



Small Area Fair Market Rents Discussion

Metro HRA



November 7, 2023

Payment Standards

Payment Standards = Rent Limits

- Limited by Fair Market Rents (FMR) issued each year by U.S. Department of Housing and Urban Development
- Small Area Fair Market Rents implemented July 2020
- HUD Issued new Fair Market Rents
- **11% - 18% increase in most Metro HRA Communities**



2022 HOUSING CHOICE VOUCHER ADMINISTRATIVE PLAN

Metropolitan Council Housing and Redevelopment Authority

Approved by Metropolitan Council:

October 12, 2022
September 22, 2021
September 23, 2020
February 12, 2020
September 25, 2019
November 28, 2018

Council Policy Direction



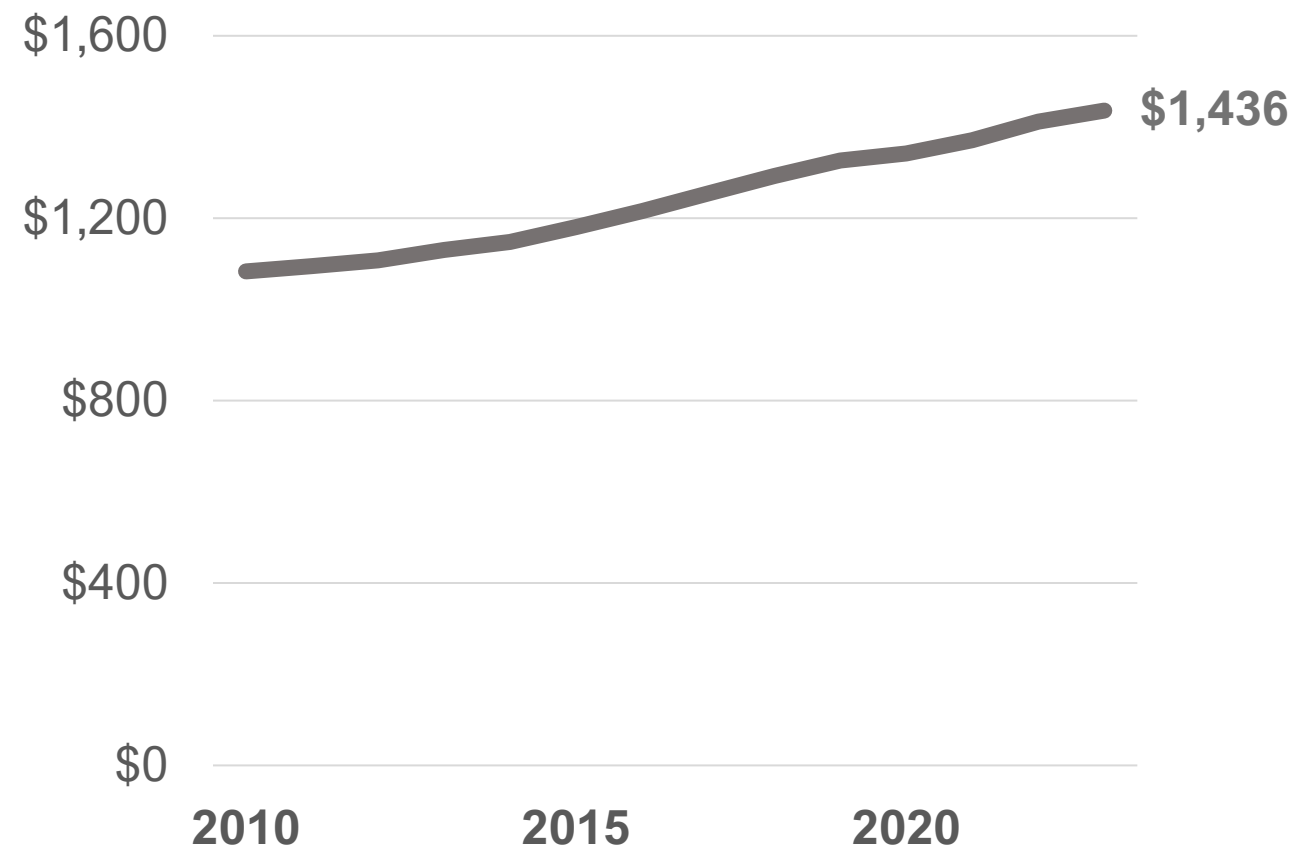
Thrive 2040

- 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 asking rent price

- Average asking rent in the region in 2023: \$1,436
- HRA service area communities: \$1,472

Twin cities region average asking monthly rent

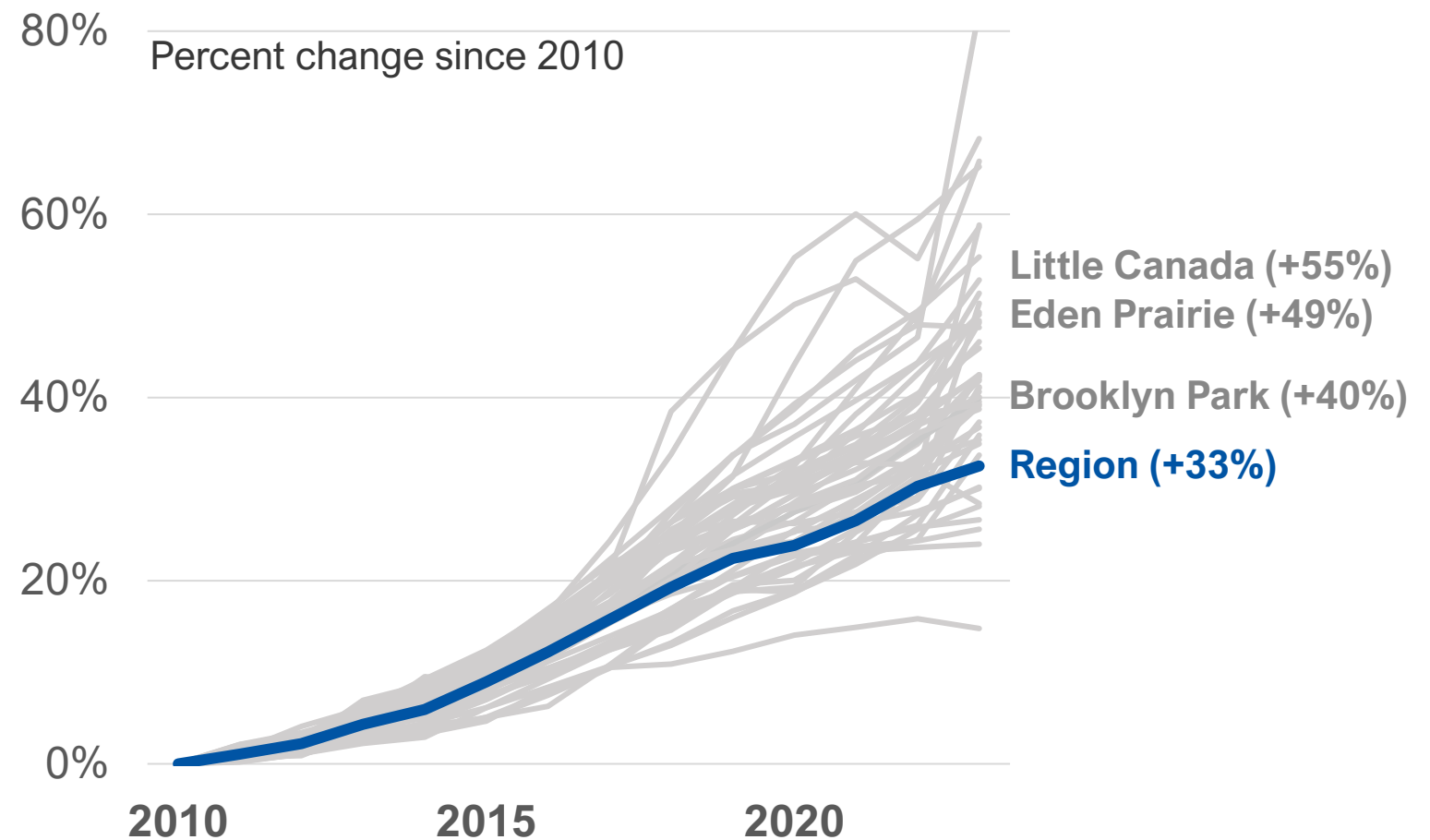


Source: CoStar multifamily asking rent

Change in rent prices

- Regional asking rent price has increased 33% since 2010 (+8% since 2019)
- The median Metro HRA community has seen a 41% increase in asking rent since 2010 (+14% since 2019)

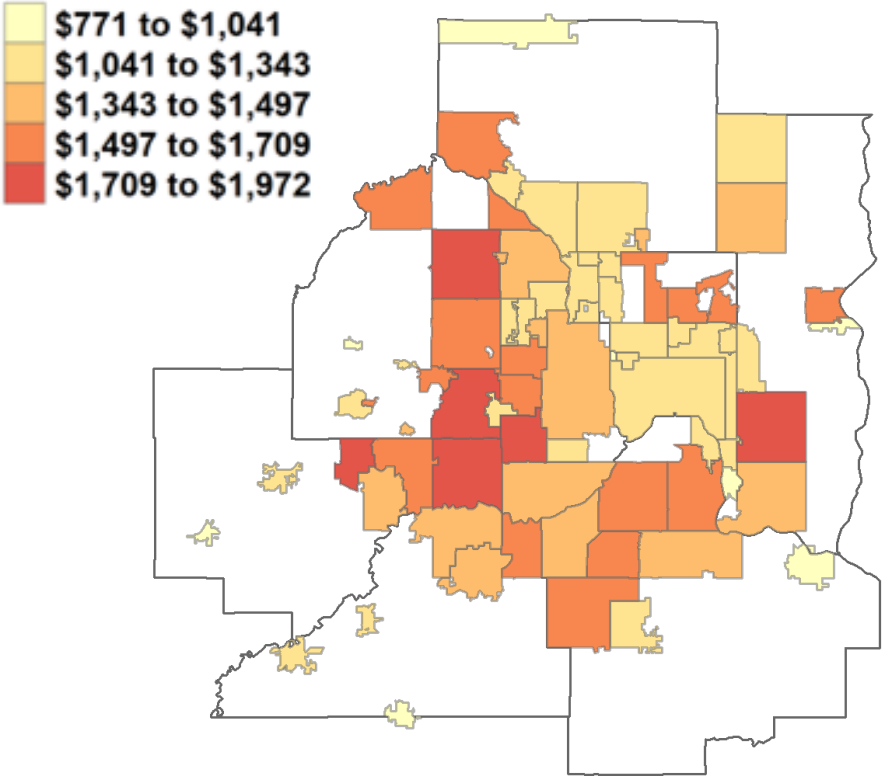
Metro HRA community asking rent prices have typically increased faster than **the overall region**



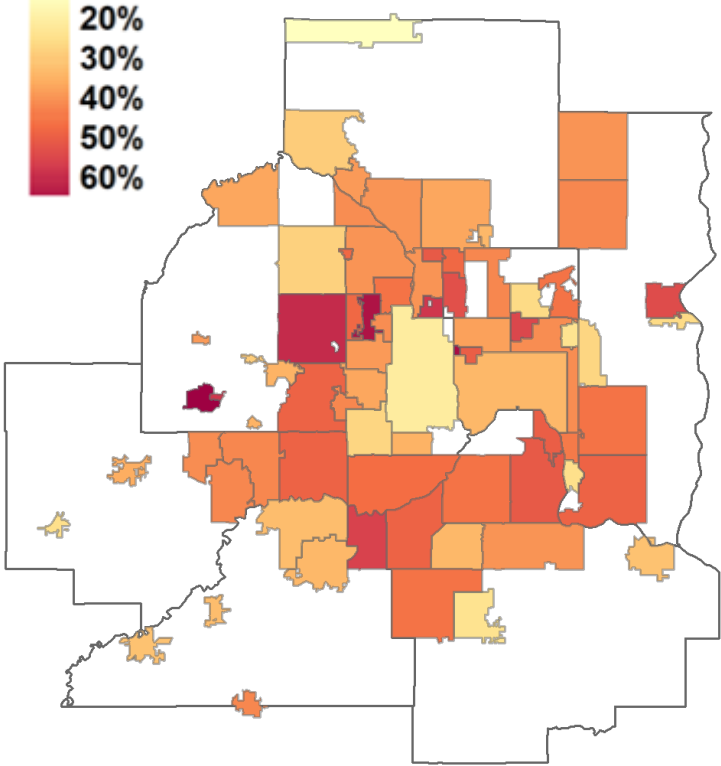
Source: CoStar multifamily asking rent

Rent price by community

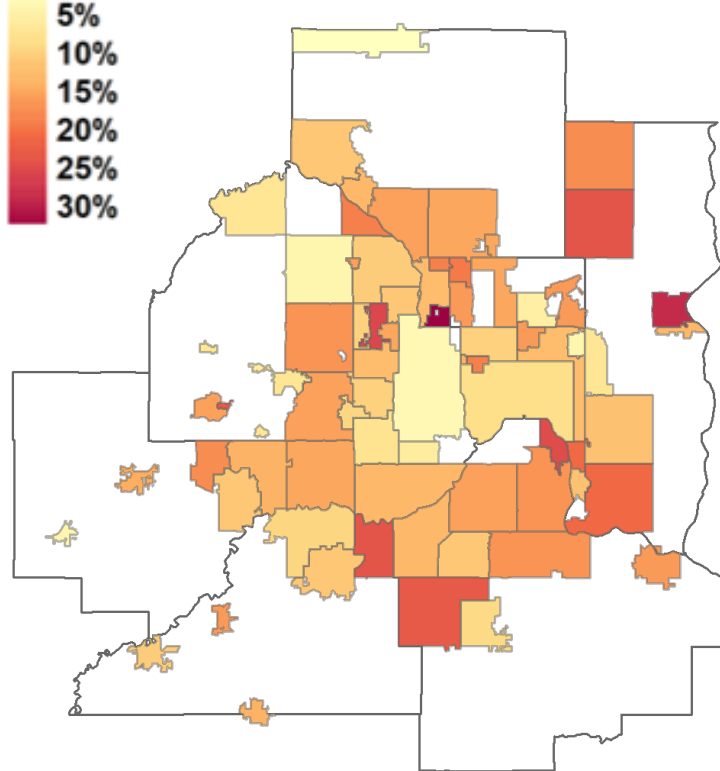
Asking rent price in 2023



% Change 2010 to 2023

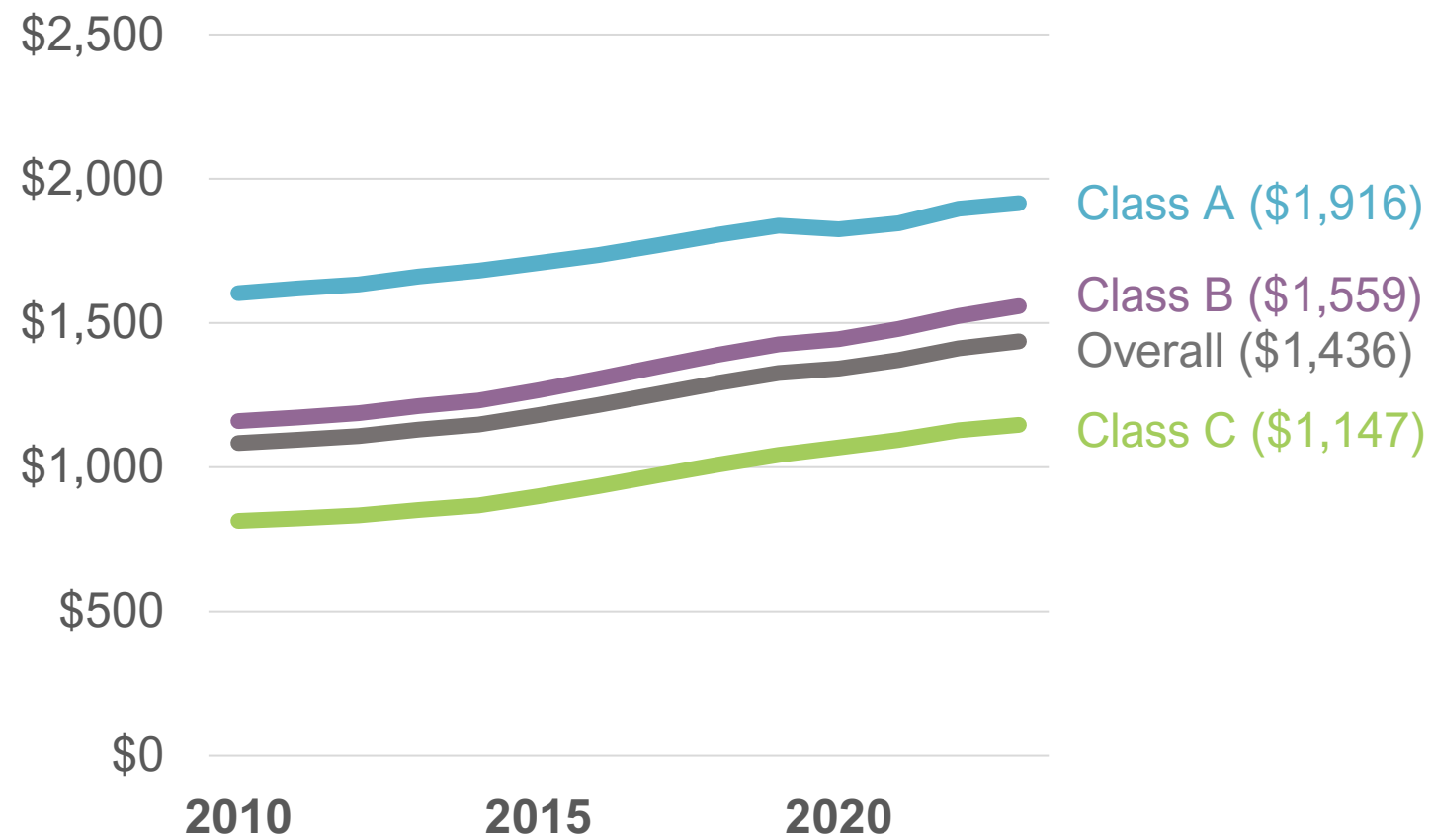


% Change 2019 to 2023



Average asking rent by class

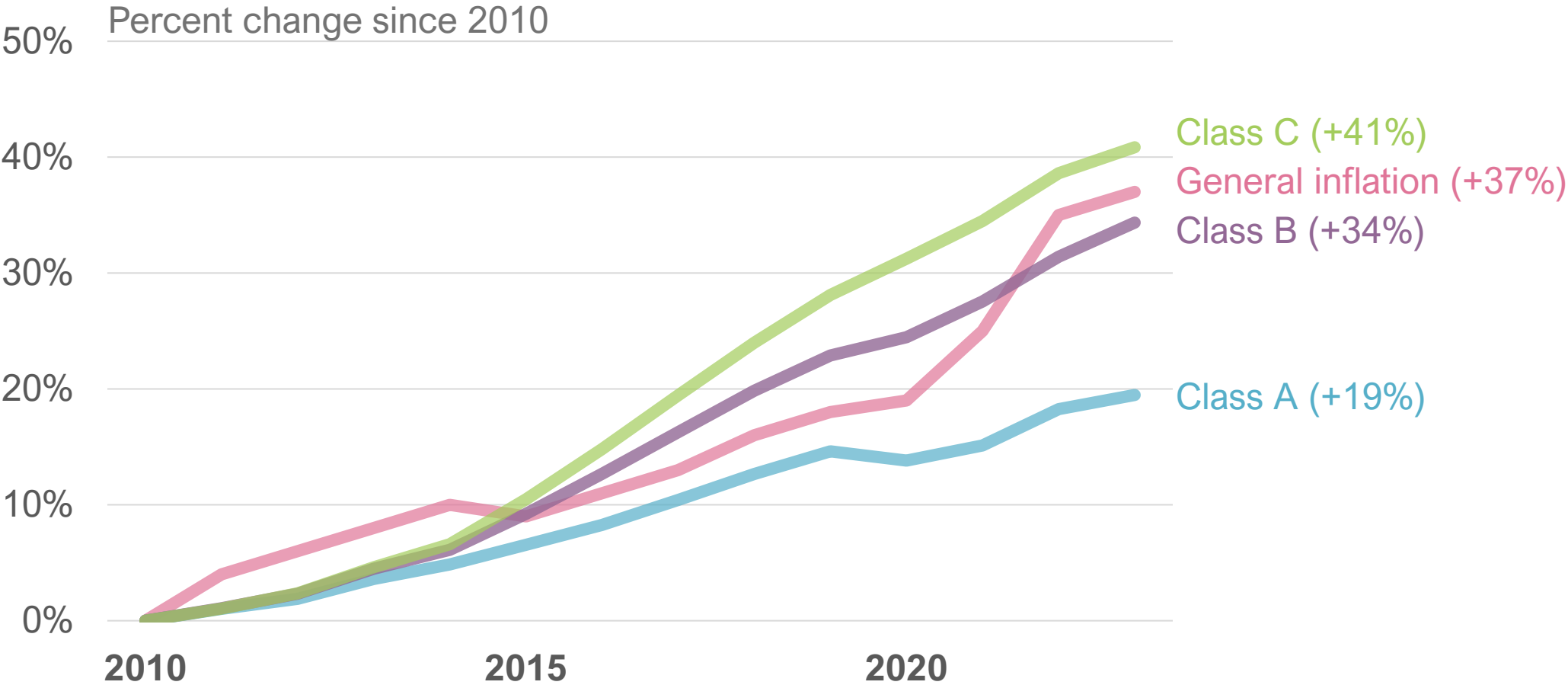
Twin Cities region average asking monthly rent



Source: CoStar multifamily asking rent

Percent change by class since 2010

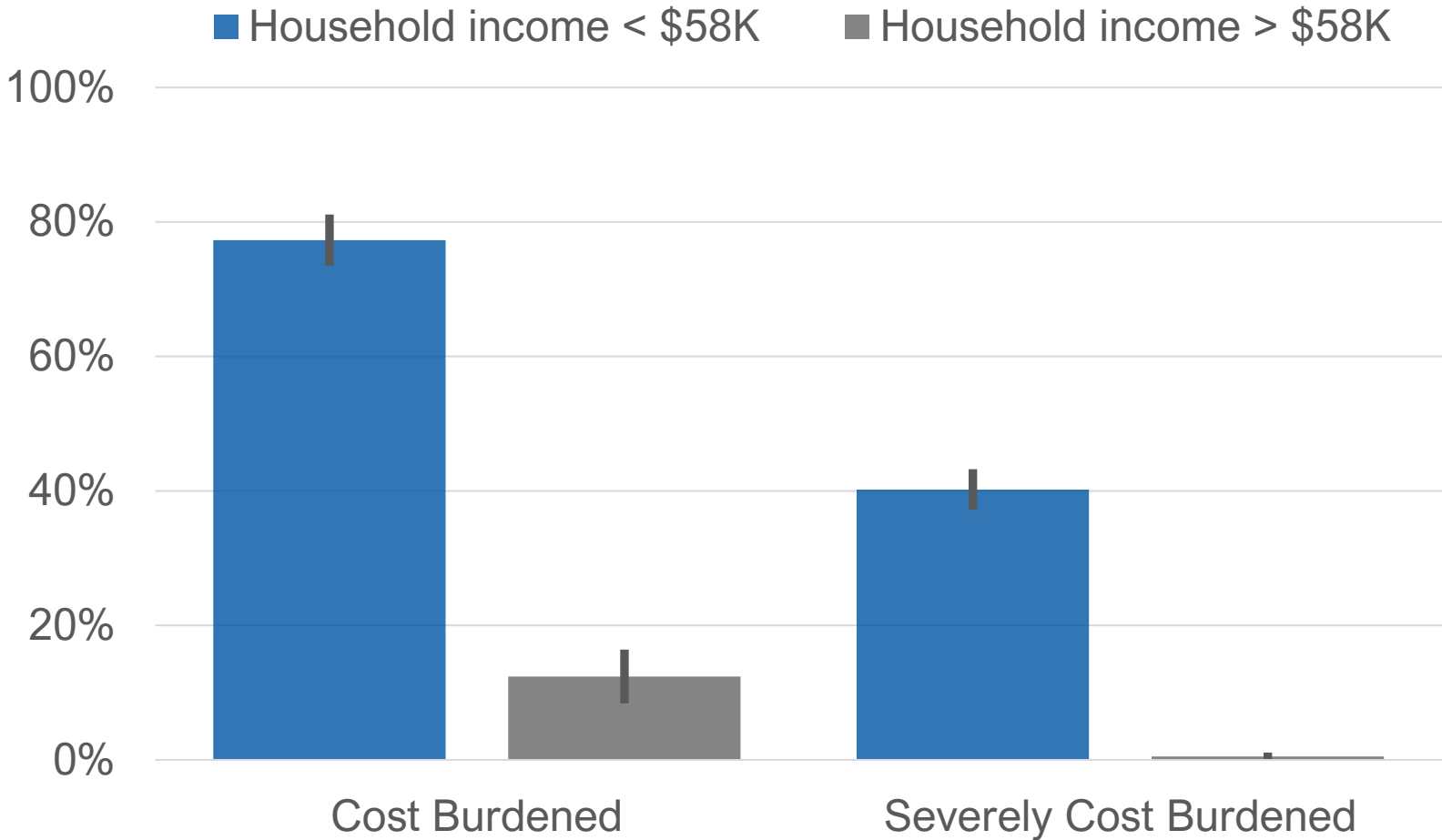
Rent prices have increased fastest among the most affordable units



Source: CoStar multifamily asking rent

Housing cost burden among renters

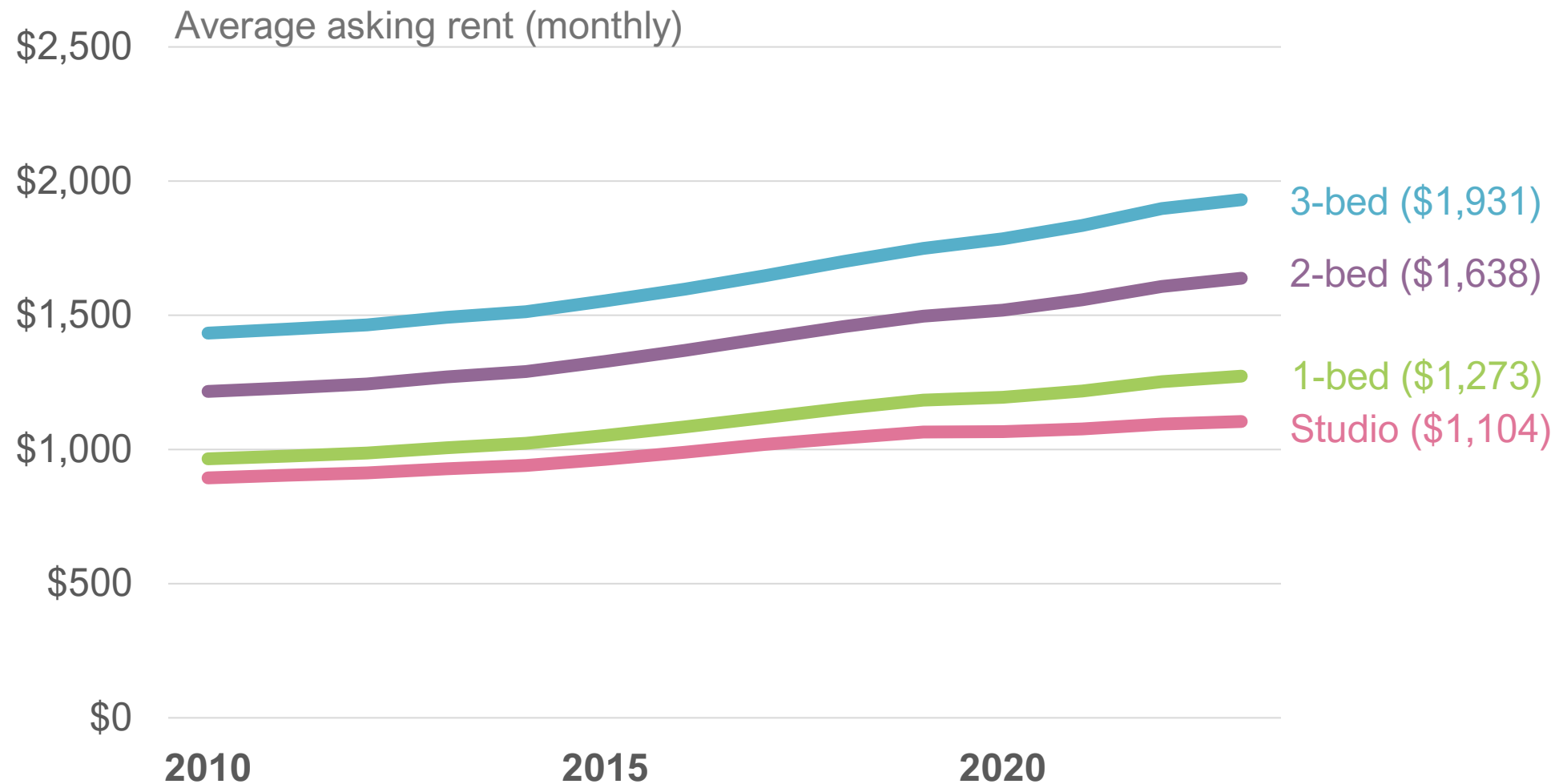
Nearly 80% of renters with **household incomes <\$58K** experience housing cost burden



Source: 2021 American Community Survey 1-year Public Use Microdata Samples

Asking rent by bedroom size

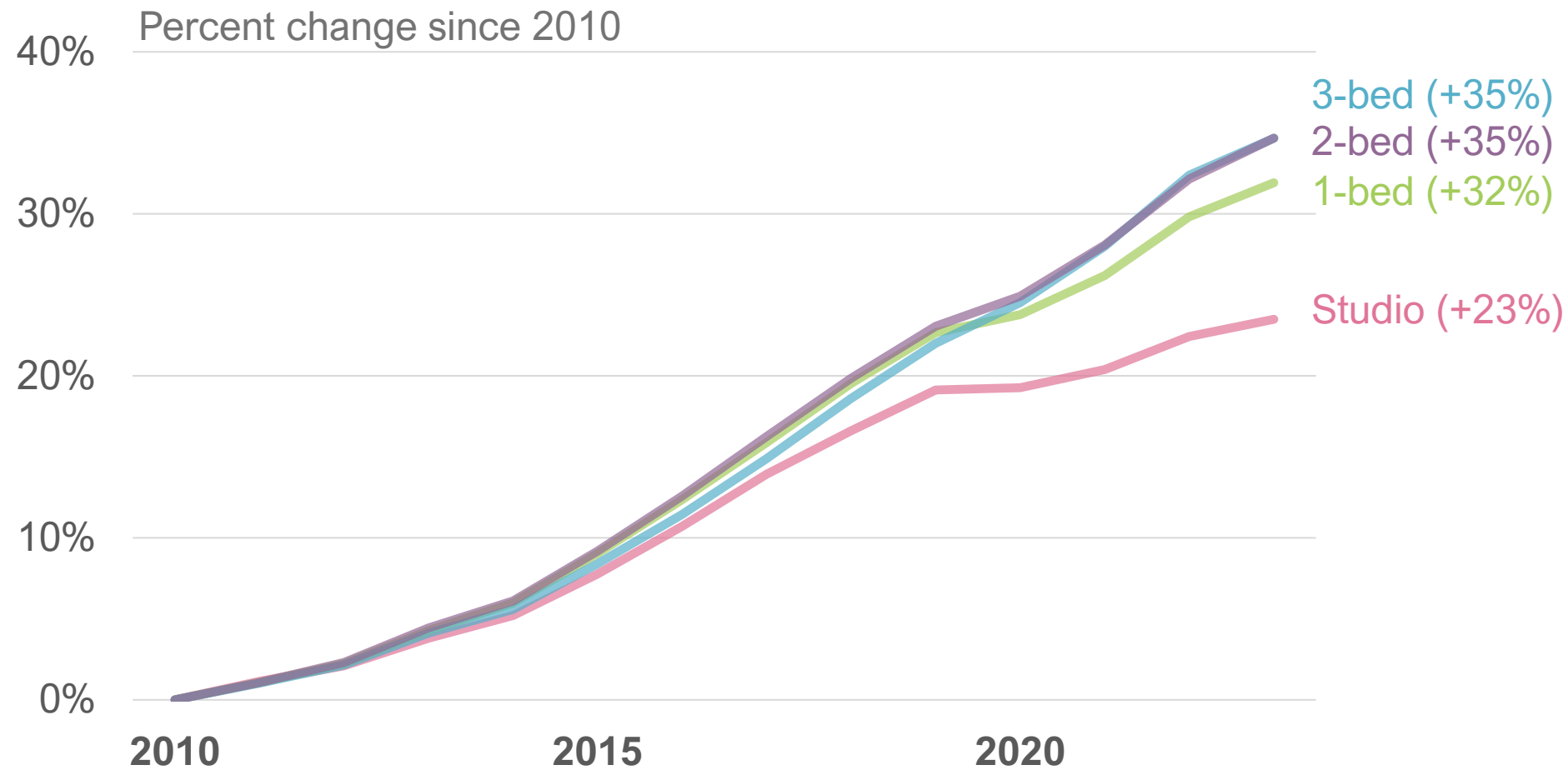
Asking rent for two and three bedrooms has increased the most



Source: CoStar multifamily asking rents

Asking rent by bedroom size

Asking rent for two and three bedrooms has increased the most



Source: CoStar multifamily asking rents

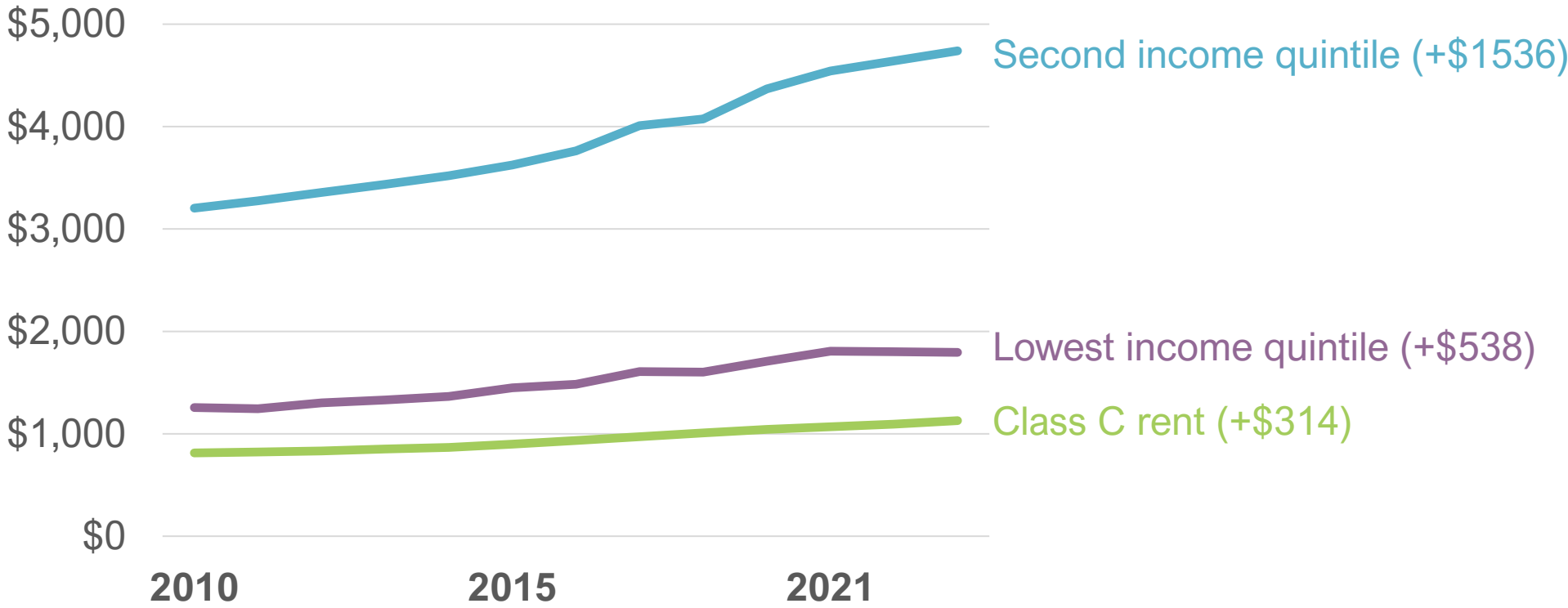
In summary



- On average, rent prices have increased faster and are higher among Metro HRA communities than the region overall
- The most affordable rental units have increased in price the fastest
- Two- and three-bedroom apartment prices have increased faster than smaller units
- Housing cost burden is nearly 80% for renters with household incomes less than \$58K (half of all renters)

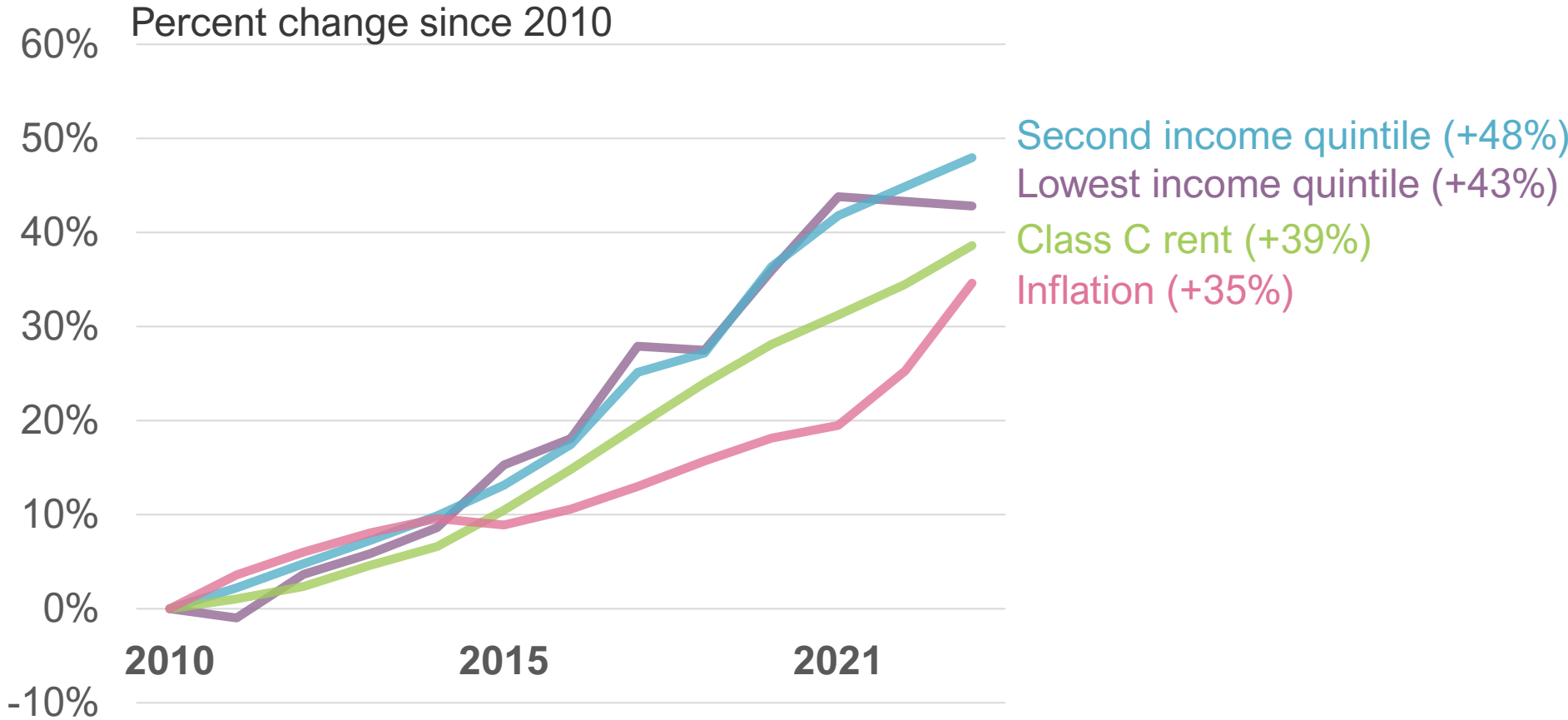
Income vs. rent

Monthly household incomes have increased more than rent



Income vs. rent

Household incomes have increased more than rent



Small Area Fair Market Rents



What are Small Area Fair Market Rents?

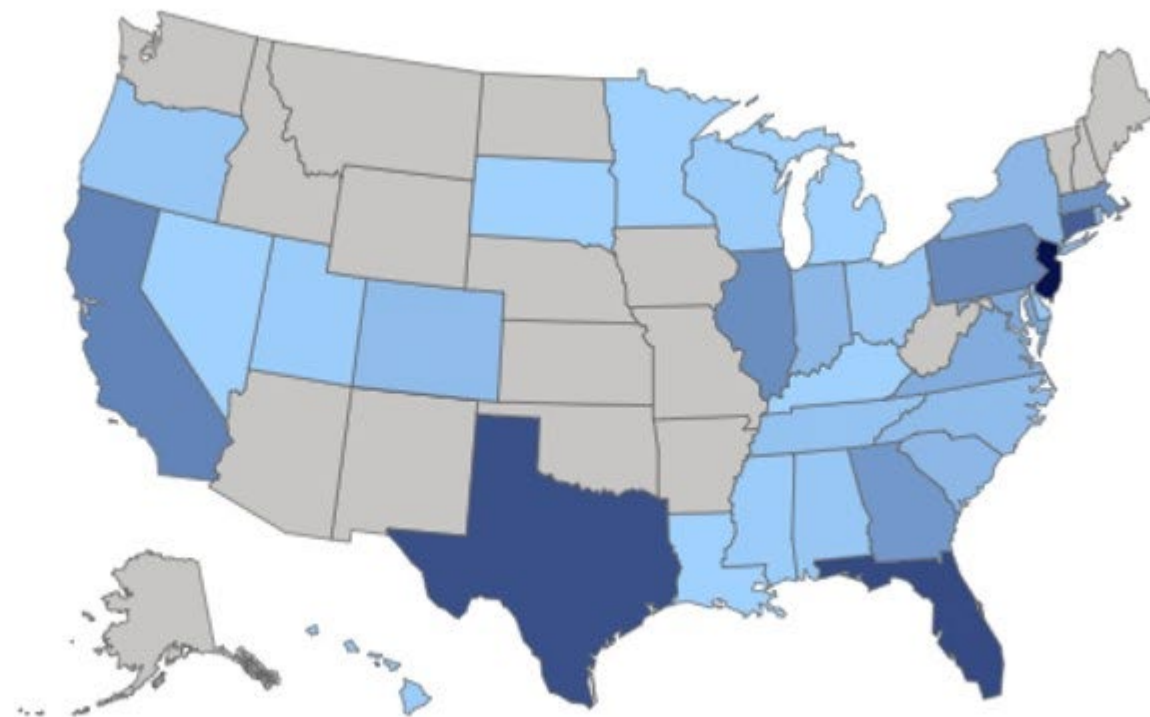


HUD Published Final Rule in 2016

- Calculated at the zip code level vs. metropolitan area-wide Fair Market Rent
- Fair Housing Initiative
- Provide Voucher holder access to lower poverty areas
- **Metro HRA adopted in 2020**
- 263 Housing Authorities utilizing Small Area Fair Market Rents

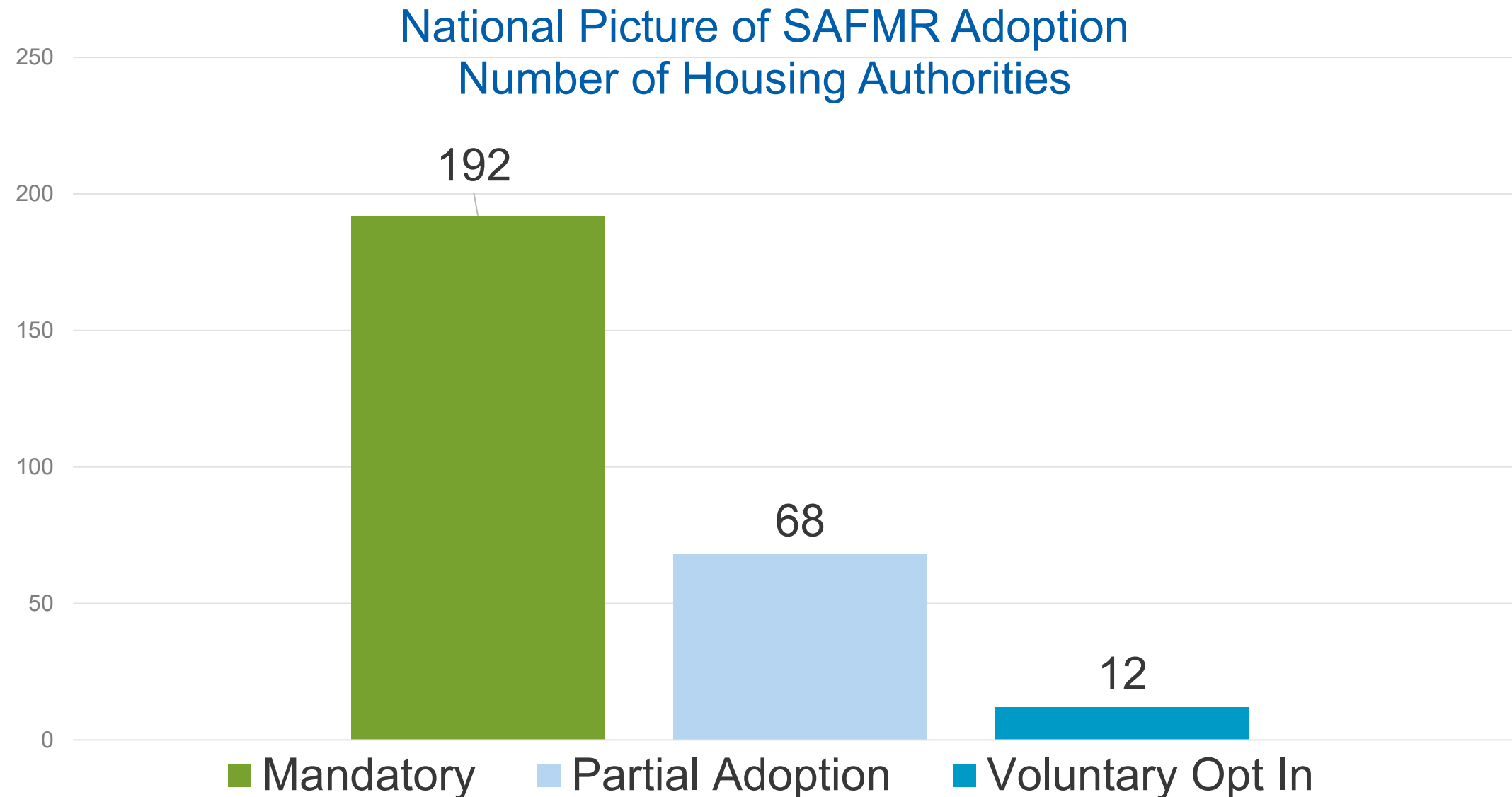
Small Area Fair Market Rents Adoption

Number of PHAs with SAFMRs by State



Darker blue indicates a greater number of SAFMR PHAs in the state. Gray states have no SAFMR PHAs.

Small Area Fair Market Rents Adoption



SAFMR Analysis

Completed by HRA Business Systems Analyst

Analysis: The percent of average rents that fall under payment standards, comparing current-year FMRs vs SAFMRs

Conclusion: *72% of rents fall below FMRs*

77% of rents fall below SAFMRs

- More 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.

Payment Standard Considerations

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

- Council can issue up to 7,283 vouchers
- \$86 million projected federal revenue

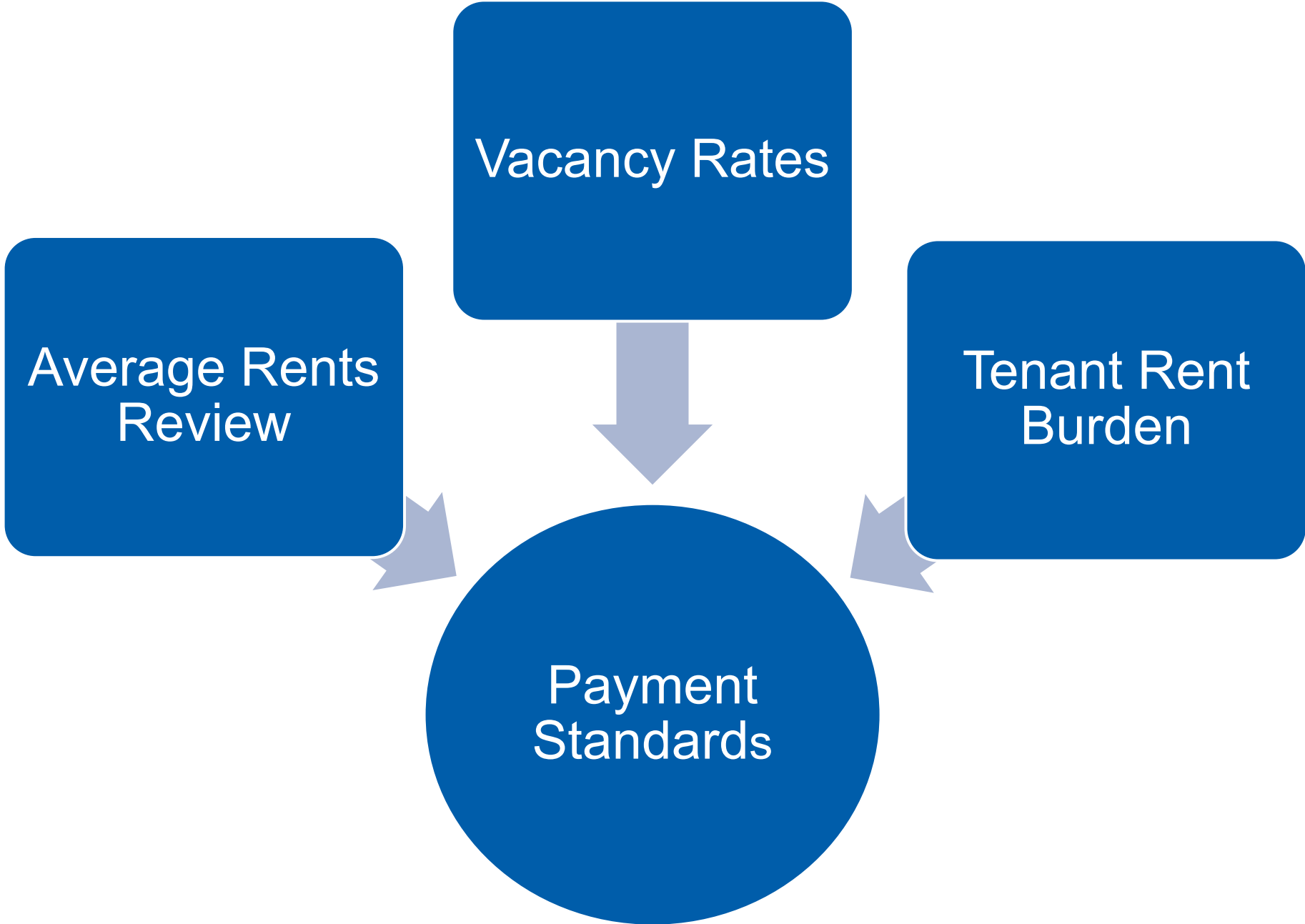
Higher Rent Limits

- 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 Eden Prairie (zip code 55344)

Rent = \$1600

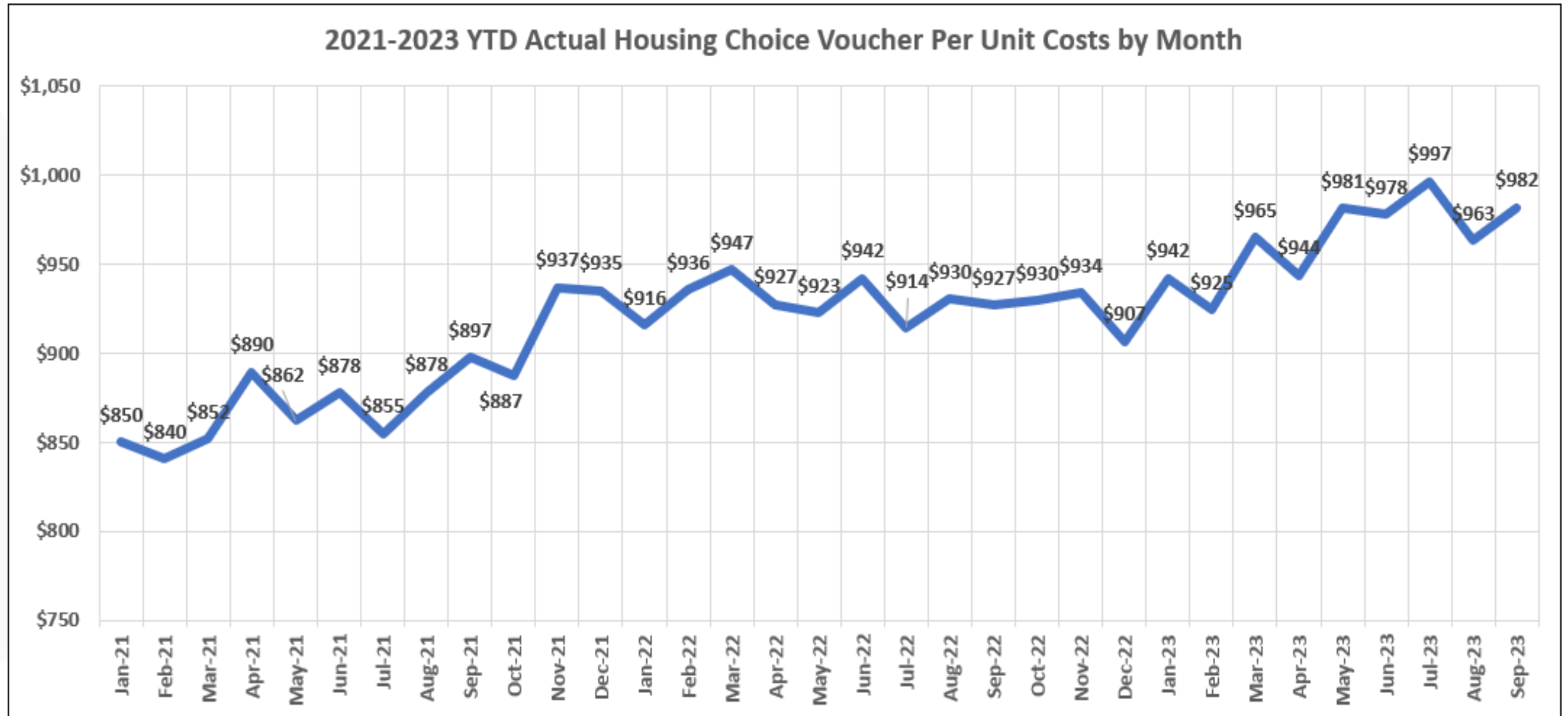
**Payment
Standard
\$1500**

- Rent is \$100 over the payment standard
- Tenant pays 30% of income plus \$100

**Payment
Standard
\$1650**

- Rent is within the payment standard
- Tenant pays 30% of income

Average Per-Family Subsidy Cost



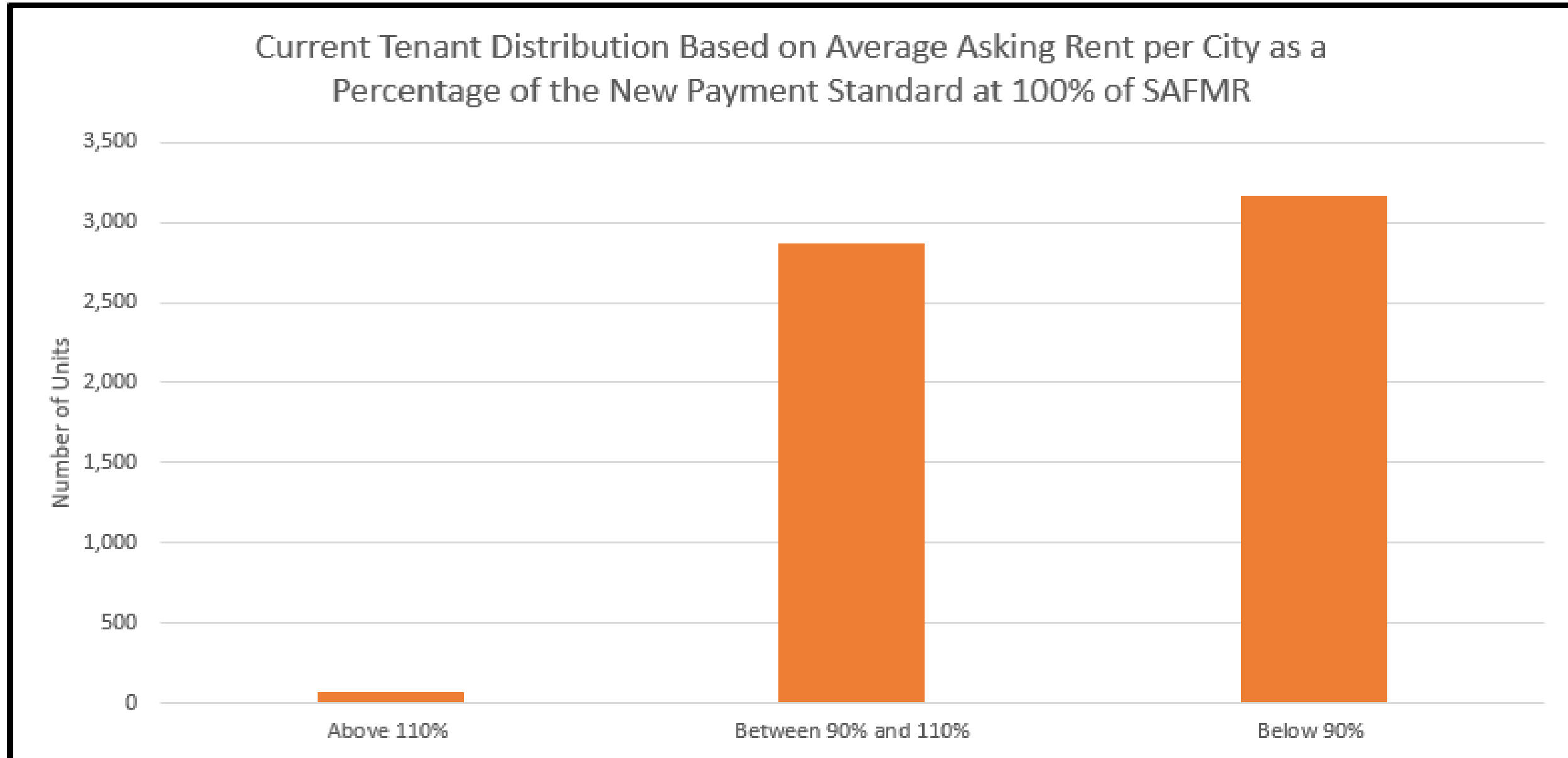
Budget and Subsidy Scenarios

Projected 2024 Subsidy Budget = \$86 million

Number of Vouchers = 7,283

Average Subsidy	Total Annual Subsidy Projection	Shortfall?	Number of Families Served	Reduction in Families	% Families Served
\$975	\$85,211,100	\$788,900	7283	0	100%
\$1,000	\$87,396,000	-\$1,396,000	7167	-116	98%
\$1,025	\$89,580,900	-\$3,580,900	6992	-291	96%

Average Rents and 100% SAFMRs



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

Option 2

- Adjust all to 100% of new Small Area Fair Market Rents

Option 3

- Make changes based on market and average rents
- Adjust to between 90% and 110% of Small Area Fair Market Rents

Option 1 – Required Changes Only

Increase vs. Decreases

- Increase in 146 zip codes
- Decrease in 0 zip codes
- No change in 31 zip codes

Tenant Impact

- Current Rent burden = 51%
- Future Rent burden = 32%

Implementation Cost

- \$2.4 million
- No reduction in service

Option 2 – Adjust all zip codes to 100%

Increase vs. Decreases

- Increases in 174 zip codes
- Decrease in 3 zip codes
- No change in 0 zip codes

Tenant Impact

- Current Rent burden = 51%
- Future Rent burden = 5%

Implementation Cost

- \$5.9 million
- No reduction in service if average subsidy payment increase is 2% or less

Option 3 – Market Driven Approach

Increase vs. Decreases

- Increases in 174 zip codes
- Decrease in 3 zip codes
- No Change in 0 zip codes

Tenant Impact

- Current Rent burden = 51%
- Future Rent burden = 5%

Implementation Cost

- \$5.8 million
- No reduction in service if average subsidy payment increase is 2% or less

Success Rates

% Housing Choice Voucher Holders that use their Voucher

Voucher Type	Success Rate
Housing Choice Voucher – No Supports	55%
Housing Choice Voucher – Mover	65%
Special Purpose Voucher – With Supports	80%

- Reasons Vouchers Not Used:
 - Found other housing
 - Circumstances Changed
 - Move out of area
 - No longer need voucher
 - Mover decides to remain in their current unit

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
- Increases in 146 zip codes
- 34% future rent burden
- \$2.4 million

Option 2

- Adjust all to 100% of new Small Area Fair Market Rents
- Increase in 174 zip codes
- 5% future rent burden
- \$5.9 million

Option 3

- Make changes based on market and average rents
- Adjust to between 98% and 110% of Small Area Fair Market Rents
- Increase in 174 zip codes
- 5% future rent burden
- \$5.8 million

Next Steps



Upcoming Dates

- November 6: CDC Information Item
- November 20: CDC Action
- December 13: Council Action
- February - April 2023: Implement new Payment Standards



Thank You

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