

Metropolitan Council
Housing and Redevelopment Authority

Payment Standards Discussion

November 2, 2020

Community Development Committee



Payment Standards

- Payment Standards = Rent Limits
 - Amount needed to rent a modest housing unit
- Limited by Fair Market Rents (FMR) set by HUD
- Set between 90% and 110% of FMR by bedroom size
 - High enough to allow choice in all neighborhoods
 - Low enough to serve as many families as possible
- Council adopted Small Area Fair Market Rents in December 2019
 - Payment Standards by zip code
 - Implementation delayed to July 2020 due to COVID



2020 HOUSING CHOICE VOUCHER ADMINISTRATIVE PLAN

Metropolitan Council Housing and Redevelopment Authority

Approved by Metropolitan Council: September 23, 2020
February 12, 2020
September 25, 2019
November 28, 2018

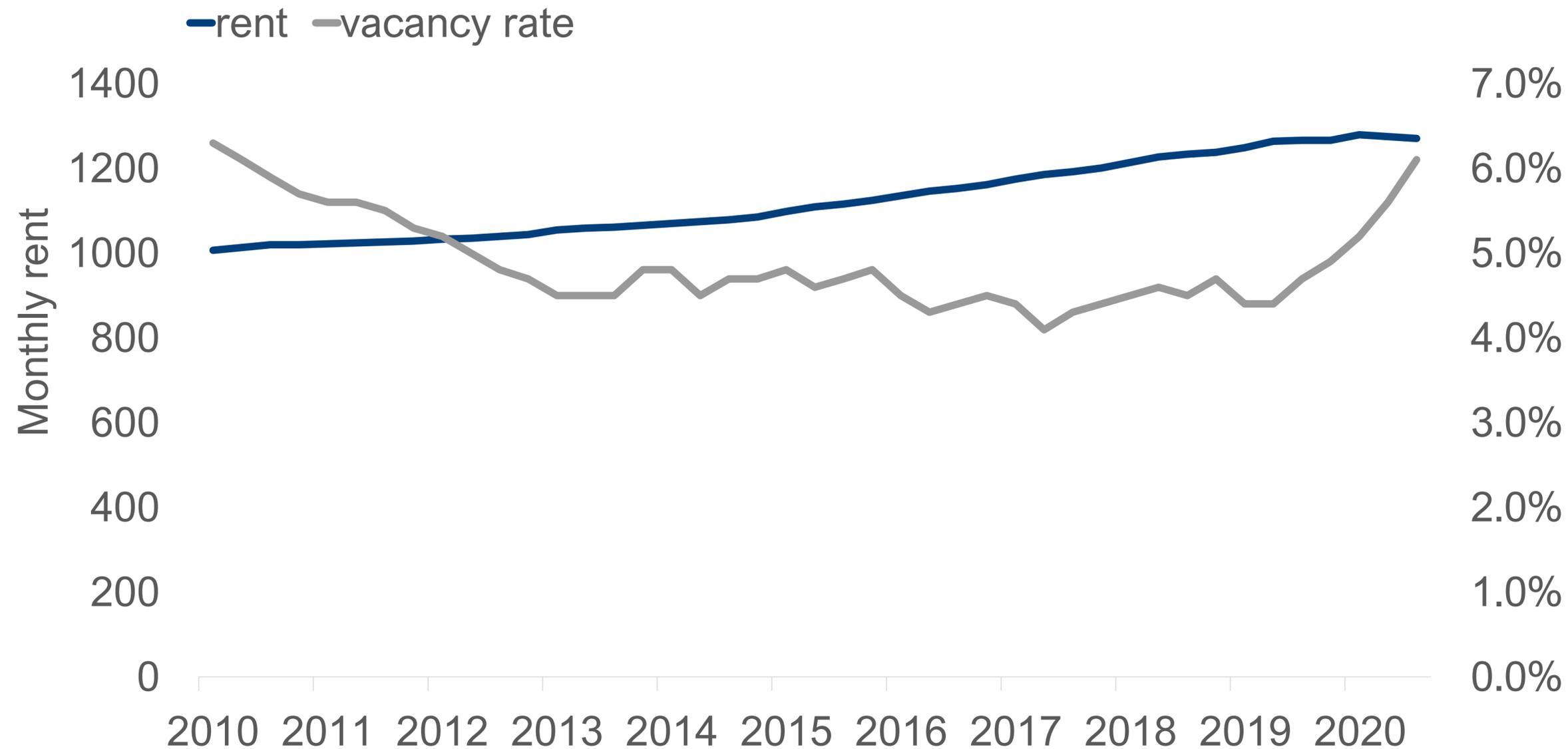
Council Policy Direction

- 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
- Council’s housing goal
 - Become a region with a broader housing spectrum where all people can thrive.



Rent prices and vacancy rates

Vacancy rates are on the rise, rent prices are flat

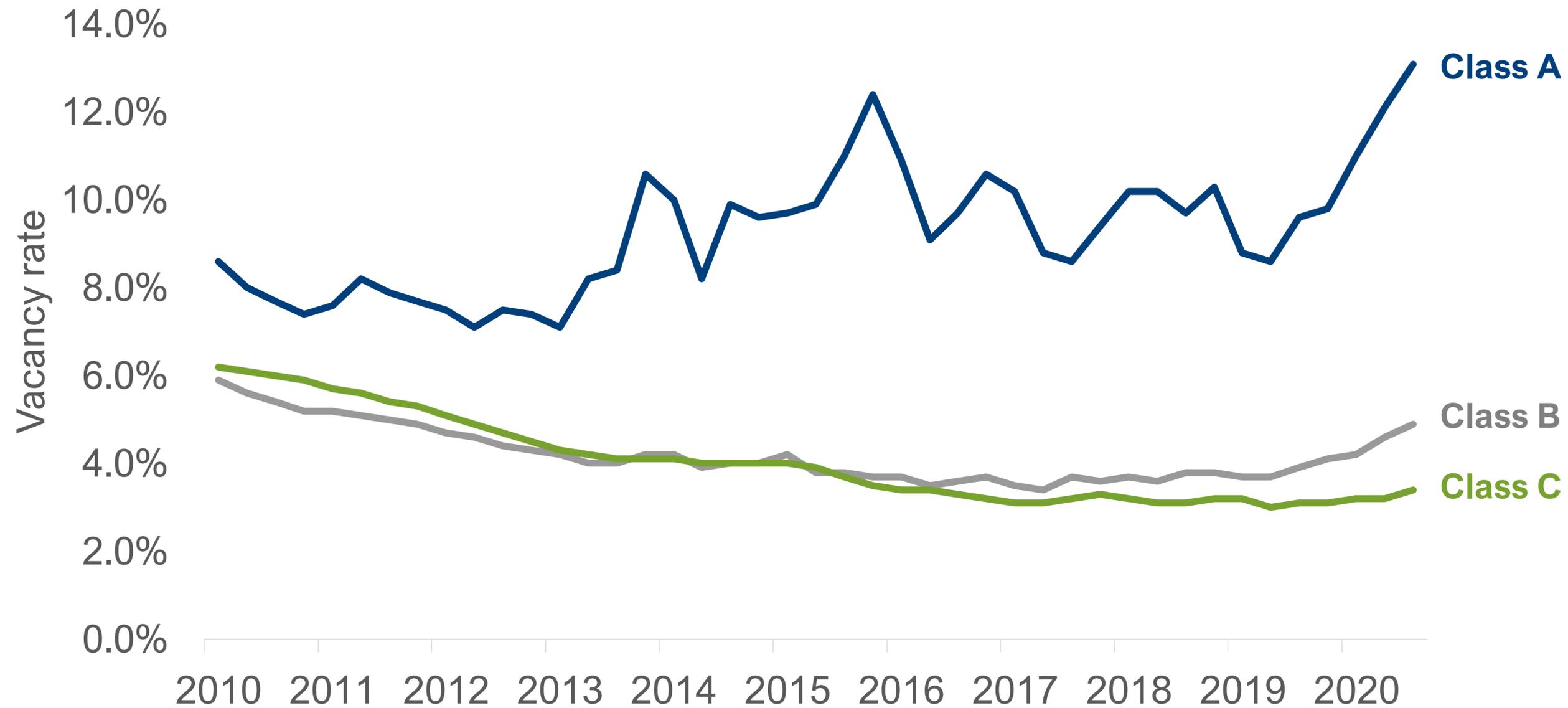


Source: CoStar data on average asking multifamily rents and vacancy rates in the Twin Cities region



Vacancy rates by class

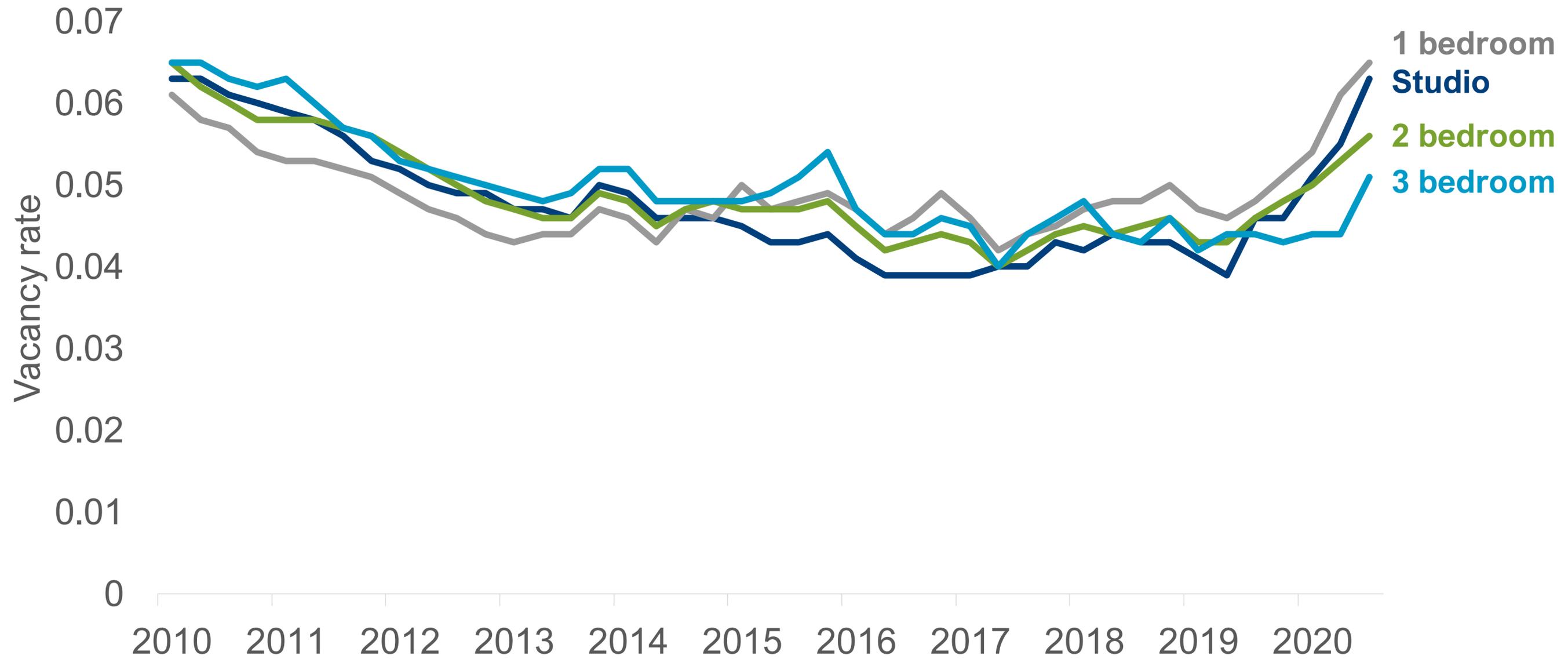
Vacancy rates are rising most in class A properties



Source: CoStar data on multifamily vacancy rates in the Twin Cities region

Vacancy rates by bedroom size

Vacancy rates are rising sharpest for studios and one bedrooms

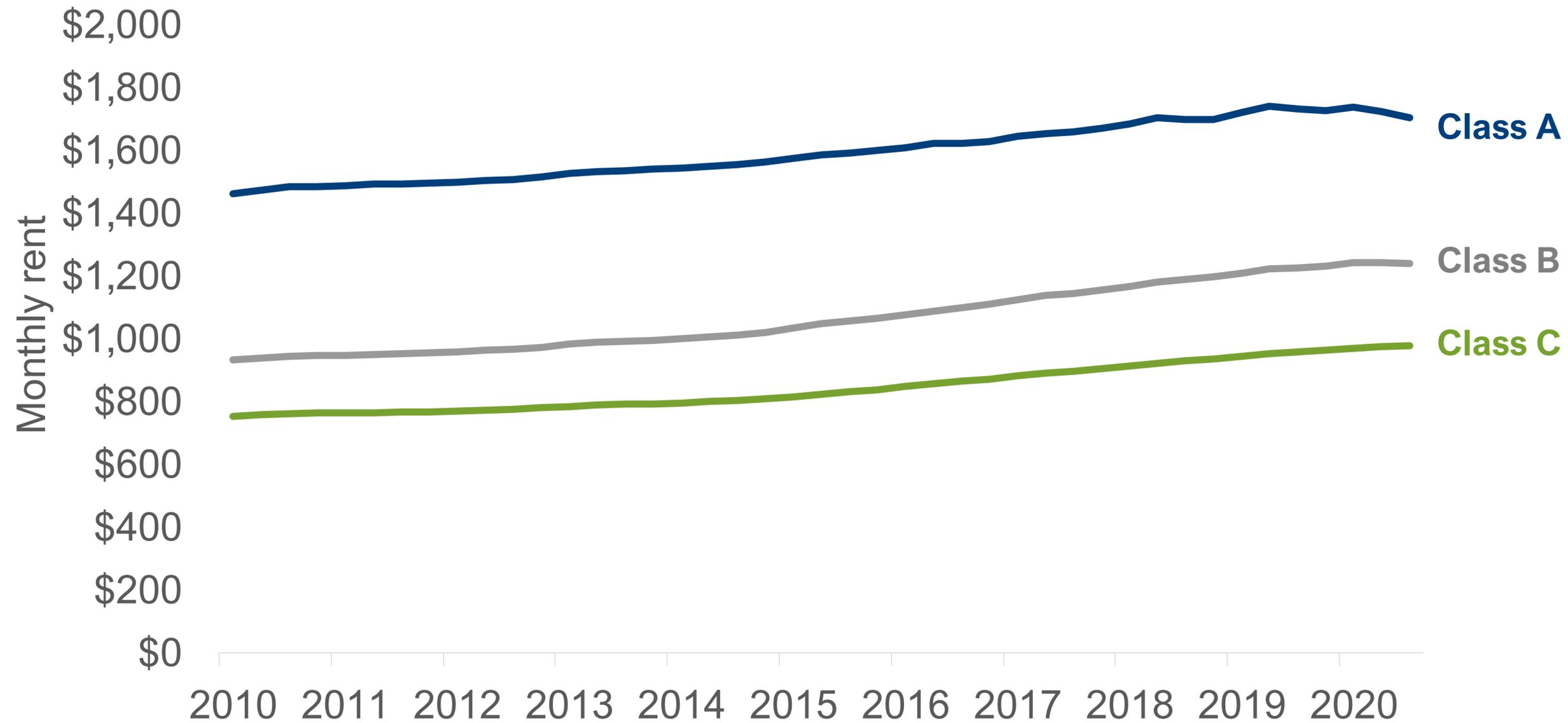


Source: CoStar data on multifamily vacancy rates in the Twin Cities region



Rent price by class

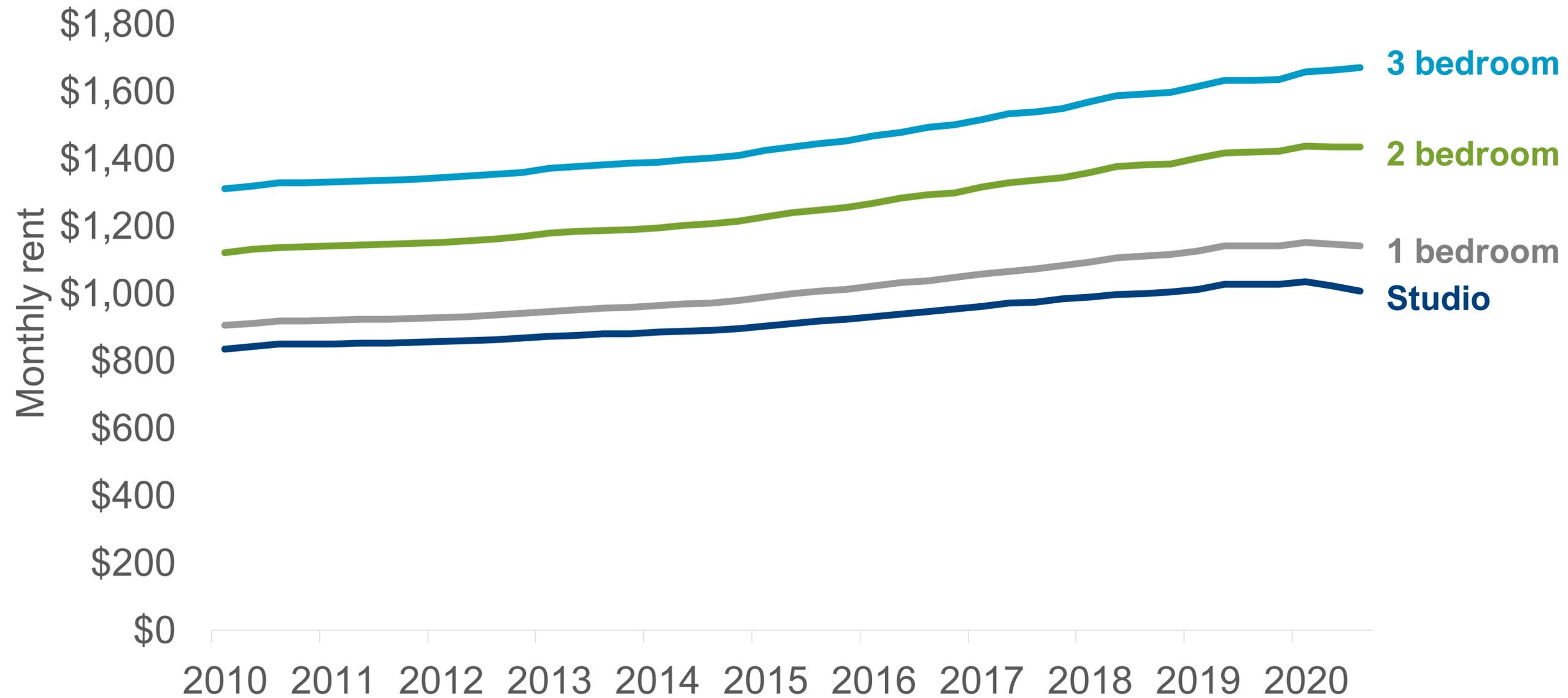
Rent prices are flat, decreasing a little in Class A properties



Source: CoStar data on multifamily rent prices in the Twin Cities region

Rent price by bedroom size

Rent prices for three bedroom units continue to rise



Source: CoStar data on multifamily rent prices in the Twin Cities region

Rent trends app

Twin Cities Rent Trends

VISUALIZE DOWNLOAD DATA ABOUT

About this app

'Twin Cities Rent Trends' is an interactive tool that visualizes rent and vacancy trends for cities, townships, and neighborhoods in the Twin Cities region using three distinct data sources: CoStar, Zillow, and Rental Revue.

Choose your data source

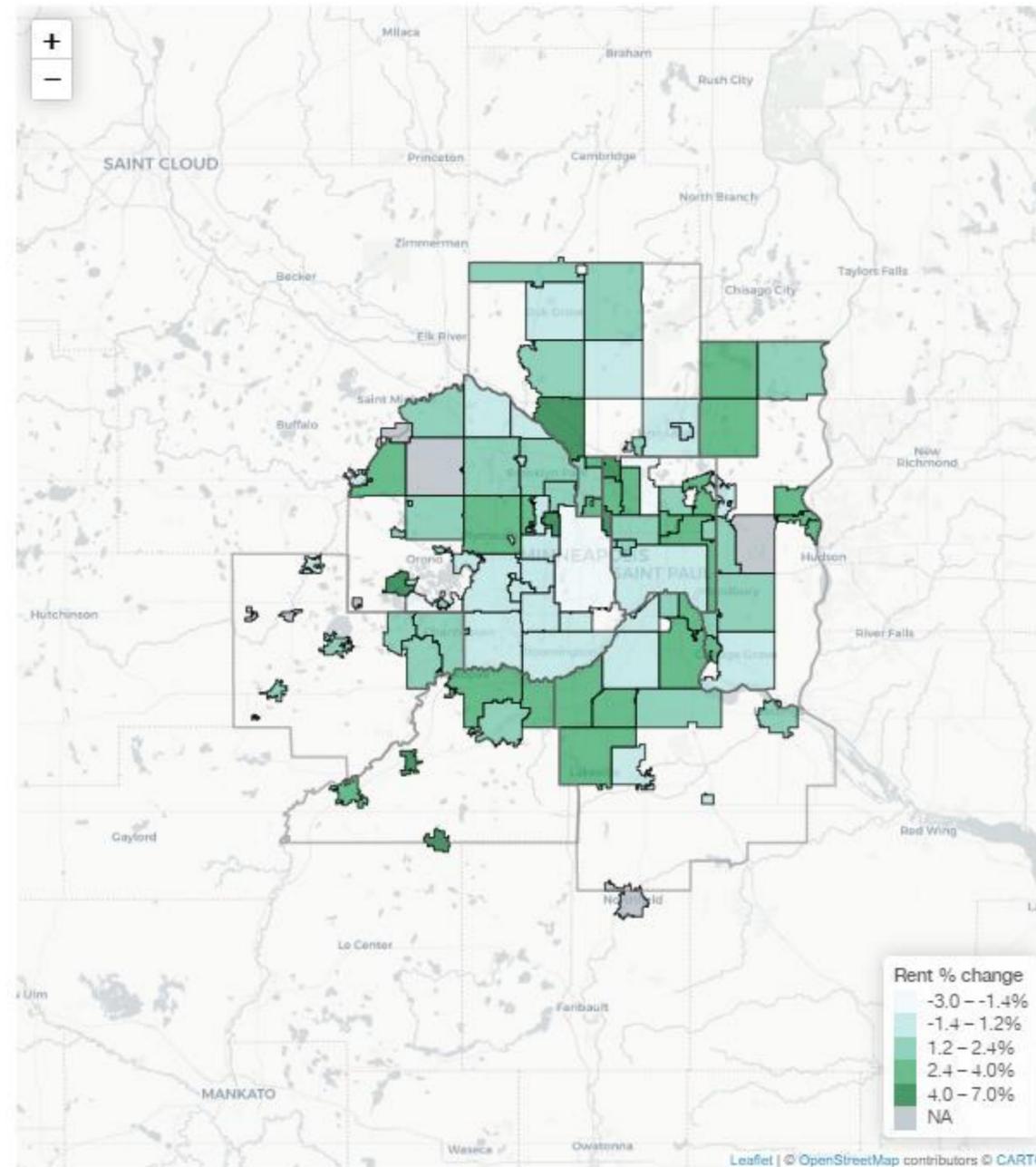
CoStar

Choose your time period

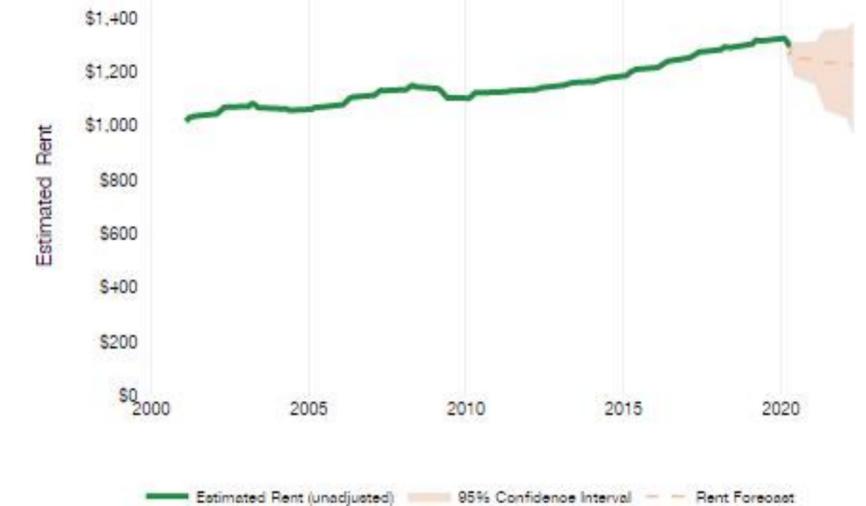
2020 Q3

Choose your metric

Percent change in rent since previous year



In 2020 Q3, estimated rent in Minneapolis was \$1,288



Between 2019 Q3 and 2020 Q3, estimated rent in Minneapolis ↓ decreased by 2.1%



Based on a sample of 2,452 buildings with a total of 79,509 units.

Tenant Rent Portions

- Tenants pay between 30% and 40% of income towards rent
- Unit Gross Rent within the payment standard
 - Tenant pays 30%
- Unit Gross Rent above the payment standard
 - Tenant pays 30% of income plus the difference
 - Tenant cannot pay more than 40% of income at initial move-in

Gross Rent = Contract Rent plus Tenant-Paid Utilities

Payment Standards Example

2 Bedroom in Maplewood (zip code 55109)

- Household = Parent with 2 children
- Employment Income = \$16,250 per year
- 30% of adjusted monthly income = \$382

Rent	\$1150
<u>Utility Allowance</u>	<u>+ \$ 57 (electric only)</u>
Gross Rent	= \$1207

- 2 Bedroom Payment Standard for zip code 55109 = \$1110

- Gross rent is \$97 above the payment standard
- Tenant will pay 30% of income towards rent & utilities PLUS \$97 over the payment standard

Payment Standard Considerations

HUD Rule

- Federal government directs us to serve as many families as possible within budget authority
 - Council can issue to up 6,812 vouchers
 - \$65M projected 2020 federal revenue

Higher Rent Limits

- Higher average subsidy
- Fewer vouchers issued
- Higher success rates

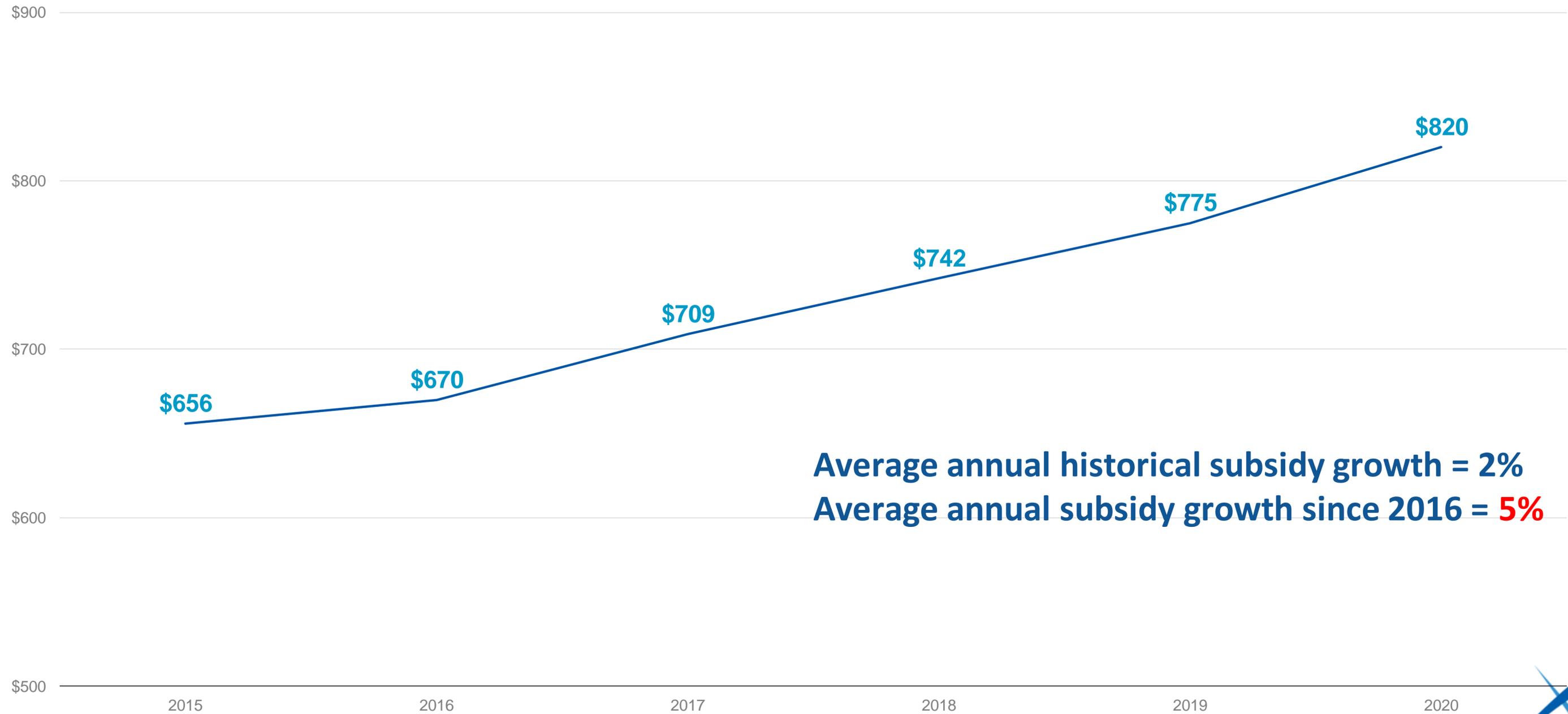
Lower Rent Limits

- Lower average subsidy
- More vouchers issued
- Lower success rates

Payment Standard Review Process

- Council approved Small Area Fair Market Rents (SAFMR) in December 2019
 - Rent limits at the zip code level instead of for the entire metropolitan area
- Implementation of SAFMR – July 2020
 - Delayed by COVID
 - Implemented gradually over a one-year period or longer as families move
- New SAFMRs were issued by HUD
 - There are 85 zip codes in Metro HRA's service area
 - Market rent changes vary greatly throughout the region
- Council now charged with adopting payment standards within 90% and 110% of the new SAFMRs

Average Per-Family Subsidy Cost



Budget Scenarios

- The Metro HRA has 6,812 Vouchers
- Subsidy Budget = \$65 Million
- Higher per-family subsidy = fewer families served
- A \$25 increase in average subsidy = service to 200 fewer families

Average Per-Family Subsidy	# Families Served
\$775	6,900
\$800	6,700
\$825	6,500

Payment Standard Review and Analysis

Average Rents

- Review by community and bedroom size
- Do existing payment standards fit within average rents?
- Rents are flat
- Average Rents generally fall within current payment standards

Vacancy Rates

- Low vacancy rates = increasing rents
- High vacancy rates = lower rents
- Vacancy rates climbing higher than they have been in 10 years – currently at 6.1%
- 5-6% - considered healthy vacancy rate

Tenant Rent Burden

- % families paying more than 30% of income towards rent
- Today 51% of households paying 30% (49% rent burdened)
- After full implementation of SAFMRs – increases to 62% families paying 30% of their incomes
- Goal is 60% of families paying 30% of incomes

Option 1: Keep current rent standards with minimal changes

- The current Payment Standards are (for the most part) within 90% and 110% of the new Small Area Fair Market Rents
 - 12 zip codes (out of 82 total) would need very minor adjustments
- This option would:
 - Allow us to fully determine the impact of moving to zip-code based rent limits
 - Allow a full year of implementation before making changes
- No substantial changes made
- This is the staff recommended option

Option 2: Adopt new rent standards at 100% of SAFMR

- SAFMRs went up in some areas and down in others.
- This option would make payment standard adjustments in all zip codes to equal 100% of the new SAFMR
- This option would:
 - Re-level all 85 zip codes
 - Require notification and reeducation for 7,000 program participants
 - Not allow for a full picture of initial SAFMR implementation
- This option would cost \$3.7 million to implement
 - Gradual impact over a 12-month period
 - Reduction in service to 375 families

Discussion and Next Steps

- Is there additional information needed that would help in making the decision?
- Which option do Committee members support?

Next Steps:

- November 16th – Community Development Committee Action
- December 9th – Council Action

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