

July 13, 2022

RE: Item 66, PH-22 – Hearing on Rent Stabilization Stakeholder Group Final Report

Dear Members of the City Council,

I had the opportunity to serve on the Mayor’s Stakeholder Group and we, at Exeter, have experienced direct, negative impact from the rent control ordinance with the complete withdrawal of capital sources from any further multi-family investment in Saint Paul. The data is clear that significant changes are necessary to reignite production of the housing supply, stability and subsidy desired by advocates for renters and developers.

The CURA report presented today is only a starting point, and as you can see, the Stakeholder Group process was far from perfect. We urge you to show a real commitment to getting Saint Paul back on track by rising above and implementing the following in whole, not in part:

30-year New Construction Exemption

Demonstrate to the producers and funders of housing that Saint Paul is committed to growing its housing supply. The hastily proposed 15-year new construction exemption is a cut and paste of Oregon’s policy. It lacks any thoughtful foundation and is not nearly long enough to incentivize investment. The logic behind 30 years is that new multi-family construction is financed on a 30-year amortization schedule, it is depreciated by the Internal Revenue Service over 27.5 years and will go through several investment cycles from construction, stabilization and two or three investment sales before it becomes Naturally Occurring Affordable Housing (“NOAH”). Add it all up and 30 years is the number necessary to attract the capital required to get back to chipping away at the Mayor’s Office estimated 11,000-unit housing shortfall in Saint Paul.

A 30-year new construction exemption is also necessary to demonstrate to the citizens of Saint Paul that its elected leaders are committed to maintaining a sound tax base. Since passage of the rent control ordinance, new construction permits are down 80% and 3,000 to 5,000 new affordable and market rate units have been paused or cancelled at a time when housing construction is otherwise booming in the rest of the Twin Cities and across the country. While others are adding to their tax bases, a March 2022 study by USC estimates an aggregate Saint Paul property value *loss of \$1.6 billion*. How will the City pay for basic services like public safety if its property tax base continues to suffer from the combination of decline in value and lack of new investment? A 30-year new construction exemption is needed to show the investment/development community and the people of Saint Paul that it is serious about a healthy supply of housing and a financially healthy city.

Variable Rate Cap, adjusted for inflation, and Self-Certifying Reasonable Rate of Return

The folly of picking a number like 3% is obvious when we are suddenly in an 8 plus percent inflation environment. The cap needs to be variable and landlords, especially small landlords, should be able to self-certify reasonable rate of return increases without burdensome and random municipal processes.

Full Vacancy Decontrol coupled with Renter Stability Protections

It is important that these concepts, along with the others mentioned, are enacted together. A landlord should be able to charge a market rate and a renter should know that it will not lose its home if complying with its lease and making timely payments of market rent. We understand that the prior Saint Paul renter protection ordinance, which included both eviction protections and restrictions on tenant screening, was deemed illegal in Federal District Court because of the combination of items included, notably the tenant screening restrictions. Just cause eviction protections are prevalent in other parts of the country and could be implemented on their own in conjunction with full vacancy decontrol.

Other Necessary Exemptions

- Owner occupied, four units or less.
- Properties subject to Land Use Regulatory Agreements (“LURA”) or a Federal contract.
- Senior, Student or other properties providing care or services.

Since last November, the City Council and all stakeholders have had to learn from this nationally recognized embarrassment. We all reserve the right to get smarter and now is the chance for you as leaders to do as you were elected to do and craft effective policy inclusive of the above.

Very truly yours,

EXETER MANAGEMENT LLC

Thomas M. Nelson
Robert W. Stolpestad
Herbert W. Tousley, IV