Today

- Regional Trends
- Rent Standards
- 2019 Budget
- 2020 Budget
In recent years:

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

Average Twin Cities multifamily rent price

Source: CoStar data on multifamily rentals in the Twin Cities region
Rent price change (nominal)

Year-over-year % change in multifamily average rent price

Source: CoStar data on multifamily rentals in the seven-county Twin Cities region
Rent prices and vacancy rates

Rent prices

$1,500

$1,000

$500

$0

2010-1 2012-1 2014-1 2016-1 2018-1

Vacancy rate

10.0%

7.5%

5.0%

2.5%

0.0%

2010-1 2012-1 2014-1 2016-1 2018-1

Source: CoStar data on multifamily rentals in the Twin Cities region
Healthy vacancy rate is ~5-6%

Rent price changes follow inflation at healthy rate
Quarterly change in inflation-adjusted rent prices

Source: CoStar data on multifamily rents in the Twin Cities region
Inflation-adjusted change

Rent prices grow faster than inflation when vacancy rates are below healthy levels

Source: CoStar data on multifamily rentals in the seven-county Twin Cities region
Rent prices are growing faster than inflation

Percent change in rent price since end of recession

Source: CoStar data on multifamily rentals in the Twin Cities region
Rent price % change since 2009

Source: CoStar data on multifamily rentals in the seven-county Twin Cities region
2019 Budget
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

*2018 data
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.
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)
Payment Standard Considerations

HUD Rule
- Federal government directs us to serve as many families as possible within budget authority
  - Council can issue up to 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**

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<tr>
<th><strong>Pros</strong></th>
<th><strong>Cons</strong></th>
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<tr>
<td>• Ability to issue nearly all vouchers</td>
<td>• Voucher use becomes more difficult</td>
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<td>• Less program deficit than other scenarios</td>
<td>• Rent burden increases for existing families</td>
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<td>- 50% for some families</td>
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<td>• Limits housing choice to low rent areas</td>
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<td>• Risks future federal funding in 2020 and beyond</td>
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Scenario 2
Increase limits for all bedroom 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 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
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
2019 Budget Summary

Council Choices

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

Council Actions

✓ Targeted increases to rent limits
✓ Issue all vouchers
✓ Subsidize program with Council funds
✓ Maintain community choice
✓ Targeted increases to rent limits
Progress on Budget Issues

• Legal opinion on levy authority
• HUD issued notice that restricts the Council from using local or state funds for vouchers
• Other Housing Authority Solutions
  – Adopt lower rent limits to serve all families
  – Reductions in program size
  – Use of reserves
• Data Analysis
  – Developed rent forecast
  – Refined financial forecasts
Upcoming Discussions

• Rent limits discussion
  – Exception rent limits
    • Community Choice
• Fair Market Rent analysis
  – Justify higher federal funding level
• Minimum Rent discussion
2020 Budget: Next Steps

**Council**

**October**
- Capital Budget Presentation
- Adopt Public Comment Draft Budget

**December**
- Adopt Final Budget/Levies (11)

**CD Committee**

**October**
- Capital Budget Presentation
- Rent Limit Standards info item

**October / November**
- Rent Limit Standards action item
Introduction to Metropolitan Council Housing and Redevelopment Authority Budget