The Cost to Sustain Deeply Affordable Housing in the PHA's HCV Program

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Issue Summary

Policy makers must understand the costs needed per unit to sustain affordability as they consider adding tenant-based or project-based 30% AMI supply. The average monthly Housing Assistance Payment (HAP) the PHA made to private landlords that participate in our 5,000 voucher Housing Choice Voucher (HCV) program was about $820 in July 2022. Including administrative costs of 10%, the total cost to sustain deeply affordable housing for the average household in the HCV program is about $10,800 per unit, per year. Extremely low income households (those making less than 30% of area median income (AMI)) have been among the hardest hit by the shortage of affordable housing in the Twin Cities and the Nation. Ensuring housing stability for extremely low-income households requires a sustainable funding commitment far beyond initial development and typical annual operating costs.

Background

In 2021, there were approximately 142 million housing units in the United States of all types (combined homeownership and rental units). Approximately 5 million housing units receive deep subsidies from the US Department of Housing and Urban Development (HUD) that help households with incomes below 30% AMI live in safe, affordable, quality housing. While the Low-Income Housing Tax Credit (LIHTC) program has added 2.3 million units of affordable housing since its inception in 1987, most "tax credit" units have rents that are affordable to households earning 50% to 60% AMI. Because this limited supply of deeply affordable housing (accounting for less than 4% of all US housing) serves approximately one of four households that qualify, many state, county and local governmental officials, as well as non-profit and for-profit developers, seek to add supply. But initial supply creation is not sufficient to ensure ongoing housing stability and affordability for extremely low income households.

This publication is intended to quantify the cost of **sustaining** deeply affordable housing units once produced. The data presented is based on this PHA's factual analysis. Community support and initial capital resources needed to produce "30% AMI units" are wonderful accomplishments that should be celebrated. Yet construction is just the beginning of an ongoing financial obligation to sustain completed units as deeply affordable housing. The number of households an affordable housing provider can serve at 30% AMI is directly related to how much money is provided in capital and annual operating subsidy. De-regulation, building code review, internal or cross-subsidizing of units in market rate developments, smart design, inclusionary zoning, etc. are important but not sufficient to guarantee neutral to positive net operating income (NOI) when providing 30% AMI housing.

A widely accepted measure for affordability is a housing cost that does not exceed 30% of a household's gross income. This means that in 2022, a four person household at 30% AMI could afford to pay about $887 per month in housing expenses; however, the fair market rent for a 2-bedroom in the Twin Cities is $1,329 and the median rent is $1,385.[1] Substantial resources are required to close the gap between what households at 30% AMI can afford and the rent levels available on the market. St. Paul PHA's 5,000 voucher HCV program is one resource that bridges this gap.

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[1] At the time of publication, AMI for a family of four in the Twin Cities metro area is $118,200 while 30% of AMI is $35,460; the extremely low-income (ELI) Income Limit is $35,200.

Households served by the PHA's HCV program often have incomes substantially below 30% AMI. The HCV program is designed for participants to pay a minimum of 30% of their adjusted income towards their rent, while allowing them some choice to pay more than 30% to live in the size or type of unit of their choosing. It is the HCV program's subsidy structure that ensures housing is affordable for these households. Tenant rent amounts for the 5,000 households participating in the PHA's HCV program are a function of tenant income, not the market cost for the home they are renting. Basing tenant rent on household income enables households at or below 30% AMI to sustain housing in a rental market where they would otherwise be extremely rent burdened.

The average monthly Housing Assistance Payment (HAP) the PHA made to private landlords that participate in our HCV program was about $820 in July 2022. Including administrative costs of 10%, the total annual cost to sustain deeply affordable housing for the average household in the HCV program is about $10,800. Ensuring housing stability for extremely low-income households requires a sustainable funding commitment far beyond initial development and typical annual operating costs. **To serve a tenant population similar to that of the PHA's HCV program over a 20-year period of affordability[2], developers should plan for over $250,000 in subsidy and administrative costs per unit, or a similar reduction in gross potential rent.[3]** With 85% of the PHA's HCV participants at or below 30% AMI, the PHA must (and does) receive over $50 million in direct annual federal funding to keep these roughly 5,000 households in affordable housing. The program cannot exist without this level of annually provided deep rental subsidy.

Though the number of households the PHA's HCV program serves is impressive, there is still a large unmet need for deeply affordable housing in the Twin Cities. As of May 2022, 61% of rental vacancies in the Twin Cities were affordable at 60% AMI and 30% were affordable at 50% AMI. Only 2% of rental vacancies in the Twin Cities were affordable at 30% AMI.[4] Considering that 13% of Twin Cities households have incomes below $25,000 per year (roughly equivalent to 30% AMI for a one-person household), the mismatch between the available supply and community need is evident.[5] Developing housing that is affordable at 50% or 60% AMI, or at 30% AMI without ongoing subsidies fails to address this need.

Conclusion

The Twin Cities needs more affordable housing. While developing more affordable units is an obvious solution, development alone is not enough. Government entities, non-profits, developers and other community partners need to work together to ensure that the "affordable" projects developed include units affordable at all income levels, including those at or below 30% AMI. In addition, proposals seeking funding to develop "30% AMI units" must explain and ensure how they will keep those units deeply affordable for the entire period of affordability, whether by ongoing subsidies or other means. Failure to ensure a sustainable, ongoing funding commitment beyond development brings the viability of keeping units deeply affordable into question, jeopardizing the housing stability of extremely low-income households.

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[2] Funds for the development of affordable housing typically have periods of affordability of 15 or 20 years.
[3] Based on $10,800 per household per year, applying annual inflation of 2%.
[4] Housing Link, "Twin Cities Rental Market Trends", https://housinglink.org/Research/RentalHousingTrends
[5] U.S. Census Bureau's American Community Survey (ACS)

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