and Data Sources section, we could do this for only the 2003-through-2005 period.

Exhibits 7a through 7c show that households often move in and out of paying flat rents. The following list summarizes the information in the three exhibits.

- About 60 percent of households paying flat rents in 2003 continued to do so in 2004, and fewer than half (47.5 percent) were still paying flat rents in 2005.
- About 13 percent of households paying flat rents in 2003 were paying other (typically incomebased) rents in 2004, as were 14.5 percent in 2005.
- Most households that were no longer paying flat rents in 2005 had left the program.<sup>9</sup>
- Apparently, the main reason households switch from flat rents to nonflat rents is because their
  income decreases. Exhibit 7b shows that 78 percent of households that moved from flat rents to
  other rents experienced a decrease in income, although about 20 percent experienced an increase.

<sup>&</sup>lt;sup>7</sup> We excluded 4.6 percent of the household records in which the total household income is zero or greater than \$90,000 because these levels of income most likely result from coding and reporting errors in the Office of Public and Indian Housing Information Center system.

<sup>&</sup>lt;sup>8</sup> The higher incomes of households paying flat rents are influenced by the fact that a large percentage of these units are in New York City. Incomes and rents tend to be higher in New York City than in other places. As shown in appendix B, however, incomes of households paying flat rents outside New York City are also substantially higher than incomes of other public housing residents.

<sup>&</sup>lt;sup>9</sup> Program exit rates are similar for households paying flat rents and households in other public housing. Of households paying other rents in 2003, 14.5 percent ended participation by 2004 and 15.3 percent had an unrecorded exit. Of households paying other rents in 2003, 16.8 percent ended participation by 2005 and 21.8 percent had an unrecorded exit. For comparison, as shown in exhibits 7a through 7c, of households paying flat rents in 2003, 13.4 percent ended participation by 2004 and 13.8 percent had an unrecorded exit. Of households paying flat rents in 2003, 15.3 percent ended participation by 2005 and 22.8 percent had an unrecorded exit.

• In comparison, most households that continued to pay flat rents experienced an increase in income over time. For example, as shown in exhibit 7c, nearly 58 percent of the households that paid flat rents in 2003 and 2004 had an increase in income in 2004. More than 70 percent of households that were still paying flat rents in 2005 experienced an increase in income relative to 2003. This increase in income may indicate that flat rents appear to be accomplishing their legislative intent of enabling higher income residents to remain in public housing as their income increases.

#### Exhibit 7a

#### 2004 Status and 2005 Status of 84,852 Households Paying Flat Rents in 2003

	2004 Status		2005 Stat	us
	Number of Units	Percent	Number of Units	Percent
Paying flat rent	50,506	59.5	40,279	47.5
Paying other rent	11,186	13.2	12,307	14.5
Paying unknown rent type	131	0.2	403	0.5
End of participation	11,365	13.4	13,005	15.3
Unrecorded program exit <sup>a</sup>	11,664	13.8	18,858	22.2
Total	84,852	100.0	84,852	100.0

<sup>&</sup>lt;sup>a</sup> Households were classified as "unrecorded program exits" if they were in the Office of Public and Indian Housing Information Center file in 2003 but not in the later years and if they were not identified as having ended participation.

Source: Office of Public and Indian Housing Information Center system (PIC system)

#### Exhibit 7b

### Change in Household Income for Households Paying Flat Rents in 2003 and Switching to Other Rents in 2004 and 2005

	From 2003 to 2004		From 2003 to 2005	
	Number of Units	Percent	Number of Units	Percent
Increase	2,040	19.1	2,582	21.8
Equal	319	3.0	69	0.6
Decrease	8,328	77.9	9,172	77.6
Total	10,687ª	100.0	11,823 <sup>b</sup>	100.0

a Income information is missing, out of range, or zero for 499 of the 11,186 households that paid other rents in 2004.

#### Exhibit 7c

### Change in Household Income for Households Paying Flat Rents in 2003 and Staying With Flat Rents in 2004 and 2005

	From 2003 to 2004		From 2003 to	From 2003 to 2005	
	Number of Units	Percent	Number of Units	Percent	
Increase	28,974	57.7	27,954	70.4	
Equal	11,077	22.1	3,991	10.0	
Decrease	10,124	20.2	7,779	19.6	
Total	50,175ª	100.0	39,724 <sup>b</sup>	100.0	

a Income information is missing, out of range or zero for 331 of the 50,506 households that paid flat rents in 2004.

<sup>&</sup>lt;sup>b</sup> Income information is missing, out of range, or zero for 484 of the 12,307 households that paid other rents in 2005. Source: Office of Public and Indian Housing Information Center system (PIC system)

<sup>&</sup>lt;sup>b</sup> Income information is missing, out of range, or zero for 555 of the 40,279 households that paid flat rents in 2005. Source: Office of Public and Indian Housing Information Center system (PIC system)

## Assessment of Flat Rents Relative to Local Rents and Relative to Income-Based Rents

Exhibit 8 compares rents in flat-rent units and other public housing units with prevailing local market rents (as proxied by local Fair Market Rents [FMRs])<sup>10</sup> and with income-based rents (defined as 30 percent of income). We would expect rents in flat-rent units to be similar to market rents because they are based on market rents and to be higher than rents in other public housing units because, presumably, market rents are higher than the income-based rents that public housing residents generally pay.

The following list summarizes the information in exhibit 8:

- Consistent with the expectation that market rents are higher than income-based rents, rents in units where residents were paying flat rents, averaging \$413 per month, were substantially higher than rents in other public housing units, which averaged \$200 per month. 11
- Although we expected rents in units with flat rents to be close to market-rent levels, in fact, rents in both units with flat rents and other rents were well below comparable market levels (as proxied by the local FMR). More than half (51 percent) the units with flat rents had rents below 50 percent of the FMR, as did 88 percent of other units. (The fact that flat rents are generally below the local FMR implies that the FMR is not a good proxy for market rents for public housing units. Although the FMR is a metropolitan statistical area-wide or nonmetropolitan countywide measure of rents across the jurisdiction, many public housing units are located in the low-rent portions of the jurisdiction).
- Households paying flat rents were virtually always paying less than 30 percent of their income
  for rent, as shown by the ratio of the flat rent to income-based rent, which is below 1 for 99
  percent of flat-rent units. Most (62 percent) were paying less than 75 percent of the comparable
  income-based rent. As expected, households in other public housing units typically paid the
  income-based rent, defined as 30 percent of income.<sup>12</sup>

<sup>&</sup>lt;sup>10</sup> HUD establishes Fair Market Rents (FMRs) for metropolitan areas or nonmetropolitan counties in the country. FMRs represent HUD's estimates of the 40th (or, in some cases, the 50th) percentile of recently rented nonluxury apartments in an area. FMRs are used to determine the amount of the federal subsidy for participants in the tenant-based Section 8 program.

<sup>&</sup>lt;sup>11</sup> As shown in appendix B, rents in units where residents were paying flat rents were substantially higher than in other public housing units, both in New York City (average flat rent \$510) and in other locations (average flat rent \$366).

<sup>&</sup>lt;sup>12</sup> About 7 percent of households paying "other rents" paid more than 30 percent of income. According to HUD regulations (24 CFR 960.253), public housing tenants must pay at least the minimum rent amount as determined in the public housing agency's Admissions and Continued Occupancy Policy. For these households, it is most likely that the minimum rent amount is greater than 30 percent of income. The requirement to pay a minimum rent may explain a portion of the cases with rents above 30 percent of income. Minimum rent, however, is capped at \$50, and the average rent and adjusted annual income for "other rent" households paying more than 30 percent of income for rent are \$403 and \$7,979, respectively. Thus, it is likely that, at least in part, this finding reflects errors in the data.

Exhibit 8

Rents in Units With Flat-Rent Units and Other Public Housing Units

	Flat-Rent Units	Other Public Housing Units	All Public Housing Units
Number of housing units	99,553	766,977	866,510
		(dollars)	
Rent level charged			
Mean	413	200	224
Median	416	174	185
Standard deviation	159	137	155
Percentile statistic			
10th percentile	225	50	50
25th percentile	296	116	133
75th percentile	495	251	290
90th percentile	619	367	436
		(percent)	
Rent to FMR ratio			
Median	49	27	30
> 1	1	0	0
0.76 to 1	12	2	3
0.51 to 0.75	36	11	14
0.26 to 0.5	49	41	42
< 0.26	2	47	41
Rent to income-based rent ratio			
Median	68	100	100
> 1.01	1	7	5
1.00 to 1.01	3	92	81
0.76 to 0.99	34	0	4
0.51 to 0.75	40	0	5
0.26 to 0.5	21	0	3
< 0.26	1	0	0

FMR = Fair Market Rent.

Note: R-square for the current formula is 0.787; 0.927 for the Administration's proposal. Source: Office of Public and Indian Housing Information Center system (PIC system)

# Dispersion of Flat Rents Across PHAs and Comparison of Tract Poverty in Census Tracts With Concentrations of Flat Rents

Exhibit 9 shows the census tract poverty rate for each public housing unit.<sup>13</sup> The exhibit shows that units with flat rents in general are located in tracts with similar poverty rates as other public housing units.

This finding indicates that households paying flat rents in New York City tend to live in high-poverty tracts. (Three-fourths of the households paying flat rents are in tracts with a poverty rate

<sup>&</sup>lt;sup>13</sup> The poverty rate is missing for about 11 percent of the units because of missing geocoding information.

Exhibit 9

Distribution of Foverty		, a , , o, , , , , , , , , , , , , , , ,	
	Number of Units	Tract Poverty Rate (percent)	Percent of Units
Flat-rent units	92,207	Average	31
		0 to 9	7
		10 to 19	24
		20 to 29	23
		30 or more	46
Other public housing units	677,465	Average	30
		0 to 9	10
		10 to 19	24
		20 to 29	22
		30 or more	44

Source: Office of Public and Indian Housing Information Center system (PIC system)

above 75 percent, and the average poverty rate is 40 percent.) This finding is offset by the fact that households paying flat rents in other locations tend to be in higher income tracts than other public housing residents. The average poverty rate of census tracts for households paying flat rents in locations outside New York City is 25 percent (compared with 30 percent for households living in other public housing outside the New York City area), and only 31 percent of households paying flat rents in locations outside New York City live in tracts with poverty rates of more than 30 percent (compared with 44 percent of other public housing residents).<sup>14</sup>

The next portion of this analysis focuses on differences in poverty rates in tracts with concentrations of flat-rent units versus other tracts with public housing units.

We defined a concentration of flat-rent units in the following ways:

- 1. Among tracts with any flat-rent units, the average number was 13 flat-rent units; they accounted for, on average, 19 percent of the tract's public housing units. Thus, one way to define a tract with a cluster of flat-rent units is to identify any tract with at least 13 flat-rent units that account for at least 19 percent of the public housing units in the tract. This definition includes 925 tracts with 51,637 flat-rent units (or 56 percent of flat-rent units).
- 2. We could arbitrarily say that a tract with a concentration of flat-rent units must have at least 10 flat-rent units, accounting for at least 10 percent of the tract's public housing units. This definition includes 1,740 tracts with 69,156 flat-rent units (or 75 percent of flat-rent units).
- 3. Similar to the second definition, we could set a higher threshold to define a concentration; for example, we could require that the tract have at least 20 flat-rent units, accounting for at least 20 percent of the tract's public housing units. This definition includes 614 tracts with 47,026 flat-rent units (or 51 percent of flat-rent units).

<sup>14</sup> See exhibit B-3 in appendix B.

We compared tracts with high concentrations of flat-rent units with tracts with high concentrations of public housing units with other rents (using the same definitions of concentration as was used for the flat-rent concentration). <sup>15</sup> As shown in exhibit 10, all three of these definitions yield similar findings regarding concentrations of poverty.

#### Exhibit 10

#### Comparison of Tract Poverty Rate

### Census Tracts With a High Concentration of Flat-Rent Units Versus Other Census Tracts With Public Housing Units

Definition #1: A census tract must have at least 13 flat-rent units, and the flat-rent units must account for at least 19 percent of the total public housing units in that tract.

	Census Tracts With a High Concentration of Flat-Rent Units	Census Tracts With a High Concentration of Other Public Housing Units	
Number of census tracts	925	7,247	
Number of flat-rent units or other units covered	51,637	655,965	
Percent of flat-rent units or other units covered	56 97		
Poverty rate	(percent)		
Average	25	23	
0 to 9	9	17	
10 to 19	36	35	
20 to 29	25	23	
30 or more	30	25	
Total	100	100	

Definition #2: A census tract must have at least 10 flat-rent units, and the flat-rent units must account for at least 10 percent of the total public housing units in that tract.

	Census Tracts With a High Concentration of Flat-Rent Units	Census Tracts With a High Concentration of Other Public Housing Units	
Number of census tracts	1,740	7,793	
Number of flat-rent units or other units covered	69,156	661,925	
Percent of flat-rent units or other units covered	75 98		
Poverty rate (percent)	(percent)		
Average	25	23	
0 to 9	9	18	
10 to 19	36	35	
20 to 29	26	22	
30 or more	29	25	
Total	100	100	

<sup>&</sup>lt;sup>15</sup> Note that tracts with high concentrations of public housing units account for nearly all public housing units (95 to 98 percent, depending on the definition of concentration used) but only for about two-thirds to three-fourths of tracts, depending on the definition. These findings mean that a large number of tracts have a very small number of public housing units.

#### Exhibit 10

#### Comparison of Tract Poverty Rate (continued)

Definition #3: A census tract must have at least 20 flat-rent units, and the flat-rent units must account for at least 20 percent of the total public housing units in that tract.

	Census Tracts With a High Concentration of Flat-Rent Units	Census Tracts With a High Concentration of Other Public Housing Units	
Number of census tracts	614	6,334	
Number of flat-rent units or other units covered	47,026 641,425		
Percent of flat-rent units or other units covered	51 95		
Poverty rate (percent)	(percent)		
Average	28	23	
0 to 9	5	15	
10 to 19	31	34	
20 to 29	27	23	
30 or more	37	27	
Total	100	100	

Note: Of the overall public housing units, 11 percent are excluded from this analysis due to missing geocoding information. Source: Office of Public and Indian Housing Information Center system (PIC system)

The following list summarizes our analysis of tract poverty levels:

- Tracts with high concentrations of flat-rent units have slightly higher poverty rates than census tracts that include high concentrations of other public housing units. This finding might be driven in part by the fact that smaller, rural PHAs do not have flat rents and some PHAs did not provide geocodable address information.<sup>16</sup>
- According to each of these definitions, less than 10 percent of tracts with high concentrations of flat-rent units have low poverty rates (below 10 percent poverty). In contrast, 18 percent or less of tracts with high concentrations of other public housing units are low poverty tracts.
- At the other extreme, depending on the definition used, anywhere from 29 to 37 percent of tracts with high concentrations of flat-rent units had poverty rates greater than 30 percent. This finding compares to about 25 percent of tracts with high concentrations of other public housing units.

These findings seem to be contrary to expectations. Because households paying flat rents have higher incomes, we might expect concentrations of flat-rent units in lower poverty tracts; however, the data show that tracts with high concentrations of flat-rent units tend to have higher poverty rates than other tracts with public housing units have. This finding may be a result of the fact that when HUD introduced flat rents, the Department suggested that a very low flat rent in a less-than-desirable development could be a strategy for attracting and keeping higher income families and, thus, stabilizing the community. It also may be driven in part by the fact that flat-rent units in New York City tend to be in high-poverty tracts. The high concentration of flat-rent units in New York City could be affecting this result.

 $<sup>^{16}</sup>$  To identify the tract-level characteristics, we needed to geocode the properties to obtain their census tract. Necessary information was missing for about 11 percent of all properties.

# Changes in Wages and Turnovers in Properties With Flat Rents Compared With Other Properties

Exhibit 11 compares properties with clusters of flat-rent units and other public housing developments relating to tenant turnover rates and wage increases. We might hypothesize that allowing residents to pay flat rents would enable residents to stay in their units as their income increases, thus increasing tenure (and decreasing turnover). Turnover rate is measured as a portion of households that moved in within the previous year. Similarly, we might expect higher wage increases in these properties because residents have no negative incentives associated with increased income.

As with defining concentrations of flat-rent units in census tracts, we used three alternative definitions of clusters of flat-rent units in a property.

#### Exhibit 11

#### Comparison of Wage Increase and Turnover

#### Developments With a Cluster of Flat-Rent Units Versus Other Public Housing Units

Definition #1: A development must have at least 10 flat-rent units, and the flat-rent units must account for at least 10 percent of the units in the development.

	Developments With a Cluster of Flat-Rent Units	Other Public Housing Developments
Number of developments	2,071	11,039
Number of flat-rent units covered	67,607	31,926
Percent of flat-rent units covered	68	32
Percent of wage increase (2003 to 2005)	6	4
Percent of tenants moved in within past year	14	13

Definition #2: A development must have at least 10 flat-rent units, and the flat-rent units must account for at least 15 percent of the units in the development.

	Developments With a Cluster of Flat-Rent Units	Other Public Housing Developments
Number of developments	1,685	11,425
Number of flat-rent units covered	60,893	38,640
Percent of flat-rent units covered	61	39
Percent of wage increase (2003 to 2005)	6	3
Percent of tenants moved in within past year	14	12

Definition #3: A development must have at least 20 flat-rent units, and the flat-rent units must account for at least 20 percent of the units in the development.

	Developments With a Cluster of Flat-Rent Units	Other Public Housing Developments
Number of developments	568	12,542
Number of flat-rent units covered	43,099	56,434
Percent of flat-rent units covered	43	57
Percent of wage increase (2003 to 2005)	7	4
Percent of tenants moved in within past year	18	13

- 1. A property with at least 10 flat-rent units, accounting for at least 10 percent of the units in the property.
- 2. A property with at least 10 flat-rent units, accounting for at least 15 percent of the units in the property.
- 3. A property with at least 20 flat-rent units, accounting for at least 20 percent of the units in the property.

To conduct the analysis, we identified projects with a cluster of flat rents in 2003 and tracked the tenant wage and turnover status of these properties in 2005. The following points summarize our findings:

- As exhibit 11 shows, according to all three definitions of clusters of flat-rent units, we find that
  tenant wages in these properties increased more than in other public housing developments
  between 2003 and 2005. Tenant wages increased by about 6 to 7 percent, compared with a
  3- to 4-percent increase in other public housing developments.
- Turnover rates in these properties, however, were higher than in other developments, averaging about 14 to 18 percent compared with a 12- to 13-percent turnover rate in other public housing developments. (The data are for a development as a whole, and not specifically for the households paying flat rents.)

# Income Mixing in Properties With Flat Rents Compared With Other Public Housing Properties

A commonly used measure of income mixing is the coefficient of variation of a project's tenant income distribution, defined as the standard deviation of the income distribution divided by the mean household income in the property, expressed as a percentage. The larger the percentage, the more income mixing a property has. For example, HUD's data file, "A Picture of Subsidized Households in 1998," uses the same measure to assess income mixing across projects in HUD's assisted housing programs.

Exhibit 12 shows the average coefficient of variation for properties with any flat-rent units, for properties with clusters of flat-rent units, and for other public housing properties. As with defining concentrations of flat-rent units in census tracts, we used three alternative definitions of clusters of flat-rent units in a property.

- 1. A property with at least 10 flat-rent units, accounting for at least 10 percent of the units in the property. This definition includes 1,685 properties with 60,893 flat-rent units (or 61 percent of flat-rent units).
- 2. A property with at least 10 flat-rent units, accounting for at least 15 percent of the units in the property. This definition includes 2,071 properties with 67,607 flat-rent units (or 68 percent of flat-rent units).
- 3. A property with at least 20 flat-rent units, accounting for at least 20 percent of the units in the property. This definition includes 568 properties with 43,099 flat-rent units (or 43 percent of flat-rent units).

Regardless of the definition of a cluster used, properties with flat-rent units have a higher degree of income mixing than other properties. This outcome is as expected because households in units with flat rents have higher incomes than most other public housing residents.

#### Exhibit 12

#### Comparison of Income Mixing

#### Developments With Any Flat-Rent Units Versus Developments Without Any Flat-Rent Units

	Developments With a Cluster of Flat-Rent Units	Other Public Housing Developments
Number of developments	9,925	3,185
Number of flat-rent units covered	99,533	0
Percent of flat-rent units covered	100	0
Coefficient of variation of the income distribution average (percent)	n 63	52

Cluster Definition #1: A development must have at least 10 flat-rent units, and the flat-rent units must account for at least 10 percent of the units in the development.

	Developments With a Cluster of Flat-Rent Units	Other Public Housing Developments
Number of developments	2,071	11,039
Number of flat-rent units covered	67,607	31,926
Percent of flat-rent units covered	68	32
Coefficient of variation of the income distribution average (percent)	n 65	59

Cluster Definition #2: A development must have at least 10 flat-rent units, and the flat-rent units must account for at least 15 percent of the units in the development.

	Developments With a Cluster of Flat-Rent Units	Other Public Housing Developments
Number of developments	1,685	11,425
Number of flat-rent units covered	60,893	38,640
Percent of flat-rent units covered	61	39
Coefficient of variation of the income distribution average (percent)	65	59

Cluster Definition #3: A development must have at least 20 flat-rent units, and the flat-rent units must account for at least 20 percent of the units in the development.

·	·	
	Developments With a Cluster of Flat-Rent Units	Other Public Housing Developments
Number of developments	568	12,542
Number of flat-rent units covered	43,099	56,434
Percent of flat-rent units covered	43	57
Coefficient of variation of the income distribution average (percent)	68	60

Note: Coefficient of variation (CV) is defined as the standard deviation divided by the mean. The larger the CV, the more income mixing there is.

### **Summary and Conclusions**

This study used extracts from HUD's PIC data system from 2003 through 2005 to describe the characteristics of PHAs and households that use flat rents. Following are some key findings:

### **PHAs Using Flat Rents**

- Nearly all PHAs have at least some flat-rent units; however, the proportion of flat-rent units is generally small. Flat-rent units account for less than 10 percent of units in nearly half of all PHAs with flat-rent units.
- Overall, flat rents are paid for about 100,000, or 11.5 percent, of all public housing units.
   New York City, with 32,179 flat-rent units, accounted for about one-third of all flat-rent units nationwide.

#### **Characteristics of Households in Units With Flat Rents**

- As expected, households paying flat rents had much higher incomes compared with other
  public housing residents. Similarly, a much higher percentage of households paying flat rents
  reported that most of their income was from wages compared with other public housing
  households. Thus, flat rents appear to be succeeding in allowing residents in these units to
  increase incomes through employment and to remain in their units even as their incomes
  increase.
- The higher incomes of households paying flat rents are influenced to some extent by the fact that a large fraction of flat-rent units are in New York City, where incomes and rents tend to be higher than in other places. Incomes of households paying flat rents outside New York City, however, are still substantially higher than incomes of other public housing residents.

## Changes in the Use of Flat Rents by Families During the 2003-Through-2005 Period

- Households often move in and out of paying flat rents. Less than half of the households paying flat rents in 2003 continued to do so in 2005.
- It appears that the main reason households switch from flat rents to other rents is because their
  income decreases. More than three-quarters of households moving from flat rents to other rents
  experienced a decrease in income. In comparison, most households that continued to pay flat
  rents experienced an increase in income over time. This finding may be an indication that flat
  rents are accomplishing their legislative intent of enabling higher income residents to remain in
  public housing as their incomes increase.

# Assessment of Flat Rents Relative to Local Rents and Relative to Income-Based Rents

Rents in units where residents were paying flat rents were substantially higher than rents in
other public housing units. (As in the case of income, this fact is partially influenced by the large
fraction of flat-rent units located in New York City; but even outside New York City, flat rents
are much higher than rents in other public housing units.)

- Rents in both units with flat rents and other rents were well below comparable market levels (as
  proxied by the local FMR). More than half the rents in units with flat-rent units had rents below
  50 percent of the FMR, as did nearly 90 percent of other units.
- Households paying flat rents were virtually always paying less than 30 percent of their income for rent. Most were paying less than 75 percent of the comparable income-based rent. As expected, households in other units typically paid the income-based rent, defined as 30 percent of income.

# Dispersion of Flat Rents Across PHAs and Comparison of Tract Poverty in Census Tracts With Concentrations of Flat Rents

- Units with flat rents are generally located in tracts with similar poverty rates as other public housing units. This finding indicates that households paying flat rents in New York City tend to live in high-poverty tracts, which is offset by the fact that households paying flat rents in other locations tend to be in higher income tracts than other public housing residents.
- Tracts with high concentrations of flat-rent units tend to have higher poverty rates than tracts with high concentrations of other public housing units. This finding is in contrast with expectations. Because households paying flat rents have higher incomes, we might expect concentrations of flat-rent units in lower poverty tracts. This counterintuitive finding may have resulted when flat rents were introduced; HUD suggested that a very low flat rent in a less-than-desirable development could be a strategy for attracting and keeping higher income families and, thus, stabilizing the community. It also may be driven in part by the fact that flat-rent units in New York City are in high-poverty tracts. The high concentration of flat-rent units in New York City could be affecting this result.

# Changes in Wages and Turnovers in Properties With Flat Rents Compared With Other Properties

- We might expect higher wage increases in properties with high concentrations of flat-rent units
  because residents have no negative incentives associated with increased income. In fact, we do
  find that wages in these properties increased more than in other public housing developments
  between 2003 and 2005.
- Similarly, we might expect lower turnover rates in properties with concentrations of flat rents (because households paying flat rents do not have an incentive to move). The data, however, show that turnover, measured as the portion of households that moved in within the previous year, was slightly higher than in other developments. (The data are for a development as a whole and not specifically for the flat-rent households.)

# Income Mixing in Properties With Flat Rents Compared With Other Public Housing Properties

Properties with flat-rent units have a higher degree of income mixing than other properties.
 This finding is as expected because households in units with flat rents have higher incomes than most other public housing residents have.

### **Appendix A. Rent Determination Algorithm**

#### Definition

The following line items are reported on page 8 of HUD Form-50058:

10a = Total Tenant Payment (TTP) (generally 30 percent of adjusted income minus utility allowance).

10b = flat-rent amount.

10c = ceiling-rent amount.

10d = lower of TTP or ceiling rent.

10u = Type of rent code—an indicator flagging whether a household selects to pay a flat rent or an income-based rent.

#### **Determination of Flat-Rent Units**

Household records are determined as paying flat rents if any of the following conditions is true:

- Type of action = 12, and flat-rent amount > 0.
- Type of rent code = F, and flat-rent amount > 0.
- Type of rent code = blank, and flat-rent amount > 0, and flat-rent amount < TTP, and flat-rent amount = lower rent amount (that is, line item 10d).

### **Determination of Ceiling-Rent Units**

Household records are determined as paying ceiling rents if the following condition is true:

• Ceiling rent amount > 0 and TTP > or = ceiling rent and ceiling rent = lower rent amount.

#### **Determination of Income-Based Rent Units**

Household records are determined as paying a nonceiling income-based rent if any of the following conditions is true:

- The record has not already been flagged as flat-rent units or ceiling-rent units, and lower rent amount > 0, and type of rent code = I.
- The record has not already been flagged as a flat-rent unit, ceiling-rent unit, or income-based rent, and TTP = lower rent amount, and lower rent amount > 0.

### **Appendix B. Supplementary Tables**

Exhibit B-1

Characteristics of Households in Units Paying Flat Rents in New York City and Elsewhere — 2005 Data

	Flat-Rent Units in New York City	Flat-Rent Units Elsewhere	All Flat-Rent Units
Number of housing units	32,179	67,354	99,533
Percent of all units	32.3	67.7	100
Age of household head (average)	52.0	51.0 (percent)	51.3
Disability status of household head			
Yes	5	14	12
No	95	86	88
Total	100	100	100
Race/ethnicity of household head			
Non-Hispanic White	5	45	32
Non-Hispanic African American	55	42	46
Hispanic	37	11	19
Other	3	2	2
Total	100	100	100
Presence of children in household			
Yes	38	39	39
No	62	61	61
Total	100	100	100
		(dollars)	
Total household income (average)	37,606	23,663	28,150
		(percent)	
Household income as percent of area median	69	46	52
Source of income			
Most of income from wage			
Yes	82	61	68
No	18	39	32
Total	100	100	100
Most of income from welfare			
Yes	0	1	1
No	100	99	99
Total	100	100	100

Exhibit B-2

Rent Comparisons in Units With Flat Rents in New York City and Elsewhere

	Flat-Rent Units in New York City	Flat-Rent Units Elsewhere	All Flat-Rent Units
Number of housing units	32,179	67,354	99,533
Percent	32.3	67.7	100
		(dollars)	
Rent level charged			
Mean	510	366	413
Median	495	333	416
Standard deviation	77	167	159
Percentile statistic			
10th percentile	421	200	225
25th percentile	495	259	296
75th percentile	495	430	495
90th percentile	619	575	619
		(percent)	
Rent to FMR ratio			
Median	46	59	49
> 1	0	1	1
0.76 to 1	0	18	12
0.51 to 0.75	1	52	36
0.26 to 0.5	99	26	49
< 0.26	0	3	2
Rent to income-based rent ratio			
Median	62	70	68
> 1.01	0	2	1
1.00 to 1.01	1	4	3
0.76 to 0.99	28	36	34
0.51 to 0.75	41	40	40
0.26 to 0.5	29	17	21
< 0.26	1	1	1

FMR = Fair Market Rent.

Note: Income-based rents are defined as 30 percent of adjusted income.

Exhibit B-3

Distribution of Poverty Rate by Household Rent Type in Flat-Rent Units in New York City and Elsewhere

	Number of Units	Tract Poverty Rate (percent)	Percent of Units
Flat-rent units in New York City	32,029	Average	40
		0 to 9	1
		10 to 19	6
		20 to 29	18
		30 or more	75
Flat-rent units elsewhere	60,178	Average	25
		0 to 9	10
		10 to 19	34
		20 to 29	25
		30 or more	31
All flat-rent units	92,207	Average	31
		0 to 9	7
		10 to 19	24
		20 to 29	23
		30 or more	46

Source: Office of Public and Indian Housing Information Center system (PIC system)

### Acknowledgments

This work was funded under Contract Abt C-225, Task Order 6, which was a subcontract from the QED Group that had a prime contract with the U.S. Department of Housing and Urban Development.

#### **Authors**

Meryl Finkel is a senior associate with Abt Associates Inc.

Ken Lam is an associate with Abt Associates Inc.

Finkel and Lam			