



Rent Stabilization Staff Analysis

April 2023

EXECUTIVE SUMMARY

In response to a request from City Council, this report provides analysis of the anticipated impacts that a rent stabilization policy would have on the City of Minneapolis. Specific attention is given to the policy frameworks recommended by the stakeholder Work Group created by City Council.

The [Resolution](#) establishing the Work Group identified a need for “a full fiscal analysis on the possible impacts of a policy against the goals in the Minneapolis 2040 Plan and its impact on housing stability, homelessness, and the housing market,” and “policy analysis required for alignment with the city’s existing goals, including racial equity impact analysis and Minneapolis 2040 goals related to affordability and access to quality housing.”

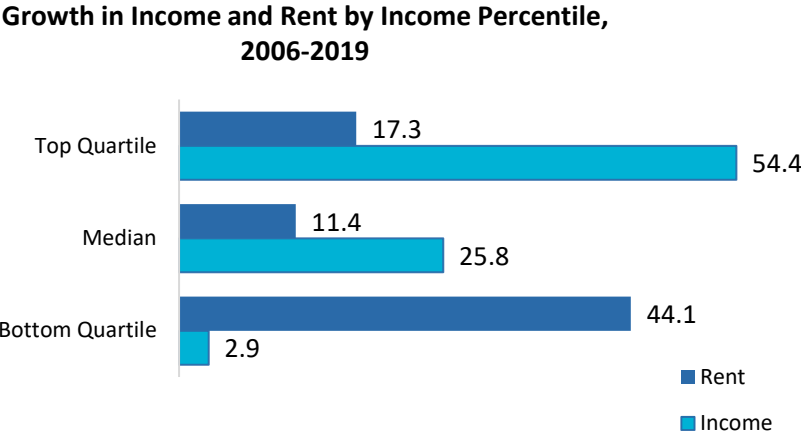
Despite exhaustive efforts, staff were unable to identify an external party willing to engage with the City to conduct economic analysis of the potential impacts of a rent stabilization policy. Instead, a staff team, across multiple City departments, came together to complete the work represented in this report. The team included expert staff from the Departments of Community Planning and Economic Development (CPED), Regulatory Services, Finance (Budget and Development Finance offices), Assessing, and the City Attorney’s Office.

Problem Definition:

To guide the analysis in this report, it was important to identify the problem that a rent stabilization policy would be aiming to address. **The relevant problem is renter cost-burden.** This is the situation of renters paying too much of their income for rent, and as a result, being at risk for housing instability (typically defined as a household paying more than 30% of their income on rent).

The problem of renter cost-burden should be understood by considering its two primary components: an income problem and a housing supply problem.

The majority of households in Minneapolis are renters. Incomes have largely not matched pace with rents for the bottom quartile of income-earners, causing renters in this category to be cost-burdened. This is disproportionately true for BIPOC renter households. The chart below depicts the changes in income and rent from 2006 to 2019 for different income levels of renters in Minneapolis:



Source: CURA Analysis of American Community Survey

Despite record-level production in recent years, there are currently not enough units that are affordable to Minneapolis renters based on current income levels.

Stable housing is a fundamental human need, and housing insecurity has momentous impacts for individuals and families. City staff take this problem very seriously, and while the City has prioritized significant efforts to support renters and promote affordable housing creation and preservation, more needs to be done to ensure all Minneapolis residents have a stable home.

Approach:

Staff analyzed various components of a potential rent stabilization policy and the impacts they could have for the City of Minneapolis. They explored how effective a policy would be at addressing the problem of renter cost-burden's two components: incomes that haven't matched pace with rents for the bottom quartile of income-earners, and inadequate supply of affordable housing. Staff calculated the fiscal impacts a rent stabilization policy would have on the City, including loss of revenue and costs of implementation and enforcement. Staff consulted with experts both internal and external to the City, reviewed academic literature and available relevant data sources, and utilized skills and expertise to conduct this analysis.

Findings:

1. A rent stabilization policy would not effectively address the problem of renter cost-burden. It does not target relief to renters whose incomes are insufficient to afford rent in the housing market. A rent stabilization policy would also impede growth of the city's housing stock, which is counter to numerous existing City policies designed to promote the production of new housing to ensure existing and new residents have access to a range of options to meet their needs.
2. If a rent stabilization policy was adopted in Minneapolis:
 - Some existing renters could benefit from increased housing stability due to the certainty of the limit on future rent increases.
 - Renters may in fact face greater housing instability due to higher rent increases than they otherwise would have experienced, as property owners could begin raising rents to the maximum amount allowed.
 - Renters may experience diminished housing quality, as a rent stabilization policy could disincentivize property maintenance and improvements.
 - There could be a significant decline in the creation and preservation of rental housing units in Minneapolis.
 - The City of Minneapolis could experience a significant property tax levy shift due to diminished rental property valuation:
 - i. Average annual cost of shift under Framework 5: \$95 million
 - ii. Average annual cost of shift under Framework 7: \$55 million
 - The City of Minneapolis could experience a significant revenue decline due to diminished building permit activity and reduction in the housing stock:
 - i. Cumulative (10 year) estimated loss under Framework 5: \$108.3 million - \$139.6 million
 - ii. Cumulative (10 year) estimated loss under Framework 7: \$39.3 million - \$74.8 million

- The City would spend approximately the following amounts per year enforcing and implementing the policy:
 - i. \$1,516,000 for Framework 5
 - ii. \$1,032,000 for Framework 7
- 3. The costs and detrimental impacts of a rent stabilization policy would outweigh any potential benefits in addressing renter cost-burden.
- 4. Deeper investment in known effective strategies to boost incomes and support renters would more effectively address the problem of renter cost-burden, without impeding the creation and preservation of rental housing units that are needed for Minneapolis residents.

Recommendations:

Based on these findings, staff recommend the following to City policymakers:

- 1. Staff recommend against the adoption of a rent stabilization policy.**
 - A rent stabilization policy would not effectively address the problem of renter cost-burden.
 - The anticipated costs to the City, including the anticipated decline in housing development, decline in revenue, and significant cost of enforcement, outweigh the anticipated benefits, which would impact a small percentage of renters.
 - Now is a particularly risky time to adopt a policy that staff anticipate would impede the development of new rental housing units. The City and surrounding market are still recovering from the economic impacts of the COVID-19 pandemic, and there are existing reasons to be concerned about the pace of needed development. Also, a legal challenge to St. Paul's rent stabilization policy is pending in court – the outcome of this case will provide needed guidance.
- 2. The City should continue supporting, and explore deepening investment, in known effective strategies to relieve renter cost-burden.** The City Council has adopted and supported several policies and programs in recent years that have proven to be impactful in helping families afford their rent. Staff recommend increased support for:
 - Strategies that identify and hold to account property owners engaging in egregious conduct that leads to housing instability;
 - Strategies that support renters whose incomes are not enough to afford their homes, including Guaranteed Basic Income (GBI) and Stable Homes Stable Schools (SHSS); and
 - Strategies that promote the creation of new rental housing units and incentivize affordability, including the NOAH Preservation Fund, the 4d Affordable Housing Incentive Program, the Inclusionary Zoning policy, the Affordable Housing Trust Fund, and related initiatives.

Report Roadmap:

This report is organized into the following sections:

- Work Group Recommendations: an overview of the final frameworks recommended by the stakeholder Work Group for City consideration
- Lay of the Land: an overview of existing data on renters, the rental housing stock, and rents and affordability analysis for renters in Minneapolis
- Legal Implications: City Attorney's Office analysis of legal context for rent stabilization
- Fiscal Impacts to the City: analysis of the fiscal impacts of recommended policy frameworks on City budget
- Enforcement and Implementation: analysis of the resources needed to enforce and implement the recommended policy frameworks
- Opportunity Cost: an analysis of alternative strategies to address renter cost-burden and the associated costs
- Conclusion: findings and recommendations

Next Steps:

This analysis will be presented to the Mayor and City Council in April 2023. The City Council may consider a rent stabilization policy through the City's legislative process. If a rent stabilization ordinance is passed, it would then need to go on a ballot for approval from Minneapolis voters.

Table of Contents

EXECUTIVE SUMMARY	i
INTRODUCTION & BACKGROUND.....	1
WORK GROUP RECOMMENDATIONS	6
LAY OF THE LAND: RENTAL HOUSING, RENTERS, AND RENTS.....	8
LEGAL IMPLICATIONS OF RENT STABILIZATION.....	15
IMPACTS ON CITY GOALS.....	16
FISCAL IMPACTS TO CITY.....	18
ENFORCEMENT & IMPLEMENTATION	26
OPPORTUNITY COST ANALYSIS	32
CONCLUSION.....	37
Appendix A: Literature Review and Impact Mapping.....	39
Appendix B: Housing & Real Estate Stakeholder Interviews	41
Appendix C: Fiscal Impact Assumptions.....	42
Appendix D: Tax Base Impact Assumptions.....	49
Appendix E: Combined Financial Impact	55
Appendix F: Enforcement and Implementation	57
Appendix G: Opportunity Cost Analysis.....	59

INTRODUCTION & BACKGROUND

This report provides high-level analysis of the anticipated impacts to the City of Minneapolis of enacting a policy regulating rents for residential rental properties. Specific attention is given to the policy frameworks recommended for consideration by the City Council-approved stakeholder Work Group.

An enterprise-wide team of experts from several City departments came together to conduct the research and analysis represented in this report. The team included critical staff, including leadership, from Community Planning and Economic Development (CPED), Regulatory Services, Finance (Budget and Development Finance), Assessing, and the City Attorney's Office. The team of about 14 staff met weekly from the beginning of January through the end of March to determine content areas and role division, collaborate on an approach, share initial findings for interdepartmental feedback, and coordinate on finalizing the report and plan for presentation of the findings. During this period, staff consulted with external partners including the City of St. Paul and the Federal Reserve Bank of Minneapolis. This project was a top priority resulting in the dedication of significant staff resources during the first quarter of 2023.

Background: Recent Local Work on Rent Stabilization

Rent stabilization economic impact analysis study: In 2020, the City engaged with the University of Minnesota Center for Urban and Regional Affairs (CURA) to conduct a rent stabilization economic impact analysis study. The report outlined the history of rent stabilization in other cities and the impacts of those policies, analyzed the Minneapolis rental market including the rental housing stock, rent trends, and rental safety and habitability issues, and provided economic analysis based on industry perspectives and scenario modeling. [Findings from this study](#) were presented at a City Council Study Session in February 2021.

Charter Amendment: In November 2021, Minneapolis voters approved Charter Amendment No. 185 ("Question 3"), which authorized the City Council to regulate rents on private residential property in the City of Minneapolis.

Below is the question that appeared on the November 2021 ballot:

*Shall the Minneapolis City Charter be amended to authorize the City Council to regulate rents on private residential property in the City of Minneapolis, with the general nature of the amendments being indicated in the explanatory note below, which is made a part of this ballot?
(Yes / No)*

Explanatory Note: This amendment would: 1. Authorize the City Council to regulate rents on private residential property in the City of Minneapolis by ordinance. 2. Provide that an ordinance regulating rents on private residential property could be enacted in two different and independent ways: a. The City Council may enact the ordinance. b. The City Council may refer the ordinance as a ballot question to be decided by the voters for approval at an election. If more than half of the votes cast on the ballot question are in favor of its adoption, the ordinance would take effect 30 days after the election, or at such other time as provided in the ordinance.

The City Charter now includes the following provision (City of Minneapolis Charter, Section 4.1 (g)):

Rent stabilization.

(1) Council adoption. The Council may adopt a rent control ordinance or a rent stabilization ordinance to regulate rents on private residential property in the City of Minneapolis.

(2) Submission to voters. The Council may submit a rent control or rent stabilization ballot question to qualified voters to regulate rents on private residential property in the City of Minneapolis. It must be submitted at a general or special election on a date allowed under Minnesota election law. If more than half of the votes cast on the ballot question are in favor of its adoption, the ordinance will take effect in 30 days from the date of the election or at such other time as is fixed in the ordinance.

Also at the November 2021 election, St. Paul voters adopted a rent stabilization policy which went into effect May 1, 2022. ([The St. Paul policy](#) was amended in September 2022 and the new version became effective January 1, 2023.)

Expert Panel Series: Throughout the spring of 2022, the Federal Reserve Bank of Minneapolis and the Urban Land Institute of Minnesota hosted a four-part series of expert panel discussions focused on rent regulation policies and their impacts. City staff attended closed dialogue sessions with the panelists after each session to learn more about their research and perspectives. In an [overview of the series](#), the hosts of the sessions identified these highlights: 1) Rent regulation policies vary in rules, coverage, and administration; 2) Policies often benefit current renters but can impair rental housing supply; and 3) Conducting robust studies of rent regulations' impact is challenging.

Work Group: As a result of the new authority to consider rent regulation policies, on April 14, 2022, the City Council adopted a [Resolution](#) establishing a Housing/Rent Stabilization Work Group. The goal of this Work Group was to provide a structured forum to engage a broad set of key stakeholders, representing multiple perspectives, in studying and making recommendations to the Mayor and City Council for a policy framework to address a targeted housing/rent stabilization policy. The Work Group was designed to include 25 members – six renters, six rental property owners, and 13 representatives of local housing organizations. After a competitive application process, City leadership appointed members to the Work Group in July 2022.

As directed by the Resolution establishing the Work Group, the City also conducted a competitive bidding process to identify a third-party entity to convene and facilitate the Work Group. The City engaged with NEOO Partners Inc. (NEOO) to do this work. NEOO convened the Work Group and developed the work plan for the group to arrive at policy framework recommendations, as directed by City Council. The Work Group met 10 times from September through December 2022. A detailed overview of the process and outcomes of the Work Group is available on the City's legislative site.

Staff Analysis of Rent Stabilization Impacts

In response to a request from City Council, this report provides analysis of the anticipated impacts that a rent stabilization policy would have on the City of Minneapolis. Specific attention is given to the policy frameworks recommended by the stakeholder Work Group created by City Council.

The [Resolution](#) establishing the Work Group identified a need for “a full fiscal analysis on the possible impacts of a policy against the goals in the Minneapolis 2040 Plan and its impact on housing stability, homelessness, and the housing market,” and “policy analysis required for alignment with the city’s existing goals, including racial equity impact analysis and Minneapolis 2040 goals related to affordability and access to quality housing.”

Despite exhaustive efforts, staff were unable to identify an external party willing to engage with the City to conduct economic analysis of the potential impacts of a rent stabilization policy. Instead, a staff team, across multiple City departments, came together to complete the work represented in this report. The team included expert staff from the Departments of Community Planning and Economic Development (CPED), Regulatory Services, Finance (Budget and Development Finance offices), Assessing, and the City Attorney’s Office.

Any policy proposal introduced through the legislative process would need a thorough racial equity impact analysis. Without knowing the specific policy details, and the budget investment for implementation, enforcement, and evaluation, it was not possible to conduct meaningful racial equity impact analysis for this report.

Problem Definition:

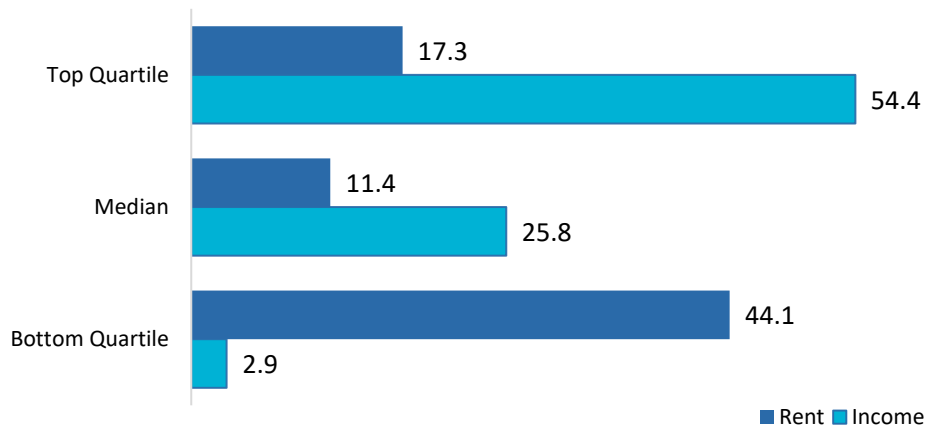
To guide the analysis in this report, it was important to identify the problem that a rent stabilization policy would be aiming to address. **The relevant problem is renter cost-burden.** This is the situation of renters paying too much of their income for rent, and as a result, being at risk for housing instability (typically defined as a household paying more than 30% of their income on rent).

The problem of renter cost-burden should be understood by considering its two primary components: an income problem and a housing supply problem.

The majority of households in Minneapolis are renters. Incomes have largely not matched pace with rents for the bottom quartile of income-earners, causing renters in this category to be cost-burdened. This is disproportionately true for BIPOC renter households. The chart below depicts the changes in income and rent from 2006 to 2019 for different income levels of renters in Minneapolis:

FIGURE 1: GROWTH IN INCOME AND RENT BY INCOME PERCENTILE

Growth in Income and Rent by Income Percentile, 2006-2019



Source: CURA Analysis of American Community Survey data

Despite record-level production in recent years, there are currently not enough units that are affordable to Minneapolis renters based on current income levels.

Stable housing is a fundamental human need, and housing insecurity has momentous impacts for individuals and families. City staff take this problem very seriously, and while the City has prioritized significant efforts to support renters and promote affordable housing creation and preservation, more clearly needs to be done to ensure all Minneapolis residents have a stable home.

Approach:

Staff analyzed various components of a potential rent stabilization policy and the impacts they could have for the City of Minneapolis. They explored how effective a policy would be at addressing the problem of renter cost-burden's two components: incomes that haven't matched pace with rents for the bottom quartile of income-earners, and inadequate supply of affordable housing. Staff calculated the fiscal impacts a rent stabilization policy would have on the City, including loss of revenue and costs of implementation and enforcement. Staff consulted with experts both internal and external to the City, reviewed academic literature and available relevant data sources, and utilized skills and expertise to conduct this analysis.

Report Roadmap

The sections that follow include:

- Work Group Recommendations: an overview of the final frameworks recommended by the stakeholder Work Group for City consideration
- Lay of the Land: an overview of existing data on renters, the rental housing stock, and rents and affordability analysis for renters in Minneapolis
- Legal Implications: City Attorney's Office analysis of legal context for rent stabilization
- Fiscal Impacts to the City: analysis of the fiscal impacts of recommended policy frameworks on City budget
- Enforcement and Implementation: analysis of the resources needed to enforce and implement the recommended policy frameworks
- Opportunity Cost: an analysis of alternative strategies to address renter cost-burden and the associated costs
- Conclusion: key takeaways from City staff analysis

WORK GROUP RECOMMENDATIONS

The City Council asked the stakeholder Work Group to provide recommendations on the rent increase restrictions, potential exemptions to the policy, and mechanisms of enforcement. The Work Group was charged with targeting the recommendations to both “protect Minneapolis renters experiencing the worst housing disparities based on race ethnicity, income, and other factors,” and to “hold rental owners accountable to fair, equitable, and reasonable practices by prohibiting excessive annual rent increases for existing residents.” The Resolution indicates an interest in a regional approach on the impact of the policy. If the Work Group could not agree on a single recommended policy framework, it was allowed to recommend up to two policy frameworks that met the above criteria.

Work Group members considered many options for the various policy components and several potential frameworks. Below are the key components of the two frameworks that received the most support by the end of the process, and that staff analyzed for this report. Of the 25-member Work Group, 14 voted in favor of Framework 5, and 11 voted in favor of Framework 7.

FIGURE 2: WORK GROUP’S RECOMMENDED POLICY FRAMEWORKS

	Framework 5	Framework 7
Rent increase cap	<ul style="list-style-type: none"> • 3% per year 	<ul style="list-style-type: none"> • Variable – tied to the Consumer Price Index (CPI) or Housing Cost Index, plus 5-7%
Other core policy components	<ul style="list-style-type: none"> • Vacancy Control* • No Rent Banking** 	<ul style="list-style-type: none"> • Vacancy Decontrol* • Rent Banking**
Exemptions	<ul style="list-style-type: none"> • No exempted types of housing • Exception for investment/substantial capital improvements • Exception for deferred maintenance and habitability 	<ul style="list-style-type: none"> • Exempt subsidized affordable housing • Exempt new construction (30 years or newer, rolling) • Exempt owner-occupied housing
Enforcement	<ul style="list-style-type: none"> • City Certification • Newly appointed and elected board for compliance and enforcement • Appeals Process 	<ul style="list-style-type: none"> • Self-certification + Appeals • Alternate Dispute Resolution • Annual analysis of program cost
Supplemental policy recommendations	<ul style="list-style-type: none"> • Just Cause Eviction • 45-day pre-eviction notification requirement for all eviction cases 	<ul style="list-style-type: none"> • Direct rental subsidy for those at or below 30% AMI

* “Vacancy control” indicates that the rent increase cap would apply between tenancies for a given unit. “Vacancy decontrol” indicates the opposite – between tenancies, an owner could adjust the rent without regulation.

** “Rent banking” indicates that if an owner does not raise the rent by the full allowed amount in one year, they can “bank” that increase and make up for it the following year by raising the rent above the standard cap.

LAY OF THE LAND: RENTAL HOUSING, RENTERS, AND RENTS

This section is intended to inform rent stabilization discussions with information about the city's ownership and rental housing stock, exploration of who rents their homes in Minneapolis, and analysis of rent trends. The rent analysis includes two components relevant to the consideration of Framework 7's exemption of new construction – average rent trends from listings of the city's multifamily housing, and average rent trends in the subset of this housing that would not be eligible for a new construction exemption given the age of the stock.

Generally speaking, the Minneapolis-St. Paul metropolitan area has relatively affordable rents; among the 54 largest metropolitan areas, regional rental costs are in the middle of the pack ranked 28th in median contract rent. However, the last two decades have been transformational for Minneapolis rental housing. Average rent, the share and number of households renting, and the supply of rental units in the housing stock are on a decade-long trend of increasing. Today, there is evidence that markets are cooling at the national and metropolitan level. [By one measure released in January of 2023](#), “no large metro area in the country experienced positive rent growth” over the second half of 2022. Yet regional trends can mask substantive differences at the city level, and this can become [even more glaring when comparing granular submarkets](#). As a core city in its metropolitan area, it's important to consider how the trends within the City of Minneapolis drive or differ from what are seen at the regional level.

Unfortunately, the actual rents paid by Minneapolis renters are unknown. The City of Minneapolis does not collect administrative information on rents, but Costar's real estate database provides a window into the rental market through rental listings of vacant units in buildings with five or more units. This report uses Costar's data in its analysis of rental market trends, and leverages CURA's analysis of data published by the Assessing Department and Department of Regulatory Services to explore the city's housing stock.

COVID-19 disrupted many aspects of life including migration patterns, residential choices - and the tools that seek to measure this behavior. Information on people, households, incomes, and other elements that influence demand for rental housing is collected and distributed by the US Census Bureau. Data collection continued throughout the pandemic, but estimates produced since 2020 have been labeled [“experimental”](#) by the Census Bureau. This report's analysis of the people side of the rental market begins in 2000 and extends through the end of the 2010s. It's unclear when we will be able to leverage data of a pre-pandemic quality again.

Minneapolis Housing Stock

CURA's [Minneapolis Rent Stabilization Study](#) provides a comprehensive overview of the city's housing stock. Selected findings are reproduced here:

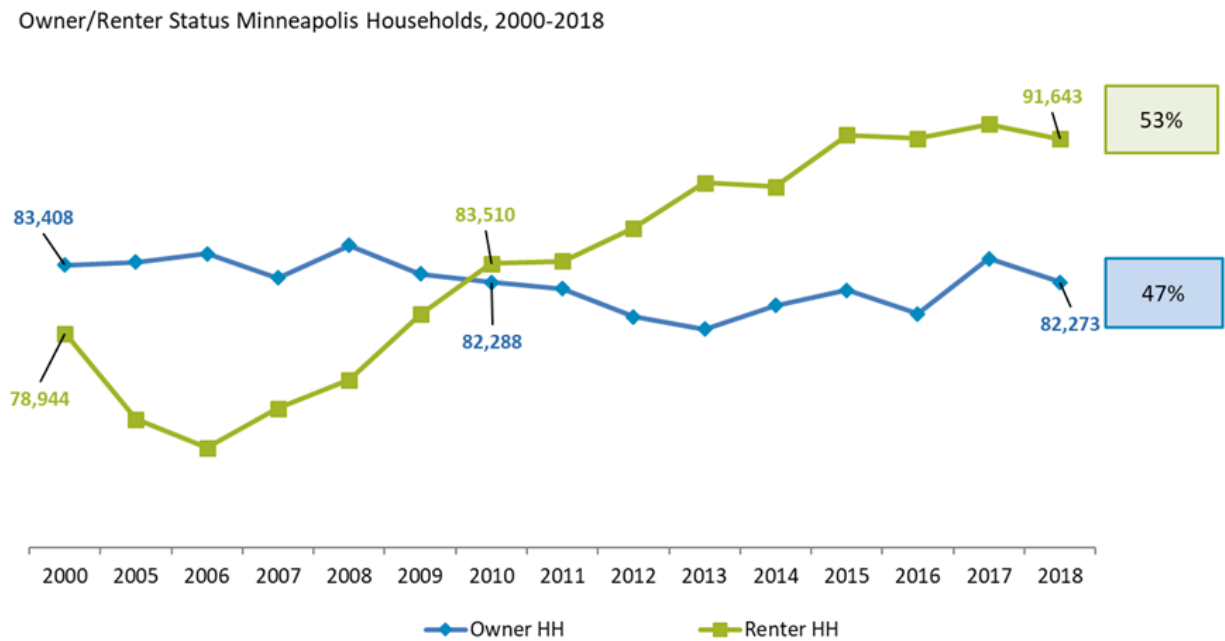
- Sustained growth in rental housing development has pushed the city's total number of housing units over 200,000.
 - The largest percentage of these units (43.7%) were apartments in buildings with four or more units as of 2020.

- Nearly 20,000 rental buildings in the city accounted for more than 90,000 rental units in 2020. Single-family detached homes account for 37.2% of residential buildings with rental licenses in the city, and 7.9% of rental units.
- More than 90% of rental units and 75% of buildings with rental licenses were built prior to 1980 as of 2020.
 - Small-building rentals with fewer than four units are the oldest in the city.
 - Nearly all duplex and triplex rental buildings were built before 1980, and 95% of single-family detached rentals are at least that old.
- Geographic variation exists with respect to the volume and types of housing found in different Minneapolis communities. Exemptions to a rent stabilization policy based on rental property type may have different impacts on a given community depending on the complexion of its housing stock.

Who Are Renters in Minneapolis?

Renter households are the majority in Minneapolis, growing by 12,500 households between 2000 and 2018. This reversed a decades long trend of majority home ownership. The number of renter households is now approaching 100,000.

FIGURE 3: OWNER/RENTER STATUS FOR MINNEAPOLIS HOUSEHOLDS



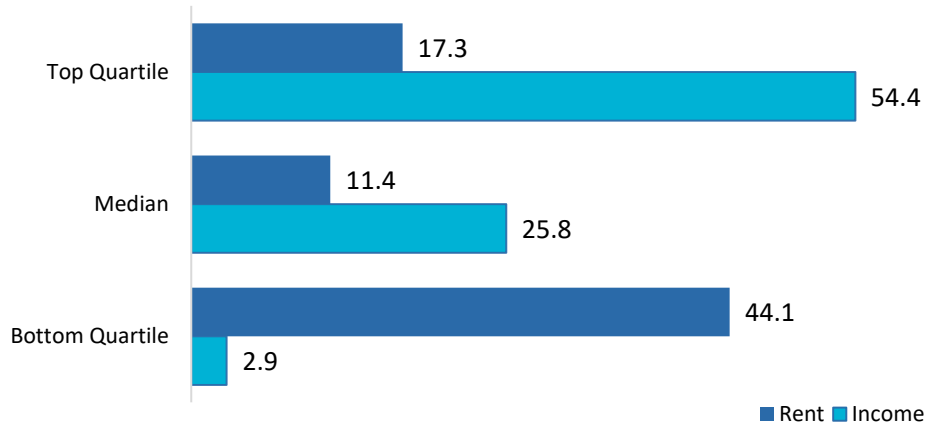
Source: U.S. Census Bureau, Decennial Census; American Community Survey 1 - Year Estimates

In recent decades, incomes in some renter households have not kept pace with rent increases. In 2014, the median renter experienced higher housing costs and lower incomes compared to renters before the 2007-2009 Great Recession. By 2019 this trend had reversed, with the median renter seeing income

growth outpace their housing costs. The same cannot be said for the city’s lowest income renters, who have seen almost no income growth while rents have increased 44% since 2006.

FIGURE 1 (REPEATED): GROWTH IN INCOME AND RENT BY INCOME PERCENTILE

Growth in Income and Rent by Income Percentile, 2006-2019

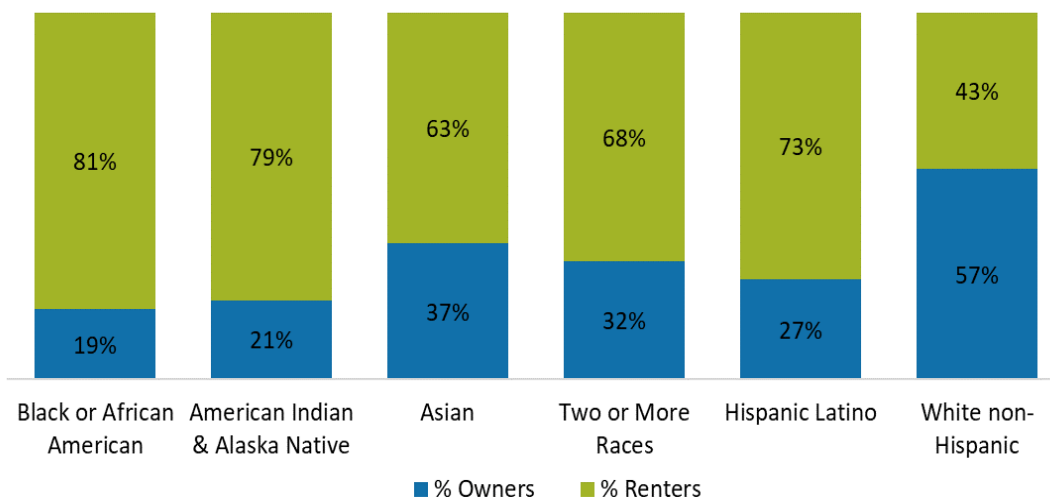


Source: CURA Analysis of American Community Survey data

White households make up the majority of renter households, but they are also the only racial group for which the majority own their homes. Large majorities of every other racial group are renters. Renter households headed by Black, Hispanic/Latino, and multi-racial residents are the most likely to be cost-burdened.

FIGURE 4: OWNER RENTER STATUS BY RACIAL GROUP

Owner/Renter Status by Racial Group for Minneapolis, 2014-2018



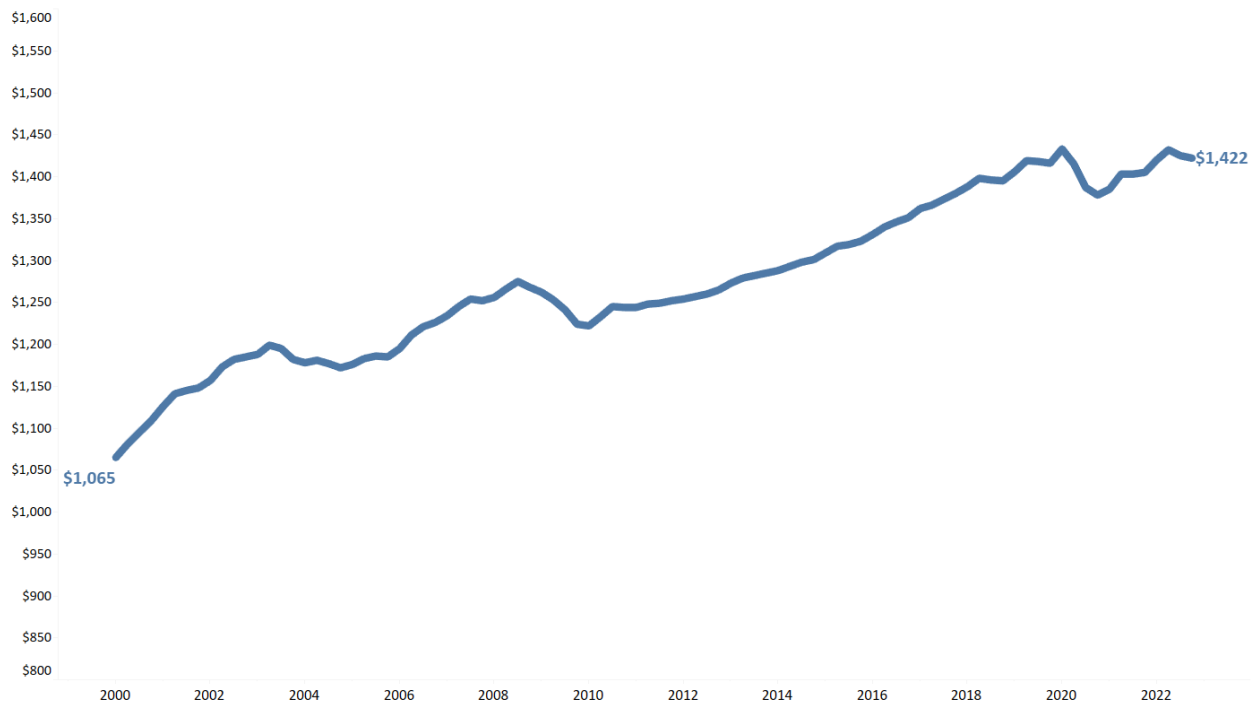
The Minneapolis Rental Market

This section leverages data from the Costar real estate database to examine trends in the Minneapolis rental market consisting of buildings with five or more units, and looks at these same trends for the subset of these buildings that would not be eligible for a new construction exemption given their age. This inventory features buildings that contain market rate units, subsidized affordable units, or a mix of both. Costar data presents wide coverage of the multifamily housing market with 89,165 multifamily units, but is less representative of communities with relatively higher concentrations of one- to four-unit rental properties.

Analysis of Overall Rental Stock

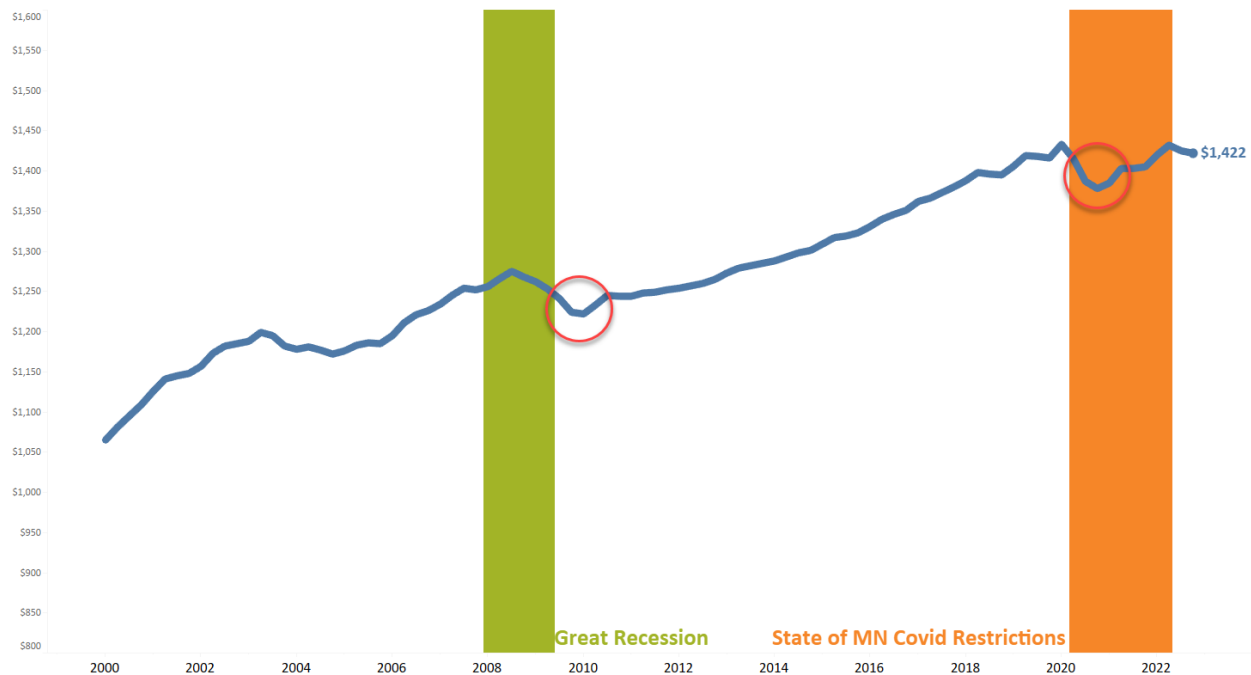
Average rent across all bedroom sizes in Minneapolis has been modestly increasing across the last two decades, reaching \$1,422 as of 2022Q4. Rent typically grew between 1.5% - 2.5% year over year during this timeframe.

FIGURE 5: AVERAGE RENT IN 5+ UNIT BUILDINGS



Modest growth appears to be a comfortable pattern for the City’s overall rental market disrupted by decreasing rents in response to large external shocks like the 2007-2009 Great Recession and the COVID-19 pandemic.

FIGURE 6: RENT IMPACTS OF MARKET DISRUPTIONS IN 5+ UNIT BUILDINGS



While projecting the City’s rental market is not an aim of this report, as of early 2023 there is evidence of the rental market stabilizing from its pandemic response. Average rent has increased at an annual rate of 1% - 2% since its lowest point in the pandemic, nearly reaching its pre-pandemic high point of \$1,433 in 2019Q4. It would be reasonable to assume modest growth will continue into the future.

Analysis of Older Rental Stock

In Minneapolis, more new rental units were constructed in the last decade than in several prior decades combined. New units are likely to have higher than average rents, and as more are added to the city’s housing stock, overall average rent may become less representative of the city’s older housing stock.

In response to a potential 30-year new construction exemption recommended in Framework 7, this section repeats the same rent analysis only on buildings that were constructed before 2008, to examine if different segments of the market follow or diverge from the overall trend. This cut off is intended to approximate “non-new construction” rental housing in Minneapolis that would either be too old for the exemption to apply today, or would move from currently exempted to not exempted across the initial years of a new rent stabilization policy. A large majority (84%) of units in the analysis were constructed before 1980, meaning trends discussed here are largely reflective of the units that would be regulated

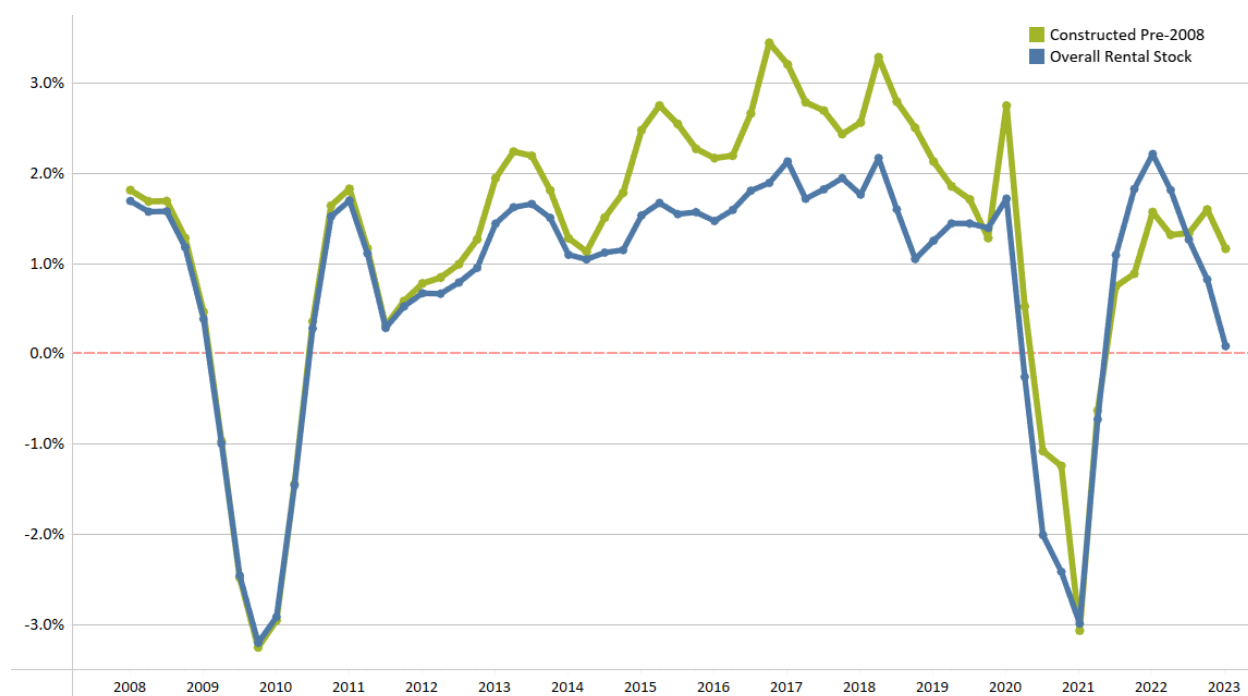
by a rent stabilization policy even if a new construction exemption is included. Costar data on Minneapolis rental buildings constructed before 2008 consists of 58,333 units.

This cut-off also removes the influence of two key factors:

- The addition of more than 10,000 permitted new rental units since 2012
- Multi-causal effects on the housing market caused by the 2007-2008 Great Recession

As supply of new units increased across the 2010s, the older building subset began to diverge from the overall stock, seeing average rent around 20% lower but with relatively higher year over year (YOY) proportional increases. While the average YOY increase in the overall stock was steadily between 1.5% – 2.5% for most of the decade, the older building subset climbed into the 2.5% - 3.5% range for several years in the second half of the 2010s.

FIGURE 7: YEAR OVER YEAR PERCENTAGE CHANGE IN RENT – OVERALL RENTAL STOCK AND OLDER BUILDINGS



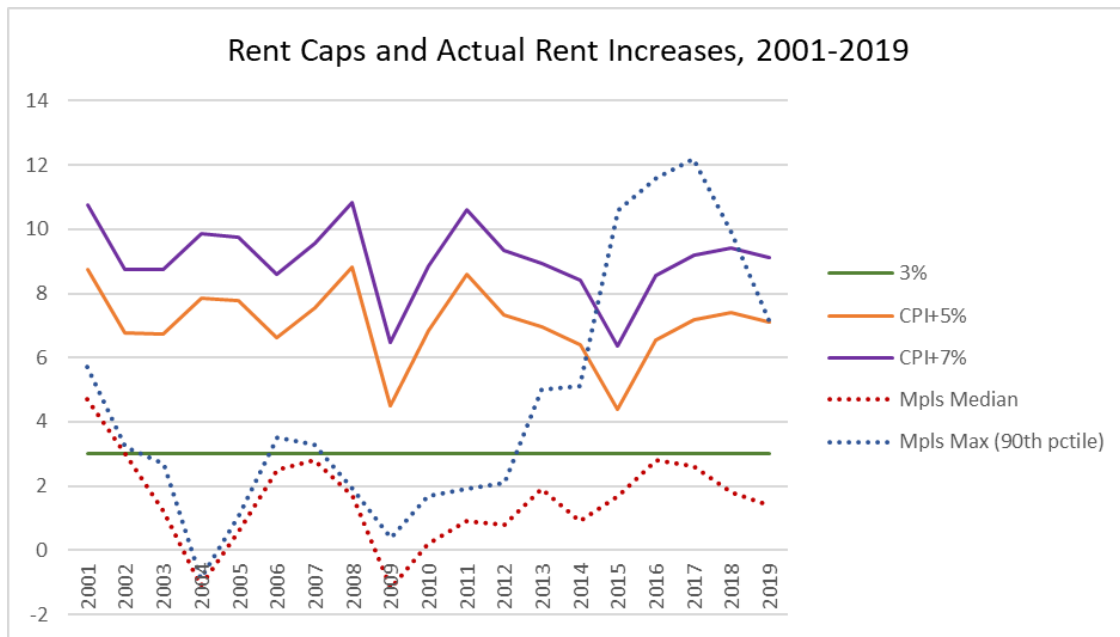
Similar to the overall stock, average rent in these older buildings has resumed modest growth toward its pre-pandemic peak after a dip in 2021. It would be reasonable to assume this older building subset will also resume relatively higher growth in rents moving forward.

Assuming renters in the bottom quartile of incomes exclusively occupy units in this older building subset, it is likely a rent stabilization policy that featured a new construction exemption would still apply to units primarily occupied by this group.

Outlier rent increases

This report leverages average rent as the best available single snapshot of the market, but this may mask outlier rent changes that could potentially be affected by a rent increase cap or a rent stabilization policy. As a supplement to their Minneapolis Rent Stabilization Study that was completed before the Rent Stabilization Work Group completed their work, CURA updated its analysis of observed rent changes across 2000 – 2019 for the overall stock against the rent caps proposed by Frameworks 5 and 7.

FIGURE 8: RENT CAPS AND ACTUAL RENT INCREASES



Had either a 3% flat rent increase cap or a cap tied to CPI plus 5% - 7% been in place, a unit experiencing the median annual increase (the red dotted line on Figure 9 above) would have been unaffected in nearly every year across 2001-2019. This means most units had rent increases under 3% and would not have been affected by the flat 3% cap. Both frameworks would have affected units experiencing the 90th percentile increase (meaning top 10% of largest rent increases) in most recent years (the blue dotted line on Figure 9 above), suggesting the rent caps in both frameworks would limit the most extreme rent increases if the post-pandemic market resembles the 2015-2019 market that preceded it.

LEGAL IMPLICATIONS OF RENT STABILIZATION

Legal implications of rent stabilization policies generally

In general, legal challenges to rent control or rent stabilization programs have been unsuccessful over the past century, including at the Supreme Court. See Block v. Hirsh, 256 U.S. 135 (1921); Levy Leasing Co., Inc. v. Siegel, 258 U.S. 242 (1922); Pennell v. City of San Jose, 485 U.S. 1 (1988). Presiding courts have generally expressed reluctance to invalidate such economic rulemaking imposed by state and local governments and have rejected regulatory and physical takings and due process attacks brought against rent stabilization laws. Notably, however, the relative degree of the economic burden imposed by rent control programs upon property owners along with procedural due process considerations are the driving factors in more contemporary litigation. See Birkenfeld v. City of Berkeley, 550 P.2d 1001 (Cal. 1976) (favoring robust procedural protections such as indexed annual adjustments and mechanisms to consider individualized case-by-case adjustments). More recently some plaintiff property owners have unsuccessfully attempted to expand the Supreme Court's favorable property rights ruling in Cedar Point Nursery v. Hassid, 141 S. Ct. 2063 (2021), as a new avenue of attack against existing rent stabilization programs. See Community Housing Improvement Program v. City of New York, 59 F.4th 540 (2d Cir. 2023); Pinehurst LLC v. New York, No. 21-467, 2023 WL 1769678 (2d Cir. Feb. 6, 2023).

Tracking pending litigation over St. Paul policy

The rent stabilization program recently approved by St. Paul voters and enacted by its City Council is the subject of pending litigation in federal court, the resolution of which will provide invaluable guidance to Minneapolis. See Woodstone Limited Partnership v. City of St. Paul, No. 22-cv-01589 (U.S. Dist. Ct. Minn.). Cross motions for summary judgment were heard before Judge Nancy Brasel on January 30th and are currently under advisement, with a decision expected in the coming months.

Legal analysis of just cause eviction policy

To the extent that one of the proposed frameworks advanced by the Rent Stabilization Work Group includes a just cause eviction policy component the City Attorney has previously provided the City Council with privileged legal advice and analysis regarding that topic.

IMPACTS ON CITY GOALS

This section outlines high-level anticipated impacts related to relevant policy goals already adopted by the City. The next sections will go into more detail on anticipated fiscal impacts to the City based on some of these directional expectations. Staff considered relevant goals in the [Minneapolis 2040](#) plan and the [Strategic and Racial Equity Action Plan \(SREAP\)](#). For several years, City policymakers have guided investments and policy toward growing the City’s rental housing stock, growing the City’s population, and ensuring affordability and access to opportunity for Minneapolis residents. Under this guidance, the City has been highly effective in creating new rental housing units at an unprecedented pace. Any new policy that impedes this priority would be out of alignment with both adopted City goals and the overall effective approach the City has taken in recent years.

The impacts of rent stabilization on the City’s goals are organized below by three pertinent goal areas: housing stability and homelessness prevention, housing quality, and housing supply. Importantly, rent stabilization policies have various components, and impacts vary greatly based on the interaction of the specific policy components.

Rent stabilization policies do help stabilize existing renters by creating rent increase predictability. However, staff anticipate that the impacts of reduced housing development, disincentivized housing quality investment, and other unintended consequences of rent increase caps would in fact lead to greater housing instability in the long term. These impacts are detrimental to the advancement of City goals and also to addressing the renter cost-burden problem, as the policy would neither boost incomes nor support the creation of new housing units.

FIGURE 9: ANTICIPATED IMPACTS ON CITY GOALS

Goal Area	Anticipated Impacts	Impact Direction
Housing Stability & Homelessness Prevention	More predictable rent increases for current renters would: <ul style="list-style-type: none"> • Help households avoid involuntary displacement • Help interested renter households prepare for homeownership 	Positive
	Rent increase cap would incentivize more aggressive rent increases, especially without an option for rent banking, leading to increased housing instability.	Negative
	Vacancy decontrol (recommended in Framework 7) would incentivize property owners to not renew leases so they can increase their rents higher for the next renter.	Negative

<p>Housing Quality</p>	<p>A rent stabilization policy would disincentivize housing maintenance and improvements to housing quality.</p> <ul style="list-style-type: none"> • This disincentive could lead to increased housing code violations and potential condemnation or rental license revocation, which can result in renter displacement. • An exception for capital improvements (recommended in Framework 5) would mitigate some of this impact. 	<p>Negative</p>
<p>Housing Supply</p>	<p>Adoption of a rent stabilization policy would slow housing production across the spectrum of affordability.</p> <ul style="list-style-type: none"> • An exemption for new construction (recommended in Framework 7) would lead to a less significant decline in development. • An exemption for subsidized affordable housing (recommended in Framework 7) would lead to a less significant decline in the development of subsidized units. 	<p>Negative</p>

FISCAL IMPACTS TO CITY

This section of the report will examine how the two recommended rent stabilization policy frameworks may impact City budgets over the next 10 years. City Finance staff reviewed relevant academic studies, held discussions with other municipalities implementing similar policies and interviewed experts and participants in the ownership, management, financing, and development of rental housing to understand the likely financial impacts of Frameworks 5 and 7 in Minneapolis as a part of this analysis. Although a review of existing research was conducted as a part of this analysis, no comparisons to the City of Minneapolis will be perfect, and this report should not be interpreted as an academic study. Many of the existing rent stabilization policies have been put in place in cities much larger than Minneapolis, with different economic conditions, history and policy specifics. Given that, this analysis lays out staff's best attempt to estimate the fiscal impacts of rent stabilization in Minneapolis for policy makers as they determine next steps.

This section identifies City revenues and expenditures that may be affected by these policy frameworks, the high-level direction of that impact, and the range and magnitude of such an impact over a 10-year period (from 2024 to 2033).

There are three ways in which a rent stabilization policy is expected to impact the City's budget or change the way the City raises revenues:

- Decreases in revenues the City collects for license fees for new construction and new rental units, and sales tax;
- Changes to estimated market value of the property's that contribute to the City's fixed property tax levy; and
- Increases in expenditures to administer a rent stabilization policy (this is explored in the next section).

License fees are collected by City departments that enforce regulations related to plans for new building, construction codes once the building is completed, and an annual fee for all rental units in the city. These fees are deposited in the City's General Fund and offset the cost of the City employees and systems or materials needed to make sure builders and property owners are complying with City standards.

Additional construction projects in the development pipeline will increase the City's revenues from plan review, permitting, and inspection fees and fewer projects will reduce them. For construction projects that result in new rental units, those units will pay a fee each year. The more rental units, the more ongoing revenue, and fewer rental units being added to the city will bring in less ongoing revenue. Decreases in the production of rental units and of construction in general would put the City further away from its 2040 goals, as was discussed in the previous section. This section will focus on the impact to City budgets.

Another way that rent stabilization is expected to impact the City's fiscal health is through changes to the estimated market value of property in the City and property taxes. The largest single source of funding in the General Fund is the Property Tax levy. In 2023, the City will collect \$445 million from

property owners through the levy. However, levies do not work the way income or sales taxes do, where the revenue is equal to a percentage of income or sales. The property tax levy is set at a specific dollar amount (e.g. \$445 million in 2023). That total is then spread out among properties in the city based on property type and value. For owners of homes or apartment buildings, the higher the value the more your tax bill is in most cases. Additionally, if there are more properties paying into the levy, the cost for each individual property owner will go down. More properties in the city do not directly translate to more property tax income, but it does mean that the annual levy amount will be spread out among more payers, lowering the cost to individual taxpayers.

The total bill paid by homeowners or rental property owners is also impacted by other property types. Since the total levy amount is fixed, changes to the market value of commercial and industrial property will also impact the amount of property tax an individual residential property owner pays. If a rent stabilization policy is enacted that reduces the market value of rental housing, and this coincides with a reduction in the market value of significant commercial properties such as downtown office towers, the impact of these two changes happening together could significantly increase the share of the levy paid by homeowners.

Policy Impacts on City Revenues

Rent stabilization policies have led to decreases in the overall rental housing stock and new construction in the municipalities that have implemented them. [Diamond, McQuade, and Qian](#) studied the impact of a ballot initiative to control rent in San Francisco in 1994. They found that while renters living in controlled units were less likely to leave and more likely to stay in the city, “rent control led to a 15-percentage point decline in the number of renters living in treated buildings and a 25-percentage point reduction in the number of renters living in rent-controlled units, relative to 1994 levels.” [A review of rent stabilization measures nationally](#) found that: “In San Francisco, rent-controlled buildings were 10 percent more likely to be turned into condos than comparable non-controlled buildings,[2] while New York City has lost 152,000 units of rent-stabilized housing since 1993.[3] In New Jersey, rent-controlled cities have about 25 percent fewer rental units than do non-controlled municipalities.[4]”)

This research aligns with the common message received from local stakeholders: a rent stabilization policy will adversely affect the supply of new housing development by making it more difficult for developers to secure capital for their projects. Real estate is a capital-intensive business, and most of the capital necessary for the construction of new housing is provided by sources with nation-wide investment options. It will also adversely affect the existing housing supply because owners are incentivized to sell or convert their portfolios to ownership housing to avoid dealing with regulations, and disincentivized from ongoing maintenance investments because they cannot recover upfront costs over time.

Interviewees also expressed that the differences between Framework 5 and Framework 7 are meaningful. In general, Framework 5 was identified as unworkable, evidenced by the revisions made to the original (similar to Framework 5) St. Paul policy as immediately as was possible. The initial rent stabilization policy in St. Paul was in effect for less than one year. The following elements of Framework 7 were identified as essential:

- exempting new construction (varied opinion on duration, but 20 years minimum, 30+ years preferred)
- including vacancy decontrol
- indexing allowable rents to the Consumer Price Index

Inclusion of these elements may prevent the capital markets from freezing entirely, and these features are the primary drivers in the projected differing impacts of the two frameworks. However, neither framework is market-neutral; even Framework 7 is sufficient to deter many investors who have the option of investing in markets with no rent restrictions at all.

The following estimates of changes to City revenues are predicated on quantifying the anticipated reduction in new construction and losses in existing rental housing stock. Recognizing that it is difficult to pinpoint an exact market response, staff applied ranges to the impacts for each policy framework. The ranges are also helpful to reflect the slight variations in opinions among the stakeholders interviewed. Our intent with the ranges is to reflect the experiences described by most of the people interviewed, and the 'center of gravity' of research reviewed and estimates we heard.

Based on published national research, local interviews, and discussion with St. Paul staff, the City estimates the following impacts:

A. Impact on New Construction

Without rent stabilization, base growth of new construction permits is projected at 1% annually.

For Framework 5, staff projects a year one decrease in permitted new construction units of 50%-70%, moderating to a 25%-35% decrease in years two and three, and then a flat 0% permit growth in years four to 10.

For Framework 7, staff projects a year one decrease in permitted new construction units of 10%-25%, moderating to a 10%-20% decrease in years two and three, flat 0% permit growth in years four to six, and recovery to 1% growth in years seven to 10.

Initial impacts in both frameworks are not fully felt during the first three years of policy, as some projects initiated prior to the adoption of a policy are completed. After three years, the new permitting levels are expected to fully reflect policy impacts.

In aggregate over 10 years, staff projects a reduction in the number of permitted new rental units compared to what would be expected in the absence of any rent stabilization policy (see Appendix B, Table E). Across the two Frameworks, this means approximately 9,900 to 30,500 fewer newly constructed apartments than would otherwise be expected.

FIGURE 10: ESTIMATED CUMULATIVE 10 YEAR IMPACT ON NEW CONSTRUCTION

Rent Stabilization Framework	Cumulative Low End Impact (units + % change from base)	Cumulative High End Impact (units + % change from base)
Framework 5	-25,000 units (-70%)	-30,500 units (-86%)
Framework 7	- 9,900 units (-28%)	-17,900 units (-50%)

Furthermore, because the City enacted an Inclusionary Zoning policy that became effective on January 1, 2020, any loss of market-rate apartment production results in a loss of affordable apartments as well. The Inclusionary Zoning policy requires that new market-rate development provide direct supports to affordable housing and incentivizes developers to include that affordable housing within their market-rate developments. Depending on the compliance option selected by a developer, 4-20% of the apartments in new buildings are subject to rent restrictions. Using a conservative 8% compliance option, this means of the projected units lost (Cumulative Low End Impact) approximately 2,000 of the units would have been affordable in Framework 5 and approximately 790 units would have been affordable in Framework 7.

B. Impact on Existing Rental Housing Stock (attrition of existing housing)

Without rent stabilization, staff projects a 0.7% decrease in existing rental housing stock annually, based on the imputed annual loss of housing stock from 2017-2022 due to conversion to ownership housing, code compliance issues, or other causes.

For Framework 5, staff projects a decrease in existing rental housing stock of 1.5%-2.0% annually, reflecting significant incentives to convert or disinvest.

For Framework 7, staff projects a decrease in existing rental housing stock of 0.9%-1.2% annually, reflecting lesser incentives to convert or disinvest.

In aggregate over 10 years, the loss of existing rental stock ranges from 2%-12% fewer units than would be expected in the absence of any rent stabilization policy (see Appendix B, Table H). This translates to accelerated attrition of existing housing by approximately 2,000 to 12,500 units. This attrition impact is expected to focus on older buildings, and have a disproportional impact on Naturally Occurring Affordable Housing (NOAH) properties.

FIGURE 11: ESTIMATED CUMULATIVE 10 YEAR IMPACT ON EXISTING RENTAL HOUSING SUPPLY

Rent Stabilization Framework	Cumulative Low End Impact (units + % change from base)	Cumulative High End Impact (units + % change from base)
Framework 5	-7,900 units (-8%)	-12,500 units (-12%)
Framework 7	-2,000 units (-2%)	- 5,000 units (-5%)

Fiscal Impact 1: City Revenue decline in response to rent stabilization impacts on new construction and rental housing

For this fiscal analysis the City estimated ranges of impact for both rent stabilization frameworks (low end impact to high end impact). This analysis includes revenue streams which are directly tied to the volume of new construction, the volume of rental housing stock, and the number of households in the city. The City estimates that over the course of 10 years, Framework 5 would have a cumulative negative impact on City revenues of \$108.3M to \$139.6M. It is furthermore estimated that over the course of 10 years, Framework 7 would have a cumulative negative impact on City revenues of \$39.3M to \$74.8M.

FIGURE 12: ESTIMATED CUMULATIVE 10 YEAR IMPACT ON CITY REVENUES

Rent Stabilization Framework	Framework 5 Cumulative Estimated Impact	Framework 7 Cumulative Estimated Impact
Development Licenses, Permits, and Fees	-\$64.2 to -\$78.3M	-\$25.4 to -\$45.9M
Rental License Fees	-\$1.2 to -\$1.7M	-\$0.4 to -\$0.8M
Local Sales Tax	-\$34.0 to -\$47.3M	-\$10.7 to -\$22.3M
Franchise Fees	-\$8.9 to -\$12.4M	-\$2.8 to -\$5.8M
Total	-\$108.3 to -\$139.6M	-\$39.3 to -\$74.8M

License Fee revenue from new construction: The reduction in the amount of new development within the city is estimated to result in a loss of \$64-78M under Framework 5 and \$25-46M under Framework 7. These estimates are informed by a review of average revenue per unit of multifamily rental developments by quartile (in terms of unit count) from 2018-2022. These license fees are structured to cover the cost of the City employees and systems or materials needed to make sure builders and property owners are complying with City standards.

License Fee revenue from rental operations: The decline in new permitting and the increased conversion of existing rental housing stock discussed in the previous section will lead to fewer rental units on an annual basis. This dynamic would reduce the license fee revenue generated from on-going rental operations. The City estimates a loss of \$1.2-1.7M under Framework 5 and \$400-800K under Framework 7. These estimates are informed by a review of average revenue per unit of multifamily

rental developments by quartile (in terms of unit count) from 2018-2022. These license fees are structured to cover the cost of the City employees and systems or materials needed to make sure builders and property owners are complying with City standards.

Sales Tax revenue: The combined impacts of fewer new rental units and greater attrition of existing rental units will mean fewer apartments and households in the city relative to the City's trajectory in the absence of a rent stabilization policy. For sales tax revenue, staff estimate a loss of \$34-47M under Framework 5 and \$11-22M under Framework 7. This analysis conservatively assumes an impact on only one of the five local option sales taxes, the city-wide sales tax (omitted local option sales taxes include: city-wide entertainment tax, downtown restaurant tax, downtown liquor tax, and lodging tax). These estimates are informed by a review of average revenue per household from 2018-2022 and furthermore account for decreased vacancy rates under a rent stabilization policy (a higher portion of rental units being used given an imbalance of supply and demand). Loss of sales tax revenue (relative to the projected baseline) would reduce the City's ability to fund existing statutory obligations as well as capital projects to further residential, cultural, commercial and economic development both downtown and throughout Minneapolis neighborhoods.

Franchise Fee revenue: This revenue stream is also impacted by the anticipated production of fewer units due to a rent stabilization policy. Staff estimate a loss of \$9-12M under Framework 5 and \$3-6M under Framework 7. This analysis takes into consideration lost revenue from both electricity and natural gas franchise fees. The estimates assume no change in the franchise fee structure or level and are informed by the revenue growth per household from 2014-2021, excluding 2018 when revenue growth was higher in large part due to an increase in the franchise fee rate.

Fiscal Impact 2: Property Tax Revenue Decline

Tax Base Impacts: Two factors will impact the City's tax base if a rent stabilization policy is enacted. The first factor is the reduction in new construction of apartments described previously. The second factor is the downward adjustment to the value of rental housing that would result from a rent stabilization policy. This impact is outlined in tables F and G of Appendix D. Observed changes in the local sale transaction market after St. Paul enacted their updated policy indicate that the existence of a rent stabilization policy results in a roughly 20% decrease in the value of existing rental housing under Framework 7.

Because the levy is set each year according to City revenue needs, changes in City tax base do not directly impact revenues of the City. However, a loss of tax base in one sector, such as rental housing, will shift the cost burden of any established levy towards other sectors of the tax base. For this reason, a significant loss of tax base (also referred to as Estimated Market Value, or EMV) in the rental sector will be experienced by homeowners and commercial property owners as a cost increase on their tax bill.

For every \$100 million in EMV that is lost from the apartment sector, approximately \$725,850 in tax expenses would be shifted to other tax sectors. By translating EMV impacts to cost impacts, we estimate that Framework 5 would result in a cumulative (across 10 years) shift of about \$812 million – \$1.02 billion in costs. Framework 7 is estimated to have cost impacts in the range of \$410 million – \$649 million over 10 years. The average annual costs from EMV impacts are estimated to be approximately

\$55 million per year for Framework 7, taking the midpoint of the range for years 2025-2033 (see Appendix D, Table J). The average annual cost figure for Framework 5 is \$95 million using the same methodology. Because of the mechanics of the budgeting and levy process, these costs would be passed along to taxpayers by default.

However, each year there is a practical limit to the amount of tax costs that residents can absorb, and City elected officials are incentivized to minimize tax increases. If elected officials sought to make rent stabilization cost neutral to taxpayers, then program reductions would be necessary to absorb the cost of rent stabilization within the City budget. This is not an automatic process and would require proactive work by City leadership in cutting programs, services, and/or staff to avoid significant cost impacts to taxpayers. More explanation of potential impacts to City programs can be found in the Opportunity Cost section of this report.

Combined Costs of Fee, Sales Tax, and Tax Base Impacts & Administrative costs

Appendix D illustrates the combined magnitude of the estimated costs from Fee, Sales Tax, Tax Base Impacts and Administrative costs. The appendix includes charts for the annual costs by category (Fee & Sales Tax, Tax Base Impacts, Administrative Costs), and then provides charts to show the annual and cumulative total costs.

FIGURE 13: ESTIMATED CUMULATIVE COMBINED COSTS OF CHANGES TO REVENUES, EMV, AND ADMINISTRATIVE COST

Rent Stabilization Framework	Cumulative Costs Low End Estimate (over 10 years)	Cumulative Costs High End Estimate (over 10 years)	Average Annual Cost (midpoint of ranges)
Framework 5	\$939 Million	\$1.177 Billion	\$106 Million
Framework 7	\$461 Million	\$735 Million	\$59.8 Million

The figures in the chart above are not comprehensive, as they omit two large categories of financial impact:

1. Impacts to renters. As a result of constrained supply of new housing, renters could face rent increases under a rent stabilization policy that are higher than historic rent increases. Staff did not attempt to model the aggregate cost to renters who pay more in rents than they would have absent a rent stabilization policy. Staff also did not attempt to place a dollar value on the displacement of residents from rental housing that would be converted to ownership housing as a result of a rent stabilization policy.

2. Impacts to Hennepin County taxpayers and budgets. Just as a reduction in EMV will impact Minneapolis taxpayers, that same reduction in EMV will impact the Hennepin County taxbase. If Hennepin County elected officials decide to mitigate the impact of EMV losses on their constituents, this will result in cuts to Hennepin County programs, services, and/or staff. Staff did not attempt to estimate this impact, but it is concerning because Hennepin County is a key agency partner in addressing homelessness, and their funding of shelters, affordable housing, and outreach programs has been effective in helping thousands of families and individuals secure housing.

ENFORCEMENT & IMPLEMENTATION

To understand potential impacts of a rent stabilization policy in the City of Minneapolis, the two proposed frameworks developed by the stakeholder Work Group served as the foundation of the analysis.

City staff again conducted informational meetings with internal and external stakeholders, reviewed relevant literature, analyzed data, and created models. Developed over the course of a few months, the preliminary models are a starting point to unpack potential upstream and downstream effects, community and fiscal impacts, and resource needs. Additional analysis is needed for a more comprehensive evaluation of a proposed policy's outcomes, resource needs and holistic enterprise cost.

Learning from peers and existing programs

From the two recommended frameworks, staff mapped out processes and cost estimates by leveraging existing knowledge of City enforcement programs such as Minneapolis 4d, renter protections, renter relocation assistance, and rental licensing renewal. The team also gathered information directly from the City of St. Paul's Rent Stabilization program team that helped inform process development and operational costs.

The rent stabilization policy frameworks center on five high-level areas:

- What rental licensed properties are included
- What happens when rental units turn over
- How much can rent be increased
- How the City ensures rents aren't increased above the limit
- How disputes are resolved

Implementing a rent stabilization enforcement program

While the number of renters impacted and level of resources needed to manage a rent stabilization enforcement program is driven by the framework, both would require significant investment to implement.

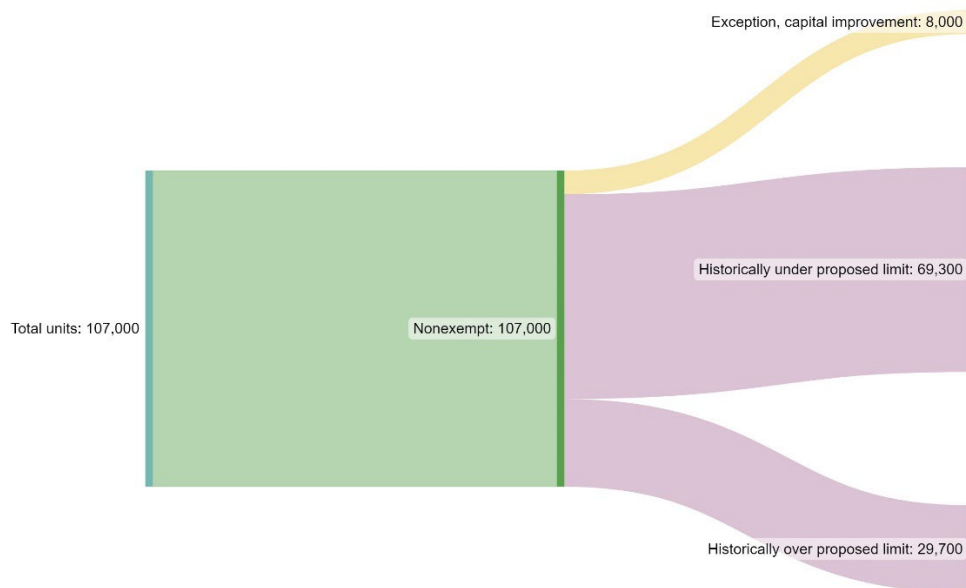
FIGURE 14: IMPLEMENTATION COST

	Framework 5	Framework 7
Exemptions	None *Capital Improvement exception by application	Units less than 30 years old, subsidized units, income-restricted units, or owner-occupied units
Vacancy control	3%	None
Rent cap	3%	5-7% + CPI
Certification	City-certified	Self-certified
Rent Control Board	Yes	No
Nonexempt rental units	100% (107,000)	25% (27,000)
Rental units with historic rent increase above cap	28% (29,700)	2% (2,200)
FTEs	12	7
FTE cost	\$1,311,000	\$827,000
Operational costs	\$205,000	\$205,000
Total costs	\$1,516,000	\$1,032,000

Framework 5

According to CURA’s Minneapolis Rent Stabilization Study, during the time period of 2013-2019, 28% of all rental units experienced a rent increase higher than 3%.

FIGURE 15: IMPACTED RENTAL UNITS



Key activities required by staff to implement Framework 5 include verifying submitted rent rolls, investigating cases of potential noncompliance, educating and engaging with property owners and renters on the policy’s requirements and what it means to comply, and supporting renters to retain stable, affordable, and equitable housing.

FIGURE 16: FRAMEWORK OVERVIEW



To complete these activities, a team of 12 new staff would need to be created.

- Two 311 Agents: Triage customer calls regarding the rent stabilization program and create service request cases for follow-up and investigation
- Two Customer Service Representative IIs: Educate property owners of their requirements and bring them into compliance so that renters are not adversely impacted
- Five Program Assistants: Investigate cases of potential noncompliance and proactively verify rent increases so that renters maintain stable, affordable, and equitable housing
- One Community Relations Specialist: Raise awareness of rent stabilization and educate on rights and responsibilities
- One Housing Liaison: Ensure renters and property owners are engaged in the process to help with compliance and education
- One Manager: Manage and coordinate the work of the team, supervising staff, lead operations and provide strategic leadership for the program

In addition to the 12 new staff needed to oversee the rent stabilization enforcement program, additional demands on existing staff capacity will occur. Initial work analysis identified needs around communication and data analysis.

Program operating costs supplemental to staff cost include technology, mailing, translation services, printing, marketing and advertising. Additional analysis and collaboration with other departments is needed to develop a more comprehensive understanding of operational costs.

FIGURE 17: FRAMEWORK 5 COST

Type	Annual Cost
FTEs	\$1,311,00
Operational	\$205,000
Total	\$1,516,000

Changes to the rental market may impact the staffing needs. If the City's volume of active rental licenses decreases 25-30 % over 10 years, it may be possible to assign 1 staff to another programs at year 5. However, if one considers how the City did things 10 years ago a lot has changed, including customer expectations and level of service. Future enforcement of a rent stabilization program will likely shift to meet those needs, undertake new tasks, or do things differently.

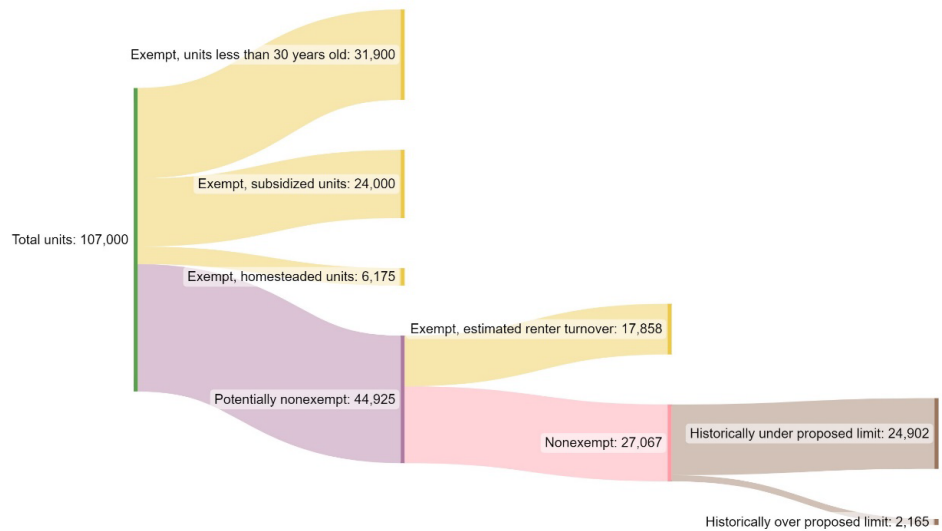
Framework 7

About 75% of rental units qualify for an exemption as a result of being:

- New construction, meaning units that are less than 30 years old
- Subsidized or income-restricted housing, and
- Owner-occupied units (includes homesteaded properties)

After considering the exemption outlined in Framework 7, historically 2% of all rental units experienced a rent increase higher than 10%. This 10% increase represents an approximation of the rent increase that would be allowed under Framework 7: CPI + 5-7%. This analysis uses 4% to represent current CPI, + 6% as the midpoint between 5% and 7%.

FIGURE 18: IMPACTED RENTAL UNITS



Key activities required by staff to implement Framework 7 include investigating cases of potential noncompliance, educating and engaging with property owners and renters on the policy’s requirements and what it means to comply, and supporting renters to retain stable, affordable, and equitable housing. Because Framework 7 relies on self-certification by the property owner and violations of the ordinance will be obtained only through complaints, to align the implementation of a rent stabilization policy with the City’s values, proactively verifying around 2,000 rental licenses located in the city’s SREAP ZIP codes helps ensure that equitable outcomes for residents living in the potentially nonexempt units are achieved.

FIGURE 19: FRAMEWORK OVERVIEW

Framework 7



To complete these activities, a team of seven new staff would need to be created.

- One 311 Agent: Triage customer calls regarding the rent stabilization program and create service request cases for follow-up and investigation

- One Customer Service Representative IIs: Educate property owners of their requirements and bring them into compliance so that renters are not adversely impacted
- Three Program Assistants: Investigate cases of potential noncompliance and proactively verify rent increases so that renters maintain stable, affordable, and equitable housing
- One Community Relations Specialist: Raise awareness of rent stabilization and educate on rights and responsibilities
- One Manager: Manage and coordinate the work of the team, supervising staff, lead operations and provide strategic leadership for the program

In addition to the seven new staff needed to oversee the rent stabilization enforcement program, additional demands on existing staff capacity will occur. Initial work analysis identified needs around communication, data analysis, appeals, hearings, field support.

Program operating costs supplemental to staff cost include technology, mailing, translation services, printing, marketing and advertising. Additional analysis and collaboration with other departments is needed to develop a more comprehensive understanding of operational costs.

FIGURE 20: FRAMEWORK 7 COST

Type	Annual Cost
FTEs	\$827,000
Operational	\$205,000
Total	\$1,032,000

Changes to the rental market may impact staffing needs but even with a reduction in the total amount of active rental units because of 30-year exemption, rental units will age into the enforcement program at a rate of 9-13% each year. One additional staff may need to be added to meet this increase in year 7.

OPPORTUNITY COST ANALYSIS

This analysis addresses the outcomes and associated costs and resource needs for the City's existing programs and policies intended to help Minneapolis residents afford their homes. While all these programs address housing affordability and/or housing stability in some manner, each one functions differently. They provide different types and amounts of support to households, they operate on different timelines, and they vary in how they leverage other existing resources.

The chart on the next page shows the financial impacts to a household and the costs associated with supporting a single household within the bounds of these programs. It identifies the aggregate impact of a \$1 million investment in each program. The \$1 million amount is used based on the estimated cost of enforcing a rent stabilization policy, to explore alternative investments in this amount to address the renter cost-burden problem. These numbers can be used to calculate the impact of either a different dollar amount of increased investment, or conversely, the impact in outcomes of a potential decrease in investment (if necessary due to a decline in revenue and subsequent budget cuts to these programs).

Based on this analysis, staff have identified Guaranteed Basic Income (GBI) and rent assistance through Stable Homes Stable Schools (SHSS) as the most effective and direct tools (out of existing programs) to relieve renter cost-burden. These two strategies directly address the cost-burden problem by supplementing the incomes for households in the bottom quartile, as described earlier in this report. The GBI and SHSS programs are described in more detail below the chart. The other strategies are described in more detail in Appendix G.

FIGURE 21: COMPARISON OF IMPACTS AND COSTS FOR OTHER CITY STRATEGIES

Program	Impact per household	Cost per household	Impact for every \$1 million invested	Staff Assessment of this Program as Alternative Investment
Guaranteed Basic Income (GBI)	Each household receives \$500 cash assistance for 24 months	\$12,000 in direct assistance, plus ~ \$1,300 in staff/program admin	75 families enrolled at current program guidelines	Highly effective and efficient model for supporting cost-burdened households.
Rent Assistance through Stable Homes Stable Schools (SHSS) Program	3 years of rent assistance (family pays 30% of income) or one-time emergency assistance	For one-time assistance: \$1681 in assistance plus ~\$180 in staff/program admin	For one-time assistance: provide 537 families with an average of \$1681 in assistance	Highly effective and efficient model for supporting cost-burdened households.
Affordable Housing Trust Fund (AHTF)	Creates an affordable unit that otherwise would not have been created, or would not have been affordable	\$30,000 City investment results in creation of 1 unit affordable at 50% AMI	~ 33 new subsidized units affordable at 50% AMI	Highly effective tool for increasing affordable housing supply long-term. However, market limitations and the long timeline between investment and impact hinder this strategy's ability to help additional cost-burdened households immediately.
NOAH Preservation Fund	Preserves naturally affordable units that might be vulnerable to market rent increases	\$40,000 in deferred loans for preserved units available to households at or below 50% AMI	25 units preserved at rents affordable to households at or below 50% AMI	Fewer constraints than faced by the AHTF but still dependent on applicants securing first mortgage financing
Down Payment Assistance	Reduces barriers to homeownership via down payment assistance for families with incomes at 50% AMI below	\$20k + \$1,200 in admin costs per household receiving homebuyer assistance	47 renter households supported with homebuyer assistance	The City's homeownership programs are effective but are helpful only to those renters who are ready and interested in the transition to ownership.

Guaranteed Basic Income

Program Description

In June of 2022, the City began piloting a [Guaranteed Basic Income \(GBI\) Program](#). GBI (or Universal Basic Income, as some similar programs are called) programs provide a direct cash benefit to households regardless of their employment status. The City's GBI Program aims to support financial security to households through the flexibility to balance immediate needs with long-term investments. For the current pilot, enrolled families receive \$500 from the City each month for a period of two years to help boost their income. The eligibility requirements for this pilot were that a family's income at the time of enrollment was at or below 50% of the Area Median Income (AMI) for Minneapolis, they live in one of the nine ZIP codes of highest poverty in Minneapolis, and that the household experienced harm from the pandemic (e.g. job loss, reduced hours, higher healthcare payments, loss of childcare, technology, or transportation). The current pilot goes through June 2024. Meanwhile, the City is partnering with the Federal Reserve Bank of Minneapolis to conduct program evaluation. The team is gathering data from the enrolled families and comparing outcomes to a control group not receiving GBI payments to inform any potential expansion or alteration to the program in the future.

Opportunity Cost Analysis

GBI has the potential to address renter cost-burden directly and efficiently. Staff are encouraged by early signs of positive impacts from the pilot and enthusiastically optimistic about the potential for GBI to support cost-burdened households in a leaner, less resource-intensive, less intrusive, and more dignified way than some other strategies.

The City invested \$3 million for the current GBI pilot. \$2.4 million of that is for the direct cash payments (\$500 per month * 24 months * 200 households). The remaining funds are used for staffing and other needs to support the program and study its outcomes. Approximately one staff person would be needed per 500 households enrolled. **A rough estimate is that for every \$1 million invested, the GBI program could enroll an additional 75 families under the current program model (\$500 per month for 24 months).** This also means that for approximately 5-10% of the anticipated cost of a rent stabilization policy, with an investment of \$5 million per year in GBI, the City could enroll 375 new families in the program each year, serving nearly 4,000 families across the next decade.

Early signs from the GBI pilot suggest that this investment is resulting in significant positive impacts for enrolled families. According to survey results six months into the pilot, the majority of households said that the most important use of the extra money was for direct housing costs (rent, mortgage, utilities). Enrolled families said paying for food at home, paying down debt, and transportation were among other critical uses. Early survey results also indicate that families who receive GBI have decreased housing instability, decreased food insecurity, and decreased psychological distress than they did before GBI.

Staff Assessment

Investing in GBI is a direct and efficient way to relieve financial stress from housing cost-burdened families. The City's pilot program could realistically be expanded to produce critical positive impacts for Minneapolis families.

Rent Assistance

Program Description

While the City leads and supports many programs that help renters facing financial and housing insecurity, it has traditionally not served as provider of rental assistance. State and County programs run the vast majority of direct assistance programs. However, to address impacts of the COVID-19 pandemic, the City created a temporary, independent Gap Funds for Housing Program (spring 2020). The City also collaborated with the State of Minnesota and Hennepin County to help administer federal funds for rent assistance through the RentHelpMN program.

Since 2019, the City has spearheaded the [Stable Homes Stable Schools](#) Initiative (SHSS), a collaborative partnership between the City, the Minneapolis Public Housing Authority (MPHA), Minneapolis Public Schools (MPS), and Hennepin County Health and Human Services to provide funding and services for families facing the threat of losing their home or experiencing homelessness. Through this program, families of MPS students who are designated as homeless or at risk of becoming homeless can receive three years of monthly rent assistance (family pays 30% of their income for rent and SHSS makes up the difference) or one-time assistance in the case of an emergency to preserve a family's housing stability.

Options for new or deepened investment in rent assistance could take the following forms:

- Establishing a new City program
- Supplementing Emergency Assistance (EA) and Emergency General Assistance (EGA) administered by Hennepin County
- Increasing investment to SHSS

Opportunity Cost Analysis

Because the City does not have existing infrastructure to run a direct rent assistance program in-house, the resource needs for this would be very high. Typical rent assistance programs budget at least 15% of revenue for staff and administrative costs. For the City to create a new, permanent program, additional resources would be needed to secure the necessary infrastructure including robust technology and data systems to support the program. Since other entities are already set up to deliver direct rent assistance in this fashion, staff does not see a new City-run program to be an efficient investment to support cost-burdened households. Instead of creating a new City program, the City could allocate funds to existing emergency rent assistance programs.

In contrast, the SHSS program has proven to be a highly effective model for delivering critical resources (including both monetary assistance and services where appropriate) to families of students in

Minneapolis elementary schools. Because of the robust partnership, the City's financial investment in this program is leveraged by State and County as well as private resources.

To respond to financial strain caused by the COVID-19 pandemic, the City invested \$1 million for a temporary expansion of the SHSS emergency housing assistance program. This \$1 million investment provided 538 families with assistance. The average amount of rent help was \$1,681 per family.

The City currently funds SHSS at \$2 million per year. Again, this investment leverages additional significant contribution from program partners and private supporters. For approximately 5-10% of the anticipated cost of a rent stabilization policy, the City could more than double the investment in the SHSS program over the next decade, dramatically increasing the number of families supported by the program.

Staff Assessment

Because of the well-established partnership and positive impacts to-date of the program, deeper investment in SHSS would be an effective and efficient use of resources, targeted at Minneapolis households who are housing cost-burdened.

CONCLUSION

After conducting the analysis described in this report, the staff team arrived at the following findings and recommendations.

Findings:

1. A rent stabilization policy would not effectively address the problem of renter cost-burden. It does not target relief to renters whose incomes are insufficient to afford rent in the housing market. A rent stabilization policy would also impede growth of the city's housing stock, which is counter to numerous existing City policies designed to promote the production of new housing to ensure existing and new residents have access to a range of options to meet their needs.
2. If a rent stabilization policy was adopted in Minneapolis:
 - Some existing renters could benefit from increased housing stability due to the certainty of the limit on future rent increases.
 - Renters may in fact face greater housing instability due to higher rent increases than they otherwise would have experienced, as property owners could begin raising rents to the maximum amount allowed.
 - Renters may experience diminished housing quality, as a rent stabilization policy could disincentivize property maintenance and improvements.
 - There could be a significant decline in the creation and preservation of rental housing units in Minneapolis.
 - The City of Minneapolis could experience a significant property tax levy shift due to diminished rental property valuation:
 - i. Average annual cost of shift under Framework 5: \$95 million
 - ii. Average annual cost of shift under Framework 7: \$55 million
 - The City of Minneapolis could experience a significant revenue decline due to diminished building permit activity and reduction in the housing stock:
 - i. Cumulative (10 year) estimated loss under Framework 5: \$108.3 million - \$139.6 million
 - ii. Cumulative (10 year) estimated loss under Framework 7: \$39.3 million - \$74.8 million
 - The City would spend approximately the following amounts per year enforcing and implementing the policy:
 - i. \$1,516,000 for Framework 5
 - ii. \$1,032,000 for Framework 7
3. The costs and detrimental impacts of a rent stabilization policy would outweigh any potential benefits in addressing renter cost-burden.
4. Deeper investment in known effective strategies to boost incomes and support renters would more effectively address the problem of renter cost-burden, without impeding the creation and preservation of rental housing units that are needed for Minneapolis residents.

Recommendations:

Based on these findings, staff recommend the following to City policymakers:

- 1. Staff recommend against the adoption of a rent stabilization policy.**
 - A rent stabilization policy would not effectively address the problem of renter cost-burden.
 - The anticipated costs to the City, including the anticipated decline in housing development, decline in revenue, and significant cost of enforcement, outweigh the anticipated benefits, which would impact a small percentage of renters.
 - Now is a particularly risky time to adopt a policy that staff anticipate would impede the development of new rental housing units. The City and surrounding market are still recovering from the economic impacts of the COVID-19 pandemic, and there are existing reasons to be concerned about the pace of needed development. Also, a legal challenge to St. Paul's rent stabilization policy is pending in court – the outcome of this case will provide needed guidance.

- 2. The City should continue supporting, and explore deepening investment, in known effective strategies to relieve renter cost-burden.** The City Council has adopted and supported several policies and programs in recent years that have proven to be impactful in helping families afford their rent. Staff recommend increased support for:
 - Strategies that identify and hold to account property owners engaging in egregious conduct that leads to housing instability;
 - Strategies that support renters whose incomes are not enough to afford their homes, including Guaranteed Basic Income (GBI) and Stable Homes Stable Schools (SHSS); and
 - Strategies that promote the creation of new rental housing units and incentivize affordability, including the NOAH Preservation Fund, the 4d Affordable Housing Incentive Program, the Inclusionary Zoning policy, the Affordable Housing Trust Fund, and related initiatives.

Appendix A: Literature Review and Impact Mapping

	Economic Impact	Impact Directionality	References
1	Lower quantity of rental units	Negative	1; 2; 4; 6
2	Lower quality of rent-controlled rental units <ul style="list-style-type: none"> Decay of rental housing stock – less landlord investment in maintenance (unable to recoup through higher rents) 	Negative	1; 2; 4
3	Mismatch between tenants and rental units (sustained benefit capture by middle and high income HHs)	Negative	1; 2; 4; 7
4	Decreased displacement/gentrification <ul style="list-style-type: none"> Short-term: Stronger among older HH's and racial minorities Long-term: Leads to gentrification as new units are tailored for higher income HHs and existing rental units are lost to ownership-conversions. 	Positive/mixed	1; 2; 4; 5; 6
5	Suppressed property values (Controlled and non-controlled properties)	Negative	1; 2; 5; 7
6	Higher future rents (future units built for higher income HH's)	Negative	1; 4

1. What does economic evidence tell us about the effects of rent control?
(<https://www.brookings.edu/research/what-does-economic-evidence-tell-us-about-the-effects-of-rent-control/>)
2. Appendix II – Review of Literature on the Impact of Rent Control on Housing Quality and Quantity, Displacement, and Inclusion (<https://www.dcpolicycenter.org/publications/rent-control-literature-review/>)
3. The Key to Rent Control (<https://www.theregreview.org/2022/10/15/saturday-seminar-the-key-to-rent-control/>)
4. What Does the Research Tell Us about the Effectiveness of Local Action?
(<https://www.urban.org/research/publication/rent-control-what-does-research-tell-us-about-effectiveness-local-action>)
5. Rent Control and Stabilization Policies: Four Studies to Know
(<https://journalistsresource.org/economics/rent-control-regulation-studies-to-know/>)
6. The Effects of Rent Control Expansion on Tenants, Landlords, and Inequality: Evidence from San Francisco (<https://www.aeaweb.org/articles?id=10.1257/aer.20181289>)
7. Robbing Peter to Pay Paul? The Redistribution of Wealth Caused by Rent Control
(<https://www.nber.org/papers/w30083>)

Revenue Stream	Impact	Economic Impact affecting revenue	Notes
Sales Taxes	Down	[1] Lower quantity of rental units	[1] Fewer rental units -> fewer inhabitants -> less spending
Franchise Fees	Down	[1] Lower quantity of rental units	[1] Fewer rental units -> fewer units from which to collect revenue
Rental Licenses, Permits, & Citations <i>(Reg Services: Housing & Fire Inspections)</i>	Down	[1] Lower quantity of rental units [2] Lower quality of rent-controlled rental units [5] Suppressed property values	[1] Fewer rental units (stock and new constructs) -> fewer units for annual licensing fees and plan examination fees; [2] Lower quality rental units -> more citations (Code violations); no impact on annual vacant building registrations [5] Lower appraised values -> lower revenue collections on annual Fire Protection Permits (valuation based)
Development Licenses, Permits, & Fees <i>(CPED)</i>	Down	[1] Lower quantity of rental units [5] Suppressed property values	[1] Fewer rental units (new constructs) -> fewer units to collect revenue on building, plumbing, & mechanical permits; & plan examination fees. [5] Lower appraised values -> lower revenue collections on building, plumbing, & mechanical permits (valuation based)

Appendix B: Housing & Real Estate Stakeholder Interviews

Development Finance staff conducted a series of interviews with experts and participants in the ownership, management, financing, and development of rental housing to understand the likely financial impacts of Frameworks 5 and 7 in Minneapolis.

The people interviewed came from a wide range of positions in the housing profession, including:

- rental property owners who focus on one- to four-unit buildings
- owners with thousands of apartments across dozens of buildings
- nonprofit developers solely focused on affordable housing
- for-profit developers solely focused on market-rate housing
- developers who work on a mix of affordable and market rate housing
- locally rooted developers with a primary geography of Minneapolis & Saint Paul
- developers who work on projects around the country
- developers that build new housing and sell it once it is stabilized
- developers who buy or develop housing and retain ownership and management for the long run
- brokers for the sale of multifamily property
- investors whose role is to secure capital for new developments

The variety of perspectives was helpful as a compliment to significant published research in providing a detailed and thorough sense for how a rent stabilization policy would cause people in the local real estate field to react, adapt, or shift their work to other locations.

Appendix C: Fiscal Impact Assumptions

A. Permitting Growth Rate for MF Rental Units (5+ units)

A. Permitting Growth Rate for MF Rental Units (5+ units)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Framework 5 - high end impact	-70.0%	-35.0%	-35.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Framework 5 - low end impact	-50.0%	-25.0%	-25.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Framework 7 - high end impact	-25.0%	-20.0%	-20.0%	0.0%	0.0%	0.0%	1.0%	1.0%	1.0%	1.0%
Framework 7 - low end impact	-10.0%	-10.0%	-10.0%	0.0%	0.0%	0.0%	1.0%	1.0%	1.0%	1.0%

- Policy frameworks are implemented in 2024
- Base 1% growth to reflect recession/construction cycle impact
- Initial impacts to both frameworks are felt throughout the first three years of policy as some projects initiated pre-policy implementation are completed and the new equilibrium permitting levels/growth are reached

B. Permitted MF Rental Units (annual)

B. Permitted MF Rental Units (annual)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base	3,399	3,433	3,467	3,502	3,537	3,572	3,608	3,644	3,680	3,717
Framework 5 - high end impact	1,009	656	427	427	427	427	427	427	427	427
Framework 5 - low end impact	1,682	1,262	946	946	946	946	946	946	946	946
Framework 7 - high end impact	2,524	2,019	1,615	1,615	1,615	1,615	1,631	1,648	1,664	1,681
Framework 7 - low end impact	3,028	2,726	2,453	2,453	2,453	2,453	2,478	2,502	2,527	2,553

- Growth rates from table A applied to the permitted 2022 Units in 5+ Unit Multi-Family Structures (source: <https://socds.huduser.gov/permits/>)

C. Permitted MF Rental Units (aggregate)

C. Permitted MF Rental Units (aggregate)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base	3,399	6,831	10,298	13,800	17,336	20,908	24,516	28,160	31,840	35,557
Framework 5 - high end impact	1,009	1,666	2,092	2,519	2,945	3,372	3,798	4,225	4,651	5,078
Framework 5 - low end impact	1,682	2,944	3,891	4,837	5,784	6,730	7,676	8,623	9,569	10,516
Framework 7 - high end impact	2,524	4,543	6,158	7,773	9,388	11,003	12,635	14,282	15,947	17,627
Framework 7 - low end impact	3,028	5,754	8,207	10,660	13,113	15,566	18,044	20,546	23,074	25,626

- Aggregation of the Units in 5+ Unit Multi-Family Structures in Table B

D. Fewer Permitted MF Rental Units Relative to Base (annual)

D. Fewer Permitted MF Rental Units Relative to Base (annual)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base	-	-	-	-	-	-	-	-	-	-
Framework 5 - high end impact	(2,389)	(2,776)	(3,040)	(3,075)	(3,110)	(3,145)	(3,181)	(3,217)	(3,254)	(3,291)
Framework 5 - low end impact	(1,716)	(2,171)	(2,521)	(2,555)	(2,590)	(2,626)	(2,661)	(2,697)	(2,734)	(2,771)
Framework 7 - high end impact	(875)	(1,414)	(1,852)	(1,886)	(1,921)	(1,957)	(1,976)	(1,996)	(2,016)	(2,036)
Framework 7 - low end impact	(370)	(707)	(1,014)	(1,049)	(1,084)	(1,119)	(1,130)	(1,141)	(1,153)	(1,164)

a. Comparison of how many fewer units are permitted on an annual basis relative to the baseline assumption absent any policy intervention

E. Fewer Permitted MF Rental Units Relative to Base (aggregate)

E. Fewer Permitted MF Rental Units Relative to Base (aggregate)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base	-	-	-	-	-	-	-	-	-	-
Framework 5 - high end impact	(2,389)	(5,166)	(8,206)	(11,281)	(14,391)	(17,537)	(20,718)	(23,935)	(27,189)	(30,479)
Framework 5 - low end impact	(1,716)	(3,887)	(6,407)	(8,963)	(11,553)	(14,178)	(16,840)	(19,537)	(22,271)	(25,042)
Framework 7 - high end impact	(875)	(2,289)	(4,140)	(6,027)	(7,948)	(9,905)	(11,881)	(13,877)	(15,894)	(17,930)
Framework 7 - low end impact	(370)	(1,077)	(2,091)	(3,140)	(4,223)	(5,342)	(6,472)	(7,614)	(8,766)	(9,931)

a. Aggregation of how many fewer units are permitted (Table D) relative to the baseline assumption absent any policy intervention

F. Rental Housing Stock (% decrease in existing rental housing stock in existence at time of policy implementation)

F. Rental Housing Stock (% decrease in existing rental housing stock in existence at time of policy implementation)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
Framework 5 - high end impact	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Framework 5 - low end impact	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Framework 7 - high end impact	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Framework 7 - low end impact	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%	0.9%

a. Policy frameworks are implemented in 2024

b. Base assumption of percentage decrease is pre-policy implementation housing stock is set to the estimated annual reduction from 2017 to 2022 (taking into consideration newly permitted rental units coming online after a 3 year delay)

c. Percentage decrease assumptions are constant over time because each respective policy framework established a set of conditions which perpetuate and drive decision making of property owners.

G. Rental Housing Stock (# of pre-policy implementation rental housing stock units)

G. Rental Housing Stock (# of pre-policy implementation rental housing stock units)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base	108,232	107,475	106,722	105,975	105,233	104,497	103,765	103,039	102,318	101,602
Framework 5 - high end impact	106,815	104,679	102,585	100,534	98,523	96,553	94,622	92,729	90,875	89,057
Framework 5 - low end impact	107,360	105,750	104,164	102,601	101,062	99,546	98,053	96,582	95,134	93,707
Framework 7 - high end impact	107,687	106,395	105,118	103,857	102,611	101,379	100,163	98,961	97,773	96,600
Framework 7 - low end impact	108,014	107,042	106,079	105,124	104,178	103,240	102,311	101,390	100,478	99,574

- a. 2023 rental housing stock figure not available at time of analysis. It was estimated to be a 2.2% growth from the 2022 level, which was the average annual growth rate in the rental housing stock from 2018-2022.
- b. Growth rates from Table F applied to 2023 estimated rental housing stock.

H. Rental Housing Stock (fewer pre-policy implementation rental housing stock units relative to base)

H. Rental Housing Stock (fewer pre-policy implementation rental housing stock units relative to base)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base	-	-	-	-	-	-	-	-	-	-
Framework 5 - high end impact	(1,417)	(2,796)	(4,137)	(5,442)	(6,710)	(7,944)	(9,144)	(10,310)	(11,443)	(12,544)
Framework 5 - low end impact	(872)	(1,725)	(2,559)	(3,374)	(4,171)	(4,951)	(5,712)	(6,457)	(7,184)	(7,895)
Framework 7 - high end impact	(545)	(1,080)	(1,604)	(2,118)	(2,623)	(3,118)	(3,603)	(4,078)	(4,544)	(5,002)
Framework 7 - low end impact	(218)	(432)	(644)	(851)	(1,055)	(1,256)	(1,454)	(1,649)	(1,840)	(2,028)

- a. How many fewer units from the rental housing stock in existence in 2023 relative to the base assumption.

I. Combined Impacts on New Rental Units (Table C) and on Existing Rental Housing Stock (Table H)

I. Combined Impacts on New Rental Units (Table B) and on Existing Rental Housing Stock (Table G)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base	111,298	114,104	116,716	119,368	122,059	124,789	127,559	130,369	133,220	136,112
Framework 5 - high end impact	109,881	111,308	112,579	111,537	110,183	108,639	107,134	105,668	104,240	102,849
Framework 5 - low end impact	110,426	112,379	114,158	114,278	114,001	113,431	112,884	112,360	111,858	111,377
Framework 7 - high end impact	110,753	113,024	115,112	116,375	117,147	117,531	117,930	118,343	118,771	119,229
Framework 7 - low end impact	111,080	113,671	116,073	118,147	119,926	121,442	122,965	124,498	126,038	127,612

- a. It is assumed that construction of new rental and their availability on the rental market is on a three-year delay from the time of permit approval in Table B. For example, the known permits from 2021 are not reflected in this table as a part of the housing stock until 2024.
- b. Impacts to the existing rental housing stock at the time of policy implementation are captured in the same year they occur in Table G.

J. Fewer Combined Rental Units Relative to Base

J. Fewer Combined Rental Units Relative to Base										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base	-	-	-	-	-	-	-	-	-	-
Framework 5 - high end impact	(1,417)	(2,796)	(4,137)	(7,831)	(11,876)	(16,150)	(20,425)	(24,701)	(28,980)	(33,262)
Framework 5 - low end impact	(872)	(1,725)	(2,559)	(5,090)	(8,058)	(11,358)	(14,675)	(18,010)	(21,363)	(24,735)
Framework 7 - high end impact	(545)	(1,080)	(1,604)	(2,993)	(4,911)	(7,258)	(9,629)	(12,026)	(14,449)	(16,883)
Framework 7 - low end impact	(218)	(432)	(644)	(1,221)	(2,133)	(3,347)	(4,594)	(5,872)	(7,182)	(8,500)

- a. How many combined fewer rental units in the housing stock due to impacts on new rental units (Table B) and existing rental housing stock (Table G) relative to the base assumption.

K. Vacancy Rate Assumptions

K. Vacancy Rate Assumptions										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Framework 5 - high end impact	5.0%	4.5%	4.0%	3.5%	3.0%	2.5%	2.0%	1.5%	1.5%	1.5%
Framework 5 - low end impact	5.0%	4.5%	4.0%	3.5%	3.0%	2.5%	2.0%	1.5%	1.5%	1.5%
Framework 7 - high end impact	5.0%	4.5%	4.0%	3.5%	3.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Framework 7 - low end impact	5.0%	4.5%	4.0%	3.5%	3.0%	2.5%	2.5%	2.5%	2.5%	2.5%

- a. Base assumption tracks what is considered a healthy vacancy rate and is on par with rates experienced in Minneapolis
- b. Framework 5 assumption is that with constrained supply of rental units the vacancy rate would tighten reaching 1.5% in 2031
- c. Framework 7 assumption is that with constrained supply of rental units the vacancy rate would tighten reaching 2.5% in 2029

L. Loss of Plan Examination and Permitting Fee Revenue (Annual)

L. Loss of Plan Examination and Permitting Fee Revenue (Annual)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units	-	-	-	-	-	-	-	-	-	-
Framework 5 - high end impact	(4,190,147)	(6,481,018)	(7,849,903)	(8,193,284)	(8,349,311)	(8,444,313)	(8,540,264)	(8,637,175)	(8,735,055)	(8,833,913)
Framework 5 - low end impact	(3,009,824)	(4,964,756)	(6,347,942)	(6,767,363)	(6,946,543)	(7,041,544)	(7,137,495)	(7,234,406)	(7,332,286)	(7,431,145)
Framework 7 - high end impact	(1,534,420)	(3,069,430)	(4,437,294)	(4,938,997)	(5,142,010)	(5,237,012)	(5,304,635)	(5,362,040)	(5,415,660)	(5,469,817)
Framework 7 - low end impact	(649,178)	(1,489,613)	(2,354,932)	(2,713,634)	(2,881,238)	(2,976,239)	(3,029,168)	(3,066,078)	(3,096,739)	(3,127,706)

- a. Average revenue of \$2,698.20 per unit. Assumption reached by analyzing average MF rental developments by quartile (in terms of unit count) from 2018-2022.
- b. Unit impact derived from Table D.
- c. Revenues assumed to be realized: 65% in year of permit; 25% in year following permit issuance; 10% in second year following permit issuance.

M. Loss of Plan Examination and Permitting Fee Revenue (Cumulative)

M. Loss of Plan Examination and Permitting Fee Revenue (Cumulative)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units	-	-	-	-	-	-	-	-	-	-
Framework 5 - high end impact	(4,190,147)	(10,671,164)	(18,521,068)	(26,714,351)	(35,063,663)	(43,507,975)	(52,048,239)	(60,685,414)	(69,420,468)	(78,254,381)
Framework 5 - low end impact	(3,009,824)	(7,974,580)	(14,322,522)	(21,089,885)	(28,036,428)	(35,077,972)	(42,215,467)	(49,449,873)	(56,782,159)	(64,213,304)
Framework 7 - high end impact	(1,534,420)	(4,603,850)	(9,041,144)	(13,980,141)	(19,122,152)	(24,359,163)	(29,663,798)	(35,025,838)	(40,441,498)	(45,911,315)
Framework 7 - low end impact	(649,178)	(2,138,791)	(4,493,723)	(7,207,357)	(10,088,595)	(13,064,834)	(16,094,001)	(19,160,079)	(22,256,818)	(25,384,525)

N. Loss of Rental Licensing Fee Revenue (Annual)

N. Loss of Rental Licensing Fee Revenue (Annual)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units	-	-	-	-	-	-	-	-	-	-
Framework 5 - high end impact	(16,059)	(31,684)	(46,885)	(88,748)	(134,594)	(183,036)	(231,482)	(279,946)	(328,439)	(376,974)
Framework 5 - low end impact	(9,882)	(19,547)	(28,998)	(57,689)	(91,326)	(128,724)	(166,316)	(204,109)	(242,110)	(280,327)
Framework 7 - high end impact	(6,176)	(12,235)	(18,179)	(33,924)	(55,662)	(82,255)	(109,132)	(136,299)	(163,760)	(191,339)
Framework 7 - low end impact	(2,471)	(4,902)	(7,294)	(13,842)	(24,170)	(37,938)	(52,062)	(66,546)	(81,394)	(96,334)

- a. Average revenue of \$11.33 per unit. Assumption reached by analyzing average MF rental developments by quartile (in terms of unit count) from 2018-2022.
- b. Unit impact derived from Table J.
- c. Revenues collected annually on all rental units.

O. Loss of Rental Licensing Fee Revenue (Cumulative)

O. Loss of Rental Licensing Fee Revenue (Cumulative)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units	-	-	-	-	-	-	-	-	-	-
Framework 5 - high end impact	(16,059)	(47,742)	(94,627)	(183,375)	(317,969)	(501,005)	(732,487)	(1,012,433)	(1,340,872)	(1,717,845)
Framework 5 - low end impact	(9,882)	(29,429)	(58,428)	(116,117)	(207,442)	(336,166)	(502,482)	(706,591)	(948,701)	(1,229,028)
Framework 7 - high end impact	(6,176)	(18,412)	(36,591)	(70,514)	(126,177)	(208,432)	(317,564)	(453,862)	(617,622)	(808,961)
Framework 7 - low end impact	(2,471)	(7,372)	(14,666)	(28,508)	(52,677)	(90,615)	(142,677)	(209,223)	(290,617)	(386,951)

P. Loss of Gross Sales Tax Revenue (Annual)

P. Loss of Gross Sales Tax Revenue (Annual)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units	-	-	-	-	-	-	-	-	-	-
Framework 5 - high end impact	(333,132)	(686,360)	(1,060,580)	(2,096,305)	(3,319,692)	(4,713,780)	(6,224,452)	(7,859,527)	(9,578,684)	(11,420,657)
Framework 5 - low end impact	(205,004)	(423,446)	(655,971)	(1,362,671)	(2,252,497)	(3,315,067)	(4,472,155)	(5,730,387)	(7,060,966)	(8,492,691)
Framework 7 - high end impact	(128,128)	(265,055)	(411,225)	(801,313)	(1,372,874)	(2,118,343)	(2,919,541)	(3,787,756)	(4,727,454)	(5,737,882)
Framework 7 - low end impact	(51,251)	(106,183)	(164,988)	(326,961)	(596,133)	(977,027)	(1,392,777)	(1,849,319)	(2,349,710)	(2,888,869)

- a. Analysis assumes an impact on only one of the five local option sales taxes: the city-wide sales tax. Omitted local option sales taxes include: city-wide entertainment tax; downtown restaurant tax; downtown liquor tax; lodging tax.
- b. Estimate assumes revenue growth per household of 3.9% (the annual growth per HH experienced from 2018-2022).
- c. Unit impact derived from Table J
- d. Vacancy rates derived from Table K

Q. Loss of Gross Sales Tax Revenue (Cumulative)

Q. Loss of Gross Sales Tax Revenue (Cumulative)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units	-	-	-	-	-	-	-	-	-	-
Framework 5 - high end impact	(333,132)	(1,019,492)	(2,080,072)	(4,176,377)	(7,496,069)	(12,209,850)	(18,434,302)	(26,293,828)	(35,872,512)	(47,293,169)
Framework 5 - low end impact	(205,004)	(628,450)	(1,284,421)	(2,647,092)	(4,899,589)	(8,214,656)	(12,686,812)	(18,417,199)	(25,478,165)	(33,970,857)
Framework 7 - high end impact	(128,128)	(393,183)	(804,408)	(1,605,721)	(2,978,595)	(5,096,938)	(8,016,479)	(11,804,234)	(16,531,688)	(22,269,570)
Framework 7 - low end impact	(51,251)	(157,434)	(322,422)	(649,383)	(1,245,516)	(2,222,543)	(3,615,320)	(5,464,639)	(7,814,349)	(10,703,218)

R. Loss of Electricity Franchise Fee Revenue (Annual)

R. Loss of Electricity Franchise Fee Revenue (Annual)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units	-	-	-	-	-	-	-	-	-	-
Framework 5 - high end impact	(33,437)	(67,135)	(101,093)	(194,721)	(300,495)	(415,806)	(535,062)	(658,387)	(781,939)	(908,531)
Framework 5 - low end impact	(20,577)	(41,418)	(62,526)	(126,575)	(203,894)	(292,424)	(384,432)	(480,031)	(576,409)	(675,607)
Framework 7 - high end impact	(12,860)	(25,926)	(39,197)	(74,432)	(124,271)	(186,860)	(250,968)	(317,298)	(385,917)	(456,457)
Framework 7 - low end impact	(5,144)	(10,386)	(15,726)	(30,371)	(53,961)	(86,184)	(119,725)	(154,916)	(191,814)	(229,814)

- Estimate assumes revenue growth per household of 1.2% (the annual growth per HH experienced from 2014-2021, excluding 2018 when the outlier in growth was driven by a 0.5% rate increase).
- Unit impact derived from Table J
- Vacancy rates derived from Table K

S. Loss of Electricity Franchise Fee Revenue (Cumulative)

S. Loss of Electricity Franchise Fee Revenue (Cumulative)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units	-	-	-	-	-	-	-	-	-	-
Framework 5 - high end impact	(33,437)	(100,572)	(201,664)	(396,385)	(696,880)	(1,112,686)	(1,647,748)	(2,306,135)	(3,088,074)	(3,996,605)
Framework 5 - low end impact	(20,577)	(61,995)	(124,521)	(251,096)	(454,990)	(747,414)	(1,131,847)	(1,611,877)	(2,188,286)	(2,863,893)
Framework 7 - high end impact	(12,860)	(38,786)	(77,983)	(152,415)	(276,686)	(463,547)	(714,515)	(1,031,812)	(1,417,729)	(1,874,187)
Framework 7 - low end impact	(5,144)	(15,530)	(31,257)	(61,627)	(115,588)	(201,773)	(321,498)	(476,414)	(668,228)	(898,042)

T. Loss of Natural Gas Franchise Fee Revenue (Annual)

T. Loss of Natural Gas Franchise Fee Revenue (Annual)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units	-	-	-	-	-	-	-	-	-	-
Framework 5 - high end impact	(61,498)	(125,905)	(193,319)	(379,690)	(597,468)	(843,001)	(1,106,121)	(1,387,842)	(1,680,706)	(1,991,221)
Framework 5 - low end impact	(37,845)	(77,676)	(119,568)	(246,812)	(405,397)	(592,859)	(794,727)	(1,011,877)	(1,238,940)	(1,480,722)
Framework 7 - high end impact	(23,653)	(48,621)	(74,957)	(145,137)	(247,086)	(378,839)	(518,819)	(668,845)	(829,494)	(1,000,414)
Framework 7 - low end impact	(9,461)	(19,478)	(30,074)	(59,220)	(107,290)	(174,729)	(247,504)	(326,554)	(412,288)	(503,682)

- Estimate assumes revenue growth per household of 3.2% (the annual growth per HH experienced from 2014-2021, excluding 2018 when the outlier in growth was driven by a 0.5% rate increase).
- Unit impact derived from Table J
- Vacancy rates derived from Table K

U. Loss of Natural Gas Franchise Fee Revenue (Cumulative)

U. Loss of Natural Gas Franchise Fee Revenue (Cumulative)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units	-	-	-	-	-	-	-	-	-	-
Framework 5 - high end impact	(61,498)	(187,403)	(380,722)	(760,412)	(1,357,880)	(2,200,881)	(3,307,002)	(4,694,844)	(6,375,550)	(8,366,771)
Framework 5 - low end impact	(37,845)	(115,521)	(235,090)	(481,901)	(887,299)	(1,480,157)	(2,274,885)	(3,286,762)	(4,525,701)	(6,006,424)
Framework 7 - high end impact	(23,653)	(72,274)	(147,231)	(292,368)	(539,453)	(918,293)	(1,437,112)	(2,105,957)	(2,935,451)	(3,935,866)
Framework 7 - low end impact	(9,461)	(28,939)	(59,013)	(118,233)	(225,523)	(400,252)	(647,757)	(974,311)	(1,386,599)	(1,890,281)

V. Total City Revenue Loss (Annual)

V. Total City Revenue Loss (Annual)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units	-	-	-	-	-	-	-	-	-	-
Framework 5 - high end impact	(4,634,273)	(7,392,100)	(9,251,780)	(10,952,747)	(12,701,561)	(14,599,936)	(16,637,381)	(18,822,876)	(21,104,822)	(23,531,295)
Framework 5 - low end impact	(3,283,132)	(5,526,844)	(7,215,005)	(8,561,110)	(9,899,657)	(11,370,618)	(12,955,127)	(14,660,810)	(16,450,711)	(18,360,492)
Framework 7 - high end impact	(1,705,238)	(3,421,267)	(4,980,852)	(5,993,802)	(6,941,904)	(8,003,309)	(9,103,095)	(10,272,237)	(11,522,285)	(12,855,909)
Framework 7 - low end impact	(717,505)	(1,630,561)	(2,573,014)	(3,144,028)	(3,662,792)	(4,252,118)	(4,841,235)	(5,463,414)	(6,131,946)	(6,846,405)

W. Total City Revenue Loss (Cumulative)

W. Total City Revenue Loss (Cumulative)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units	-	-	-	-	-	-	-	-	-	-
Framework 5 - high end impact	(4,634,273)	(12,026,373)	(21,278,153)	(32,230,900)	(44,932,460)	(59,532,397)	(76,169,777)	(94,992,654)	(116,097,476)	(139,628,771)
Framework 5 - low end impact	(3,283,132)	(8,809,976)	(16,024,981)	(24,586,091)	(34,485,748)	(45,856,366)	(58,811,492)	(73,472,302)	(89,923,013)	(108,283,505)
Framework 7 - high end impact	(1,705,238)	(5,126,505)	(10,107,357)	(16,101,160)	(23,043,063)	(31,046,372)	(40,149,467)	(50,421,704)	(61,943,989)	(74,799,898)
Framework 7 - low end impact	(717,505)	(2,348,066)	(4,921,080)	(8,065,108)	(11,727,900)	(15,980,017)	(20,821,253)	(26,284,667)	(32,416,612)	(39,263,017)

Appendix D: Tax Base Impact Assumptions

General Background

The following series of tables shows how staff modeled the potential impacts of a new rent stabilization policy in Minneapolis on construction, and the City tax base. Frameworks 5 and 7 were both considered in the modeling, and for each framework a range of impacts was modeled. The impact ranges were informed by conversations with participants involved in managing, developing, and financing apartments. There was broad consensus among the group that each proposed framework would have significant impacts, and that Framework 5 would have greater impacts on apartment construction, financing, and operations. Some tables in this series duplicate tables from the Fiscal Impact Appendix, because the models share certain baseline data and several assumptions for consistency of analysis.

A. Growth Rate for new Apartments (5+ unit buildings)

Permitting Growth Rate for MF Rental Units (5+)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - growth in permits for new MF units	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Framework 5 - high end impact	-70.0%	-35.0%	-35.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Framework 5 - low end impact	-50.0%	-25.0%	-25.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Framework 7 - high end impact	-25.0%	-20.0%	-20.0%	0.0%	0.0%	0.0%	1.0%	1.0%	1.0%	1.0%
Framework 7 - low end impact	-10.0%	-10.0%	-10.0%	0.0%	0.0%	0.0%	1.0%	1.0%	1.0%	1.0%

- a. Baseline assumption is 3,399 new units in 2024, with new construction units growing by 1%/year thereafter. For historical comparison, the 2018-2022 five-year average for new permits is 3,579/year.
- b. Each policy framework is projected to take 3 years to fully impact the new-construction market, as some projects that were initiated prior to the policy are expected to continue to completion.
- c. Impacts to new development are based on the reduced availability of financing for large-scale projects.

B. New apartments built per year (5+ unit buildings)

Permits for New Rental Units (Annual)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - new MF units	3,399	3,433	3,467	3,502	3,537	3,572	3,608	3,644	3,680	3,717
Framework 5 - high end impact	1,009	656	427	427	427	427	427	427	427	427
Framework 5 - low end impact	1,682	1,262	946	946	946	946	946	946	946	946
Framework 7 - high end impact	2,524	2,019	1,615	1,615	1,615	1,615	1,631	1,648	1,664	1,681
Framework 7 - low end impact	3,028	2,726	2,453	2,453	2,453	2,453	2,478	2,502	2,527	2,553

- d. This table is calculated by applying the percentages in Table A to the production baseline of 3,399 apartments in 2024.
- e. This chart recognizes new apartments in the year they receive a construction permit.
- f. The long-term impact of Framework 5 results in a 70-86% reduction in the number of new apartments over 10 years.
- g. The long-term impact of Framework 7 results in a 28-50% reduction in the number of new apartments over 10 years.

C. Cumulative projection of new apartments developed between 2024 and 2033

C. Permitted MF Rental Units (aggregate)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base	3,399	6,831	10,298	13,800	17,336	20,908	24,516	28,160	31,840	35,557
Framework 5 - high end impact	1,009	1,666	2,092	2,519	2,945	3,372	3,798	4,225	4,651	5,078
Framework 5 - low end impact	1,682	2,944	3,891	4,837	5,784	6,730	7,676	8,623	9,569	10,516
Framework 7 - high end impact	2,524	4,543	6,158	7,773	9,388	11,003	12,635	14,282	15,947	17,627
Framework 7 - low end impact	3,028	5,754	8,207	10,660	13,113	15,566	18,044	20,546	23,074	25,626

- h. This table provides a cumulative representation of the annual figures modeled in Table B above. The baseline model projects that 35,557 apartments will be permitted in Minneapolis over the next 10 years, which represents growth similar to the past five years.
- i. Framework 5 results in approximately 5,000 – 11,000 units produced in 10 years, or approximately 25,000 – 30,000 fewer new apartments than the base of 35,000
- j. Framework 7 results in approximately 18,000 – 26,000 units produced in 10 years, or 10,000 – 18,000 fewer new apartments than the base of 35,000
- k. Because the City enacted an Inclusionary Zoning policy which became effective on January 1, 2020, any loss of market-rate apartment production results in a loss of affordable apartments as well.

D. Total projected rental housing stock

D. Total of existing and new apartments										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base	111,298	114,697	118,130	121,597	125,098	128,635	132,207	135,814	139,458	143,138
Framework 5 - high end impact	111,298	112,308	112,964	113,390	113,817	114,244	114,670	115,097	115,523	115,950
Framework 5 - low end impact	111,298	112,981	114,243	115,189	116,135	117,082	118,028	118,975	119,921	120,867
Framework 7 - high end impact	111,298	113,822	115,841	117,456	119,071	120,687	122,302	123,933	125,581	127,245
Framework 7 - low end impact	111,298	114,327	117,052	119,506	121,959	124,412	126,865	129,342	131,845	134,372

- a. This table counts new apartments with a one-year delay compared to Table B above, to account for the average construction progress of projects beginning at various times within a given year.
- b. For Estimated Market Value (EMV) purposes, attrition of existing rental stock is not included in this model, because it is assumed that the effect of rental units lost to conversion to ownership and to demolition is neutral in aggregate with respect to overall EMV.

E. Initial calculation of Estimated Market Value before adjustments to assessed value per unit.

E. First-step Calculation of EMV (Average EMV * the number of units) expressed in \$Millions										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units	23,498	24,216	24,940	25,672	26,412	27,158	27,912	28,674	29,443	30,220
Framework 5 - high end impact	23,498	23,711	23,850	23,940	24,030	24,120	24,210	24,300	24,390	24,480
Framework 5 - low end impact	23,498	23,853	24,120	24,319	24,519	24,719	24,919	25,119	25,319	25,518
Framework 7 - high end impact	23,498	24,031	24,457	24,798	25,139	25,480	25,821	26,166	26,513	26,865
Framework 7 - low end impact	23,498	24,137	24,713	25,231	25,749	26,267	26,784	27,308	27,836	28,370

- a. As of January 2023, the average assessed market value (also known as Estimated Market Value or EMV) for rental units in Minneapolis was \$211,126.
- b. This chart projects a baseline total EMV of rental housing by multiplying the average assessed value by the number of units modeled in Chart D above.
- c. Total EMV is shown as \$Millions, thus the baseline in 2024 is \$23,498,000,000.

F. Impacts to EMV from rent stabilization policy

F. Impact on EMV/unit, expressed as a % of payable 2024 baseline										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units	100%	102%	103%	105%	106%	108%	109%	111%	113%	114%
Framework 5 - high end impact	60%	60%	61%	61%	61%	62%	62%	62%	62%	63%
Framework 5 - low end impact	70%	70%	71%	71%	71%	72%	72%	72%	73%	73%
Framework 7 - high end impact	75%	76%	77%	77%	78%	79%	80%	80%	81%	82%
Framework 7 - low end impact	85%	86%	87%	88%	88%	89%	90%	91%	92%	93%

- a. The baseline assumption is that in the absence of a policy, annual growth of EMV will be 1.5% per year.
- b. Compared to this baseline, EMVs under Framework 5 are projected to be 60-70% of the 2024 base EMV, with some growth occurring (as shown in the table) starting in 2026.
- c. Framework 7 projects EMVs at 75-85% of baseline, with growth occurring starting in 2025.

G. Total EMV of rental housing after adjusting for EMV impacts of rent stabilization policy

G. EMV in rental property, after projected impact from Rent Stabilization policy (\$Millions)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units	23,498	24,579	25,694	26,845	28,032	29,257	30,521	31,824	33,168	34,554
Framework 5 - high end impact	14,099	14,298	14,453	14,580	14,708	14,837	14,967	15,098	15,230	15,362
Framework 5 - low end impact	16,449	16,781	17,053	17,280	17,509	17,740	17,973	18,208	18,444	18,683
Framework 7 - high end impact	17,624	18,203	18,712	19,162	19,620	20,085	20,557	21,040	21,533	22,036
Framework 7 - low end impact	19,973	20,722	21,428	22,096	22,775	23,465	24,167	24,886	25,621	26,373

- a. This chart calculates the modeled total rental EMV by multiplying the values in Chart E by the percentage factors in Chart F.
- b. This chart expresses EMV in \$Millions.

H. Projected annual loss of EMV

H. Annual Difference in EMV (\$Millions)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units										
Framework 5 - high end impact	9,399	10,281	11,241	12,265	13,324	14,420	15,553	16,726	17,938	19,191
Framework 5 - low end impact	7,049	7,798	8,641	9,565	10,523	11,517	12,547	13,616	14,723	15,871
Framework 7 - high end impact	5,875	6,375	6,983	7,683	8,412	9,172	9,963	10,784	11,635	12,517
Framework 7 - low end impact	3,525	3,857	4,266	4,749	5,257	5,792	6,353	6,938	7,547	8,180

- a. This chart shows the loss of EMV for each year compared to a baseline scenario without a rent stabilization policy. This chart is showing the difference between the EMV in each scenario in chart G, and the base EMV shown in chart G.
- b. The figures in the charts are shown as \$Millions, thus the low-end impact EMV loss in 2024 for Framework 7 is estimated at \$3,564,000,000.

I. Annual Loss of EMV expressed as a cost

I. Loss of EMV expressed as a cost										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units										
Framework 5 - high end impact	68,224,134	74,624,407	81,591,547	89,022,078	96,711,027	104,665,841	112,894,166	121,403,856	130,202,973	139,299,799
Framework 5 - low end impact	51,168,100	56,602,070	62,721,276	69,425,004	76,380,354	83,594,722	91,075,706	98,831,107	106,868,939	115,197,430
Framework 7 - high end impact	42,640,083	46,276,030	50,683,006	55,765,320	61,060,821	66,576,289	72,318,694	78,275,303	84,452,687	90,857,605
Framework 7 - low end impact	25,584,050	27,994,761	30,964,329	34,469,947	38,159,189	42,038,402	46,114,118	50,358,803	54,778,001	59,377,421

- a. This chart converts the lost EMV from Chart H to the impact that would be felt by taxpayers for the City portion of their real estate taxes. As new projects are built, they generate revenues proportional to their EMV. Likewise, if a parcel loses EMV, that parcel will generate less revenue, proportional to the magnitude of the EMV loss. Each \$100,000,000 change in EMV has an approximate impact of \$725,850 in revenues or costs.
- b. Because the City Levy is established based on a specific budget each year, the financial costs shown in this chart would by default be passed through to taxpayers.
- c. However, each year there is a practical limit to the amount of tax costs that residents can absorb, and City elected officials are incentivized to minimize tax increases. If elected officials sought to make rent stabilization cost neutral to taxpayers, then this chart represents the budget reductions that would be necessary in other programs in order to absorb the cost of rent stabilization within the City budget. This is not an automatic process and would require pro-active work by City leadership in cutting programs to avoid significant cost impacts to taxpayers. More explanation of potential impacts to City programs can be found in the Opportunity Cost chapter of this report.

J. Projection of cumulative costs related to EMV impacts

J. Cumulative Loss of EMV expressed as a cost										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units										
Framework 5 - high end impact	68,224,134	142,848,540	224,440,087	313,462,165	410,173,192	514,839,033	627,733,199	749,137,055	879,340,029	1,018,639,827
Framework 5 - low end impact	51,168,100	107,770,170	170,491,446	239,916,450	316,296,804	399,891,526	490,967,232	589,798,339	696,667,278	811,864,708
Framework 7 - high end impact	42,640,083	88,916,113	139,599,119	195,364,438	256,425,259	323,001,548	395,320,242	473,595,545	558,048,233	648,905,837
Framework 7 - low end impact	25,584,050	53,578,811	84,543,140	119,013,086	157,172,275	199,210,677	245,324,796	295,683,598	350,461,599	409,839,020

- a. This table provides a cumulative representation of the annual figures modeled in Table I above.
- b. The 10-year cumulative cost estimate from EMV impacts is between approximately \$400-650 Million for Framework 7, and between approximately \$800 Million and \$1.02 Billion for Framework 5.
- c. Because of some of the lags in impact from a rent stabilization policy, the report text references a 9-year average annual cost for each framework, covering the years 2025-2033. These averages (\$95M for Framework 5 and \$55M for Framework 7) are calculated based on the midpoint of the range in each year from 2025-2033. These figures representing annual averages are similar (but slightly higher) than taking the midpoint of the cumulate impact ranges shown in Chart J and dividing by 10 years.

Appendix E: Combined Financial Impact

The following series of tables combines the summary tables from the Fiscal Impact and Tax Base Impact appendices. For more detail on the assumptions behind each of the summary tables, please refer to those appendices. This appendix also incorporates direct costs of implementing a new rent stabilization policy.

A. Annual Impact to Fees and Sales Tax Revenues

Total City Revenue Loss (Annual)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units	-	-	-	-	-	-	-	-	-	-
Framework 5 - high end impact	4,634,273	7,392,100	9,251,780	10,952,747	12,701,561	14,599,936	16,637,381	18,822,876	21,104,822	23,531,295
Framework 5 - low end impact	3,283,132	5,526,844	7,215,005	8,561,110	9,899,657	11,370,618	12,955,127	14,660,810	16,450,711	18,360,492
Framework 7 - high end impact	1,705,238	3,421,267	4,980,852	5,993,802	6,941,904	8,003,309	9,103,095	10,272,237	11,522,285	12,855,909
Framework 7 - low end impact	717,505	1,630,561	2,573,014	3,144,028	3,662,792	4,252,118	4,841,235	5,463,414	6,131,946	6,846,405

- l. This table shows the high and low-end impacts from Framework 5 and 7, for each year.
- m. Cost impacts increase each year, as each year's annual loss of new housing production compounds with losses from prior years.

B. Annual Loss of EMV expressed as a cost

Loss of EMV expressed as a cost										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units										
Framework 5 - high end impact	68,224,134	74,624,407	81,591,547	89,022,078	96,711,027	104,665,841	112,894,166	121,403,856	130,202,973	139,299,799
Framework 5 - low end impact	51,168,100	56,602,070	62,721,276	69,425,004	76,380,354	83,594,722	91,075,706	98,831,107	106,868,939	115,197,430
Framework 7 - high end impact	42,640,083	46,276,030	50,683,006	55,765,320	61,060,821	66,576,289	72,318,694	78,275,303	84,452,687	90,857,605
Framework 7 - low end impact	25,584,050	27,994,761	30,964,329	34,469,947	38,159,189	42,038,402	46,114,118	50,358,803	54,778,001	59,377,421

- n. This chart represents the annual cost to taxpayers from EMV impacts, assuming that the City does not attempt to reduce impacts to taxpayers by cutting City programs.

C. Annual Costs of Staff & Overhead for Implementation

Costs of Staff & Overhead for Program Implementation (Annual)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units	-	-	-	-	-	-	-	-	-	-
Framework 5 - high end impact	1,840,000	1,840,000	1,840,000	1,840,000	1,840,000	1,840,000	1,840,000	1,840,000	1,840,000	1,840,000
Framework 5 - low end impact	1,840,000	1,840,000	1,840,000	1,840,000	1,840,000	1,840,000	1,840,000	1,840,000	1,840,000	1,840,000
Framework 7 - high end impact	1,164,000	1,164,000	1,164,000	1,164,000	1,164,000	1,164,000	1,164,000	1,164,000	1,164,000	1,164,000
Framework 7 - low end impact	1,164,000	1,164,000	1,164,000	1,164,000	1,164,000	1,164,000	1,164,000	1,164,000	1,164,000	1,164,000

D. Annual Financial Cost of Rent Stabilization Program

Total Financial Cost (Annual)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units	-	-	-	-	-	-	-	-	-	-
Framework 5 - high end impact	74,698,406	83,856,507	92,683,327	101,814,825	111,252,588	121,105,777	131,371,547	142,066,732	153,147,795	164,671,094
Framework 5 - low end impact	56,291,232	63,968,914	71,776,282	79,826,114	88,120,010	96,805,340	105,870,832	115,331,917	125,159,650	135,397,923
Framework 7 - high end impact	45,509,321	50,861,297	56,827,858	62,923,122	69,166,725	75,743,598	82,585,789	89,711,540	97,138,972	104,877,513
Framework 7 - low end impact	27,465,555	30,789,322	34,701,343	38,777,975	42,985,981	47,454,520	52,119,354	56,986,217	62,073,946	67,387,826

- o. This table combines the costs from tables A B, and C, to represent a total financial cost to the City of Minneapolis and Minneapolis property taxpayers.
- p. This table does not include the potential costs to renters if a rent stabilization policy accelerates rent increases due to reduced supply of rental housing, or the pass-through of additional tax costs from landlords to renters.
- q. This table does not include tax base impacts to Hennepin County, which also relies on property tax revenues to support programs.

E. Cumulative Financial Cost of Rent Stabilization Program

Total Financial Cost (Cumulative)										
Scenario	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Base - rental housing stock units	-	-	-	-	-	-	-	-	-	-
Framework 5 - high end impact	74,698,406	158,554,913	251,238,240	353,053,065	464,305,653	585,411,430	716,782,977	858,849,709	1,011,997,504	1,176,668,598
Framework 5 - low end impact	56,291,232	120,260,146	192,036,427	271,862,541	359,982,552	456,787,892	562,658,724	677,990,641	803,150,291	938,548,214
Framework 7 - high end impact	45,509,321	96,370,618	153,198,476	216,121,598	285,288,323	361,031,920	443,617,709	533,329,250	630,468,222	735,345,735
Framework 7 - low end impact	27,465,555	58,254,877	92,956,219	131,734,194	174,720,175	222,174,695	274,294,048	331,280,265	393,354,211	460,742,037

- a. This table shows the cumulative financial costs of a rent control program to the City and taxpayers. It provides a running total cost based on the annual costs shown in Table D above.
- c. For Framework 7, the cumulative costs from the first decade are projected to be between approximately \$460,000,000 and \$735,000,000.
- d. For Framework 7, the average annual cost is estimated to be \$59.8 Million per year, using the midpoint of the high-end and low-end impact ranges. The annual costs are expected to rise over time.
- e. For Framework 5, the cumulative costs from the first decade are projected to be between approximately \$939,000,000 and \$1,177,000,000.
- f. For Framework 5, the average annual cost is estimated to be \$106 Million per year, using the midpoint of the high-end and low-end impact ranges. The annual costs are expected to rise over time.

Appendix F: Enforcement and Implementation

Framework 5

- Analyzed 2013-2019 “Rent Changes by Size of Increase” data from the CURA report. On average, 30% of buildings increased the rent above 3%.
- Exceptions reflect capital improvements permits covering work over \$5,000, as identified through CCS permits.
 - About 8,000 units were identified using two years of data—which led to the 28% of rental units with a historic increase over 3%.
 - Clarification on what would qualify as a capital improvement is needed.
- The Co-Star data used by CURA and Housing Link only applies to new listings
- The annual number of units with increases over the cap will vary depending on the rental market.
- Enforcement assumes that 15% of property owners will not submit their rent rolls, which is aligned with the percentage of rental license accounts that go into delinquency.
- Approximately 40% of complaints may result in founded cases of non-compliance, meaning that rent was raised over the proposed limit.
- 10-year projections
 - High end
 - Finance model projects that combined existing and new construction will decrease by 24% in 10 years
 - Unit change (25,680)
 - High end total eligible after 10 years - 81,320
 - Estimated capital improvement units - 6,571
 - Nonexempt units - 74,749
 - Low end
 - Finance model projects that a combined existing and new construction will decrease by 18% in 10 years
 - Unit change (19,260)
 - Low end total eligible after 10 years - 87,740
 - Estimated capital improvement units - 7,090
 - Nonexempt units - 80,650

Framework 7

- The 2013-2019 “Rent Changes by Size of Increase” data in the CURA report show on average about 8% of units had an increase of 10%.
- Analyzed rent increases over 10%; this was based on a 6% rate plus an average inflation percentage of 4%.
- The Co-Star data used by CURA and Housing Link only applies to new listings
- The annual number of units with increases over the cap will vary depending on the rental market.
- Exemptions were calculated based on City data on building age, income restricted or subsidized units, and homesteaded buildings.

- Vacancy decontrol: Once a unit is vacated and occupied by a new resident, framework 7 does not apply. Turnover rates were estimated at 42% for high occupancy dwellings and 25% for single family homes, duplexes and triplexes as modelled by CBRE.
- Enforcement assumes that 15% of property owners will not submit their rent rolls, which is aligned with the percentage of rental license accounts that go into delinquency.
- Because of the higher rent cap and smaller number of nonexempt rental units, the potential for 311 complaints is lower. Approximately 30% of complaints may result in founded cases of non-compliance, meaning that rent was raised over the proposed limit.
- 10-year projections
 - High end
 - Finance model projects that existing rental housing will decrease by 5% in 10 years.
 - High end 10-year total nonexempt units – 29,609
 - Overall increase of 9% for nonexempt units in 10 years
 - Low end
 - Finance model projects that existing rental housing will decrease by 2% in 10 years.
 - Low end 10-year total nonexempt units – 30,544
 - Overall increase of 13% for nonexempt units in 10 years

Operational expenses

Informed by conversations with St. Paul and other City teams program operating costs supplemental to staff cost include technology, mailing, translation services, printing, marketing and advertising. Additional analysis and collaboration with other departments is needed to develop a more comprehensive understanding of operational costs.

Technology

High	Medium	Low
Estimated \$100,000 or more New software with high development costs Track rent increases, help with enforcement	Estimated \$25,000 annual cost, like Short Term Rental contract Out-of-the-box software to help with rent tracking Lower development costs	No new software cost, assumes Smartsheet with ELMS integration and Excel Would require IT resourcing for expansion of existing software and link to ELMS Repository

Appendix G: Opportunity Cost Analysis

The Opportunity Cost Analysis section of this report provides high-level comparison between several City strategies aimed at easing housing cost-burden and promoting housing stability for Minneapolis residents. The section highlights the City's Guaranteed Basic Income (GBI) program and rent assistance through the Stable Homes Stable Schools programs as the two best opportunities for increased investment to directly address the problem. The other strategies identified in the chart are explained in more detail here.

New Affordable Housing Development: Affordable Housing Trust Fund

Program Description

The [Affordable Housing Trust Fund \(AHTF\)](#) program provides gap financing for affordable rental housing production and preservation projects. The program requires a minimum of 20% of the units to be affordable at 50% AMI, but program scoring incentivizes deeper affordability and units designated for people experiencing homelessness. The AHTF is oversubscribed approximately 2:1 – as a result, projects must include deep affordability and other elements to receive an award.

Opportunity Cost Analysis

The primary funding sources for AHTF-funded projects are Low Income Housing Tax Credits (HTCs), Housing Infrastructure Bonds (HIBs), and traditional first-mortgage financing. HTCs and HIBs are constrained resources, and the availability of first mortgage financing depends on a project's ability to support debt payments. Additional investments in the AHTF can lead to increased production and close funding gaps, but production is effectively capped by the availability of these other primary funding sources.

The AHTF currently provides \$30-50k per unit in gap financing. This means each \$1m investment in the AHTF can result in 20-33 units produced or preserved, subject to the constraints described above.

An AHTF award can only go as far as the rest of the financing sources take a proposed project. One unique dependency is on another affordable housing financing lever – Housing Revenue Bonds (HRB). Current projects seeking to leverage AHTF with HRB are in position to next receive the latter in CPED's 2026 bond allocation. As a result, some of these projects may close and ultimately complete construction in 2027 or 2028.

Alternatively, a decrease of \$1m from the AHTF budget could result in a specific negative outcome in the context of this report's problem definition. Federal requirements limit the City's ability to finance new construction in areas designated as a concentrated area of poverty where more than 50% of the residents are BIPOC, leaving local dollars as the primary driver of construction financing in these parts of the City.

Staff Assessment

The AHTF is the City's primary affordable rental housing finance tool. Increased investment in recent years has allowed the City to maximize other available funding sources and has resulted in record numbers of new 30% and 50% AMI units. While this positions AHTF as a key tool for addressing the problem defined in this report, dependencies on other primary funding sources may limit the utility of additional investments to address the affordability crisis faced by today's lower income renters. Further, the long timeframe between initial City investment and realized household affordability outcome informs the staff recommendation against an increased investment in the AHTF as a potential alternative to a rent stabilization policy.

Preserving Existing Affordable Units: NOAH Preservation Fund

Program Description

NOAH (Naturally Occurring Affordable Housing) refers to residential rental properties that are affordable but are unsubsidized by any government program. Their rents are relatively low compared to the regional housing market. NOAH properties are typically rental buildings or complexes built between 1940 and 1990. NOAH units are also at the greatest risk of being lost due to market speculation and upgrades that result in higher rents and lost affordability. When rents are raised, low-income families lose access to this housing. As of year-end 2022, the NOAH Preservation Fund has preserved 396 units.

The City's [NOAH Preservation Fund](#) helps housing providers and emerging real estate developers acquire unsubsidized housing to preserve affordability and prevent displacement.

- NOAH portfolios must contain 75% or more units that are affordable to households making less than 80% of the Area Median Income (AMI); and 20% of those units must be affordable to households making less than 60% of AMI.
- Deferred loans of up to \$35,000 per unit at or below 60% AMI with 0% interest for a 10-30 year term are available to assist with acquisition financing of NOAH properties.
- Borrowers are encouraged to include more deeply affordable units, and the City may award up to \$40,000 for each unit at or below 50% AMI. Priority is given to acquisitions that have higher numbers of deeply affordable units, and that preserve affordability for longer than 10 years.

Opportunity Cost Analysis

By targeting existing units that are already relatively affordable, additional investment into the NOAH Preservation Fund could secure additional affordability without the constraints of the Affordable Housing Trust Fund. In 2022, the City invested \$3,215,000 in 6 NOAH acquisitions resulting in 96 preserved units. This equates to an average of \$33,000 per NOAH unit. Using this assumption, an additional \$1 million in the NOAH Preservation Fund would result in approximately 30 more NOAH units preserved.

Staff Assessment

While NOAH deals do not require Housing Tax Credits or Housing Infrastructure Bonds, they are dependent on the availability and feasibility of first mortgage financing. If interest rates continue to rise, the feasibility of NOAH deals may decline, even with increased investment in the NOAH Preservation Fund. NOAH deals also close more rapidly than AHTF deals, and additional program funds would require additional staff capacity to close a higher number of NOAH deals.

Down Payment Assistance

Program Description

The City's down payment assistance program is designed to help residents access homeownership who would not otherwise be able to do so. While this program can serve households with incomes up to 80% AMI, CPED's targeted outreach to community partners focused on reaching BIPOC renters who are not served by private banking has resulted in households under 50% AMI representing at least one-third of Minneapolis Homes investments.

Opportunity Cost Analysis

[Homeownership Opportunity Minneapolis \(HOM\)](#) is the City's down payment assistance program that provides a 0% interest, no payment 30-year loan with \$10,000 in assistance for homebuyers between 61-80% AMI and \$20,000 in assistance for homebuyers at or below 60% AMI to purchase any home in the Minneapolis. An additional \$1m investment could serve an additional 50 households per year. Alternatively, a \$1m reduction in available funds could mean 50 renter households with barriers remaining to homeownership. The current annual budget of HOM is approximately \$700,000—\$196,000 of local dollars are leveraged with state and federal resources. The loss of \$1m would substantially limit the ability of these programs to support renters transition to ownership.

Staff Assessment

The City's down payment assistance program is effective, helping thousands of Minneapolis households on their ownership journey, but are helpful only to those renters who are ready and interested in owning their home.