

401 N Robert Street, Suite 150
St. Paul, MN 55101

July 13, 2022

via email

Council President Amy Brendmoen
Councilmember Dai Thao
Councilmember Rebecca Noecker
Councilmember Chris Tolbert

Councilmember Mitra Jalali
Councilmember Nelsie Yang
Councilmember Jane Prince

Re: Rent Stabilization Stakeholder Group (RSSG) Final Report

Council President Brendmoen and Councilmembers:

On behalf of the 1700+ members and affiliates of the St. Paul Area Chamber, who together represent more than 3 million employees and their families, thank you for the opportunity to comment on the final report released by the Rent Stabilization Stakeholder Group. It's worth restating that we continue to strongly oppose the rent control ballot initiative, maintaining our deep concern about unintended consequences of such a proposal. We already know the challenges that rent control is creating for city revenues, property owners' costs, and even renters in the form of scaled back services and higher non-rental fees.

That said, we do appreciate the challenging work of the stakeholder group to reach agreement on any of the recommendations they considered.

Worth reflecting on is a recent [Wall Street Journal editorial](#) about this issue. I've attached it to the letter we formally submitted. The immediate evidence is quite clear: multifamily building permits are down, fees are increasing, and several existing properties were sold in the past 18 months to national investors.

Our input has 3 components. Two are in response to proposed changes; one is a recommendation for additional consideration.

1. Exemption of new construction. This is a welcome proposal. Our recommendation is that the exemption be longer than 15 years. Based on pro formas of investors, a more feasible timeframe would be 30 years. Every additional year provides more certainty to developers and investors who would consider building in Saint Paul. The *Wall Street Journal* editorial references multifamily building permits dropping nearly 82% between Nov 2021 and Jan 2022, compared to the same period a year prior (according to data from the U.S. Department of Housing and Urban Development). Even after accounting for the post-pandemic surge in 2021, adjusted numbers reflect permitting down by 55%. Though it is reasonable to presume that some of that change reflects other economic indicators, the connection is undeniable. On top of that, other



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fees for renters are being increased, security reduced, all to manage costs. Add to that are our extemporaneous conversations with investors and developers alike, who are looking beyond Saint Paul - and, indeed, beyond Minnesota - for more attractive investment locations without this restriction.

2. Vacancy Decontrol. Our concern extends beyond new construction and larger developers/investors. We also look to the existing landlords, small and local owners who provide housing within our community. At this point, they have no protections. This recommendation should be clarified to provide for rents to be reset to market levels upon vacancy.

For additional consideration: we need to address inflation and taxes. This year alone is a striking example of how this ordinance must be improved to take inflation into account. Three factors are immediately before us:

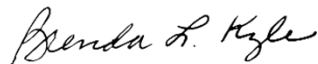
1. According to the Mortenson Cost Index, construction costs rose 18.2% between Q1 2021 and Q1 2022 in Minneapolis. Those rising costs are being experienced across the construction market here and nationally.
2. On top of that, the U.S. inflation rate, as of June 2022, is at 8.8%, the highest since December of 1981 - and even ahead of market forecasts.
3. The City of Saint Paul is facing real budgetary challenges due to the recent lawsuit regarding how we handle street work assessments. That alone represents a \$15 million budget gap. There is significant possibility that a portion of that gap will be made up through increased property taxes.

We understand and embrace the urgency of the need for housing. We also are seeing in real-time the confusion and negative impact on the housing market because of this ordinance. Finally, we are hopeful that the recommendations of the stakeholder group, with additional clarity and considerations listed above, are considered to mute its negative impact.

In truth, we are asking for leadership, wisdom, and strong action.

Thank you most sincerely for your time.

Respectfully,



B Kyle
President & CEO
St. Paul Area Chamber

