Money Talks, but Most Landlords Aren't Listening

A survey of the acceptance of Section 8 vouchers in suburban Hennepin, Anoka, Dakota, and Counties, Minnesota

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Section 8 Report #8
November 2002

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SUMMARY

- HOME Line's eighth annual survey to determine acceptance of Section 8 vouchers in suburban Hennepin County reached 327 complexes. For the second year, we also surveyed rental complexes in Anoka County (115 complexes), and Dakota County (122 complexes). A total of 67,850 rental units are covered by this year's report (42,740 in suburban Hennepin, 7,857 in Anoka, and 17,253 in Dakota), 55.8% of all rental housing in the surveyed areas.

- Since last year's survey, HUD raised the rent limits for Section 8 vouchers (the "fair market rent," or FMR) by 16.2%. In addition, local housing agencies issuing vouchers in high rent areas are able to increase the purchasing power of vouchers by as much as 20% above the FMR, allowing them to cover rents up to $1,034 for a 2-bedroom apartment.

- Because of HUD's increase in the voucher's value, 77.6% of all units surveyed in suburban Hennepin County are within the rent limits for Section 8, twice as many as last year (33,171 in 2002 vs. 15,872 in 2001). In Anoka County, nearly all of the units surveyed (97.3%) had rents at or below the voucher payment standard. Dakota County, at 69.9%, had the lowest proportion of its units with rents eligible for Section 8.

- Landlords' refusal to accept Section 8 continues to drastically reduce the effectiveness of the program. Despite the higher Section 8 rent limits and the higher vacancy rate, less than a third (31.8%) of the units surveyed that had rents within the Section 8 limits had owners willing to accept applicants with vouchers.

- Overall, only one-quarter (24.8%) of all units surveyed in the three counties were available for Section 8 voucher holders at rents within the eligibility limits of the program and without minimum income requirements that disqualify voucher holders. Anoka County had the highest proportion at 37.8%, followed by Dakota County at 30.0% and suburban Hennepin County at 20.3%.

- Owners of rental complexes in Anoka and Dakota counties are more likely to accept Section 8 than those in suburban Hennepin. Seventy of 115 complexes in Anoka (61%) and 65 of 122 in Dakota (53%) have rents under the VPS and accept Section 8. In suburban Hennepin County it was only 116 of 327 complexes (35%).

- The vacancy rate since last year's survey rose from 2.2% to 4.8% this year: 5% is considered by housing economists an indicator of a healthy rental market. The softer market appeared to make it somewhat easier for voucher holders to find homes.

- Staff of housing agencies administering Section 8 report that applicants still experience difficulty finding a unit where their voucher will be accepted. To get vouchers under lease, agencies issue multiple vouchers. Metro HRA reports that they issue three vouchers to get one under lease. Long waiting lists, two to three years, are common.

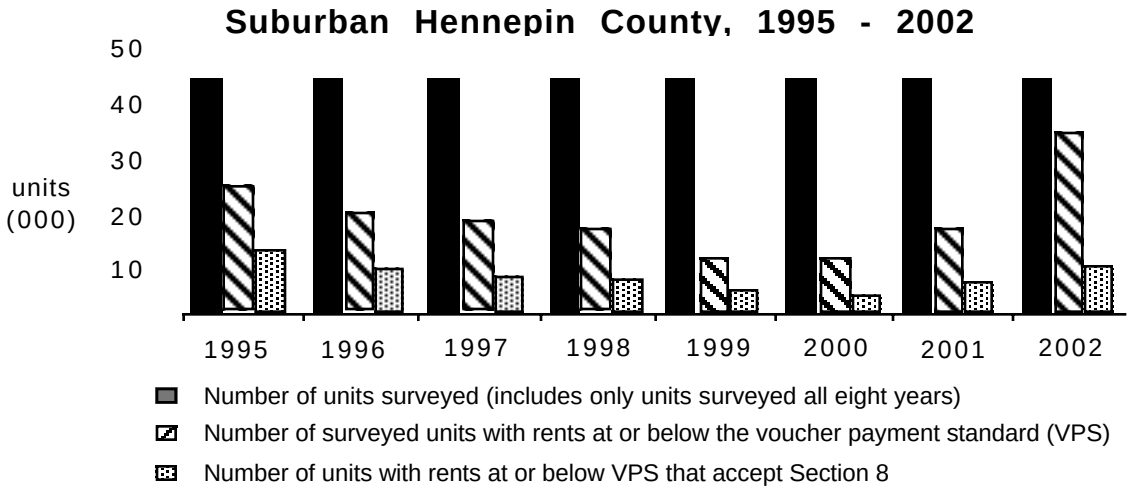
INTRODUCTION

In the summer and fall of 2002, HOME Line conducted its eighth annual survey of suburban Hennepin County rental property owners to determine their willingness to participate in the Section 8 rental subsidy program. And, for the second year running, we conducted our survey in Anoka and Dakota counties as well as suburban Hennepin.

FINDINGS

Increased value of vouchers results in more units eligible for Section 8

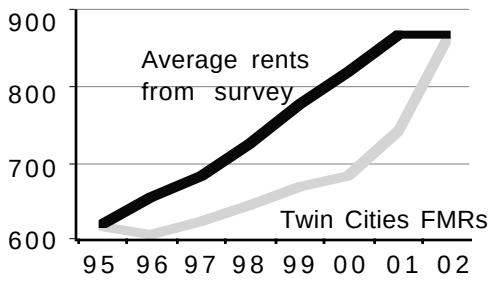
For the second year in a row, HUD significantly increased the rent limit for the program--last year the increase was 8.5 %; this year it was 16.2%--and we saw another jump in the number of units that qualified for Section 8. In suburban Hennepin County, the number of units with rents at or under the new, higher "voucher payment standard" more than doubled from last year's number. However, despite the improvement, our study still shows that 80% of the units we surveyed in Hennepin County and three-quarters of all the units surveyed were still "off limits" to Section 8 voucher holders, that is, rents were too high or owners refused to accept applicants with vouchers, or both.



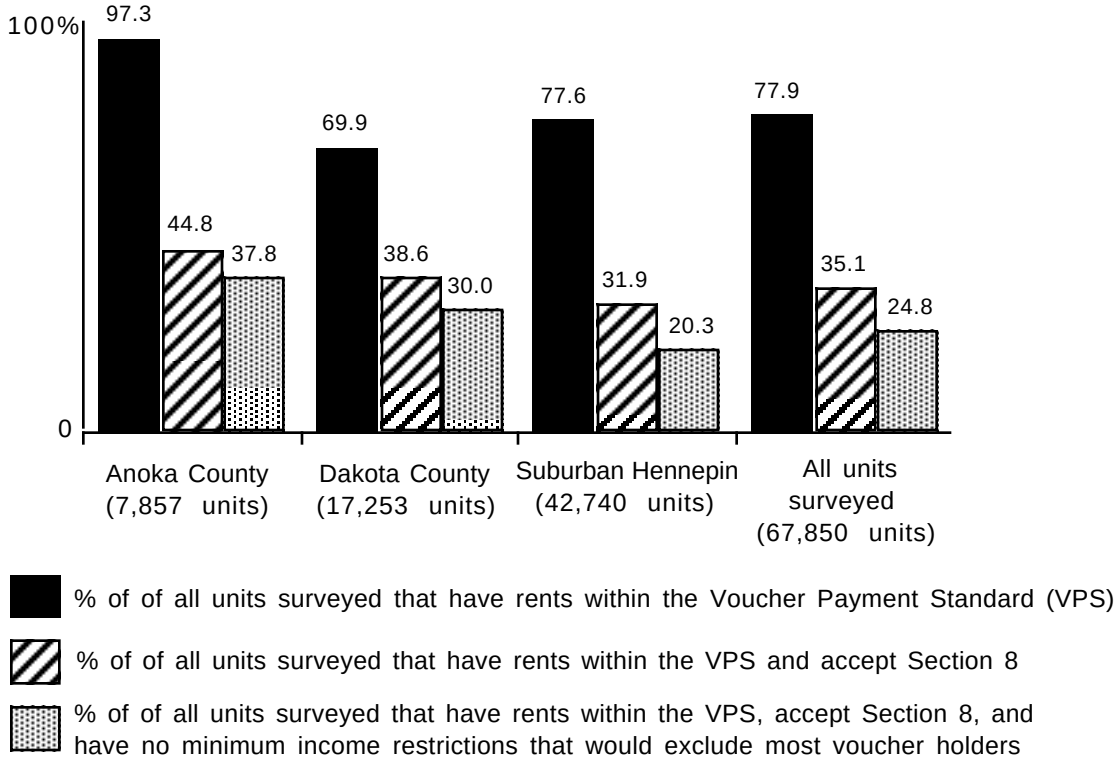
We believe this increase in acceptance of Section 8 applicants is partly attributable to a softening in the Twin Cities rental market in the past year. The reported vacancy rate increased from 2.2% during last year's survey to 4.8% during this year's. But the largest single factor behind the increase was probably the 16.2% hike in the value of a voucher approved last fall by HUD, the largest increase in "Fair Market Rents" (FMR) since this study began. Because housing agencies are able to set the purchasing power (the "voucher payment standard" or VPS), of a Section 8 voucher higher than the FMR in expensive local markets, it reached as high as $1,034 for a two bedroom apartment in a number of high-priced submarkets. (See Appendix II, page 10, for an explanation of the relationship between FMR and VPS.)

Because the Section 8 rent limits increased so markedly and the economy has held rents to small

increases, the Section 8 program has almost caught up with the market. This has resulted in a huge increase in the number of apartments available to voucher holders. (The graph at the right shows the relationship between the average rent from each year's survey and the HUD-determined Fair Market Rent for that year.) Of the nearly 68,000 units surveyed, over three-quarters were within the Section 8 rent limit this year compared to just over two-fifths last year. This year, there were almost 23,000 more units with rents that qualified for the Section 8 program than there were last year. And the number of these rent-qualifying units which have owners willing to accept Section 8 applicants increased by more than 5,300 units (11,501 last year; 16,826 this year), a 46.3% increase.



Comparison of areas surveyed in 2002



Landlord refusal to accept Section 8 limits the effectiveness of the voucher program

The Section 8 voucher program has been promoted as offering freedom of choice to the voucher holders. However, if landlords are free to decide whether to participate, the value of the Section 8 program to voucher holders is largely dependent on their choice. As this survey clearly shows, most landlords choose not to participate, even when the voucher payment standard is high enough to completely cover their market rents. Of all the units surveyed which had rents at or below the value of the voucher, less than one-third (31.1%) would accept

voucher holders. Whether this stems from owners' concerns about the way the program is administered (e.g., extra paperwork, mandatory unit inspections, etc.) or from their attitudes about voucher holders themselves (e.g., owners' perceptions that voucher holders are mostly racial minorities or people on public assistance), their refusal to accept Section 8 documented in this survey results in a program that does not deliver as promised.

Survey covers oover half of all rental units in Anoka, Dakota, and suburban Hennepin counties

This year's expanded survey again covered Anoka and Dakota counties in addition to suburban Hennepin County. The units sampled represent a majority of the rental housing in those areas as shown in the chart below. For a more detailed description of what housing was covered by the survey, see "About the Survey" in Appendix I (page 7).

	Suburban Hennepin	Anoka	Dakota	All areas surveyed
Total number of rental units in 2000 Census	75,392	17,688	28,530	121,610
Number of complexes surveyed	327	115	122	564
Number of units in survey	42,740	7,857	17,253	67,850
Surveyed units as a percent of total	56.7%	44.4%	60.5%	55.8%

Many more units surveyed had rents within the Section 8 program limit

HUD's big 16.2% increase in the Fair Market Rents for the Twin Cities metro area since our last report brought a substantially higher number and percentage of units within the Section 8 limits. Almost all (97.3%) of Anoka County units surveyed and nearly seven out of ten (69.9%) in Dakota County met the rent qualification. More than twice as many units in suburban Hennepin County qualified this year for the program. Bringing Section 8 rent limits closer to market rents probably accounts for most of the relative success of the voucher program this year compared to what has been reported in previous surveys.

	Suburban Hennepin	Anoka	Dakota	All areas surveyed
Number of units in survey	42,740	7,857	17,253	67,850
Units with rents within VPS	33,171	7,648	12,063	52,882
Percent of units with rents within VPS	77.6%	97.3%	69.9%	77.9%

Minimum income requirements disqualify nearly 7,000 units to voucher holders

A unit may have a rent within the program limit and the owner may report being willing to accept Section 8, but the unit can still be unavailable to a voucher holder. This is because some owners impose minimum income requirements on applicants that have the effect of disqualifying virtually all Section 8 tenants. This was the case for 6,976 units included in this year's survey.

Minimum income requirements being used by owners and managers vary. Most are expressed as a multiple of the rent. Where there were such requirements, we probed to learn how they were

being applied to Section 8 applicants. If the multiplier was 3x and it applied to the *unit's market rent* (as opposed to the "tenants portion," which is 30% of their income under Section 8 rules) virtually all Section 8 holders would be disqualified.

To illustrate, if the rent is $800 and the multiplier is three, an applicant would need to have a $2,400 monthly income to qualify. This is an annual income of $28,800; to earn that much requires an hourly wage of $13.85. According to the agencies issuing vouchers, almost all their applicants have significantly lower incomes. The 1999 (latest available) national average income for a voucher holder was $9,560, or $4.60 per hour. Naturally this includes many people on pensions or public assistance and working low wage jobs, the very people most in need of subsidized housing. The $800 rent in our illustration is more than the entire monthly income of the "national average" tenant, so virtually any multiplier would disqualify him or her.

The Bottom Line: only 25% of units work for voucher holders

The Section 8 "Housing Choice Voucher" program works if and only if a tenant can find an apartment in a building that 1) accepts applicants with vouchers, 2) has rents within the voucher payment standard, and 3) has no minimum income requirements that have the effect of excluding voucher holders. Only units that satisfy all three of these conditions can be said to be available and affordable to Section 8 tenants. It is these "bottom line" numbers shown in the chart below and depicted in the graph on page 3.

This year's bottom line is that fully three-quarters of all units surveyed are still unavailable for tenants with vouchers, despite the sizable increase in Section 8 rent limits and a softened rental market. In suburban Hennepin County, only one unit in five (20.3%) works for voucher holders.

	Suburban Hennepin	Anoka	Dakota	All areas surveyed
Number of units in survey	42,740	7,857	17,253	67,850
Units w/in VPS and accept Sec. 8	13,619	3,520	6,663	23,802
Units with income requirements that exclude Section 8 tenants	4,943	553	1,480	6,976
Units affordable and available to Section 8 tenants w/o restrictions	8,676	2,967	5,183	16,826
Percent of units affordable and available to Section 8 tenants w/o restrictions	20.3%	37.8%	30.0%	25.0%

Housing agencies continue to report difficulties in using vouchers

National statistics indicate that only one in five income eligible households actually gets subsidized housing. About a third of the families and individuals that receive any kind of rental subsidy are voucher holders. One of the reasons so few get the benefit of subsidized housing is the long wait to get a voucher. This can be up to three years in the metro area. After the wait, there is the often frustrating search for a place to use it. Many apartment seekers with vouchers issued to them simply give up after a while. Others return them unused after the time limit runs out.

Knowing the state of the market, voucher issuing agencies do what the airlines used to do, they "overbook," that is, they issue more vouchers than they have budget authority to honor, knowing that there will be "no-shows," people who will not find an apartment to lease.

As a part of this survey, we contacted the housing agencies who issue Section 8 vouchers in the areas our survey covered: Anoka, Dakota, and suburban Hennepin counties. We asked them about their waiting lists, how long it usually takes for someone's name to come to the top of the list and how often it is opened for new additions.

We also asked about their experience in getting voucher holders leased up. Our question was "how many vouchers do you have to issue to get one leased?" As can be seen, the answers varied; but they all reflect the underlying message of this survey: it is hard to find a unit with a landlord willing to take it.

The chart in Appendix IV (page 12) includes the HRAs that provide the majority of Section 8 vouchers used in the complexes surveyed for this report.

APPENDIX I: About the Survey

When and where it was conducted

The survey was conducted by telephone during the summer and fall of 2002. Cities in Anoka, Dakota and suburban Hennepin counties were contacted for directories of rental housing in their jurisdictions. Such lists were received from 24 suburbs in suburban Hennepin County, 12 in Dakota County, and 10 in Anoka County, shown below. The survey covered apartment complexes in these suburbs.

SUBURBAN HENNEPIN COUNTY

Bloomington	Crystal	Hopkins	New Hope	St. Anthony
Brooklyn Center	Eden Prairie	Maple Grove	Osseo	Spring Park
Brooklyn Park	Edina	Maple Plain	Plymouth	St. Louis Park
Champlin	Excelsior	Minnetonka	Richfield	Wayzata
Chanhassen	Golden Valley	Mound	Robbinsdale	

DAKOTA COUNTY

Apple Valley	Farmington	Lakeville	Rosemount
Burnsville	Hastings	Lilydale	South St. Paul
Eagan	Inver Grove Heights	Newport	West St. Paul

ANOKA COUNTY

Anoka	Centerville	Coon Rapids	Hilltop	Spring Lake Park
Blaine	Columbia Heights	Fridley	Ramsey	St. Francis

Who was contacted

The survey was restricted to complexes containing two bedroom apartments and a total of at least six units. It excludes: publicly owned housing; developments with project-based Section 8; complexes financed with subsidized mortgages (e.g., Sec. 236 and 202); nursing homes; group homes; assisted living facilities; transitional housing; and special needs housing. For the suburban Hennepin sample, we include only those complexes from the first year's survey that we have been able to contact each and every year.

Calls were placed by volunteers and staff to the offices of a total of 564 apartment complexes containing 67,850 units in the three counties. According to the 2000 Census, the jurisdictions covered by this survey contain a total of 121,610 rental units; thus, we sampled nearly 56% overall. It breaks down as follows: Anoka County - 44.4% (7,857 surveyed out of 17,699); Dakota County - 60.5% (17,253 out of 28,530); suburban Hennepin County- 56.7% (42,740 out of 75,392).

We called as potential consumers and spoke to the first person who answered the phone. Because our callers were speaking to whomever answered, we did not always talk to people with knowledge of the owner's decision making or the history of the complex. The inability to speak to an actual decision maker or someone fully knowledgeable made the survey process a little more difficult. But more importantly, it demonstrates some of the difficulties encountered by

apartment seekers who end up wasting application fees on complexes where tenancy is unlikely.

What was asked

The basic purpose of the survey was to get an overview of the prospects for a Section 8 voucher holder to find a place to use the subsidy in suburban Hennepin, Anoka, and Dakota counties. The survey questions were straightforward and few:

- What is the rent for a two bedroom apartment?
- Do you accept Section 8 vouchers?
- Do you have any minimum monthly income requirements at your complex, such as "income must be at least three times the rent"?
- If there is a minimum income requirement, how does a Section 8 subsidy apply? Is the tenant's income compared to the market rent or to the portion of the rent the tenant pays as a voucher holder?

How we figured the results

In determining the number of units renting at or below the voucher payment standard (VPS), we contacted the voucher issuing authorities for each of the survey areas: Bloomington, Hopkins, St. Louis Park, Plymouth, South St. Paul, Dakota County and the Metropolitan Council, which administers vouchers in all of the other suburbs. The highest suburbs and their two bedroom VPSs are shown in Appendix III, "VPSs by City," page 11. Some exceed 110% of the FMR; those required HUD approval.

We did not apply a utility allowance to the rents we were quoted. Because the voucher payment standard is supposed to cover "housing cost" which includes household utilities (except phone and cable), the number of units reported as being within the VPS is actually overstated. For example, if the quoted rent was $810 and the utility allowance for the unit is $30 and the VPS in that city was $816, the total housing cost ($840, rent of $810 plus utilities at $30) exceeds the VPS by $24. In this case, the family would have to pay the extra $24 out-of-pocket, raising their housing cost above 30% of income. Technically, this unit should not be counted in our survey as "qualifying" or "affordable."

There are a variety of "minimum income" requirements being used by owners and managers. Most are expressed as a multiple of the rent. Where there were such requirements, we probed to learn how it was being applied to Section 8 applicants. If applied to the tenant's portion of the rent, the multiple could be up to 3.3 to 1 without disqualifying the applicant, provided the rent was within the VPS. If the multiplier was 3x and applied to the unit's market rent, virtually all Section 8 holders would be disqualified. In this year's survey, we found 6,976 units where this was the case.

APPENDIX II

Housing Choice Vouchers and the Voucher Payment Standard

In 1999, HUD merged the Section 8 certificate and voucher programs into a single "Housing Choice Voucher" program. Under this program, the method of setting a voucher's maximum value (the highest rent it would cover) became the "voucher payment standard," or VPS. It is determined locally by the housing agency issuing vouchers in its jurisdiction.

There are four such agencies in suburban Hennepin County: Bloomington, Plymouth, Richfield, and St. Louis Park; two in Dakota County (the Dakota County CDA and South St. Paul); the remainder of the area surveyed is served by the Metropolitan Council's Housing and Redevelopment Authority.

Every year, HUD publishes a set of "Fair Market Rents" (FMRs) for each metropolitan area in the nation and for the non-metro areas of each state; FMRs are established for various unit sizes based on a survey of recent moves to dwellings in standard condition, i.e., habitable and up to code. For the past two years, HUD has conducted a "random digit dialing" survey to determine FMRs for the Twin Cities metro area. This methodology has produced program rents that are much closer to market rents, as indicated by the percentages of units qualifying shown in the chart on page 4 of this report.

The term FMR is somewhat misleading because "rent" actually means "housing cost." Housing cost is the rent *plus* utility costs (not including phone and cable). Most apartment rents in Minnesota do not include all utilities; they are paid by the tenant. So, when utility costs are figured in, the unit can exceed the VPS even though the advertised rent may be lower.

Within limits, the local agencies have the authority to set the maximum amount that vouchers will cover; these become the VPSs for their areas. They can set it anywhere between 90% and 110% of the FMRs. Going above or below these limits requires approval from HUD. Using vouchers, tenants pay 30% of income towards the housing cost; the agency issuing the voucher pays the landlord the rest, up to the VPS. If the rent plus utilities exceeds the VPS, the tenant must pay the extra amount out-of-pocket. (See III, "VPSs by City," page 11, for the VPSs in use at the time of this survey.)

However, a family may <u>not</u> pay more than 40% of its income for housing when they first receive a voucher or any time they move to a new unit. If the rent and utilities increase above 40% of the family's income after the initial lease period, they may remain, but will have to pay any increase out-of-pocket, pushing their housing cost past 40%.

This provision excludes a large number of low income tenants from many Twin Cities rental units. Housing agency staff, who first welcomed the flexibility of the new voucher program, have begun to experience problems as apartment seekers run afoul of this 40% limit and are unable to lease a unit. Setting a 40%-of-income limit carries an implication that this cost burden is acceptable and sets the stage for it's becoming the new definition of "affordable housing."

APPENDIX III: VPSs by City

Voucher Payment Standards (VPS) in Effect at Time of Survey
2-bedroom apartment

The cities listed are those where apartment complexes were surveyed this year.

Anoka County

City	VPS	% of FMR*
Anoka	948	110%
Blaine	948	110%
Centerville	948	110%
Columbia Heights	948	110%
Coon Rapids	1,021	118.5%
Fridley	948	110%
Hilltop	816	110%
Ramsey	948	110%
Spring Lake Park	948	110%
St. Francis	948	110%

Dakota County

City	VPS	% of FMR*
Apple Valley	937	109%
Burnsville	937	109%
Eagan	937	109%
Farmington	878	102%
Hastings	878	102%
Inver Grove Heights	937	109%
Lakeville	937	109%
Lilydale	912	106%
Rosemount	878	102%
South Saint Paul	862	100%
West Saint Paul	878	102%

suburban Hennepin County

City	VPS	% of FMR*
Bloomington	1,034	120%
Crystal	948	110%
Brooklyn Center	948	110%
Brooklyn Park	948	110%
Champlin	948	110%
Chanhassen	948	110%
Crystal	948	110%
Eden Prairie	1,034	120%
Edina	1,034	120%
Excelsior	948	110%
Golden Valley	948	110%
Hopkins	948	110%

City	VPS	% of FMR*
Maple Grove	1,034	120%
Maple Plain	948	110%
Minnetonka	1,034	120%
Mound	948	110%
New Hope	948	110%
Osseo	948	110%
Plymouth	1,034	120%
Richfield	816	95%
Robbinsdale	948	110%
Spring Park	948	110%
St. Louis Park	948	110%
Wayzata	948	110%

The Metro Council HRA which issues vouchers used throughout the 7-county metro area set its VPS at $948, 110% of the FMR.

* The VPS can be set between 90-110% of the Fair Market Rent (FMR) without HUD approval; higher VPSs (up to the maximum of 120% of the FMR) require HUD approval. The Metro Area 2 bedroom FMR during the survey was $862.

APPENDIX IV: HRA Survey Results

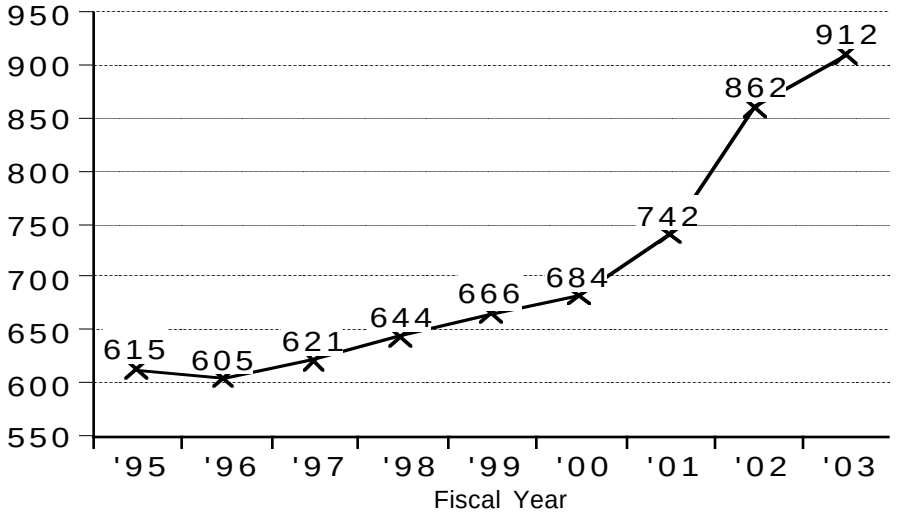
Twin Cities Metro Area Fair Market Rents (FMRs)

Current FMRs compared to FMRs in effect at time of 2002 survey

	Efficiencies	1 bedroom	2 bedroom	3 bedroom	4 bedroom
FMRs in effect at time of survey	$ 524	674	862	1,166	1,312
Current FMRs (effective 10/1/02)	554	713	912	1,233	1,397
Increase in FMR	30	39	50	67	85
Percent increase	5.7%	5.8%	5.8%	5.7%	6.5%

In 2000, HUD published a notice that in 39 high rent market areas, including the Twin Cities metro area, FMRs would be calculated using the 50th percentile of rents instead of the 40th. The *current* FMRs that went into use on October 1, 2002 (after our survey was completed) represent about a 6% increase, considerably smaller than last year's 16% increase; nevertheless, this permits the two bedroom voucher payment standard to reach $1,094 (120% of the FMR) in the highest priced submarkets.

The chart below shows FMRs beginning with fiscal year 1995 when this report was first published.



FMRs are set by HUD effective October 1 for the following Fiscal Year (10/1 - 9/30). FY2003 began October 1, 2002

NOTE: Also see the Appendix II (page 10) "Housing Choice Vouchers and the Voucher Payment Standard" for an explanation of the relationship between the Fair Market Rent and the Voucher Payment Standard, which is the actual market value of a voucher.