



# Small Area Fair Market Rents Discussion

Metro HRA



October 17, 2022



# Payment Standards

## 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

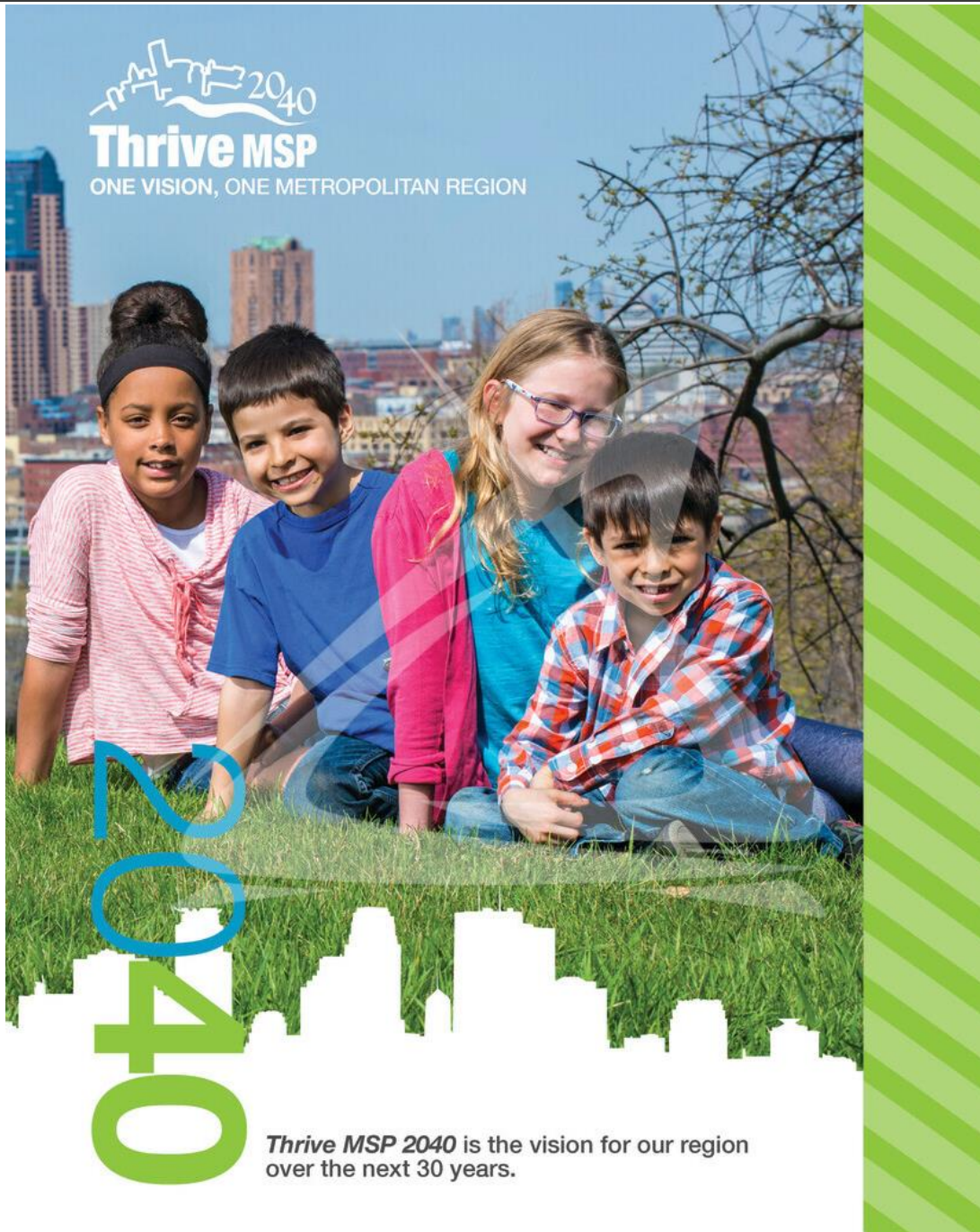


### 2021 HOUSING CHOICE VOUCHER ADMINISTRATIVE PLAN

Metropolitan Council Housing and Redevelopment Authority

Approved by Metropolitan Council: September 22, 2021  
September 23, 2020  
February 12, 2020  
September 25, 2019  
November 28, 2018

# Council Policy Direction

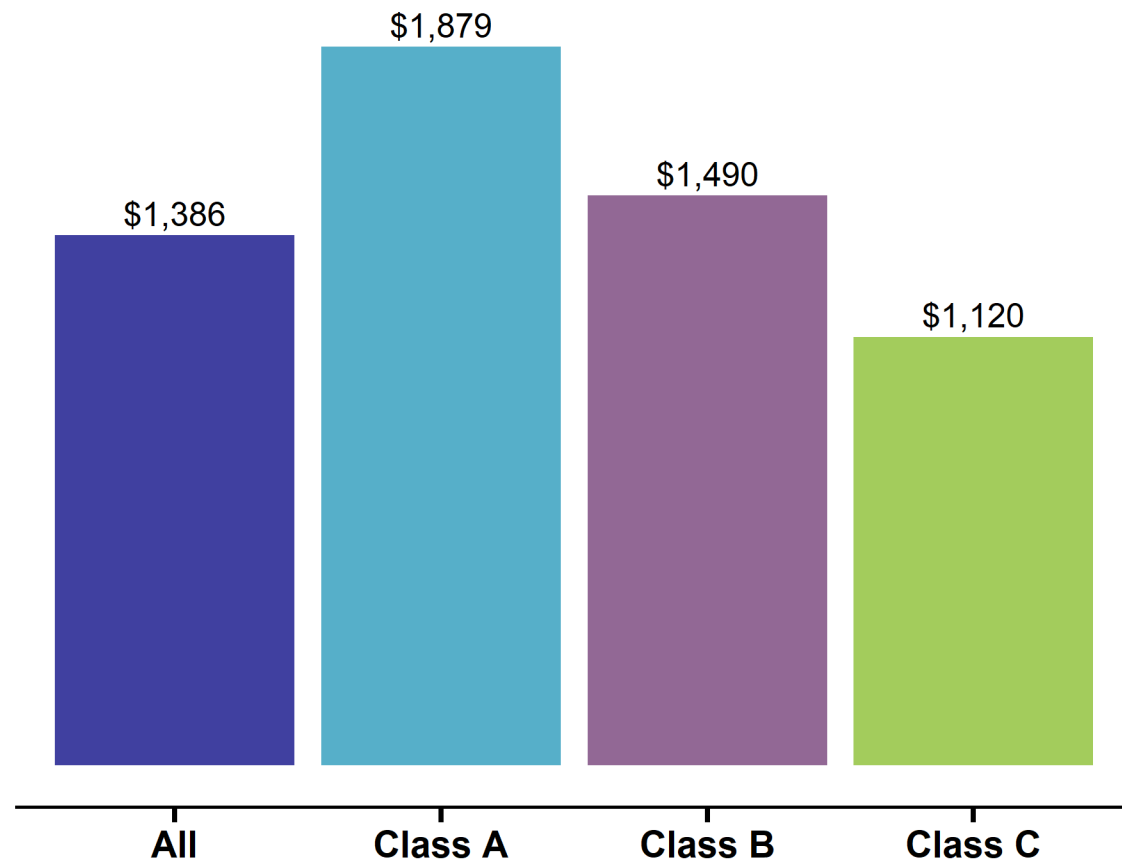


## Thrive 2040

- 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.

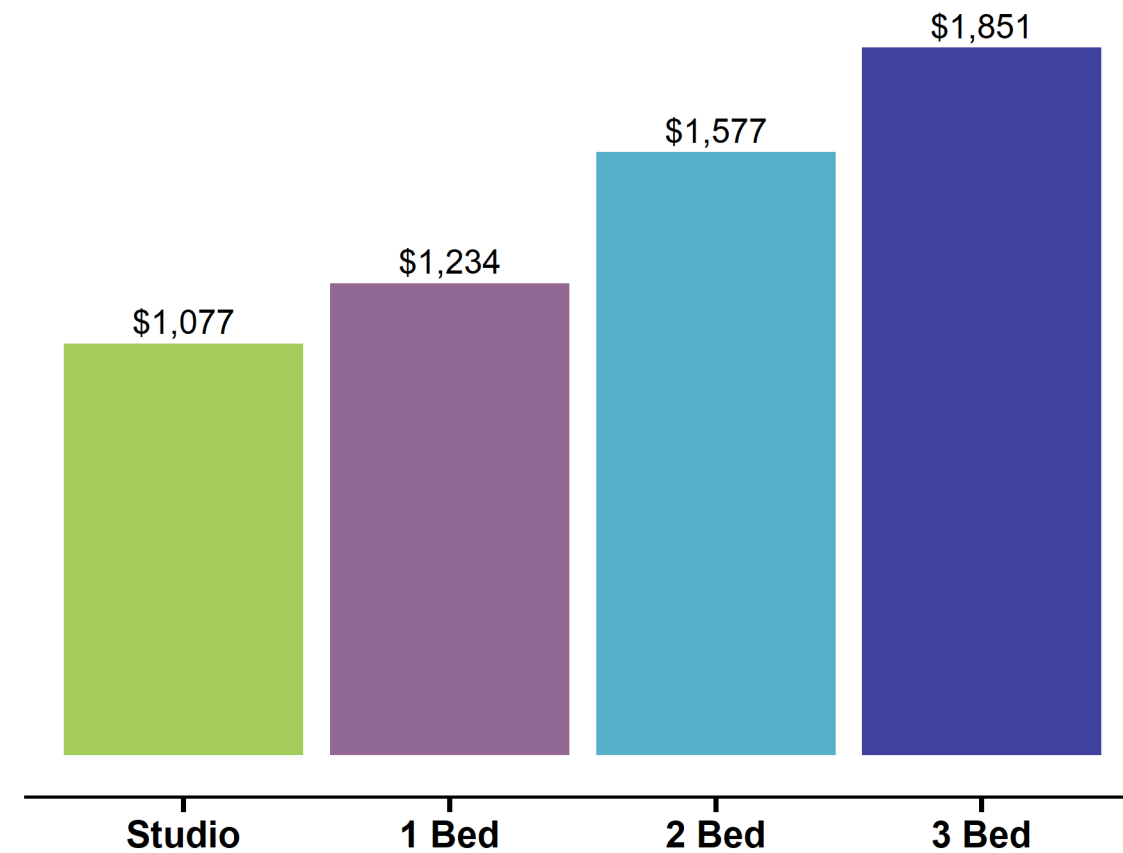
# Average rent price in 2022

## Asking monthly rent by Class



Source: CoStar multifamily asking rent

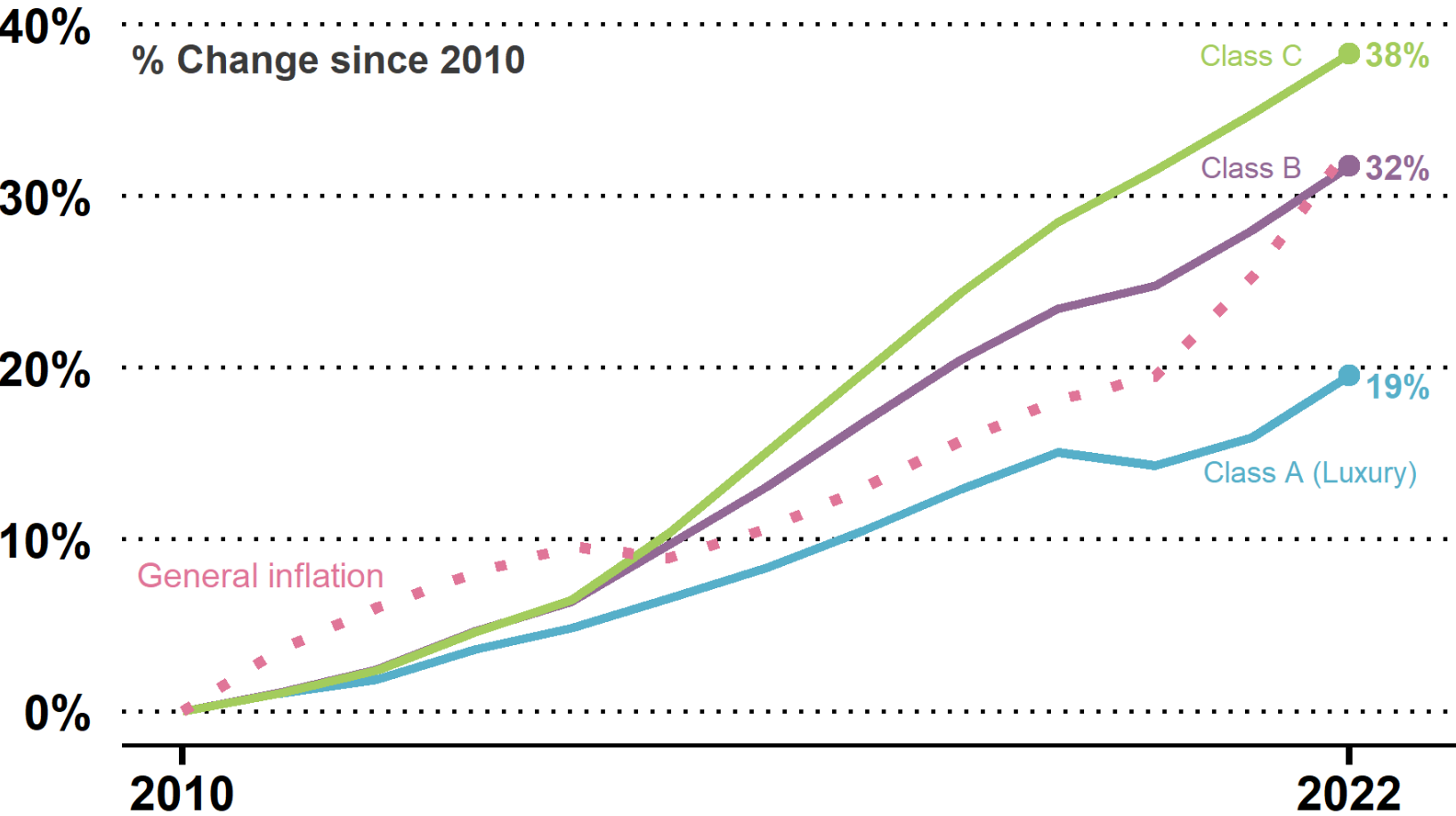
## Asking monthly rent by Bedroom



Source: CoStar multifamily asking rent

# Class C rent increased most

## Rent price change since 2010

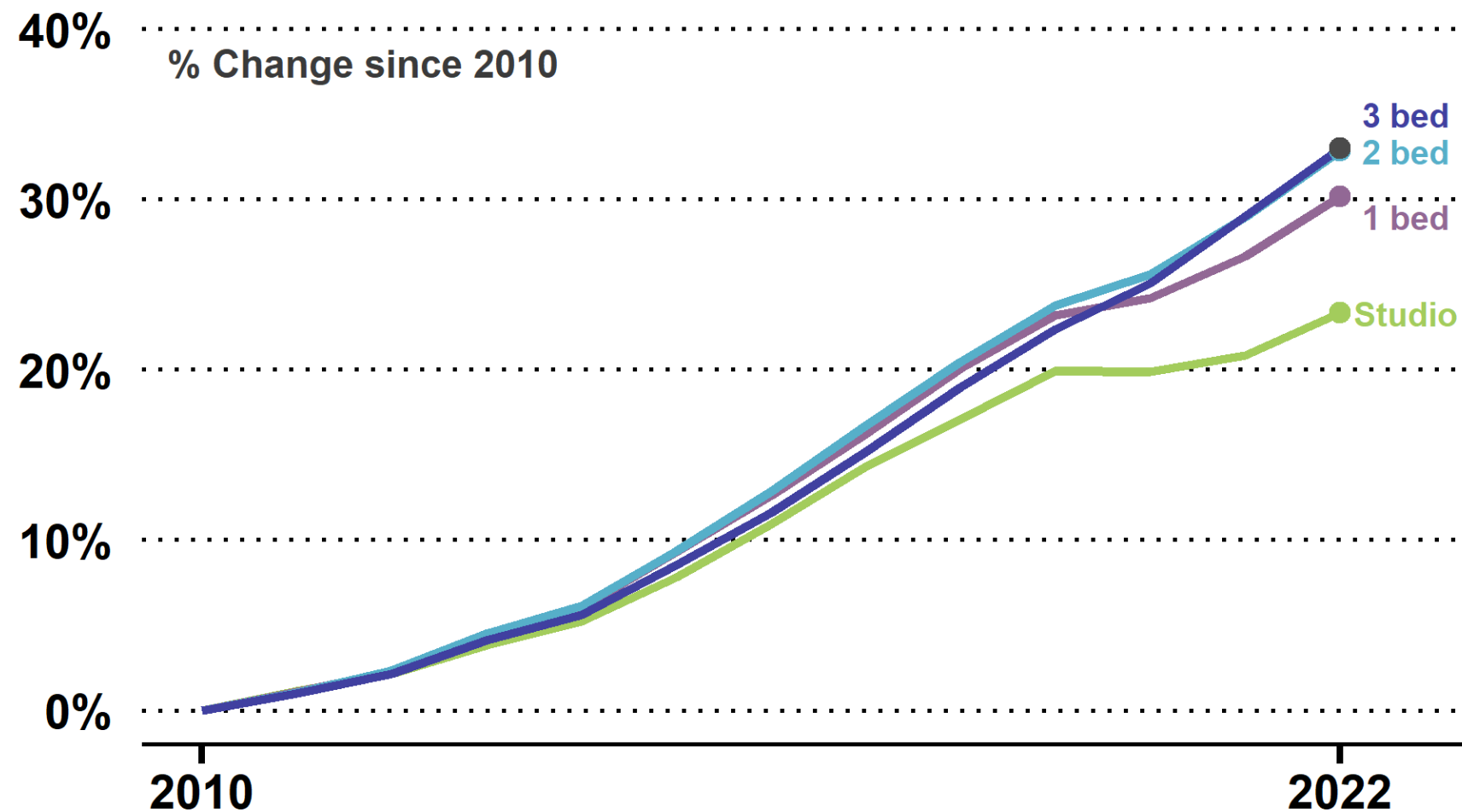


Source: CoStar multifamily asking rent



# Studio prices increased slower

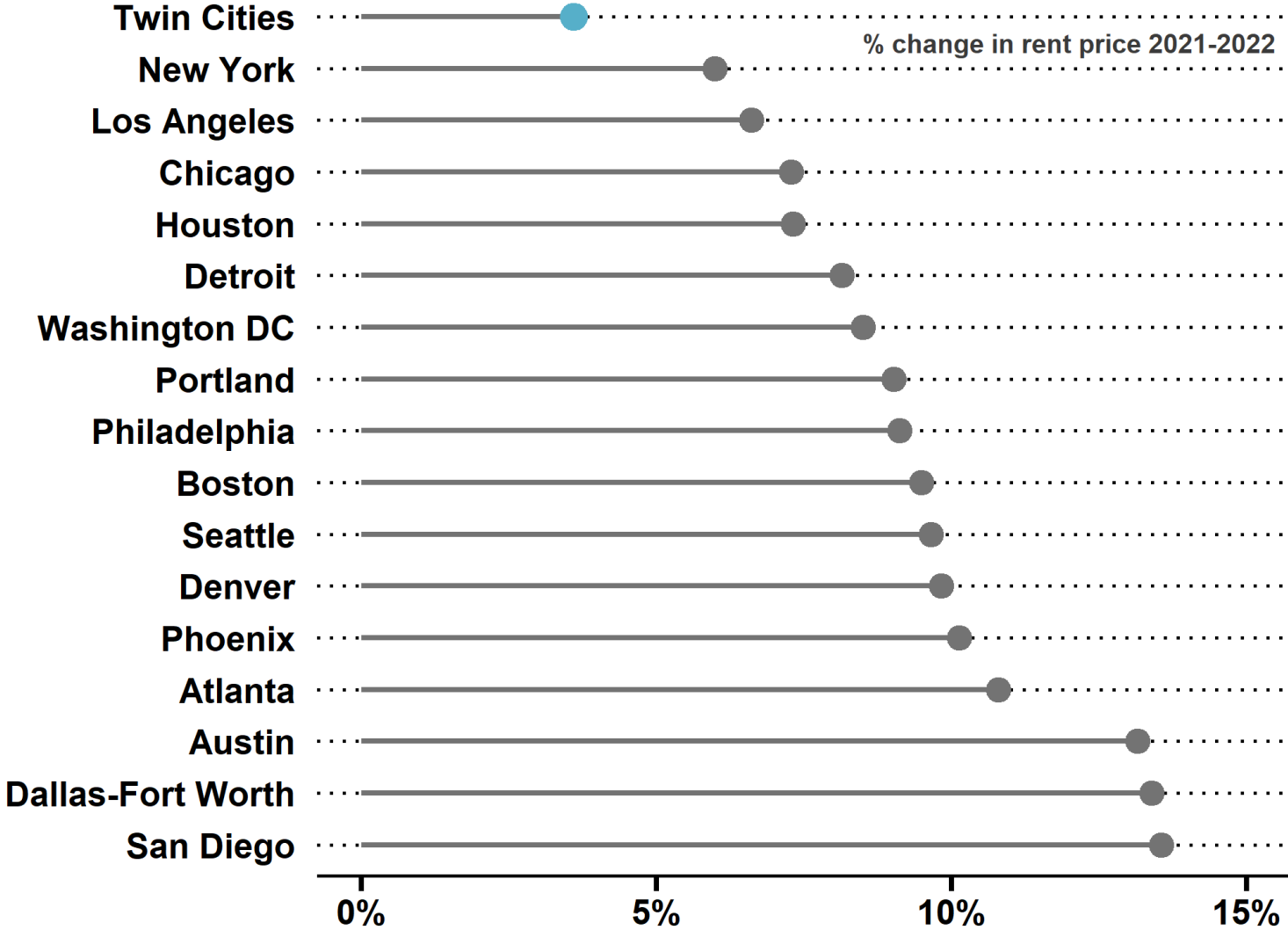
## Rent price change since 2010



Source: CoStar multifamily asking rent

# Smaller increases than others recently

## Percent change in rent prices 2021-2022

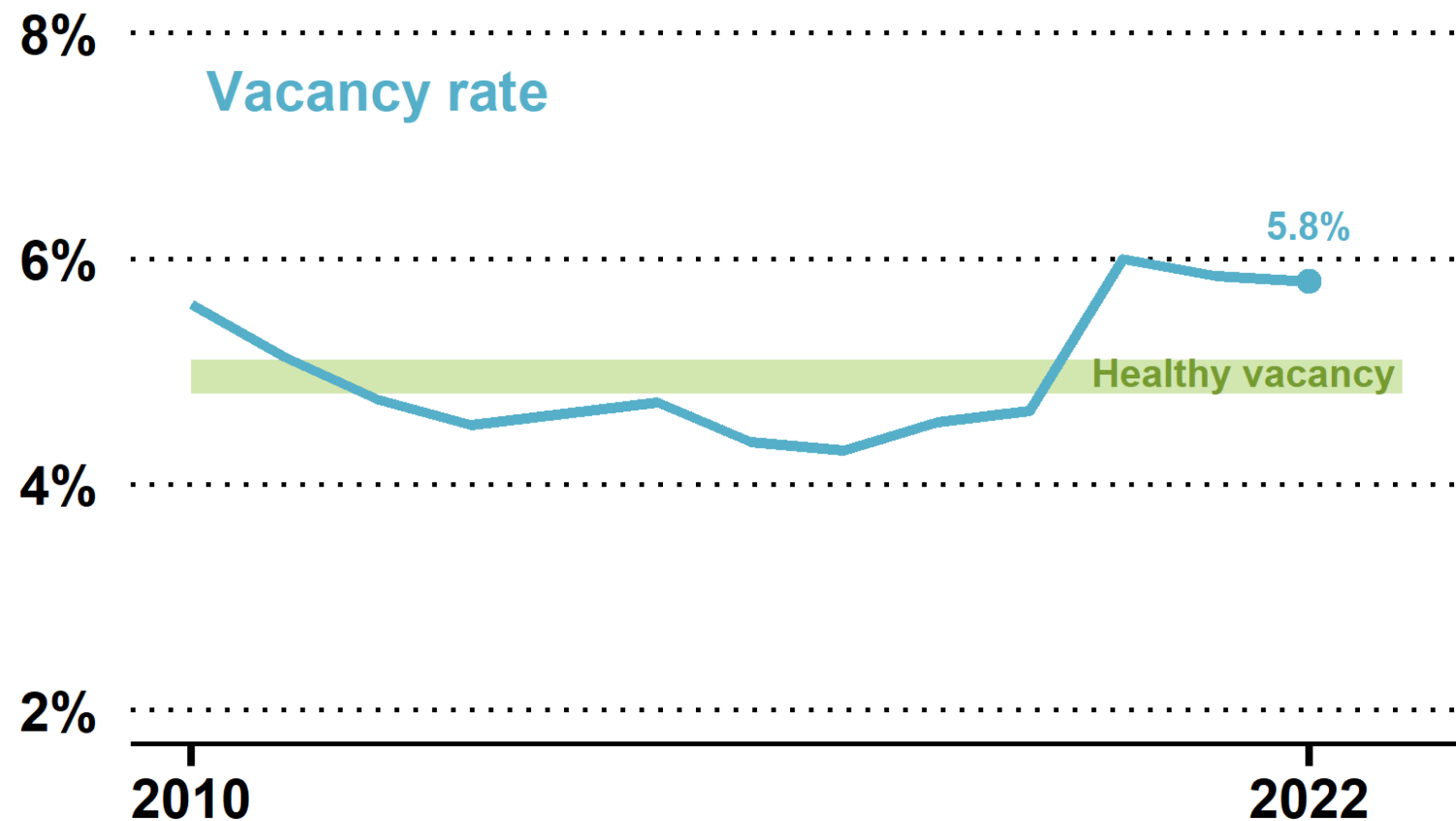


Source: CoStar multifamily asking rent

# 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

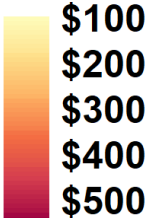
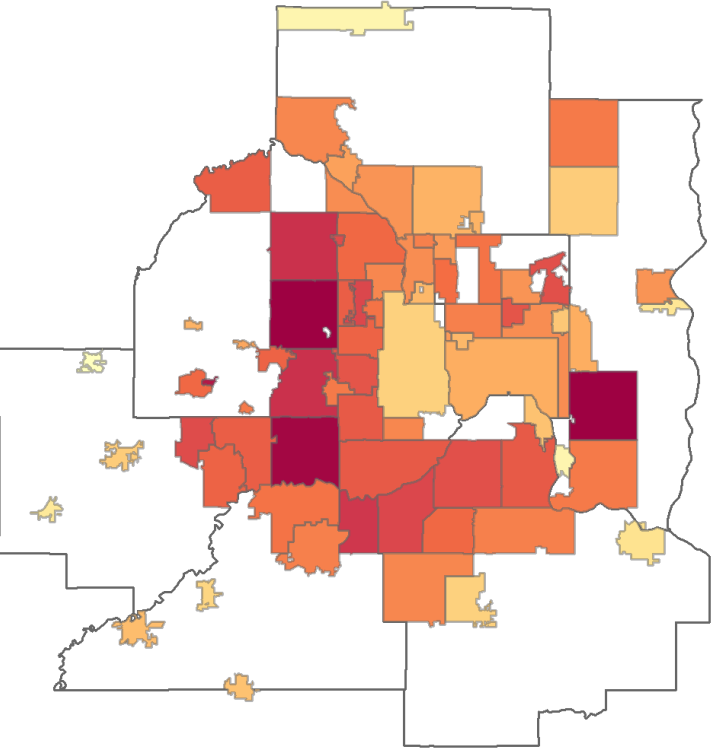
## Vacancy rate by class (%)



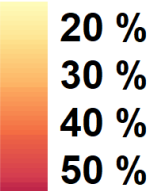
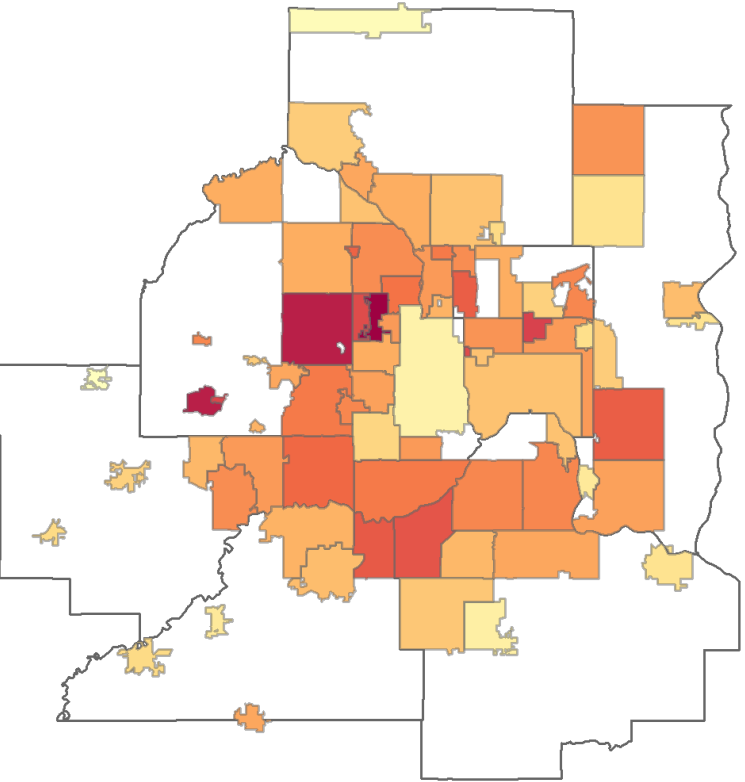
Source: CoStar multifamily asking rent

# Rent price by community 2010-2022

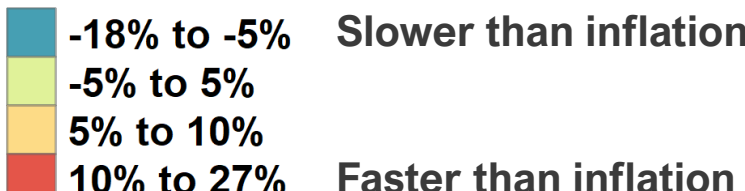
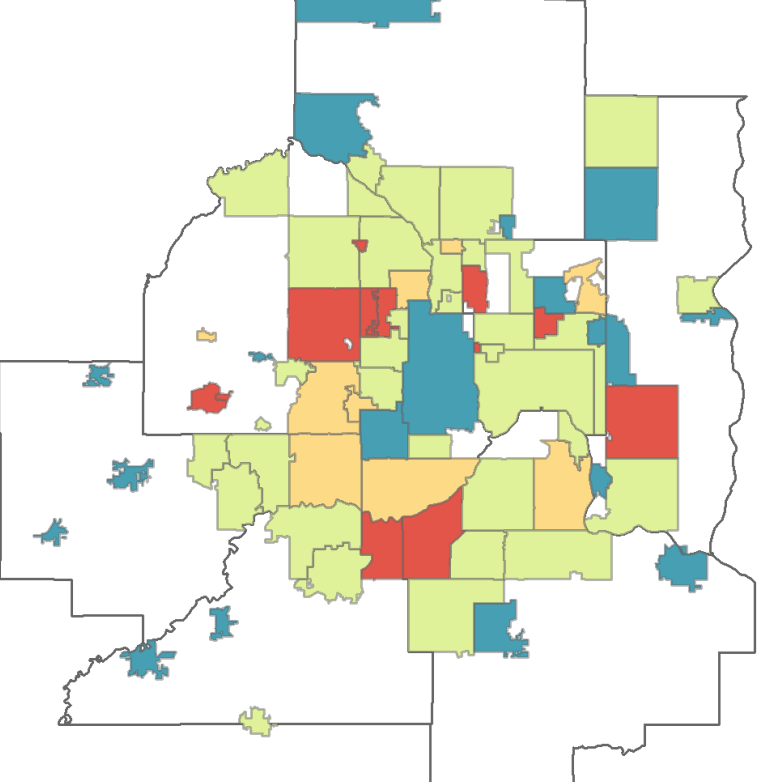
Increase 2010-2022



% Change 2010 to 2022

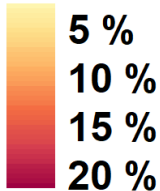
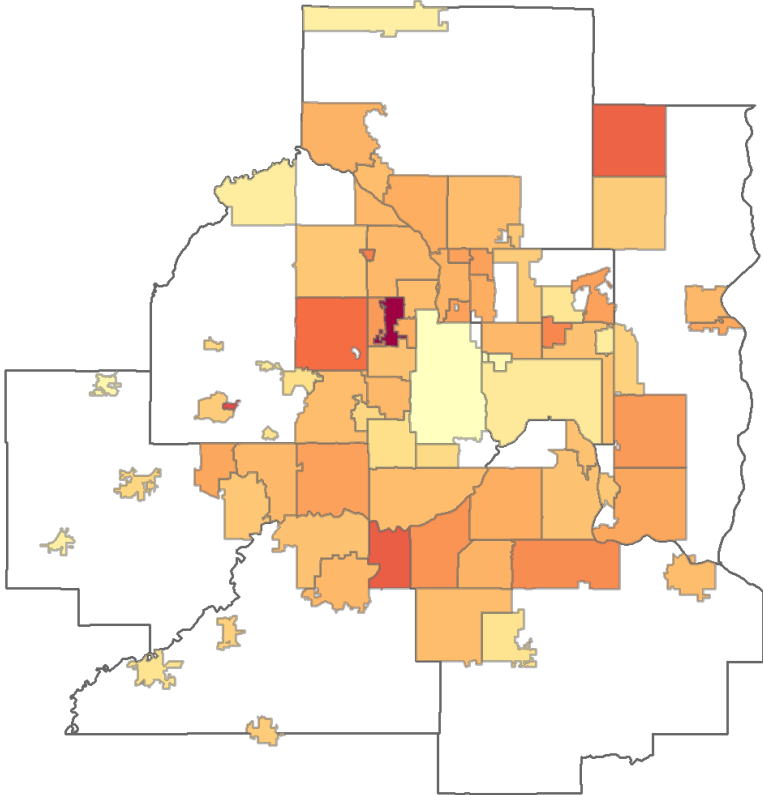


% Change inflation-adjusted

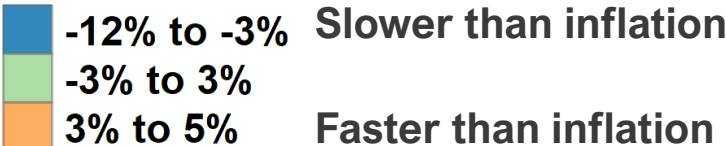
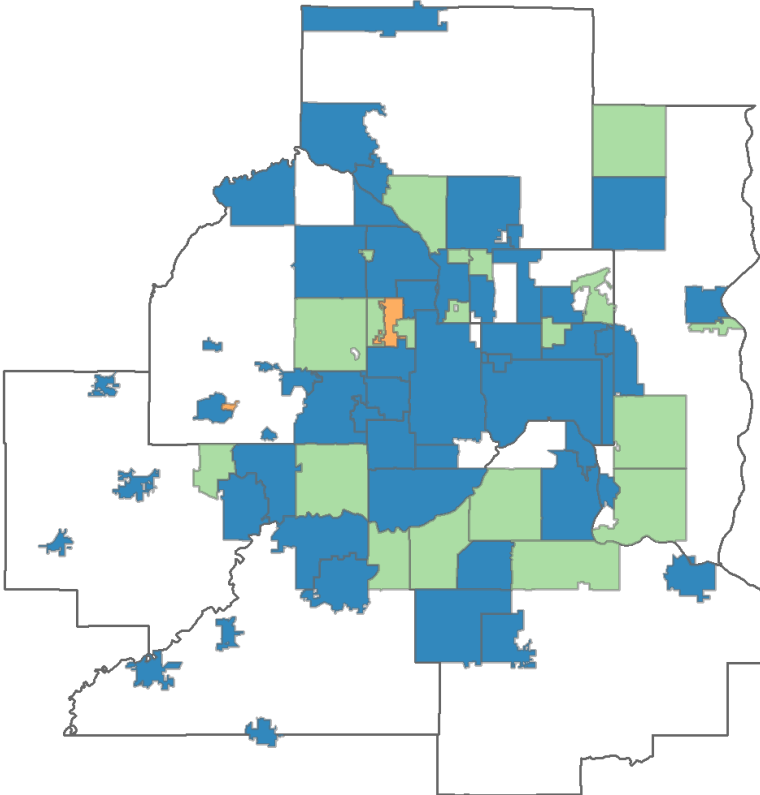


# Recent change

% Increase 2019-2022



% Change inflation-adjusted





# 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

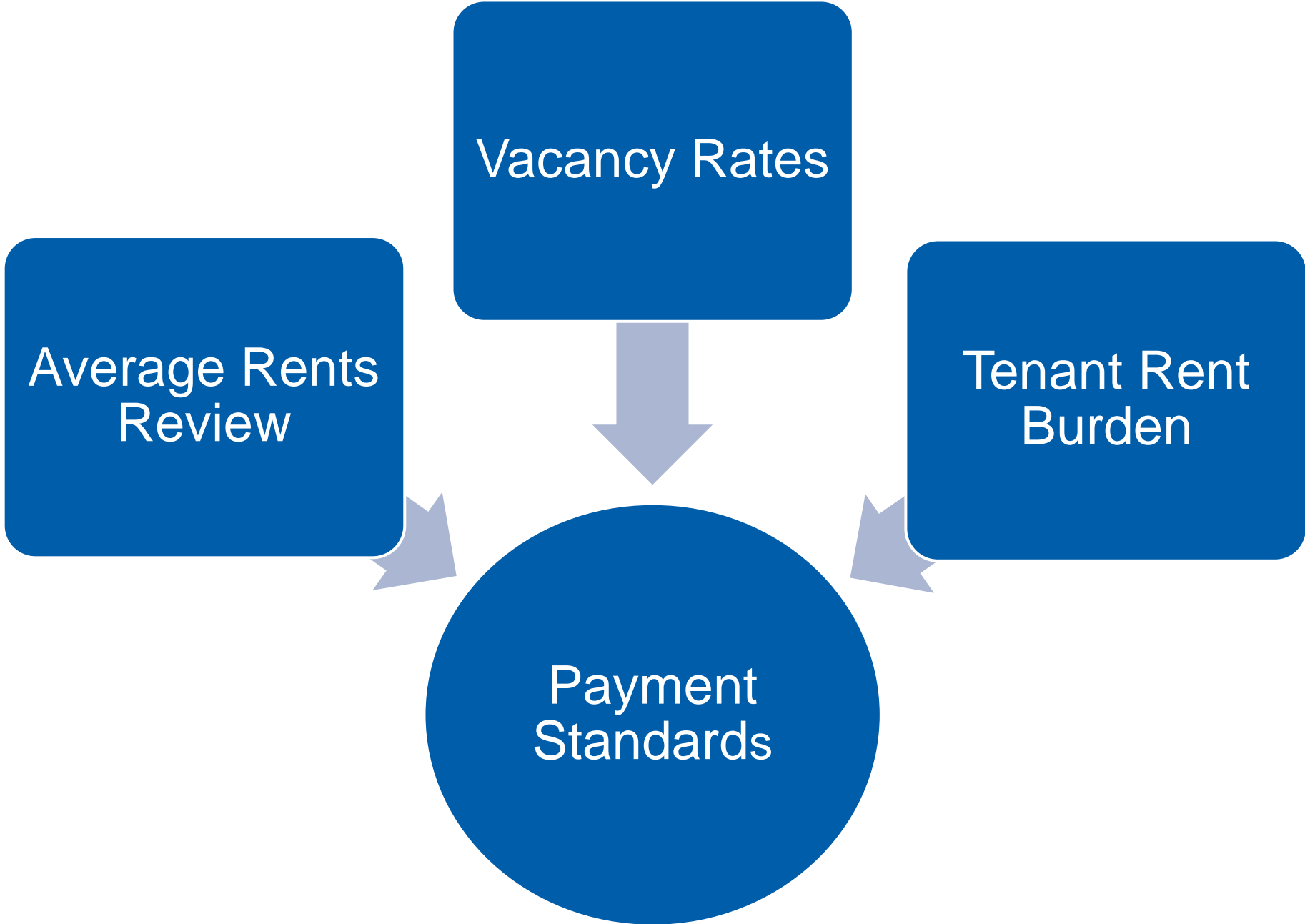
### Higher Rent Limits

- 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 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

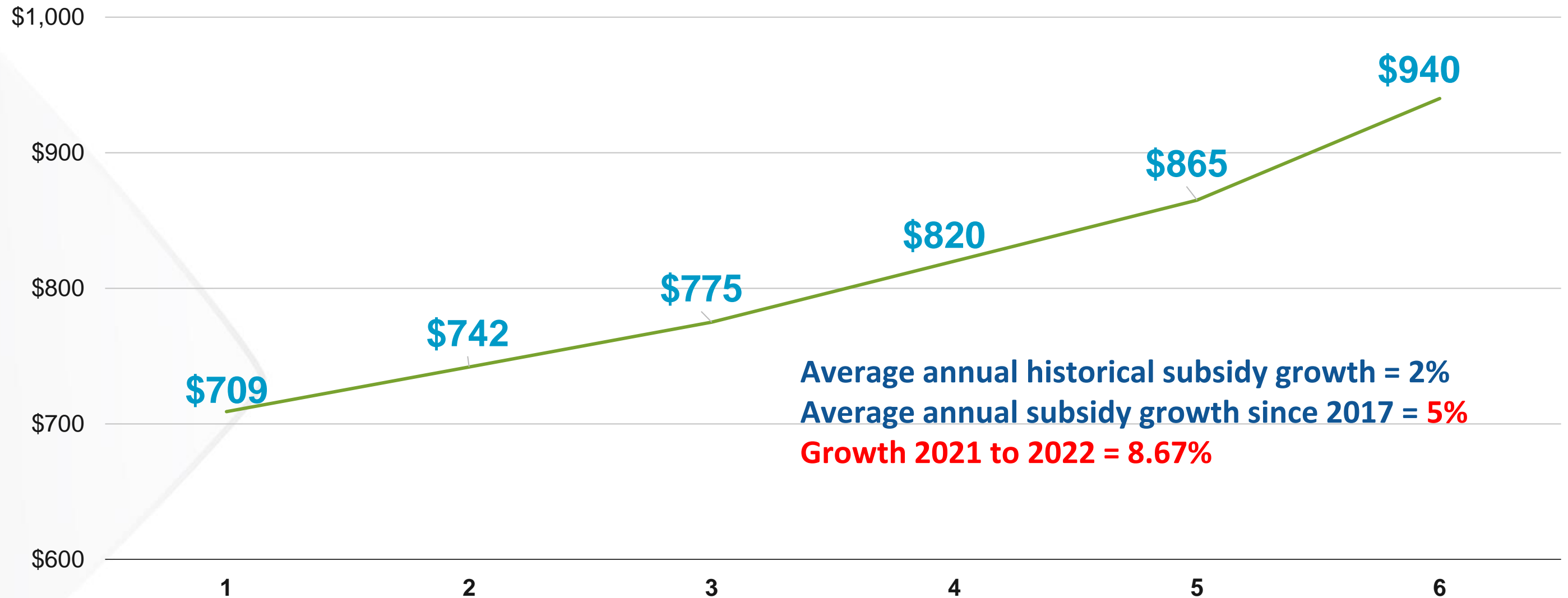
Payment Standard  
\$1200

- 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



# Budget vs. Average Subsidy Cost

## Average Subsidy Family Impact

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

Average Per-Family Subsidy	# Families Served	% of Vouchers Used
\$900	7,050	100%
\$950	6,650	95%
\$1000	6,500	93%



# 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.

# Resident Advisory Board Comments

## 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

## Option 1

- Make minimal changes to bring payment standards into required range
- Required range = 90% to 110% of Small Area Fair Market Rent
- No reductions

## Option 2

- Adjust all to 95% of SAMFR
- Make changes based on market and average rents
- No reductions

## Option 3

- 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

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October 17, 2022

