Metropolitan Council Housing and Redevelopment Authority

Twin Cities Rents and Payment Standards Discussion

November 7, 2018

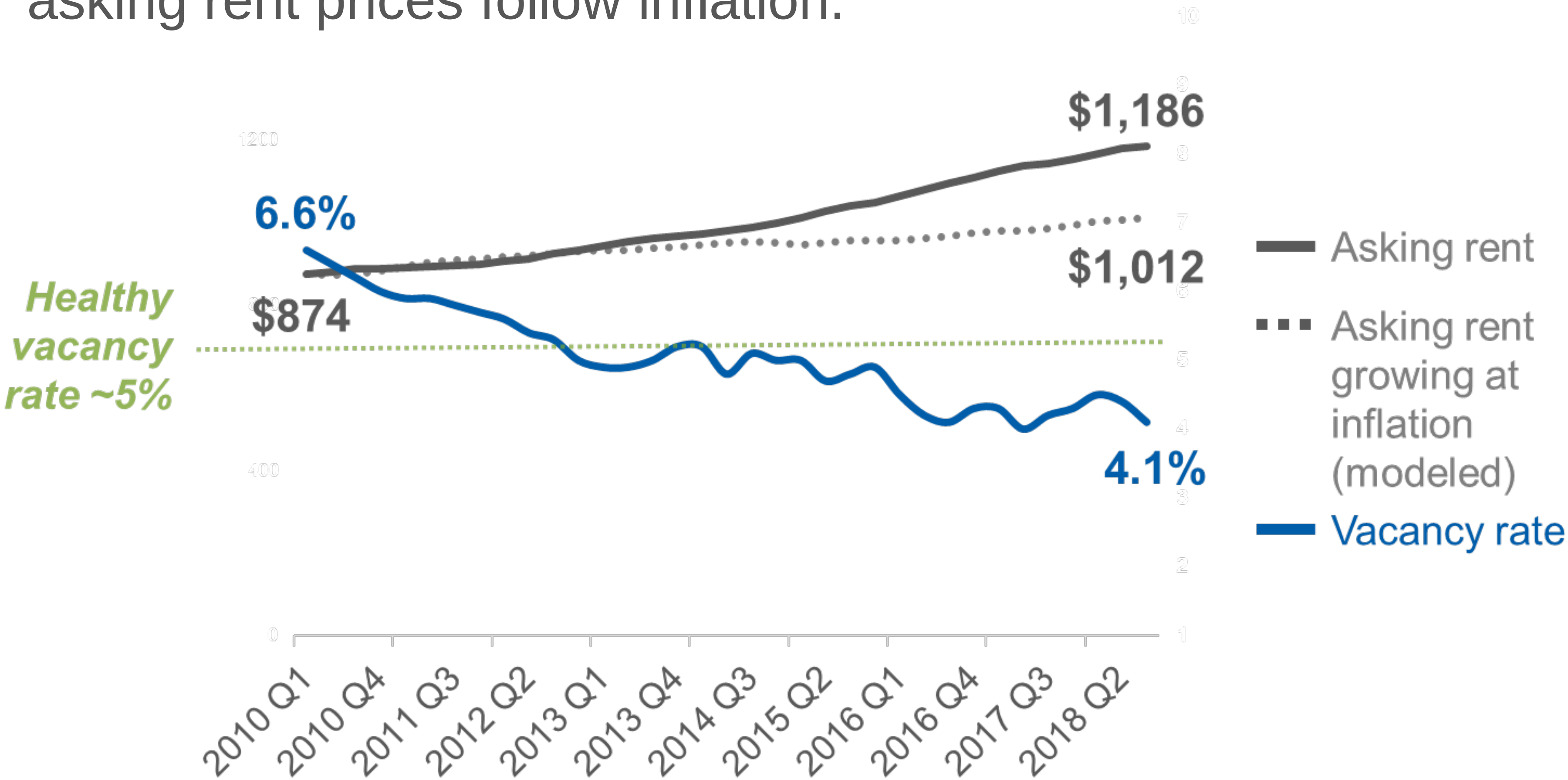
Committee of the Whole

In recent years:

- Housing production has lagged population growth
- Rental vacancy rates have been below healthy levels
- Rent prices have grown faster than inflation

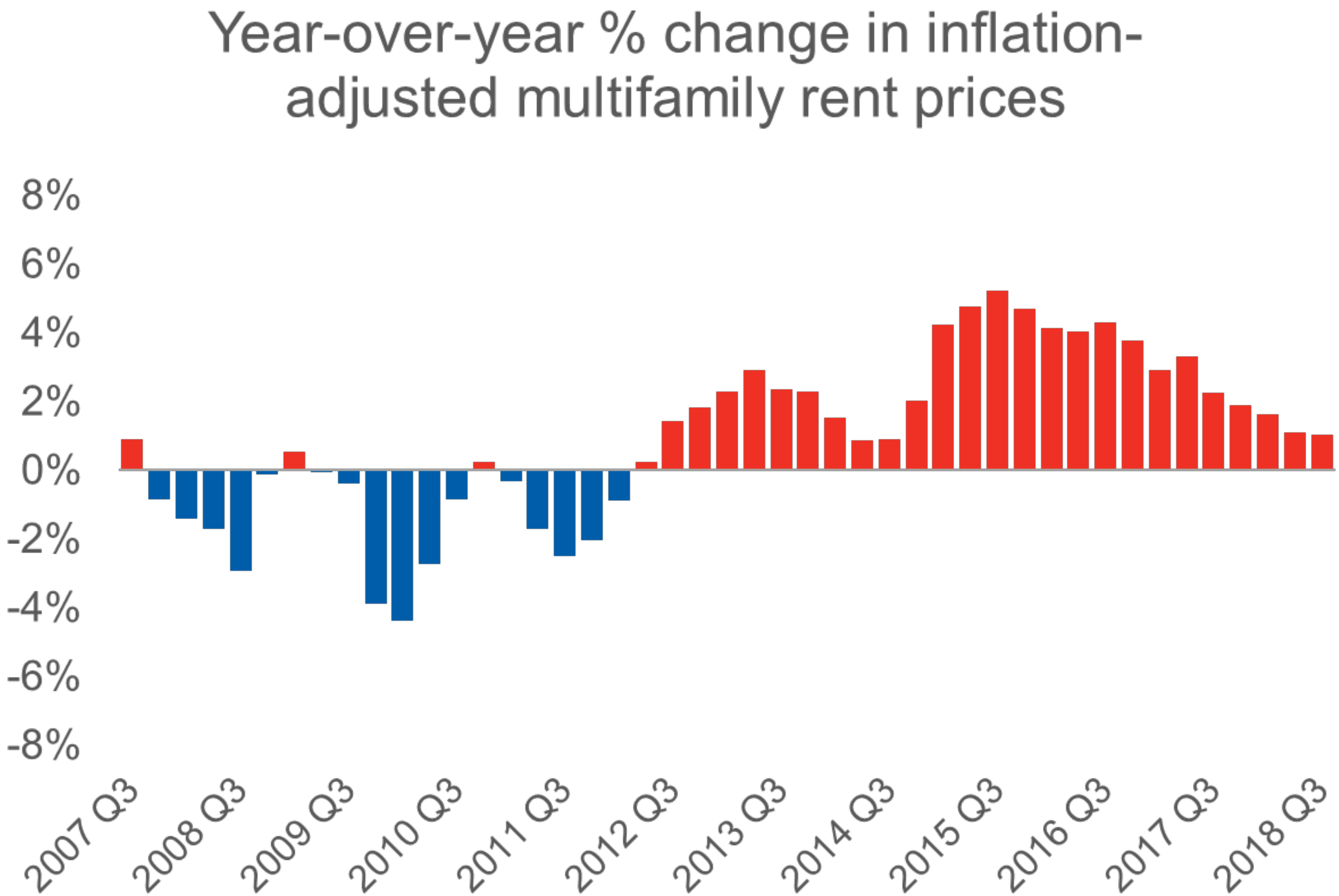
Vacancy rates and rent prices

When vacancy rates are at natural or healthy levels, asking rent prices follow inflation.



Source: CoStar data on multifamily rentals and vacancy rates in the seven-county Twin Cities region. Data series begins in the first quarter of 2010.

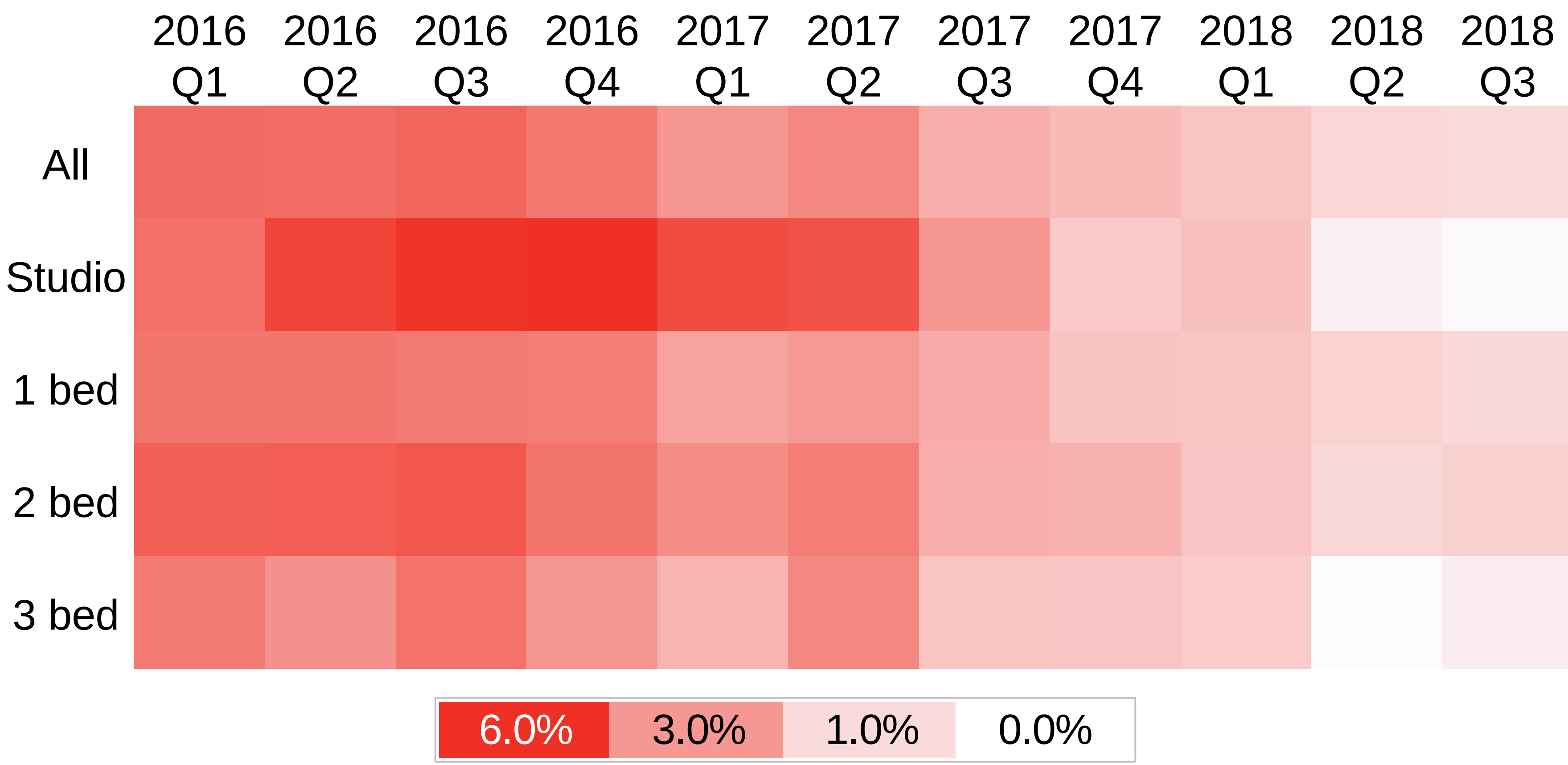
Inflation-adjusted rent change



Source: CoStar data on multifamily rentals in the seven-county Twin Cities region. Data series begins in the third quarter of 2006. Data are inflation-adjusted using the Consumer Price Index for All Urban Consumers: All Items (CPIAUCSL) from the U.S. Bureau of Labor Statistics. Year-over-year % change in rent calculated for all quarters.

Year-over-year % change

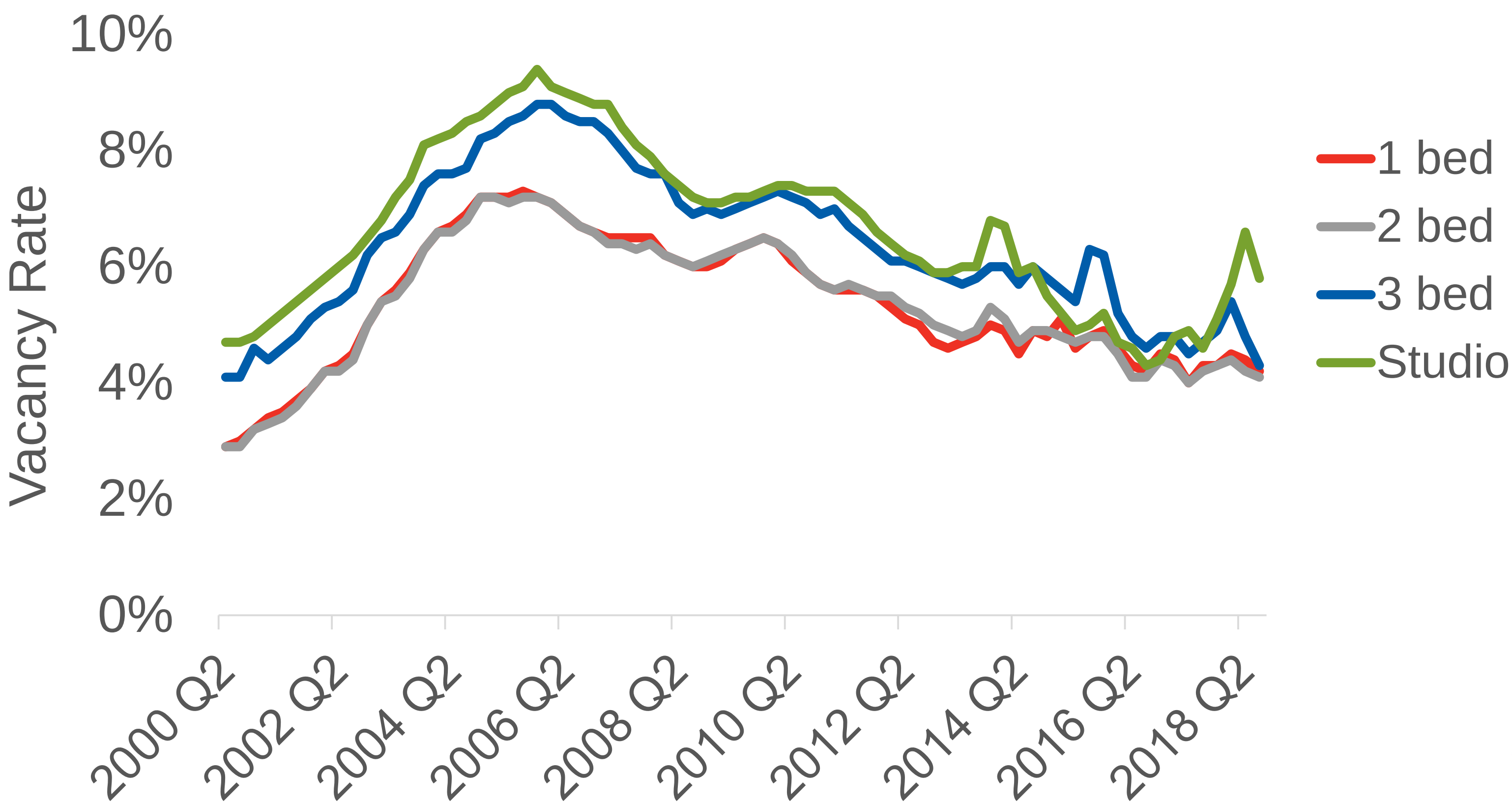
Rent prices are still growing faster than inflation, but growth has slowed



Source: CoStar data on multifamily rentals in the seven-county Twin Cities region. Data series begins in the third quarter of 2010. Data are inflation-adjusted. Quarterly year-over-year percent change in rent shown.

Vacancy rates over time

Vacancy rates remain relatively low overall



Source: CoStar data on multifamily vacancy rates in the seven-county Twin Cities region. Data series begins in the first quarter of 2010

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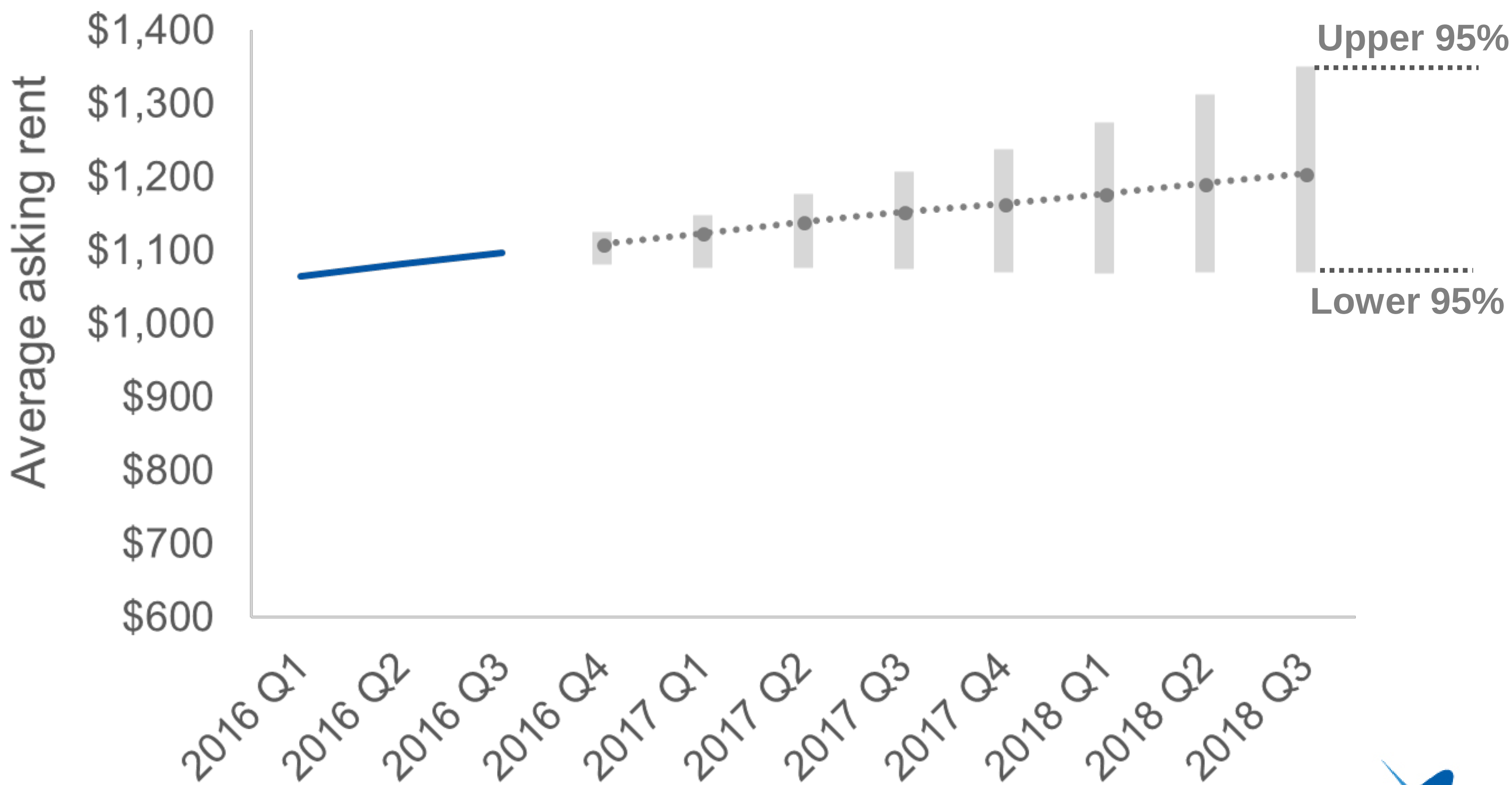
Forecasting rent prices

Using data ending in 2016 Q3 predicting next 8 quarters



Source: Staff analysis of CoStar data on multifamily average asking rent prices in the seven-county Twin Cities region. Data series begins in the first quarter of 2000. Forecasts and prediction intervals are generated using weighted average of several time-series models.

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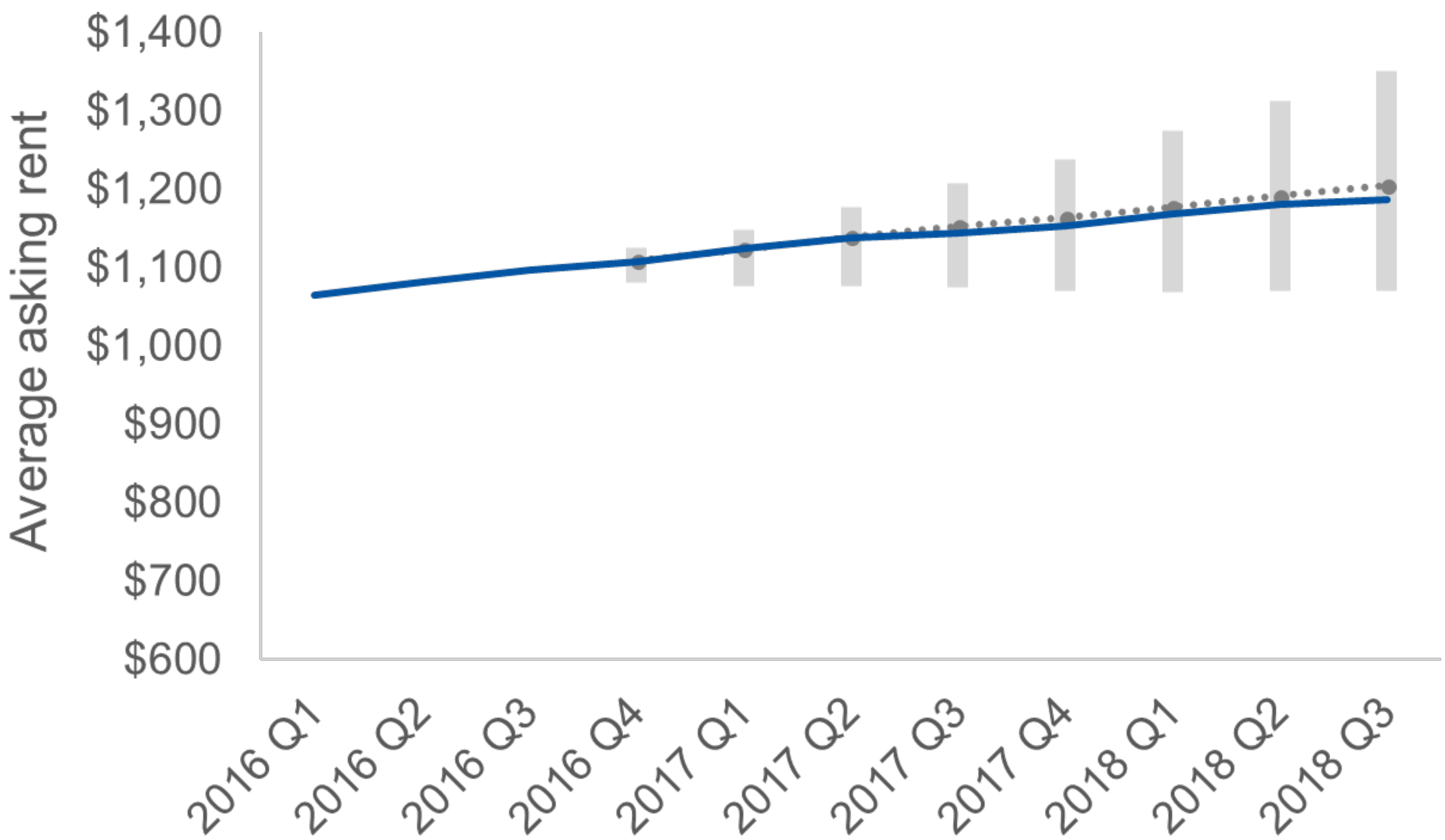
Example: predicting rent prices

Using data ending in 2016 Q3 predicting next 8 quarters



Source: Staff analysis of CoStar data on multifamily average asking rent prices in the seven-county Twin Cities region. Data series begins in the first quarter of 2000. Forecasts and prediction intervals are generated using weighted average of several time-series models.

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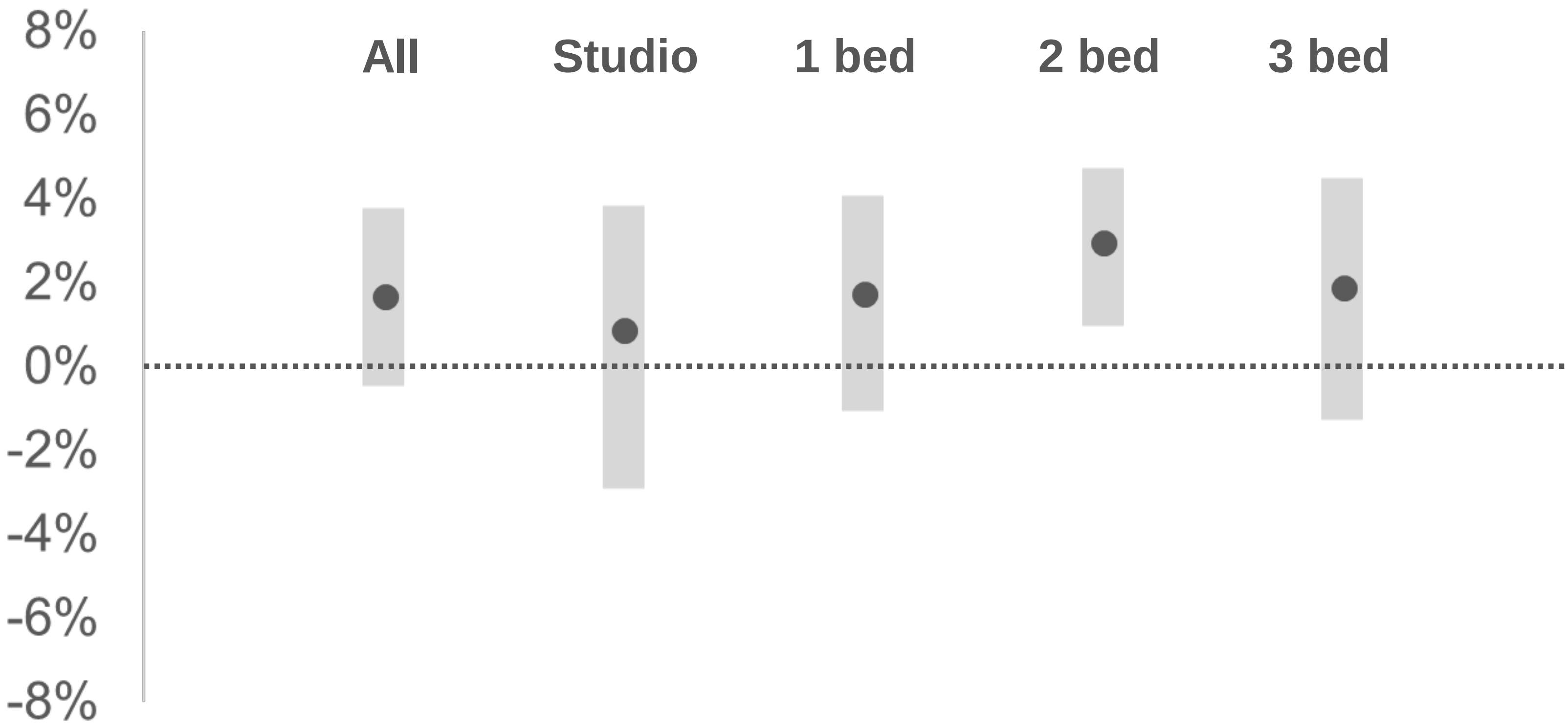
Future rent prices

Forecasted % change in rent (Q3 2019 over Q3 2018)



Source: Staff analysis of CoStar data on multifamily average asking rent prices in the seven-county Twin Cities region. Data series begins in the first quarter of 2000 and ends Q3 2018. Forecasts and prediction intervals are generated using weighted average of several time-series models. Point forecasts and 80% prediction intervals depicted on the plot.

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Two Areas of Budget Concern

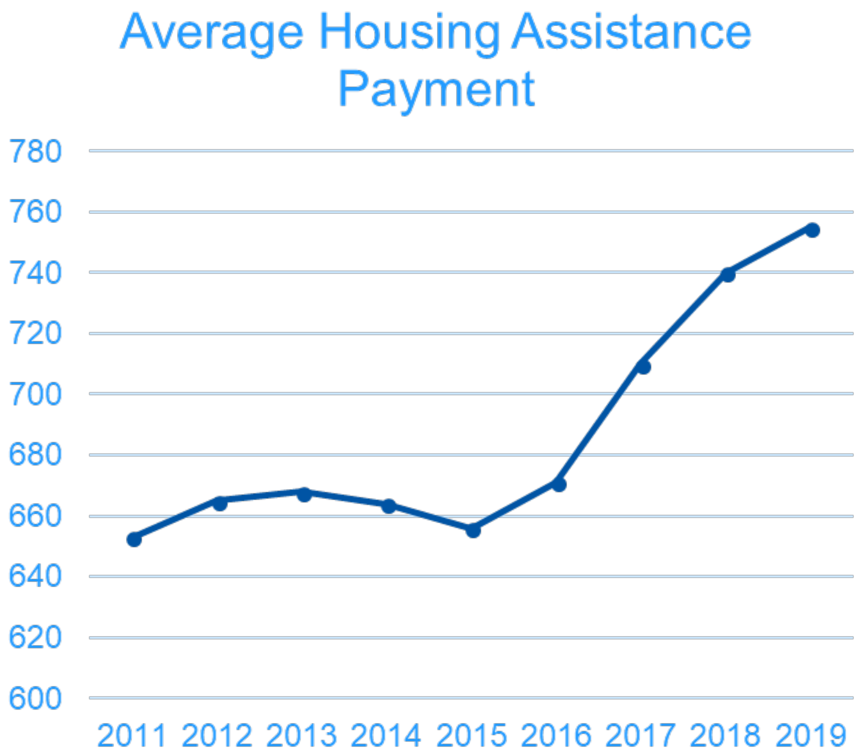
- Rising housing subsidy payment cost – focus of today
  - Driven by the rising cost of housing

- Administrative Deficit
  - Prorated federal revenues do not cover the rising cost of administration

Current Budget Status

- 2018 Amended
  - $1.9M use of reserves
  - Issue all available vouchers
  - Reserves near minimum
- 2019 Public Comment
  - $2M General levy subsidy
  - Deficit projected based upon 2% rental cost increase

Preserve Housing Vouchers



2018 Adopted Budget

$710	Federal reimbursement
(740)	Subsidy
(30)	Deficit per voucher

2019 Public Comment Budget

$730	Federal reimbursement
(755)	Subsidy (2018 + 2%)
(25)	Deficit per voucher

Payment Standards

- Payment Standards = Rent Limits
  - Amount needed to rent a modest housing unit
- Limited by Fair Market Rents (FMR) set by HUD
  - Issued for October 1, 2018
  - Increased by **5.6% - 6.8%!!!!**
- Federal Requirement
  - Housing Authorities must set rent limits between 90% and 110% of Fair Market Rent by bedroom size

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Annual Review Process

- Analysis
  - Local average rental data
  - Average rents by community and bedroom size
  - Rent burden of current assisted families
- Council role (required annually)
  - Set rent limits
  - Past Council practice has been to balance Thrive outcomes
    - High enough to allow choice in all neighborhoods
    - Low enough to serve as many families as possible

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Tenant Rent Payments

- Tenants pay between 30% and 40% of income towards rent
- Rent within the payment standard = 30% of income
- Rent above the payment standard = up to 40% of income
  - Tenant pays 30% plus the difference
  - Tenant cannot pay more than 40% of their income toward rent at initial move-in
  - Maximum rent limit based on income

Who is Metro HRA Serving?

- Average household size = 2.9 members
- Average household annual income = $16,000
  - 45% households have wage income
  - 47% elderly or disabled households
- Average Tenant Rent Payment = $390
- Average HRA Payment = $740
- Families with children = 53% of households

Payment Standard Example

2 bedroom apartment

Rent	$1025
Utility allowance	+ $ 57 (electric only)
Gross Rent	= $1082

2 bedroom payment Standard = $1090

Tenant Impact

- The gross rent falls within the payment standard
- Tenant will pay 30% of their income towards rent and utilities.

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Payment Standard Example

2 bedroom apartment

Rent $1050

Utility allowance + $ 57 (electric only)

Gross Rent = $1107

2 bedroom payment Standard = $1090

Tenant Impact

- The gross is $17 over the payment standard
- Tenant will pay 30% of their income plus the difference ($17)

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Payment Standard Considerations

HUD Rule

- Federal government directs us to serve as many families as possible within budget authority
  - Council can issue to up 6,616 vouchers
  - $57.7M projected 2019 federal revenue

Higher Rent Limits

- Higher average subsidy
- Fewer vouchers issued
- Higher success rates
- Build future year funding

Lower Rent Limits

- Lower average subsidy
- More vouchers issued
- Lower success rates
- Risk future year funding

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Payment Standard Considerations

- Fair Market Rents increased by 5.6% - 6.8%
  - Significant increase = significant budget impact
- Currently two sets of payment standards
  - Regular standards – cover most of Metro HRA’s service area
  - Exception standards – cover 13 high rent communities
- Thrive “will” statements provide direction
  - Offer housing options that give people in all life stages viable choices for stable housing
  - Develop and provide tools, including competitive rent limits in higher-cost communities, to enable voucher holders to choose a location that best meets their needs

Scenario 1

Maintain Current Rent Standards

Pros

- Ability to issue nearly all vouchers
- Less program deficit than other scenarios

Cons

- Voucher use becomes more difficult
- Rent burden increases for existing families
  - 50% for some families
- Limits housing choice to low rent areas
- Risks future federal funding in 2020 and beyond

Scenario 1: Maintain Standards

	<u>Scenario 1</u> Current Standards	<u>Scenario 2</u> Increase All Standards	<u>Scenario 3</u> Targeted Increase
Per Voucher Impact			
Federal Reimbursement	730		
Rent Subsidy	(755)		
Structural Impact	**(25)**		
Program Level Impact – 2019 Budget			
Federal Reimbursement	($1.4M)		
Council Subsidy	$1.1M		
Budget Impact	**($0.3M)**		

- Rent burden increases for existing families
- Council unable to issue 30 vouchers; families at risk of homelessness
- Difficulty placing vouchers
- Voucher holders limited to lower rent areas
- Risks future federal funding

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Scenario 2

Increase limits for all bedrooms sizes

Pros

- Increases voucher placement success some
- Improves housing choice in all neighborhoods
- Reduces rent burden for existing families
- Increases federal revenue base in 2020

Cons

- Results in program structural deficit
  - Reduce vouchers issued
  - Secure additional funding
- Rent limits still not high enough for some bedroom sizes

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Scenario 2: Increase All Limits

	Scenario 1 Current Standards	Scenario 2 Increase All Standards	Scenario 3 Targeted Increase
Per Voucher Impact			
Federal Reimbursement		730	
Rent Subsidy		(767)	
Structural Impact		**(37)**	
Program Level Impact – 2019 Budget			
Federal Reimbursement		($1.9M)	
Council Subsidy		$1.1M	
Budget Impact		**($0.8M)**	

- Families considered rent burdened decreases from 55% to 33%
- Council unable to issue 85 vouchers; families at risk of homelessness
- Families somewhat limited to low-rent areas
- Some difficulty placing vouchers

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Scenario 3

Increase limits based on market conditions (Targeted Increase)

Pros

- Reflects market conditions
- Increases voucher placement success
- Improves housing choice in all neighborhoods
- Reduces rent burden to families
- Increases federal revenue base in 2020

Cons

- Results in program structural deficit
  - Reduce vouchers issued
  - Secure additional funding

Scenario 3: Targeted Increase

	Scenario 1 Current Standards	Scenario 2 Increase All Standards	Scenario 3 Targeted Increase
Per Voucher Impact			
Federal Reimbursement			730
Rent Subsidy			(770)
Structural Impact			**(40)**
Program Level Impact – 2019 Budget			
Federal Reimbursement			($2M)
Council Subsidy			$1.1M
Budget Impact			**($0.9M)**

- Decreases rent burden from 55% to 28% of families
- Council unable to issue 100 vouchers; families at risk of homelessness
- Families have a larger universe of units to choose
- Increased neighborhood choice

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Scenario Summary

	Scenario 1 Current Standards	Scenario 2 Increase All Standards	Scenario 3 Targeted Increase
Per Voucher Impact			
Federal Reimbursement	730	730	730
Rent Subsidy	(755)	(767)	(770)
Structural Impact	**(25)**	**(37)**	**(40)**
Program Level Impact - 2019 Budget			
Federal Reimbursement	($1.4M)	($1.9M)	($2M)
Council Subsidy	$1.1M	$1.1M	$1.1M
Budget Impact	**($0.3M)**	**($0.8M)**	**($0.9M)**

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Balancing the 2019 Budget

	<u>Scenario 1</u> Current Standards	<u>Scenario 2</u> Increase All Standards	<u>Scenario 3</u> Targeted Increase
Program Level Impact - 2019 Budget			
Federal Reimbursement	($1.4M)	($1.9M)	($2M)
Council Subsidy	$1.1M	$1.1M	$1.1M
Budget Impact	**($0.3M)**	**($0.8M)**	**($0.9M)**
Options to Balance 2019 Budget			
Reduce Vouchers	30	85	100
Reduce Community Choice	$1M	$1M	$1M
Subsidize with Council or other funds	$0.3M	$0.8M	$0.9M

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Long Term Problem?

- Housing voucher deficit is due to rising housing costs and federal revenue is not keeping pace with rent
  - Structure of housing market would need to change to address this problem
  - Research indicates rents are starting to level off

- Council 2019 budget decisions impact
  - Low income families in the region
    - Increase in homelessness
  - Impact on Areas of Concentrated Poverty
  - Council investment in other initiatives
  - Council commitment in Thrive “will” statements
  - Future year federal funding levels

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Actions taken to date

- Legal Opinion
  - HRA specific levy authority
- Other Housing Authorities Solutions
  - Adopt lower rent limits to serve all families
  - Reductions in program size
  - Use of other agency funds for subsidy
- Data Analysis
  - Developed rent forecast
  - Refined financial forecasts

Up Next

- Engage policy makers from other parts of the region

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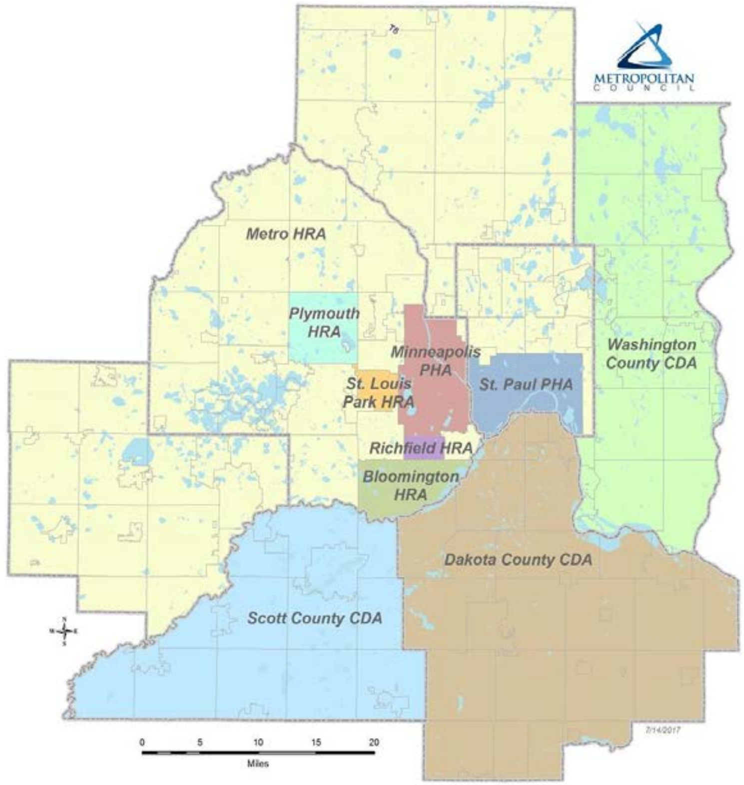
Potential Solutions

- Subsidize program with other Council funds
- Reduce vouchers through attrition
- Reduce cost through reduced community choice
- Secure alternate funding source(s)



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