Housing Justice Center
Dedicated to expanding and preserving the supply of affordable housing in Minnesota and nationwide.

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November 4, 2025 **Submitted via Email**

City of Saint Paul Housing and Redevelopment Authority

Comments Regarding 25-1706: Resolution Endorsing Amendments to the Minneapolis/Saint Paul Housing Finance Board's 2026-2027 Qualified Allocation Plan; Citywide

The Housing Justice Center submits these comments to the St. Paul Housing and Redevelopment Authority (HRA) as it considers amendments to the 2026-2027 Qualified Allocation Plan (QAP) for Low-Income Housing Tax Credits (LIHTC).

The proposed amendments to the QAP and related documents would give priority to properties in an area of downtown Saint Paul and allow those properties to utilize the Qualified Contract loophole. The Housing Justice Center urges the HRA not to allow use of the Qualified Contract loophole in those properties. The Qualified Contract loophole allows LIHTC owners to effectively seek to opt out of the affordability requirements after 15 years, rather than provide the full 30 years of affordability. For the reasons set out below, the Housing Justice Center opposes this proposal and encourages the HRA to maintain the existing QAP requirement that all LIHTC properties waive their ability to use the Qualified Contract Process to ensure that affordable units created with public resources remain affordable for at least 30 years.

The Qualified Contract Loophole Leads to Reduced Affordability

The Qualified Contract process is a loophole that allows LIHTC owners to seek to opt out from the LIHTC affordability restrictions after the 15-year initial compliance period, rather than maintain affordability for a full 30 years. See 26 U.S.C.A. § 42(h)(6)(E)(i)(II). St. Paul staff not only propose to re-open this loophole, but frame it in the meeting materials as an "opportunity to limit the affordability to only 15 years."

The federal LIHTC program requires owners to agree to maintain properties as affordable for 30 years. 26 U.S.C.A. § 42(h)(6). The Qualified Contract process developed as a loophole to that requirement. The Qualified Contract process allows the LIHTC owner to ask the allocating agency to find a qualified purchaser for the property at year 14. If a qualified purchaser is located, that entity purchases the property and maintains it as affordable throughout the full 30-year period. The problem is that the required sales price is set by federal law and significantly exceeds the market value of the property as affordable housing. As a result, it is rare for the Qualified Contract process to result in a preservation purchaser. Some LIHTC owners took advantage of this process and exploited the loophole as a way to get out from under the LIHTC 30-year affordability period and convert properties to market rate after year 15.

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The Qualified Contract loophole has become widely disfavored across the country as it has resulted in a significant loss of affordable housing units and displacement of tenants. Studies estimate that the Qualified Contract process "results in the loss of affordability of between six thousand to ten thousand low-income units annually" and approximately "115,000 units have been lost from the affordable housing stock through the use of qualified contracts over time."[1]

The current St. Paul and Minneapolis QAP requires all LIHTC owners to waive the Qualified Contract process, which is consistent with a majority of the states and localities in the United States. As shown in the National Housing Trust (NHT) map below, a 2023 analysis found that 39 Housing Finance Agencies require an owner receiving LIHTC to waive the Qualified Contract process and nine (9) more allocating agencies incentivize a waiver.

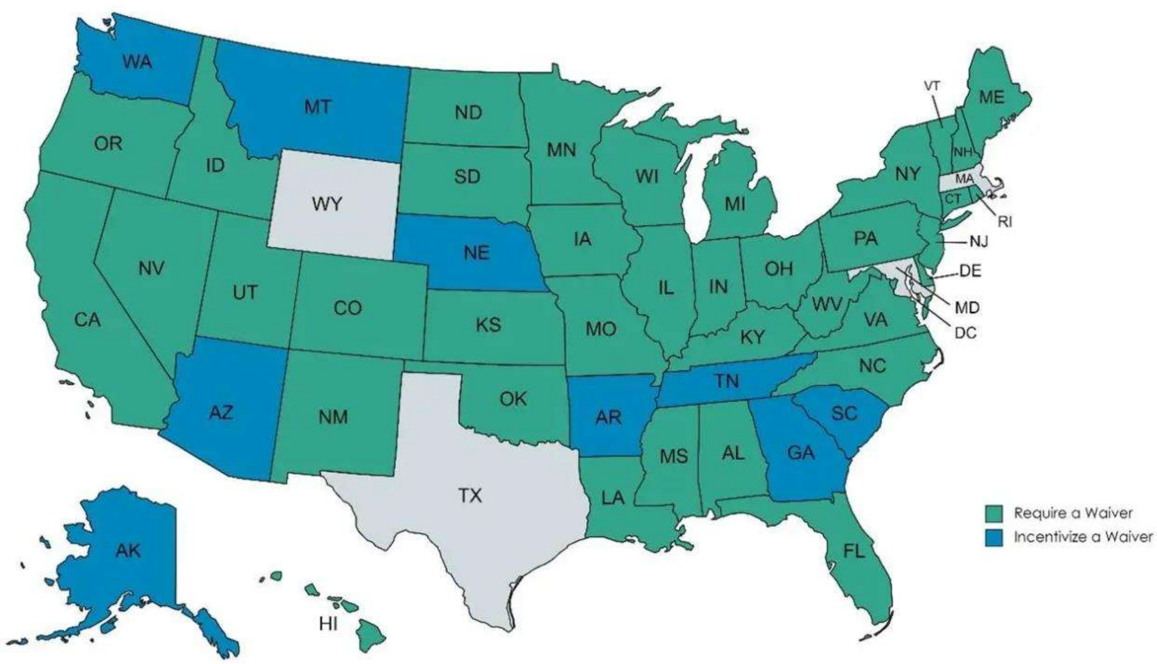

Figure 1: States that Require or Incentivize a Qualified Contract Waiver (as of May 2023)

Source: National Housing Trust, *Protecting Long-Term Affordability by Closing the Qualified Contract Loophole* (July 2023), available at https://nationalhousingtrust.org/news/protecting-long-term-affordability-closing-qualified-contract-loophole.

[1] U.S. Department of the Treasury, Housing Crisis in Focus: LIHTC Best Practices to Discourage Qualified Contracts and Keep Housing Affordable for Longer (Dec. 12, 2024), available at https://home.treasury.gov/news/featured-stories/housing-crisis-in-focus-lihtc-best-practices-to-discourage-qualified-contracts-and-keep-housing-affordable-for-longer.

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While HJC understands the interest in redeveloping downtown St. Paul, using this as an "opportunity" to limit the affordability requirements of a federal affordable housing program is a poor policy choice at a time when more affordable housing is needed.

Saint Paul Needs More – Not Less – Affordable Housing Units for Residents

The City of Saint Paul and the Twin Cities Metropolitan region need more affordable housing to meet the needs of Minnesotans. According to the Minnesota Housing Partnership, there are 332,554 cost-burdened renters in the Twin Cities Metro region, of whom 86% are low-income and 65% are seniors.[2] Minnesota is also facing significant uncertainty regarding the availability of various sources of federal funds to preserve and develop affordable housing. In light of the need and the risks to other federal resources, it is important that the HRA preserve available affordable housing resources and not voluntarily relinquish 15 years of affordability in LIHTC properties in downtown Saint Paul.

Office to Residential Conversions Are Expensive and a Poor Match for Affordable Housing Resources

The proposal is framed as a way to use 4% LIHTC and tax-exempt bonding authority to spur office to residential conversions in downtown St. Paul. But those types of conversions are exceptionally expensive, costing an average of $685 per square foot, compared to $600 a square foot to purchase a completed property and $588 per square foot to build a new multifamily development.[3]

While there may be a municipal interest in spurring such redevelopment, doing so with public resources for affordable housing and then limiting the affordable housing provided with those resources, is poor public policy. St. Paul should look for alternate resources and incentives to use to encourage such redevelopment and focus affordable housing resources on the creation and maintenance of as many units of long-term affordable housing as possible.

QAP Language Must be Changed to Be Clear Qualified Contract Does Not Apply to 9% LIHTC Deals

If St. Paul approves this concept, the proposed language in the Qualified Allocation Plan **must** be changed to make clear that the Qualified Contract process cannot be used by 9% LIHTC developments.

The proposed new language to the QAP on Qualified Contract does not appear to be redlined in the HRA agenda materials available to the public, but the new language is located on the bottom of Page 6 at Article VII(F)(1). As HJC has pointed out to St. Paul staff, the language permitting use of the

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[2] Minnesota Housing Partnership, State of the State's Housing 2024, at 28, available at https://mhponline.org/wp-content/uploads/FINAL_SOTS_2024.pdf.

[3] *Cities Cut Red Tape to Turn Unused Office Buildings into Housing*, MN Reformer (Dec. 3, 2024) available at https://minnesotareformer.com/2024/12/03/cities-cut-red-tape-to-turn-unused-office-buildings-into-housing/; *Can Empty Offices Solve the U.S. Housing Shortage?*, Morgan Stanley (Oct. 2, 2024), available at https://www.morganstanley.com/ideas/commercial-residential-real-estate-conversion.

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Qualified Contract process is not limited to only developments using 4% LIHTC. Language that allows a subset of 9% LIHTC developments to utilize a loophole to provide a shortened period of affordability likely runs afoul of requirements in federal law that LIHTC QAPs give preference to "projects obligated to serve qualified tenants for the longest periods." 26 U.S.C. 42(m)(1)(B)(ii)(II).

HJC strongly opposes using the Qualified Contract loophole at all, but if St. Paul is determined to do so, it must modify the QAP language to the be clear the loophole does not apply to 9% LIHTC developments. Failure to correct the language opens the door to litigation challenges.

Housing Justice Center Rejects the Proposal

With this context in mind, Housing Justice Center strongly rejects the proposal to allow developers to exploit the Qualified Contract loophole to be released from affordability requirements after 15 years, rather than 30 years. Maintaining the affordability of housing for extended periods of time is crucial to creating generational housing stability. 15 years does not even cover the length of time a child usually stays in the home, and abruptly cutting off the affordability of a unit a family has been residing in for years can cause severe disruption to a child's education and sense of community. These protections are particularly important in desirable areas such as downtown St. Paul, which has access to several modes of public transit and a variety of employment opportunities.

Housing Justice Center is further concerned that while the proposed changes would be limited to downtown St. Paul, this could spell the end of 30-year affordability requirements across the metro area. At a time when families are more cost burdened than ever, and homeownership remains out of reach for even most middle-class families, the availability of affordable rental units is of paramount importance. Accordingly, we urge the HRA to reject the slippery slope that this proposed amendment creates.

If you have questions regarding this submission, we can be reached at scarthenwatson@hjcmn.org and asmetak@hjcmn.org.

Sincerely,
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