

August 11, 2022

Saint Paul City Council
15 Kellogg Blvd. West, 310 City Hall
Saint Paul, MN 55102

VIA EMAIL: Contact-Council@ci.stpaul.mn.us, CouncilHearing@ci.stpaul.mn.us

CC: Ward3@ci.stpaul.mn.us

Re: Public Comment, Rent Stabilization Ordinance Proposed Rules

To Whom it May Concern:

Thank you for this opportunity to submit public comment on the most recent Amendment to the Saint Paul Rent Control ordinance, proposed by Councilmember Tolbert.

I comment as someone who has been active in the commercial real estate market and has had the privilege to support, through board leadership and financial gifts, the non-profit creation of affordable housing. I understand the concerns of the community about access to safe, affordable housing but this ordinance is NOT the answer. This ordinance in fact hinders our ability to meet the housing needs of our city. I understand that though the city should fully repeal the current rent stabilization policy enacted in November of 2021, it won't. So, city leadership must amend that ordinance to restore an environment for housing production to continue as well as investment in our existing inventory. The amendments should include a 25 to 30-year new construction exemption, coupled with a rational CPI adjustment, and vacancy decontrol.

Countless research and studies have shown that rent control policies reduce the quality and quantity of a city's housing stock, reduce renter choice and mobility, and discourage investment in new housing as well as in a city's existing housing stock. The policy enacted in November of 2021 is the most draconian rent control policy in the country, and the only logical assumption to be drawn is that this existing policy will:

- **Discourage New Supply**: New construction permits are down 80% according to HUD data. This includes projects that already had committed investment in advance of the rent control ordinance. One would surmise that permits will only decrease now that developers and investors are pre-emptively aware that Saint Paul has a rent control ordinance in-place. This isn't anecdotal, I have had several projects terminated over the ordinance.
- **Discourage Investment in Saint Paul Housing**: Lenders and investors can choose where to invest their capital. A rational investor will not choose to pursue an investment where revenue can only increase 3%, and expenses & taxes increase in-line with CPI (9% trailing). This applies to groups who are determining whether to finance new housing units, or existing owners who are determining whether to invest in building deferred maintenance or add a more energy efficient heating system. In doing so, they may need to re-capitalize their investment for those improvements and the lenders may not be there for that debt.

- **Decrease Renter Choice & Mobility:** As a byproduct of decreasing market supply, rent control has been shown to decrease renter choice and mobility. A healthy market generally has 5-10% units vacant at any given time. This vacancy gives renters optionality when they are choosing their next place to live. In a market with supply constrained by rent control new housing supply does not keep up with new residents moving to the city. As a result, vacancy in markets with rent-controlled apartments can be closer to 0-1%, which means that renters do not have options if they choose to move. This lack of choice disproportionately impacts low-income renters who are dependent on transit and may not have the choice to leave the city to find new housing.

To mitigate the negative market distortions, I would strongly urge the council to:

- **Exempt New Construction 30 Years, Minimum of 25:**
 - o The city of Saint Paul needs more housing. New housing development is always fraught with risks and exempting new construction for 30-years shows potential investors that their investments are free from the risk of price controls for a portion of their investment horizon.
- **Create a CPI Adjustment Factor:**
 - o The Consumer Price Index is an impartial measure of inflation and deflation. A 3% hard rent cap does not work in a world where inflation is variable. If inflation is variable, then expenses are variable. In today's environment where CPI is 9%, expenses would be expected to rise 3x more than revenue (3% rents). This all but guarantees that no purchase, refinance, or new construction would ever pass a lender stress test, not to mention represent a safe investment for owners. To be clear, a VERY large portion of the expense related to real estate is not in the control of the building owner – taxes, utilities and insurance. I am sure you have all experienced the pain of the rising costs for all of these.
- **Incorporate Vacancy Decontrol:**
 - o Vacancy Decontrol allows landlords to bring rents back up to market rate when a tenant moves-out. This gives landlords the ability to capture market rates without raising rents on an existing tenant. This also provides landlords with the ability to capture a return on their investment when they re-invest in their property (to upgrade the heating system, a new roof, etc.) without passing through disproportionate rent hikes to existing tenants.

In addition to mitigating the negative effects of rent control on the housing market, the city also needs to factor the hidden costs of rent control on the city budget, and the opportunity cost of where those costs could be more efficiently spent to benefit the renters of Saint Paul. A March 18, 2022 study by Kenneth Ahern and Marco Giacoletti from the University of Southern California estimate that the recently passed ordinance will cause Saint Paul "property values to fall by 6–7%, for an aggregate loss of \$1.6 billion", at current tax rates, this would represent a net tax revenue loss to the city of over \$20MM per year. This also does not factor in the additional city staff and payroll required to run a rent control compliance department of the city, which if Berkley's department could be used as a comparative example, could cost well in excess of \$1MM per year.

If the city is serious about supporting low-income renters, increasing housing stability, and improving housing market affordability, then I would encourage the city to consider of these hidden costs would

be better spent on alternative measures, such as investments in new income-restricted housing, preserving existing NOAH properties, or the BEST option which is direct subsidies to tenants in need.

Thank you for your time and consideration in reading this public comment.

Tanya Bell

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