Payment Standards = Rent Limits

Limited by Fair Market Rents (FMR)
Set between 90% and 110% of FMR

- High enough to allow choice in all neighborhoods
- Low enough to serve as many families as possible

Small Area Fair Market Rents implemented July 2020
Council Policy Direction

Thrive 2040

• 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.
Average rent price in 2022

Asking monthly rent by Class

<table>
<thead>
<tr>
<th>Class</th>
<th>Rent Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>All</td>
<td>$1,386</td>
</tr>
<tr>
<td>Class A</td>
<td>$1,879</td>
</tr>
<tr>
<td>Class B</td>
<td>$1,490</td>
</tr>
<tr>
<td>Class C</td>
<td>$1,120</td>
</tr>
</tbody>
</table>

Source: CoStar multifamily asking rent

Asking monthly rent by Bedroom

<table>
<thead>
<tr>
<th>Bedroom</th>
<th>Rent Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Studio</td>
<td>$1,077</td>
</tr>
<tr>
<td>1 Bed</td>
<td>$1,234</td>
</tr>
<tr>
<td>2 Bed</td>
<td>$1,577</td>
</tr>
<tr>
<td>3 Bed</td>
<td>$1,851</td>
</tr>
</tbody>
</table>

Source: CoStar multifamily asking rent
Class C rent increased most

Rent price change since 2010

% Change since 2010

- Class C: 38%
- Class B: 32%
- Class A (Luxury): 19%
- General inflation

Source: CoStar multifamily asking rent
Studio prices increased slower

Rent price change since 2010

Source: CoStar multifamily asking rent
Smaller increases than others recently

Percent change in rent prices 2021-2022

Source: CoStar multifamily asking rent
Vacancy rates are up

Higher vacancy rate

- Higher vacancy rates make it harder to raise rents
- Vacancy rates are up since 2020
- Lots of residential development continued in 2021
- This has probably eased rent price increases

Source: CoStar multifamily asking rent
Class C vacancy rates are lowest

Vacancy rate by class (%)

Source: CoStar multifamily asking rent
Rent price by community 2010-2022

Increase 2010-2022

% Change 2010 to 2022

% Change inflation-adjusted

$100
$200
$300
$400
$500

20 %
30 %
40 %
50 %

-18% to -5%
-5% to 5%
5% to 10%
10% to 27%

Slower than inflation
Faster than inflation
Recent change

% Increase 2019-2022

% Change inflation-adjusted

-12% to -3%
Slower than inflation

-3% to 3%

3% to 5%
Faster than inflation
Payment Standard Considerations

HUD Rule: serve as many families as possible within budget authority

- Council can issue up to 6,997 vouchers
- $76 million projected 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 Standards Review

- Payment Standards
- Vacancy Rates
- Average Rents Review
- Tenant Rent Burden
Payment Standards and Rent

Tenant Rent Portions

• Tenants pay between 30% and 40% of income towards rent
• If Unit Rent within the payment standard
  • Tenant pays 30%
• If Unit 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
Payment Standard Example

2 Bedroom in Maplewood (zip code 55109)
Rent = $1275

- Payment Standard $1200
  - Rent is $75 over the payment standard
  - Tenant pays 30% of income plus $75

- Payment Standard $1300
  - Rent is within the payment standard
  - Tenant pays 30% of income
Average Per-Family Subsidy Cost

Average annual historical subsidy growth = 2%
Average annual subsidy growth since 2017 = 5%
Growth 2021 to 2022 = 8.67%
## Average Subsidy Family Impact

- The Metro HRA has 6,997 Vouchers
- Subsidy Budget = $76 million
- Higher per-family subsidy = fewer families served

<table>
<thead>
<tr>
<th>Average Per-Family Subsidy</th>
<th># Families Served</th>
<th>% of Vouchers Used</th>
</tr>
</thead>
<tbody>
<tr>
<td>$900</td>
<td>7,050</td>
<td>100%</td>
</tr>
<tr>
<td>$950</td>
<td>6,650</td>
<td>95%</td>
</tr>
<tr>
<td>$1000</td>
<td>6,500</td>
<td>93%</td>
</tr>
</tbody>
</table>
SAFMR Analysis

Completed by HousingLink in July 2022

Analysis: A study of the change in number/percent of rents that fall under payment standards, comparing current-year FMRs vs SAFMRs

Conclusion: 31.7% of rents fall below FMRs
55.5% of rents fall below SAFMRs

• Far more real-world rents fall under payment standards set at Small Area FMR levels, rather than region-wide FMRs
• By using SAFMRs, Metro HRA is achieving improved housing choice in all neighborhoods and increased voucher placement success.
RAB Held Thursday, July 14, 2022

- What has your housing search been like?
- Have you been able to find units that meet using Metro HRA’s current payment standards?
- Are affordable units in your preferred areas?
- What barriers have you faced in your housing search?

Comments / Responses:
- Unable to locate an affordable property in preferred area that will accept a Voucher
- Payment standards do not align with the current rental market
- Many of the unit rents in their preferred locations are over the Metro HRA’s payment standards
- Reports that property managers will increase the rent when they learn that payment standards increase
- Attendees also shared stories from landlords that they used to work with the program, but that the rent limits are now too low to support the rent
- Households are unable to locate units in their preferred location so are now searching in less desirable neighborhoods.
- Rent increases have limited options for Section 8 program participants.
## Payment Standard Options

<table>
<thead>
<tr>
<th>Option 1</th>
<th>Option 2</th>
<th>Option 3</th>
</tr>
</thead>
</table>
| • Make minimal changes to bring payment standards into required range  
  • Required range = 90% to 110% of Small Area Fair Market Rent  
  • No reductions | • Adjust all to 95% of SAMFR  
  • Make changes based on market and average rents  
  • No reductions | • Adjust all to 100% of new Small Area Fair Market Rents  
  • Re-benchmarking  
  • No Reductions |
Option 1 – Required Changes Only

Increase vs. Decreases
- Increases in 79 zip codes
- Decrease in 0 zip codes

Tenant Impact
- Current Rent burden = 60%
- Future Rent burden = 48%
- Not within goal range of less than 40% rent burden

Implementation Cost
- $1.9 million
- Reduction in service to 160 families
- If enough federal funding = no service reduction
Option 2 – Adjust most to 95% FMR plus Market Driven Changes

Increase vs. Decreases
- Increases in 111 zip codes
- Decrease in 0 zip codes

Tenant Impact
- Current Rent burden = 60%
- Future Rent burden = 39%
- Barely within goal range

Implementation Cost
- $3.6 million
- Reduction in service to 315 families
- If enough federal funding = no service reduction
Option 3 – Adjust all zip codes to 100% SAFMR

Increase vs. Decreases
- Increases in 117 zip codes
- Decrease in 0 zip codes

Tenant Impact
- Current Rent burden = 48%
- Future Rent burden = 20%
- Within goal range

Implementation Cost
- $5.1 million
- Reduction in service to 450 families
- If enough federal funding = no service reduction
Discussion / Considerations

• No substantive changes since 2020
• Increased payment standards provide increased choice
• Budget impact vs. number of families served

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

Lower Rent Limits
- Lower average subsidy
- More vouchers issued
- Lower success rates
Next Steps

Upcoming Dates

- October 17 – CDC Information Item
- November 7: CDC Action
- November 23: Council Action
- February – March 2023: Implement new Payment Standards
Thank You

Terri Smith, Director, Metro HRA
Joel Huting, Senior Manager, Research

October 17, 2022