

OPINION | REVIEW & OUTLOOK

St. Paul's Rent-Control Backfire

Building permits fall, and so will the supply of affordable housing.

By [The Editorial Board](#) [Follow](#)

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Saint Paul downtown near the Mississippi River.

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Affordable housing can be built, but it can't be mandated into existence. That's the lesson from St. Paul, where a new rent-control ordinance has discouraged the construction of much-needed affordable apartments.



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Last November 53% of St. Paul residents voted for a ballot measure to cap rent increases at 3% a year. The new ordinance took effect in May, and it makes no exceptions for new construction.

This strict new rent control is hitting while building costs have soared. Between the first quarter of 2021 and the first quarter of 2022, construction costs rose 18.2% in nearby Minneapolis, according to the Mortenson Cost Index, which tracks market conditions including labor, material and equipment.

“If your costs of doing business are going through the roof but your cap is 3% forever, that’s an equation for losing business,” says Donna Hanbery, an attorney who has represented residential property owners and managers in the St. Paul area for some 45 years.

St. Paul’s rent control creates an incentive for developers to build luxury apartments to recoup their construction costs. But builders are also opting to leave St. Paul. Citing rent control, investors recently paused development on the 3,800-unit Highland Bridge project. Its builders would have set aside 20% of units for affordable housing, with 10% going to those earning 30% or less of area median income.

“As capital is global, we need policies that encourage investment in our communities rather than stifle it,” says Maureen Michalski, vice president of Ryan Companies, the lead developer of the Highland Bridge project. “The current rent control stifles.” The Highland Bridge investors want a 30-year exemption on rent control for new construction, but rent control is destructive always and everywhere.

Multifamily building permits in St. Paul have plummeted nearly 82% between November 2021 and January 2022 compared with the same period a year prior, according to data from the U.S. Department of Housing and Urban Development.

Proponents of the rent control note that St. Paul's permitting rate was unusually high in early 2021 as the market rebounded from the pandemic and lockdowns. To account for such anomalies, Mercatus Center senior research fellow Salim Furth compared St. Paul building permits in the five months after passage of rent control with the average of the same months in the three years prior. By that metric, St. Paul's multifamily permitting is still down 55%. City data shows St. Paul's building permit revenue from January to May 2022 was \$3.699 million, down from an average of \$4.176 million from 2018 to 2021.

Voters in St. Paul's twin city of Minneapolis also supported rent control at the ballot box in November. But instead of mandating it, that ballot initiative gave the city council permission to enact some form of cap. City councillors have been slow to act—especially now that permitting data suggests Minneapolis is a beneficiary of St. Paul's rent-control folly. Mr. Furth's multiyear data shows a 68% increase in Minneapolis multifamily permitting since the passage of St. Paul's rent control.

The best way cities can make housing affordable is to have policies that increase the housing supply. Rent control restricts supply and is economic madness, as St. Paul is proving.

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