



August 3, 2022

Council President Brendmoen
Council Member Tolbert
15 W. Kellogg Blvd.
#310
St. Paul, MN 55102

Re: St. Paul Rent Stabilization Ordinance
Proposed Changes to the Ordinance – First Hearing August 3, 2022

Dear Council President Brendmoen & Council Member Tolbert

We have received a copy of the proposed changes to the St. Paul Rent Stabilization Ordinance.

As a long- term developer, owner and operator of rental housing in the City of St. Paul, we are completely frustrated and disappointed at these additional changes. These changes create additional obstacles to our business and do nothing to improve our business operations and the services that we provide our tenants.

The changes proposed by you are targeted to give new projects an exemption – a benefit that will not help or enhance any of our existing properties. And, the changes that you are proposing will add undue burden to our existing properties.

Stuart Co has been in St. Paul providing housing since 1970. We have invested millions of dollars in properties and we have paid millions of dollars in real estate taxes each year. We have created over 3,000 units of housing from senior to affordable to market rate projects – the majority of which have been created in both of your wards. We also have had many conversations with you on the damage this rent control ordinance has on our business and the impact that it has on our ability to provide improvements to our communities that would benefit our residents.

The changes you are proposing will only add more layers of government oversight to our right to improve and maintain our investments.

- The banking rent idea provides absolutely no benefit to us in light of the just cause eviction provision.
- In addition, eliminating the ability for a Landlord to bill back utilities violates MN State Statute 504B.215.
- As is clear from the first few months of operation, the process for applying for exemption is laboriously cumbersome and requires a private business owner to disclose confidential financial information to the city and public.
- Maintaining the 3% cap on rent increases when the market place is exceeding this everywhere except in the City of St. Paul strikes us as unreasonably punitive on those landlords who have supported you and the residents of your Wards.

As council members, you have the responsibility to do the right thing and to act in the best interests of both landlords and tenants. If you think that the City needs more affordable housing or that low and middle income tenants need rent subsidies then that is a community problem. If it is a community problem, then you should be passing laws that place the burden of fixing that problem on the entire community and not just landlords.

We are requesting that you as leaders of St. Paul pull these proposed changes and work towards a full repeal of this unconstitutional and unworkable ordinance.

Affordable Housing is needed in this city and the State. The City would be better served by a Council that focused on programs to encourage new affordable developments vs. punishing existing operators that currently providing housing.

As council members, you have the responsibility to encourage rights of business owners and operators. None of our rights to do business is being protected.

We are requesting that you as leaders of St. Paul pull these proposed changes and work towards a full repeal of this unworkable and disastrous ordinance.

Sincerely

Stuart Nolan
Founder
Stuart Co

Lisa Moe
CEO
Stuart Co

From: [Andre Ingram](#)
To: [*CI-StPaul Contact-Council](#); [CouncilHearing \(CI-StPaul\)](#)
Cc: [Maureen Michalski](#); [Joseph Peris](#)
Subject: 8/10 City Council Mtg Public Comment RE: Rent Control
Date: Friday, August 5, 2022 5:10:47 PM
Attachments: [Saint Paul Rent Stabilization Amendment.pdf](#)

Hello,

Please find enclosed Ryan Companies' public comment for the August 10th City Council public hearing regarding rent control.

Thank you.

Andre Ingram

Real Estate Development Associate

Andre.ingram@ryancompanies.com

(c) 612-701-3840

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Minneapolis, MN 55415

ryancompanies.com





August 5, 2022

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

Re: Public Comment, Rent Stabilization Ordinance Proposed Rules

To Whom it May Concern:

Thank you for the opportunity to provide public comment regarding the recently published rent stabilization amendment proposed by Councilmember Tolbert.

Rent stabilization policies are detrimental to supporting a community's growing housing needs and economic development. Rent control stifles new investment and production of multifamily rental housing, worsening local housing crises. Saint Paul has adopted what is widely recognized as the most stringent rent control policy in our country. If the City is unable to fully repeal the rent stabilization policy adopted in November 2021 it must swiftly amend the ordinance in order to neutralize the negative impact and disinvestment stemming from this policy. Strong action in the form of a new construction exemption for a period of no less than 30 years from initial certificate of occupancy is necessary.

From discussions with institutional investors that companies like Ryan rely on to develop new housing, an exemption of 30 years in length is critical in order to retain any investor interest in new construction in Saint Paul. We do not believe a 15 or 20 year exemption will attract capital back to the marketplace- particularly given a lack of CPI adjustment or true vacancy decontrol. Amendments to the policy are necessary to address the 11,000 unit housing shortage identified by the Mayor's office through continued housing production in Saint Paul.

Ryan Companies US, Inc.
533 South Third Street, Suite 100
Minneapolis, MN 55415

p: 612-492-4000
ryancompanies.com

Equal Opportunity Employer



We believe that a 30 year new construction exemption is imperative for the following reasons:

Prove to builders and funders of housing that the City is serious about growth and progress.

Since the passage of rent control, new construction permits are down 80% according to HUD data. The funding sources for our project in Saint Paul have also stopped investing and financing in new projects. This comes at a time when housing construction is robust in other communities. A 15-year exemption merely indicates a disconnect within the ordinance and does not correct the damage already done in the marketplace with the ordinance adoption. A 30-year exemption is a clear statement that the City is serious about the creation of new housing supply. The city needs new housing to achieve the equity, growth, and stability that lead us to this crisis. The risk of doing too little is too great!

Protect the City Tax Base

Buyers of newer housing projects will adjust their pricing downward in order to protect their investment against limits on rent growth when compared to inflation. 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".

Multifamily new construction is financed on a 30-year amortization schedule and depreciated by the Internal Revenue Service over 27.5 years. A property needs to go through 2-3 economic cycles before it reaches a stable lease rate and occupancy. A full business cycle has historically averaged 4.7 years, however the most recent expansion has been over 9 years. A 15 or 20 year exemption will impact sale values, making new construction more difficult and impacting the City tax base.

New Projects Take Time to Stabilize

When a new project is complete, it is not 100% full on day 1. It typically takes 12-24 months to lease up a project and during that time, move in incentives are typically used. This is where the project has the most risk and exposure and where housing owners often reduce rents or implement concessions to attract tenants to the property. The property does not truly stabilize until after both lease up and the burn off of initial incentives which can be 3-6 years, therefore a 15-year new construction exemption does not provide a true runway of 15 years.

New Construction is not the problem

Rental rates for new projects tend to be at market rates due to the high cost of new construction. These higher rental rates are not the vital NOAH rental rates that are needed to protect the City's most vulnerable renters. New construction is also the future NOAH, generally transitioning after the building has been sold several times. Without the ability to complete these standard investment cycles the transition to NOAH will take longer. Why risk shutting off new supply and compounding the issue for future affordable housing needs with an insufficiently short new construction exemption period?

30 Year Exemption Does Not Meaningfully Impact Existing Properties

According to CoStar data, **5,650** market rate rental housing units in multifamily buildings were built in Saint Paul between 2002 and 2022. For the 10 year period prior to 2002, **27** market rate rental housing units were built. The impact of extending the exemption period to 30 years from 20 years for market rate properties as proposed would be negligible to existing properties but would have a meaningful impact on the ability to advance future housing production in the city.

Ambitious Redevelopment Projects

Advancement of large, multifaceted redevelopment projects are vital to meaningfully growing housing stock, advancing economic development, providing amenities and supporting the city's tax base. Many of these developments utilize the tax increment financing (TIF) from the market rate housing to generate additional funding resources and support increased production of income restricted, Affordable Housing. Exempting large scale redevelopment projects that support affordable housing for 30 years is vitally important to the broad initiatives and long-term goals of the city and to create super-charged opportunities for Affordable Housing production and economic development.

Affordable Housing stock maintenance.

As currently proposed in the amendments, Affordable Housing would be exempted from the ordinance in its entirety; however, if that should change in subsequent amendments of the ordinance it is encouraged that Affordable Housing also receive a 30 year exemption alongside market rate housing. Affordable housing developments typically go through a refinancing and re-syndication of tax credits, alongside significant updates in year 15 of their lifecycle, and again after another 15 years. These mission driven assets may find it difficult to utilize the ordinance allowed renovation and rent increase exemption process prior to a refinancing because of complex layers of funding. A 30-year exemption allows these properties the opportunity to undergo at least one cycle of a standard recapitalization process, allowing for rent increases still defined as Affordable within the housing tax credit program and HUD standards, maintaining quality affordable housing for the residents.

This is a time for immediate action and the risk of doing too little is too great!

The solution needed for amendment to the policy in Saint Paul cannot be sought from other markets, as the intricacies of risk and particulars of investment are location specific. Other cities may have rent control in place with development still occurring; however, these markets have much stronger economic fundamentals from an investment perspective- including much higher starting market rental rates, as well as much larger populations and population growth that continue to entice investment. Saint Paul does not enjoy these strong market fundamentals. The Oakland/Berkeley, CA market, for example, has an average current rental rate of \$3.39/sf or \$2,893/month (where annual rent growth was 8.81%) according to Real Page Analytics. Central St Paul, by contrast, has an average rental rate of \$1.71/sf or \$1,465/month (where annual rent growth was 3.63%) according to Real Page. Markets where rent control is in place



and development is still occurring also have a variety of adjustments and exceptions to their rent control ordinances- such as new construction exemptions, vacancy decontrol and the ability to track rents with, at minimum, the Consumer Price Index rather than a flat, below normal inflation rate. Without a strong signal to the investment community of a 30 year new construction exemption to advocate for housing growth, development will not occur in Saint Paul- the market fundamentals are simply not there to support it.

With regards to the other modifications proposed we offer the following comments:

-Banking of rent increases and modified vacancy decontrol. The proposed amendments allow for landlords to “bank” rent increases should they not want to raise rents on tenants. These could be saved or “banked” to allow for a rent increase in the unit at the time it is vacated. Further, is indicated that the Consumer Price Index would be the basis for determining a pattern of rent increase for the approval of the increase of rent upon a Just Cause Vacancy. The banking proposal over-complicates the process. The city should simplify the process and allow for an adjustment of the rent upon vacancy to market rate, rather than concerning itself with the banking and calculating of incremental but unutilized increases. There is already enough administrative burden in the policy for the City and landlords, and any simplification will reduce the cost of administration so that resources may be used in a more productive manner.

Third Party Data Regarding Rent Stabilization Policy Amendments

In order to assist the council with additional data from the housing production industry we undertook two polls- one with 15 local developers and one with 11 local lenders to seek feedback on the rent stabilization policy and various proposed amendments. Attached you will find the outcomes of that data collection. The development poll indicates 20 or 30 year new construction exemptions, with CPI adjustments and vacancy decontrol would be needed to encourage the development industry to resume pursuit of new housing projects in Saint Paul. The lender poll echoes similar sentiment as the development poll with 30-year new construction exemption and CPI adjustments needed to reengage lending in Saint Paul for new developments.

If you should have questions regarding our comments or the attached third party polls I may be reached at Maureen.michalski@ryancompanies.com.

Kind Regards,

A handwritten signature in blue ink, appearing to read "Maureen Michalski", written over a light blue horizontal line.

Maureen Michalski

Vice President, Real Estate Development

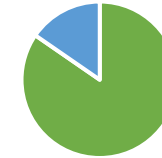
Saint Paul Rent Control Ordinance –Development Poll

Polling Group – 15 local developers who are actively developing and building new apartment units within the Twin Cities. We received responses from 13 of 15 companies; including from: Ryan Companies, The Excelsior Group, Reuter Walton, Afton Park, Solhem, Exeter, Ackerberg Group, McGough, Bader Development, Doran Properties Group, Wall Companies, Wellington Management, & Hines.

Did you develop, invest, or pursue a new project in Saint Paul Prior to November 2021?

■ Yes - 11

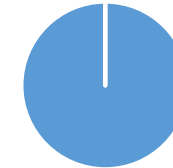
■ No - 2



Would you develop, invest, or pursue new projects in St Paul moving forward without an amendment to the current policy?

■ Yes - 0

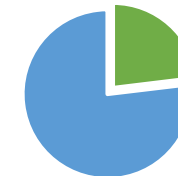
■ No - 13



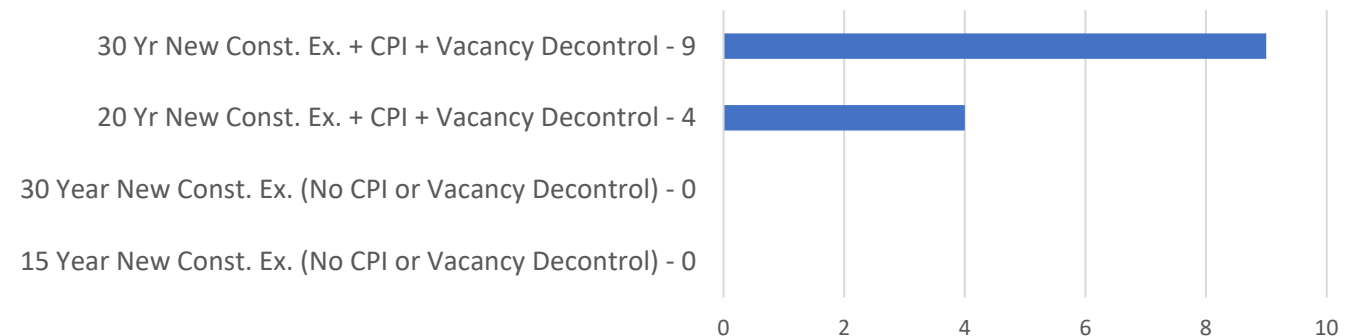
Would you renew actively pursuing or developing new projects in Saint Paul if the proposed amendment changes are passed(20-year new construction exemption, with no CPI adjustment, & no vacancy de-control)?

■ Yes - 3

■ No - 10



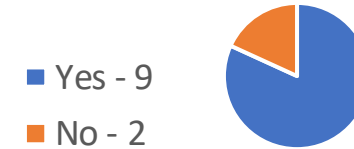
Short of a full repeal of the rent control ordinance, what amendments would be needed to encourage you to resume pursuit of new housing projects in Saint Paul?



Saint Paul Rent Control Ordinance—Lender Poll

Polling Group – 20 lenders who are actively financing new apartment units within the Twin Cities. We received responses from 11 of 20 lending companies.

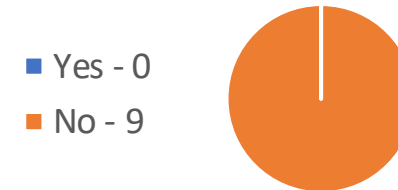
Were you a lender on a new project in Saint Paul Prior to November 2021?



Were you a lender on an existing multifamily building loan in Saint Paul Prior to November 2021?



Would you lend on a new multifamily building in Saint Paul utilizing the same terms used in other Twin Cities communities without an amendment to the current policy? **Two lender respondents did not answers*



Short of a full repeal of the rent control ordinance, what would be the most meaningful amendment to the policy that would re-engage lending on new housing projects in Saint Paul? **results include two respondents who chose multiple answers and two respondents who did not answer.*

