

Rent Reasonableness

Overview

Santa Clara County's Continuum of Care receives funding from the U.S. Department of Housing Urban Development (HUD) Continuum of Care (CoC) and Emergency Solutions Grant (ESG) programs to operate programs serving homeless individuals and families in Santa Clara County. Leasing or rental assistance funds in these programs must comply with rent reasonableness as referenced by 24 CFR 578.49 and 24 CFR 578.51. The rent reasonableness standard is designed to ensure that program rents being paid are **reasonable in relation to rents being charged for comparable unassisted units** in the **same market**.

Providers should adopt the rent reasonableness policy listed on the [CoC website](#). A **uniform approach** to rent reasonableness across the community **reduces barriers to housing** for program participants.

Rent reasonableness reviews must be conducted and documented **prior to executing the lease** for an assisted unit and **anytime unit rent is increased thereafter**.

Steps for Ensuring Compliance:

1. Check Whether the Unit Should be Capped at FMR or Rent Reasonableness Standard

Check whether the specific program allows for rent reasonable units **at or above FMR**.

- The rent for units assisted with **CoC rental assistance must be rent reasonable and can be above FMR**.
- The rent for units assisted with **ESG funds or CoC leasing funds must not exceed the lesser of the FMR or the rent reasonableness standard**.

If unsure, please review your program contract and/or seek guidance from the contract monitor **before the program participant signs the lease on the unit**.

2. Find Three Comparable Units to Conduct Rent Reasonableness Review

At minimum, **no less than three comparable units** will be used to complete the rent reasonableness review.

In order to calculate the **gross rent** for purposes of comparing units to determine whether it meets the rent reasonableness standard, consider the **entire housing cost: rent plus the cost of any utilities that must be paid by the tenant**.

Eligible utility costs **may include**:

- Gas/oil
- Electric
- Water
- Sewage
- Trash removal

Ineligible utilities that should be **excluded**:

- Telephone
- Cable
- Internet
- Late fees

Comparable units can be found in the following ways:

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A. Review of Advertisements

If advertisements for rental units will be used, the unit listings must be **printed** and **attached** to the form that outlines the comparison of the units and provides evidence that these comparison units shared similar features pertaining to:

- **Location** – consider the **proximity of the units** but also whether the unit are similar distances to **public transportation, grocery stores**, and other **public amenities**
- **Size** – number of **bedrooms** and **square feet** per unit
- **Type** –
 - Low/High Rise – apartments that are attached to one another in a complex or building
 - Semi-Detached – homes that share a wall side by side such as a townhouse
 - Single-Family/Manufactured Home – completely detached from any other unit or dwelling
- **Amenities** – consider the **unit, on-site**, and greater **neighborhood** offerings and **accessibility** features such as:
 - Unit amenities: washer/dryer, dishwasher, garbage disposal, furnishings, new appliances, balcony, patio, A/C, etc.
 - On-site amenities: parking, laundry room, pool, fitness center, computer lab, playground, storage, security, on-site management/maintenance, etc.
 - Neighborhood amenities: parks, community centers, libraries, etc.
 - Accessibility: is the unit and building ADA accessible?
- **Age** – were the units constructed around roughly the same time?
- **Quality** – is the condition of the unit **good/fair/poor**?
 - Good – well maintained and in working order
 - Fair – in expected condition for its age and in working order with minor repairs noted
 - Poor –not in working order, inadequate sanitation, structural hazards, and other issues (i.e., exposed wiring, infestation, inadequate ventilation, etc.); with major repairs noted

Spotlight a Challenge: Limited Comparable Unit Options

In some cases, it may be hard to identify units that perfectly match on location, building type and number of bedrooms. In these cases, try and locate units that have the **same number of bedrooms** and **building type** but in a **broader geographic range**.

When thinking about geographic range, be mindful to not be too restrictive (i.e., only searching for units with a 3-mile radius) nor too lenient (i.e., comparing units in two different cities with different layouts and amenities offerings).

Rather than focusing on a mile threshold and zip codes, note whether the units have **similar access** to services such as **bus lines, grocery stores** and other **public amenities**. It can be helpful to look for comparable units within **school district boundaries**, where possible.

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B. Market Study of Rents

Market studies can **determine the value of certain features** and what **drives rent**. When pursuing this approach, consider looking to agencies that collect and aggregate data that often publish market studies of rent including:

- The Public Housing Authority
- The Chamber of Commerce
- Commercial real estate firms

Please note that market studies of rent can tend to focus on **particular housing types** and often times **do not include utilities**.

C. Written Verification from a Property Owner or Management Company

Another acceptable method of documentation is written verification **signed by the property owner or management company** confirming that they have **similar market rate units** that are **currently rented at comparable rates**.

3. Determine the Average Comparable Gross Rent

Add up the **gross rents** for **all three** of the comparable units. Again, please note that gross rent is the **unit rent plus** the **estimated amount of eligible utility costs** the participants would be responsible for paying.

Once the totals have been added up, **divide by 3** for the average gross rent.

4. Check Average Gross Rent Against the Rent Reasonableness Standard Threshold

Only unit rents that are **no more than \$100 above the gross average** of the three comparable rents will be considered rent reasonable.

- If the proposed unit is no more than \$100 above the average, please sign [this form](#) to certify this unit is rent reasonable.
- If the proposed unit is **more** than \$100 above the average, **do not proceed** with this unit as it is NOT rent reasonable.

5. Document Rent Reasonableness

Supporting evidence of complying with the rent reasonableness standard for every assisted unit must be kept in **client files**.

Please bear in mind that comparable rents vary over time due to market fluctuations. To ensure that agencies are using appropriate comparisons, **updating the units used for comparison** on an **annual basis** is best practice.