

Metropolitan Council Housing and Redevelopment Authority

Twin Cities Rents and Payment Standards Discussion

November 5, 2018

Community Development Committee

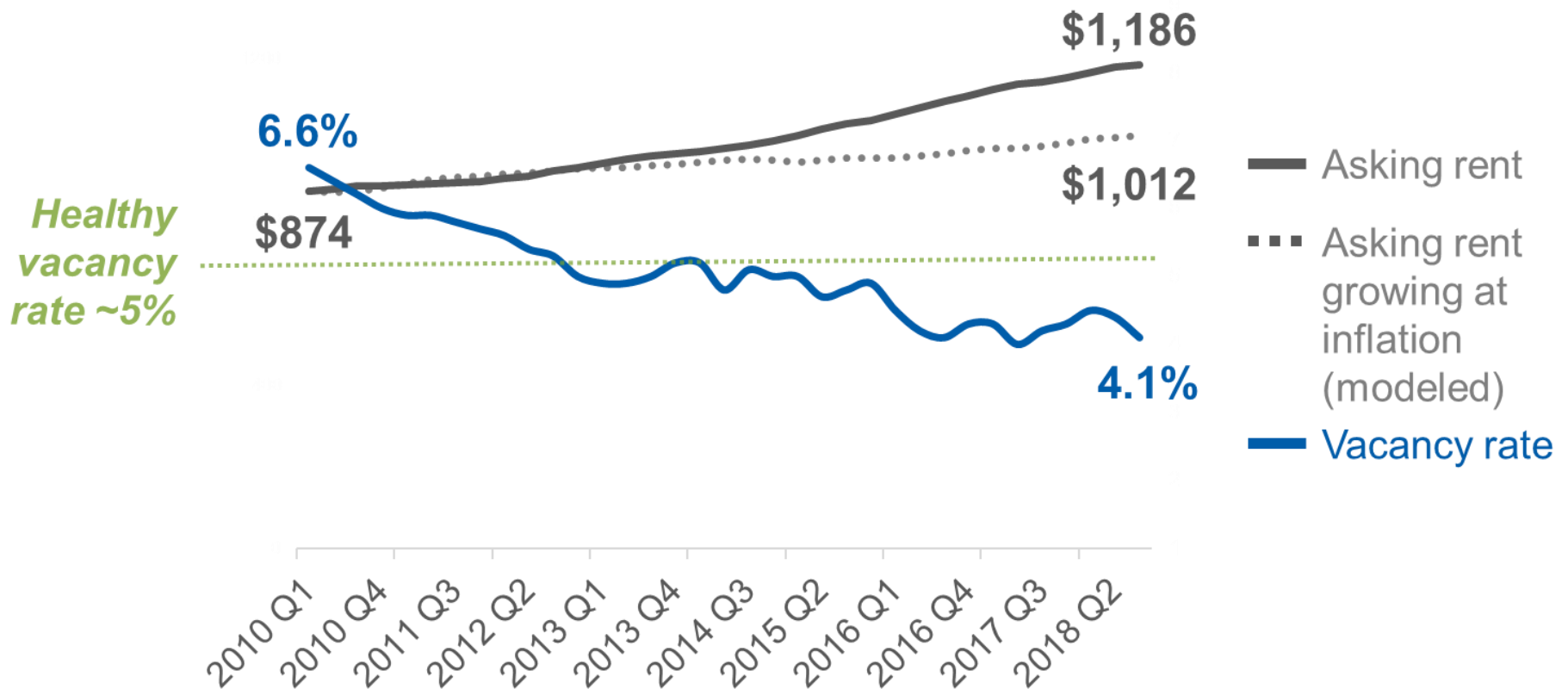


In recent years:

- 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

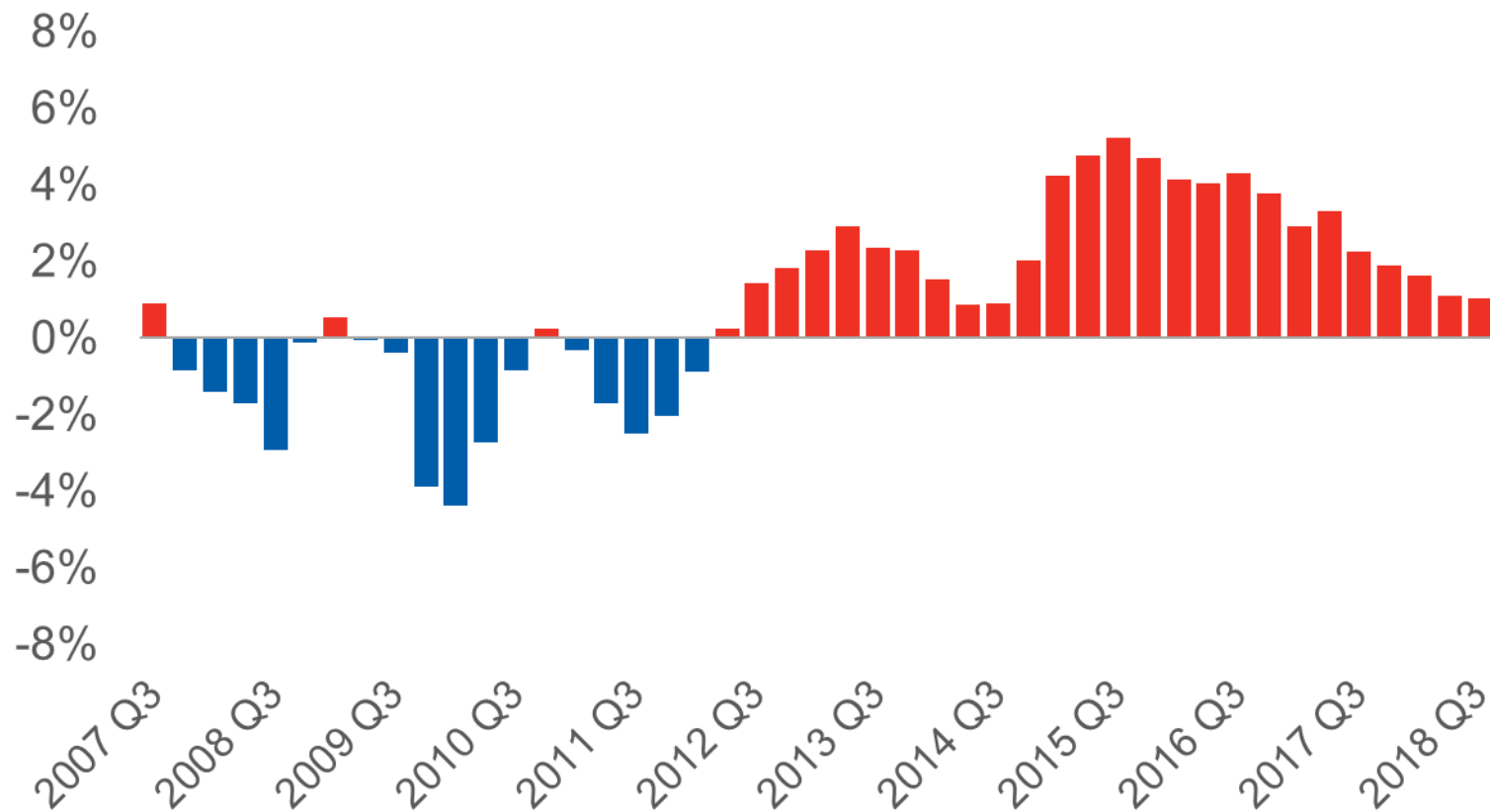
When vacancy rates are at natural or healthy levels, asking rent prices follow inflation.



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

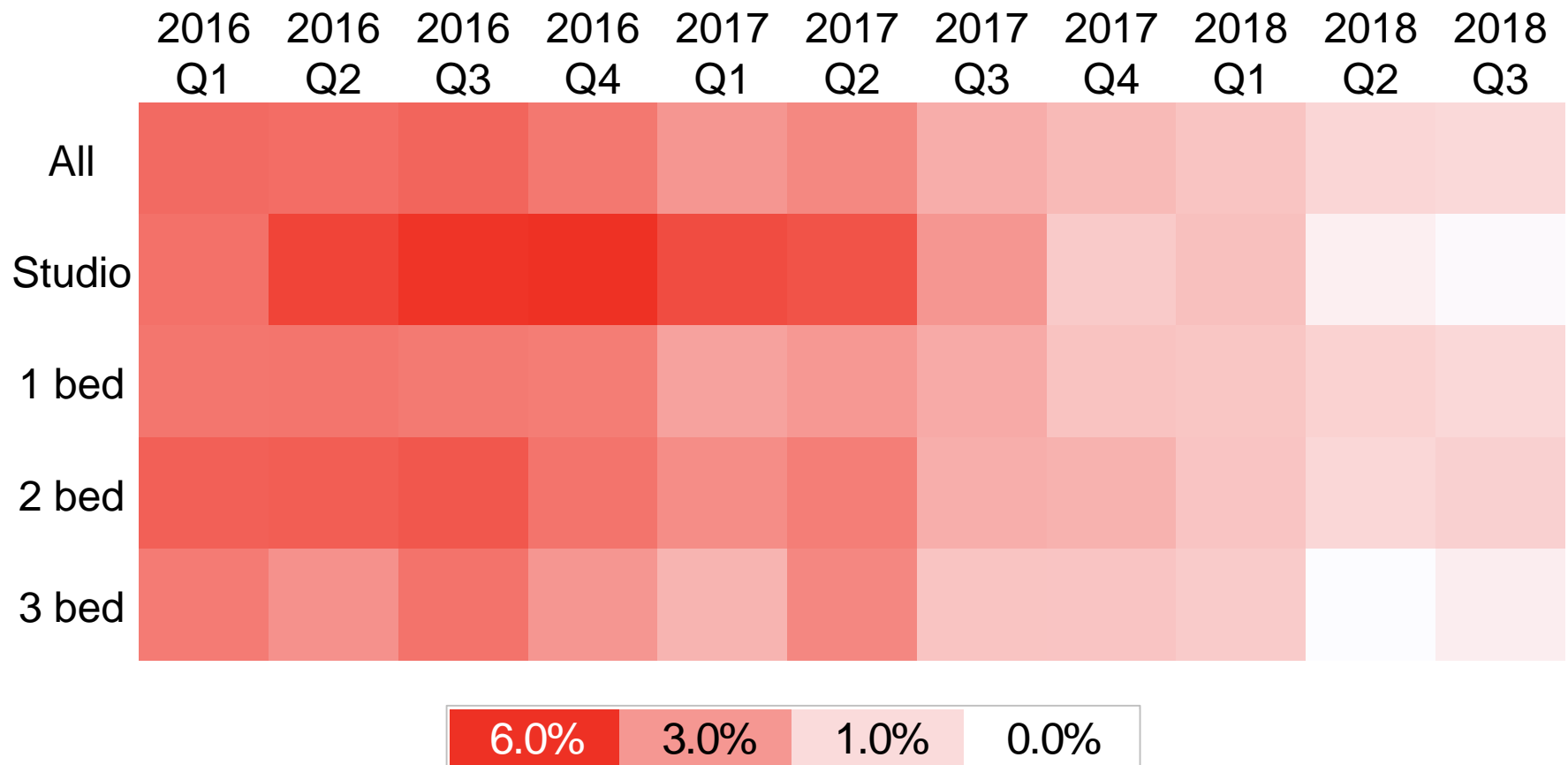
Year-over-year % change in inflation-adjusted multifamily rent prices



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

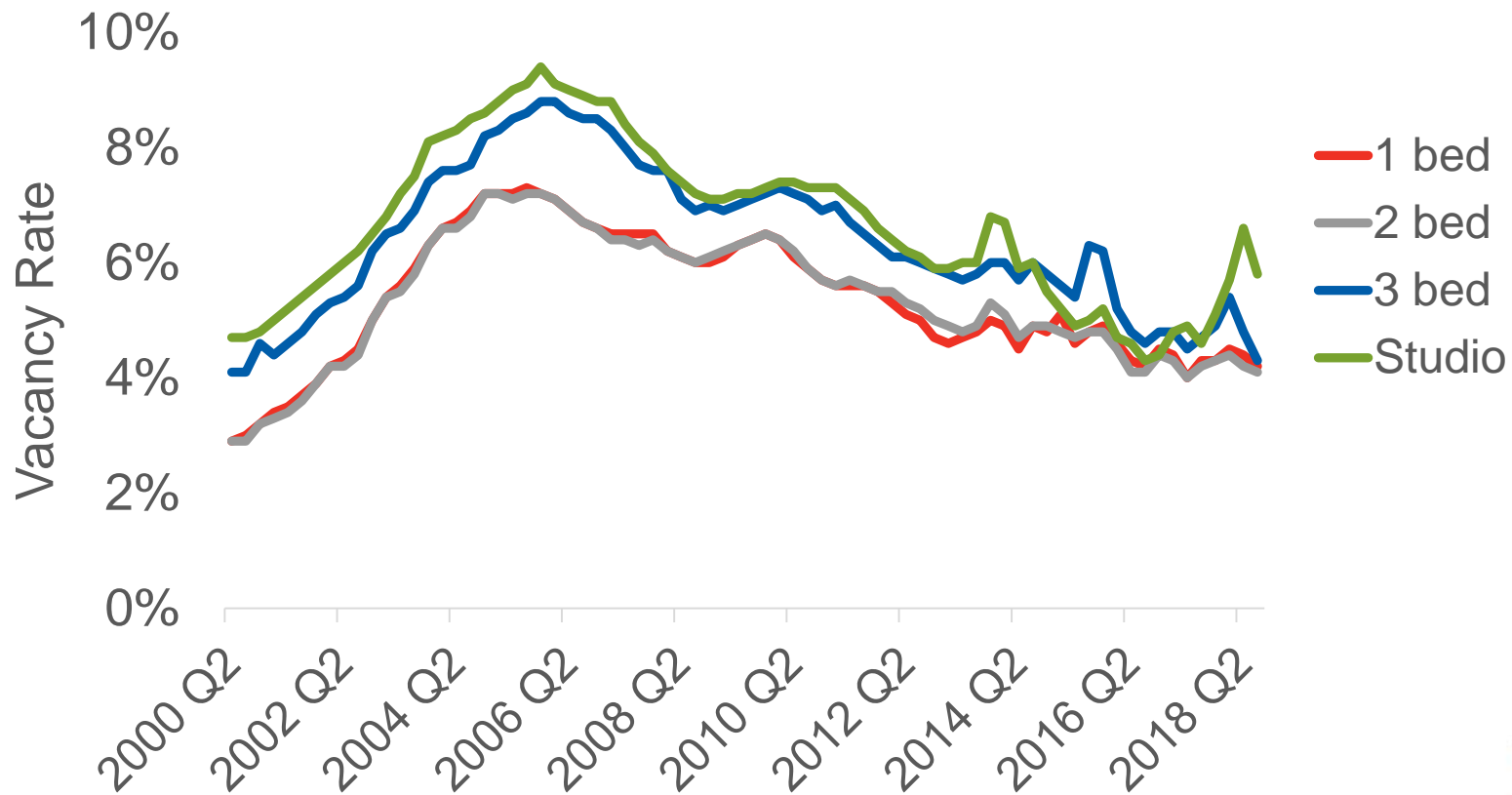
Inflation-adjusted rent price growth is slowing down



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

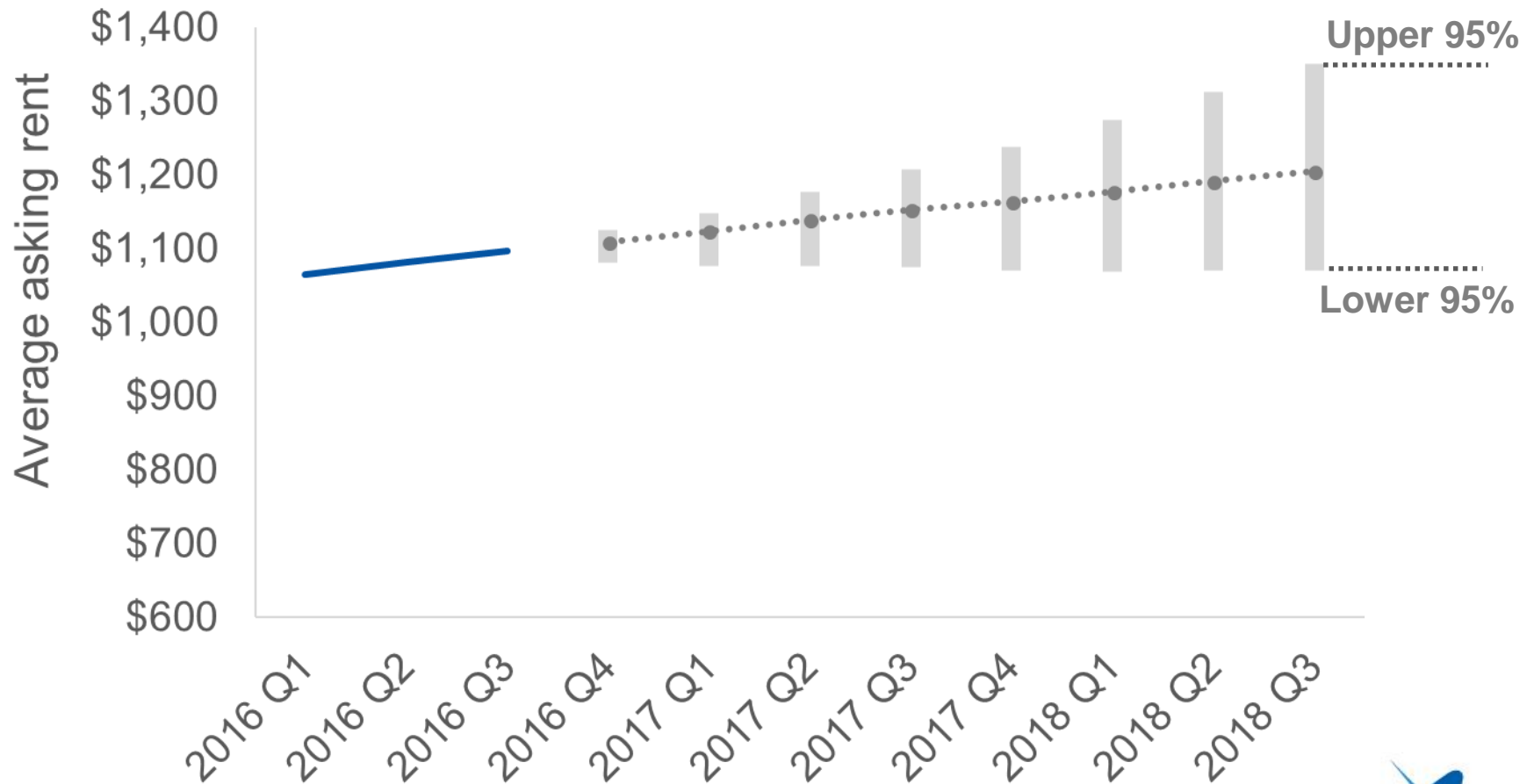
Vacancy rates remain relatively low overall



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

Forecasting rent prices

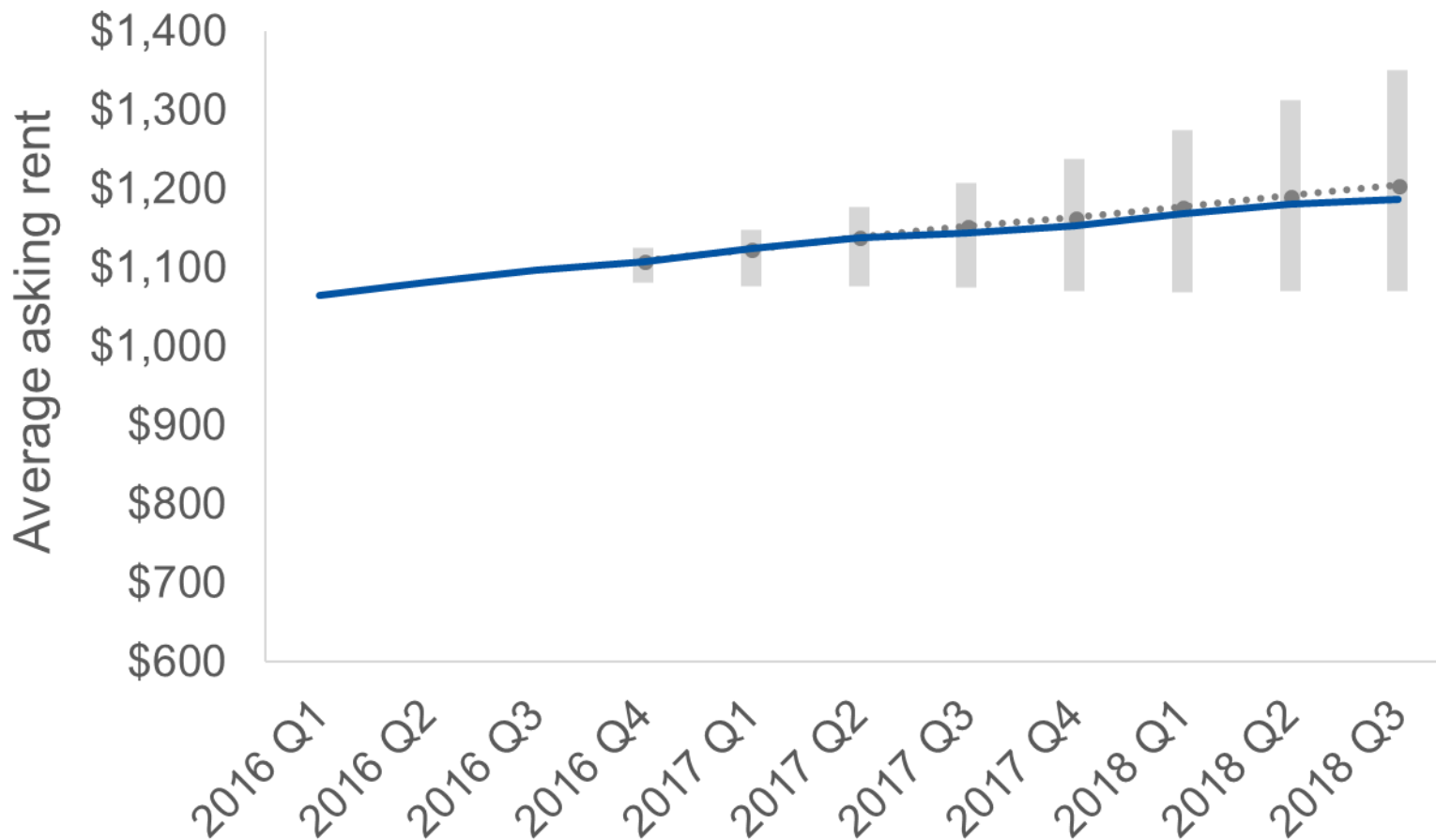
Using data ending in 2016 Q3 predicting next 8 quarters



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.

Example: predicting rent prices

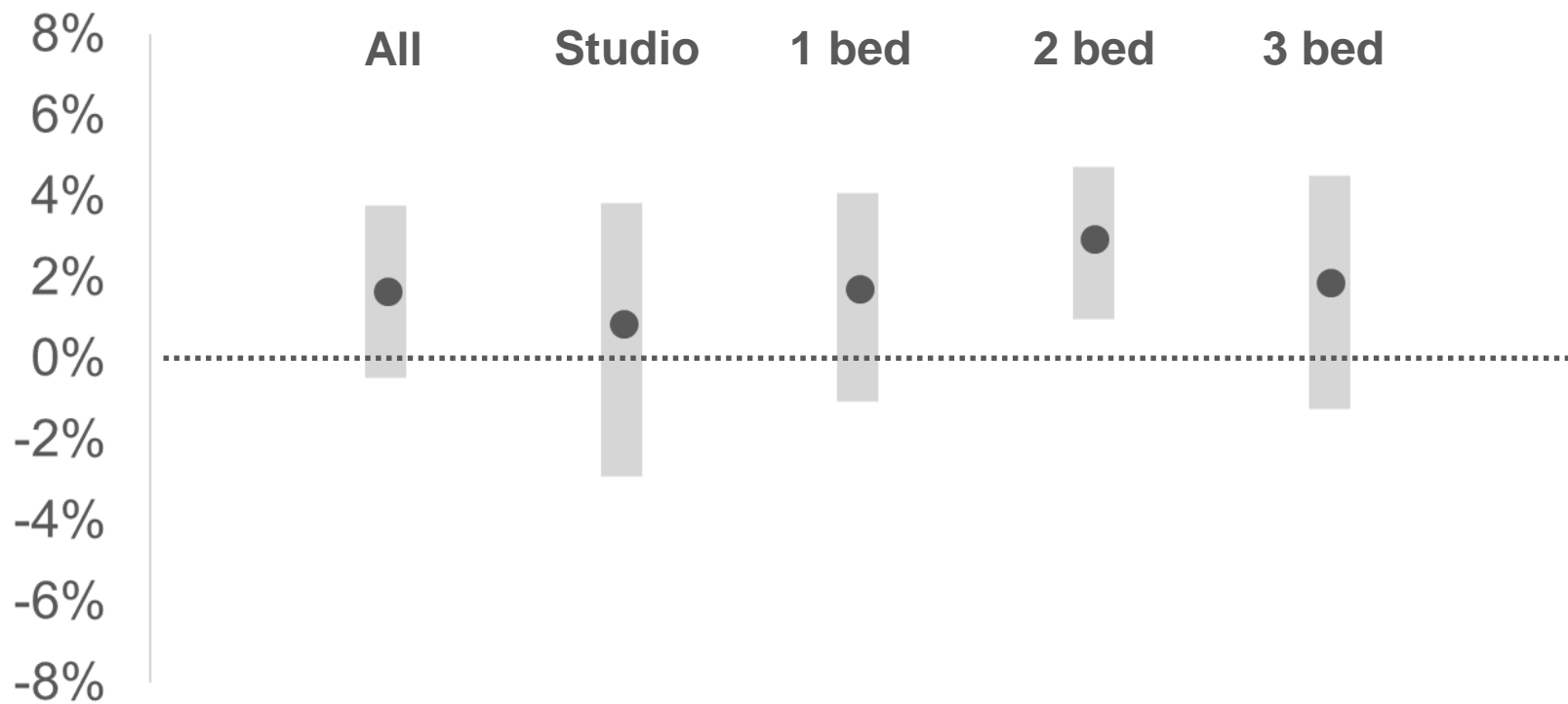
Using data ending in 2016 Q3 predicting next 8 quarters



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.

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.

Two Areas of Budget Concern

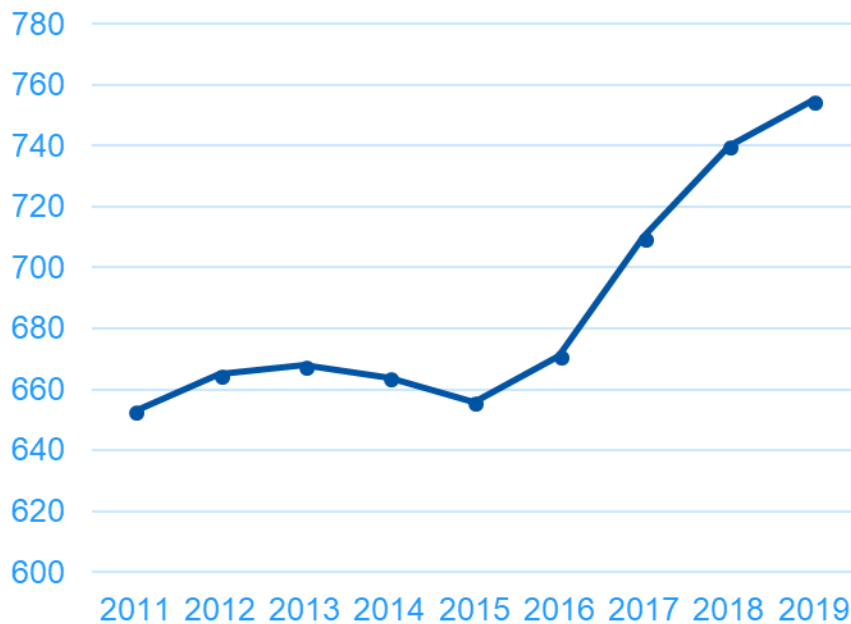
- Rising housing subsidy payment cost – focus of today
 - Driven by the rising cost of housing
- Administrative Deficit
 - Prorated federal revenues do not cover the rising cost of administration

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

Average Housing Assistance
Payment



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

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

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
<u>Utility allowance</u>	<u>+ \$ 57 (electric only)</u>
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.

Payment Standard Example

2 bedroom apartment

Rent	\$1050
<u>Utility allowance</u>	<u>+ \$ 57 (electric only)</u>
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)

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

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

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

Scenario 2: Increase All Limits

	<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		(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

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

	<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			(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

Scenario Summary

	<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	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)

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

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

Actions taken to date

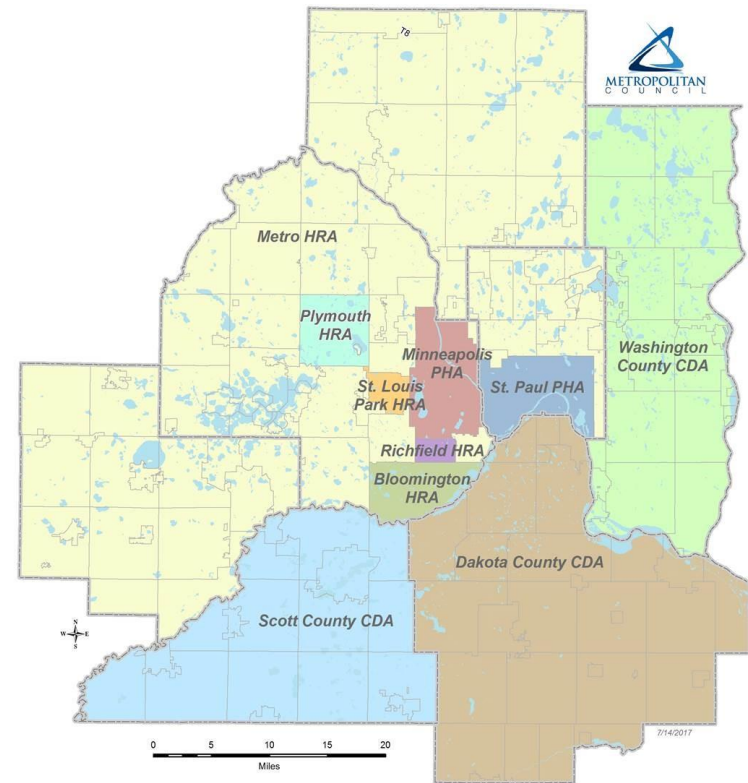
- Legal Opinion
 - Levy authority
- Other Housing Authorities Solutions
 - Adopt lower rent limits to serve all families
 - Reductions in program size
 - Use of other agency funds for subsidy
- Data Analysis
 - Developed rent forecast
 - Refined financial forecasts

Up Next

- Engage policy makers from other parts of the region

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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