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
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

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)

\[\text{Percent change since 2010} \]

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
Rent prices have increased fastest among the most affordable units

Class A (+19%)
Class B (+34%)
Class C (+41%)
General inflation (+37%)

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

- 3-bed ($1,931)
- 2-bed ($1,638)
- 1-bed ($1,273)
- Studio ($1,104)

Source: CoStar multifamily asking rents
Asking rent by bedroom size

Asking rent for two and three bedrooms has increased the most

Percent change since 2010

- Studio (+23%)
- 1-bed (+32%)
- 2-bed (+35%)
- 3-bed (+35%)

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).
Monthly household incomes have increased more than rent

- Second income quintile (+$1536)
- Lowest income quintile (+$538)
- Class C rent (+$314)
Income vs. rent

Household incomes have increased more than rent

Percent change since 2010

-10% 0% 10% 20% 30% 40% 50% 60%

2010 2015 2021

Second income quintile (+48%)
Lowest income quintile (+43%)
Class C rent (+39%)
Inflation (+35%)
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

National Picture of SAFMR Adoption
Number of Housing Authorities

- Mandatory: 192
- Partial Adoption: 68
- Voluntary Opt In: 12
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

- Vacancy Rates
- Average Rents Review
- Tenant Rent Burden

Payment Standards
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

2021-2023 YTD Actual Housing Choice Voucher Per Unit Costs by Month
## Budget and Subsidy Scenarios

Projected 2024 Subsidy Budget = $86 million  
Number of Vouchers = 7,283

<table>
<thead>
<tr>
<th>Average Subsidy</th>
<th>Total Annual Subsidy Projection</th>
<th>Shortfall?</th>
<th>Number of Families Served</th>
<th>Reduction in Families</th>
<th>% Families Served</th>
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</thead>
<tbody>
<tr>
<td>$975</td>
<td>$85,211,100</td>
<td>$788,900</td>
<td>7283</td>
<td>0</td>
<td>100%</td>
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<td>$1,000</td>
<td>$87,396,000</td>
<td>-$1,396,000</td>
<td>7167</td>
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<td>98%</td>
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<td>$1,025</td>
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<td>-$3,580,900</td>
<td>6992</td>
<td>-291</td>
<td>96%</td>
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</table>
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

<table>
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<th>Voucher Type</th>
<th>Success Rate</th>
</tr>
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<tbody>
<tr>
<td>Housing Choice Voucher – No Supports</td>
<td>55%</td>
</tr>
<tr>
<td>Housing Choice Voucher – Mover</td>
<td>65%</td>
</tr>
<tr>
<td>Special Purpose Voucher – With Supports</td>
<td>80%</td>
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</tbody>
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- **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
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<td></td>
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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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