

Minneapolis Rent Stabilization Study

FEBRUARY 23, 2021

Center for Urban and
Regional Affairs (CURA)

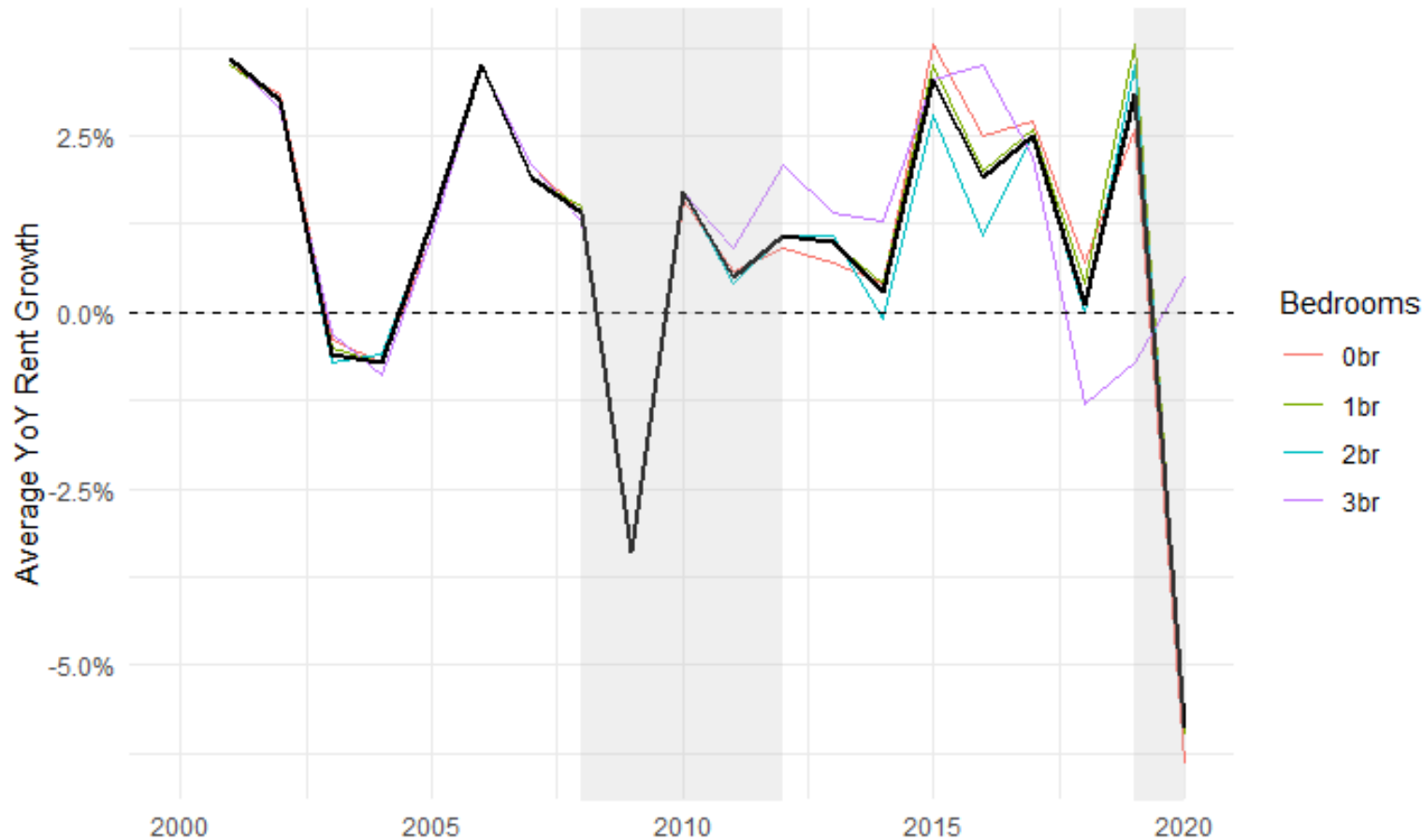
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Outline

- Market conditions in Minneapolis rental housing
 - Rent trends over 20 years
 - Affordability trends for renters
 - Tenant focus group results
- Review of other programs
 - Program design options
 - Program impacts
- Potential Impacts of rent stabilization in Minneapolis
 - Rental market impacts
 - Building-level economics
 - Interviews/survey of market stakeholders
 - Modeling
 - Average annual return
 - Internal rate of return
- Summary

Rental market conditions

Rent Trends



Minneapolis market analysis

- Rent trends
- Affordability trends
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Rent Trends

Year to year growth in rents

Time Period	Average	Min	Max
2000-2007 Pre-Crash	2.0	-1.0	4.5
2008-2012 Crash	0.3	-2.8	1.8
2013-2018 Post-Crash	2.7	-2.9	9.4
Total	1.8	-1.6	5.6

Minneapolis market analysis

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- Tenant focus groups

Review of other programs

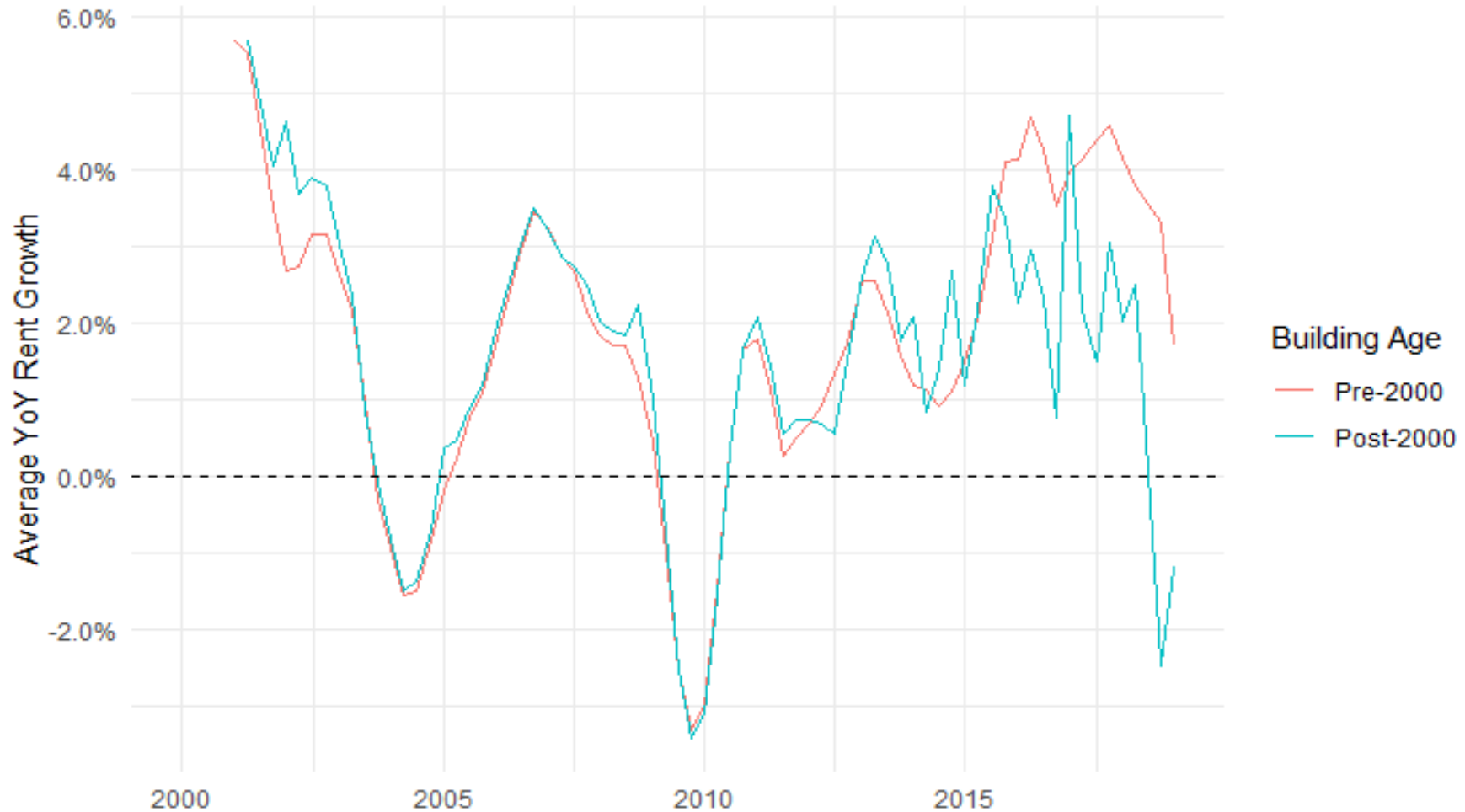
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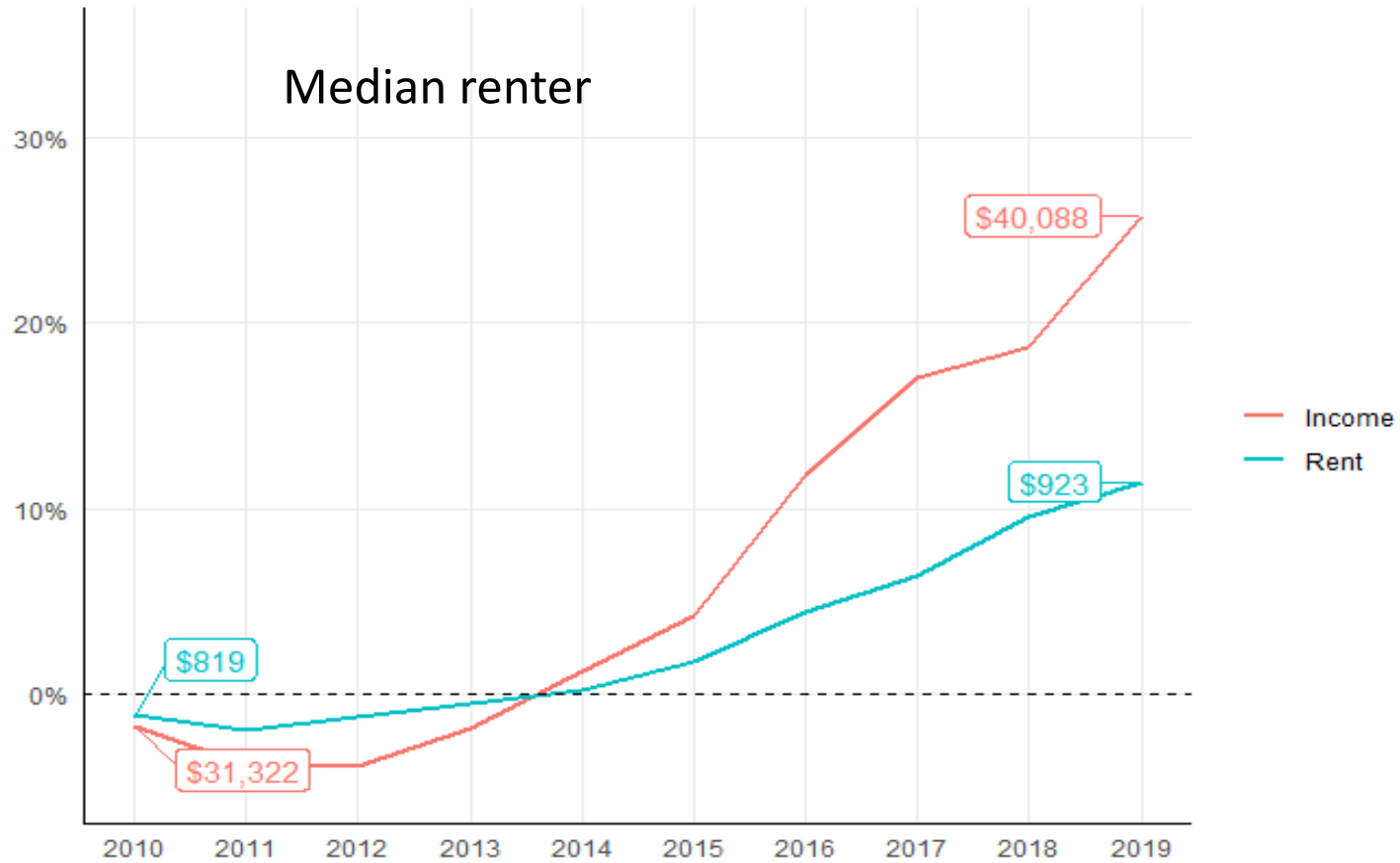
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Affordability

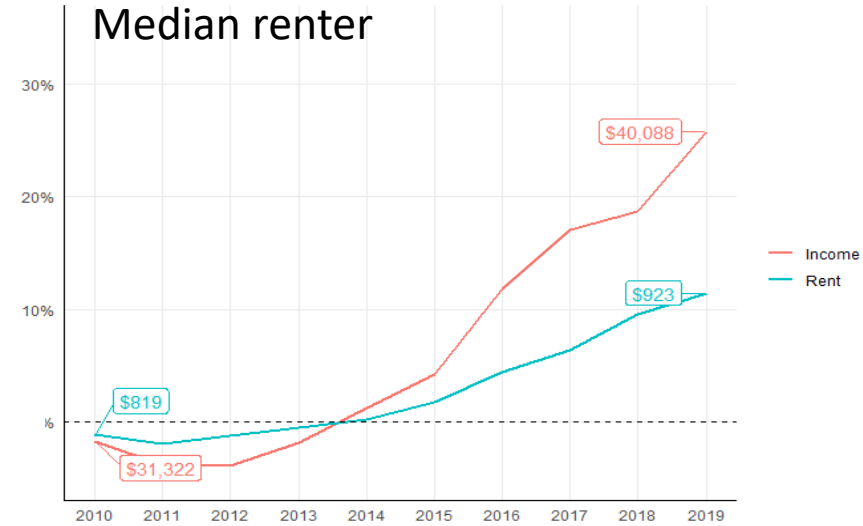
Cumulative change in rent and household income for median renter, 2006-2019*



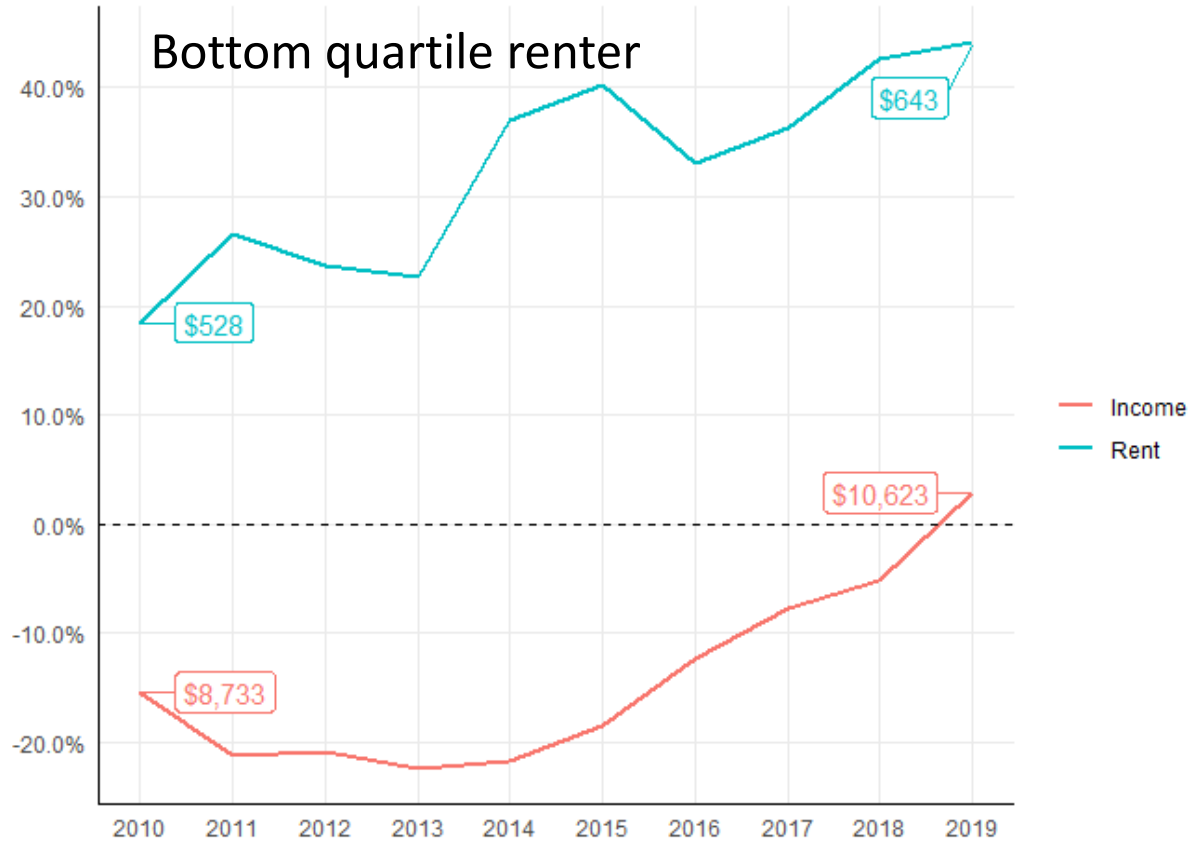
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Affordability

Median renter

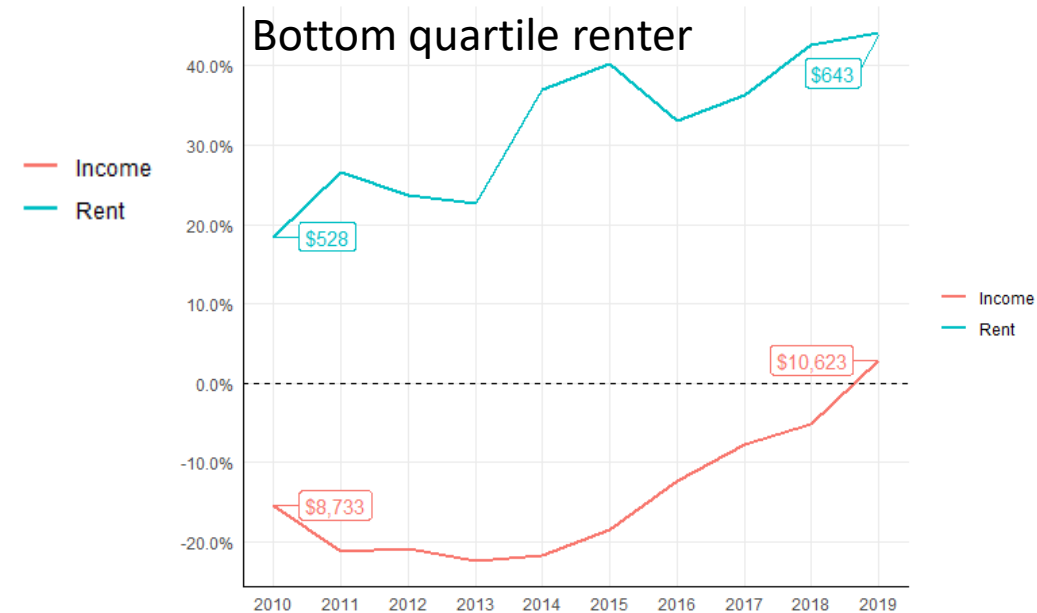
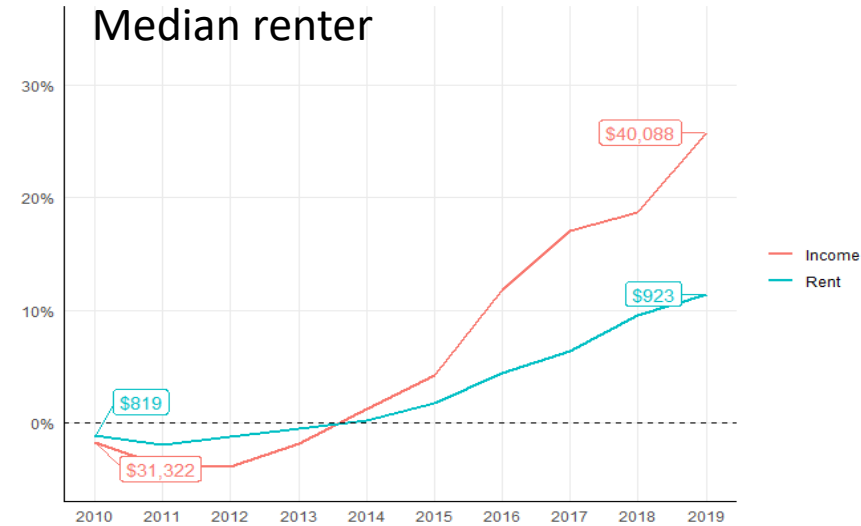
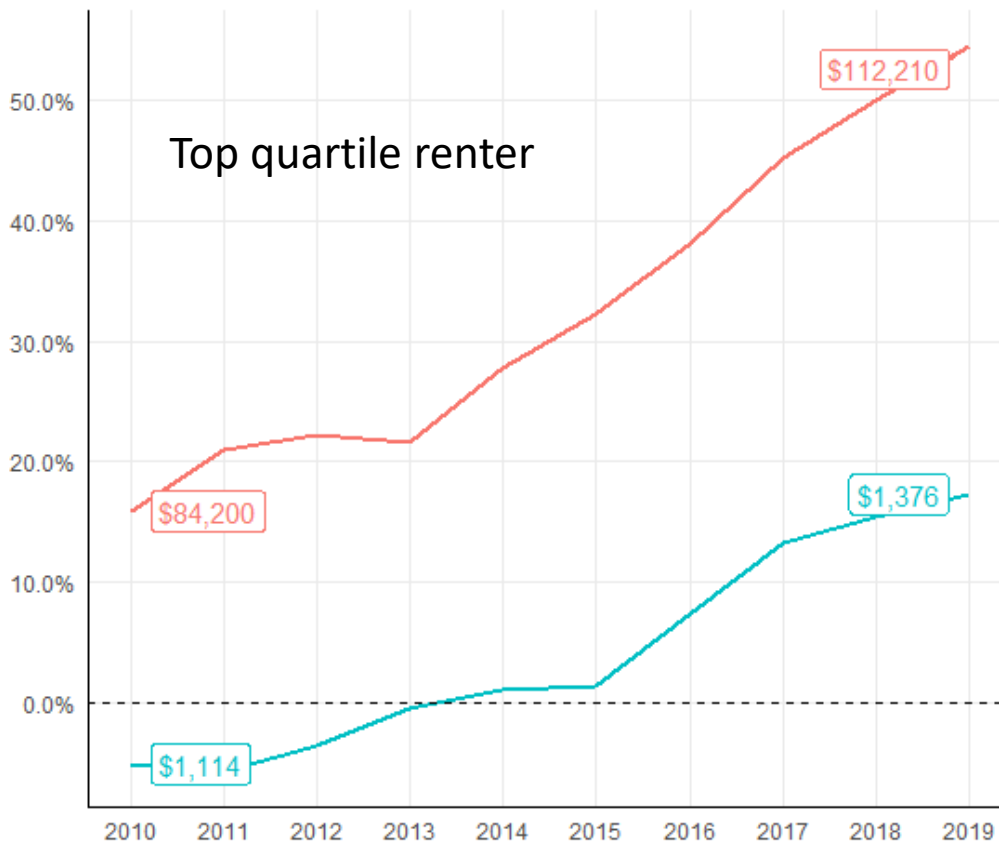


Bottom quartile renter



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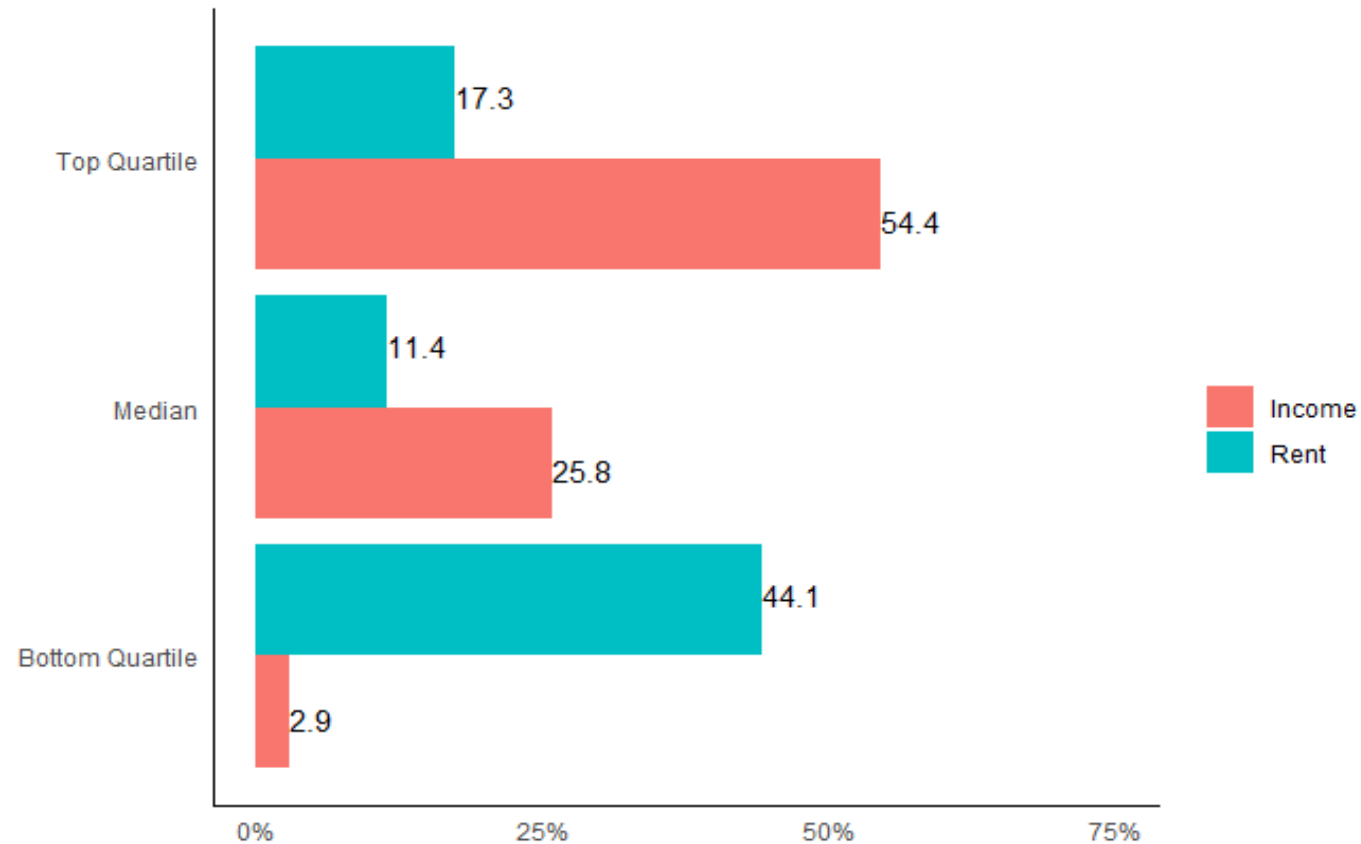


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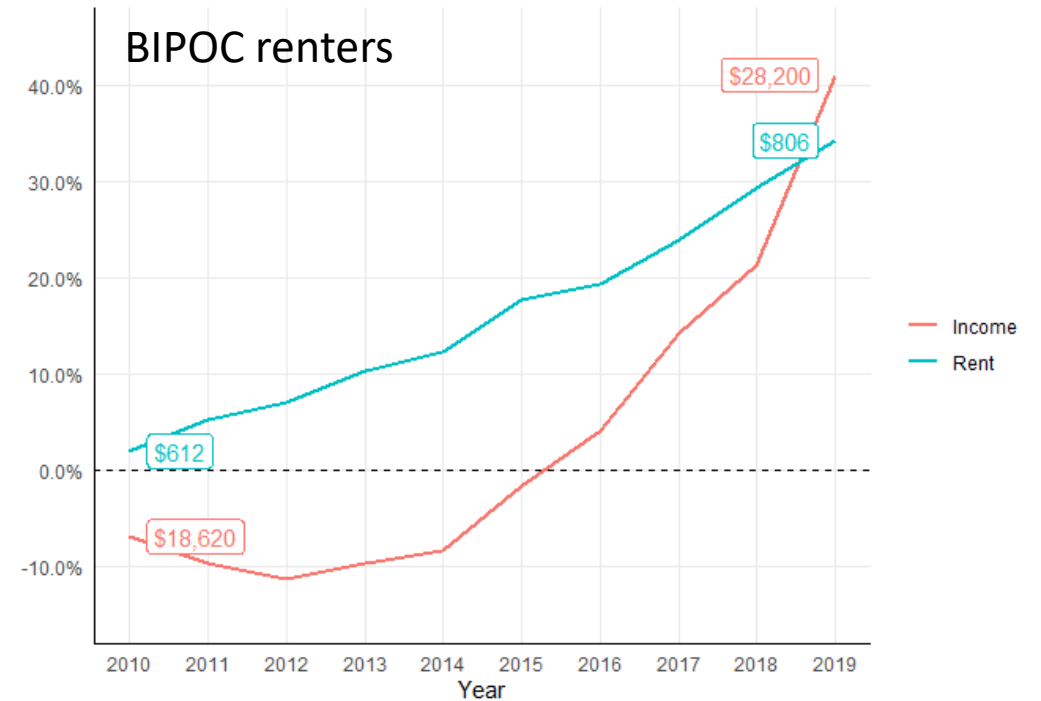
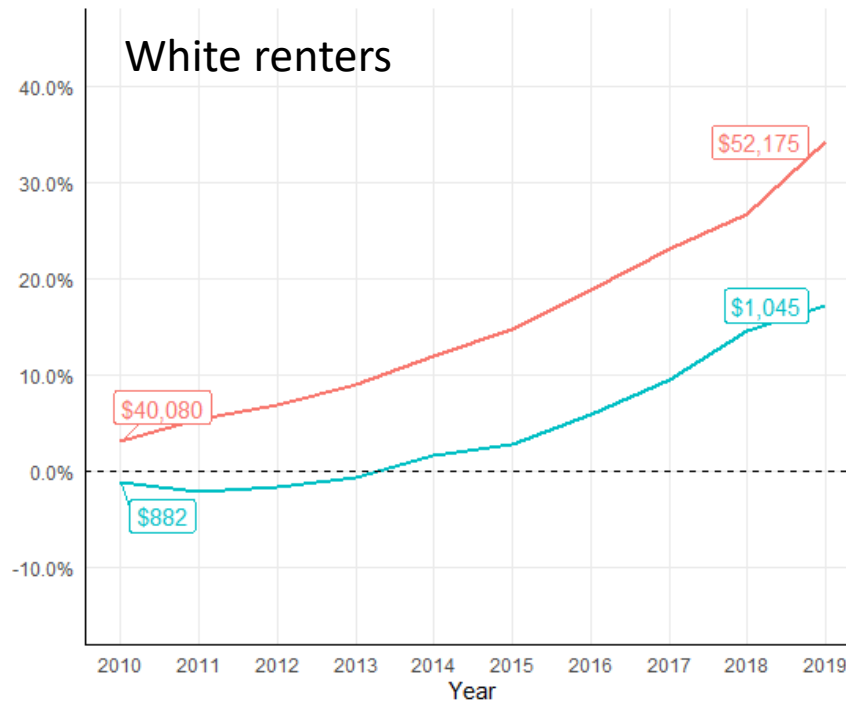
Growth in income and rent by income percentile, 2006-2019



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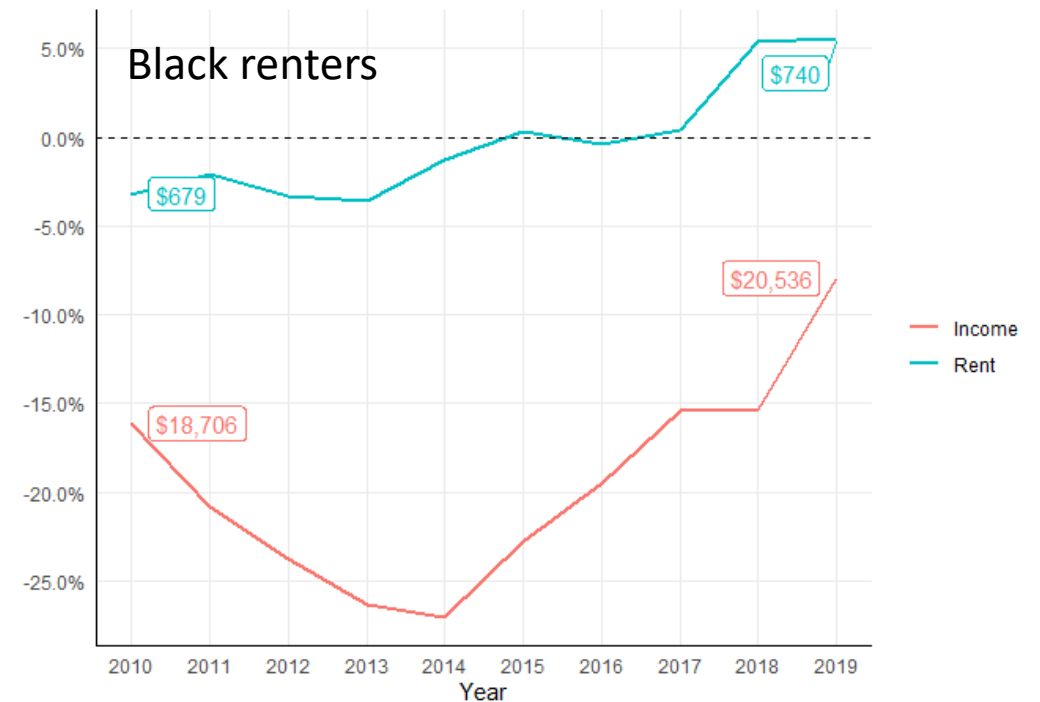
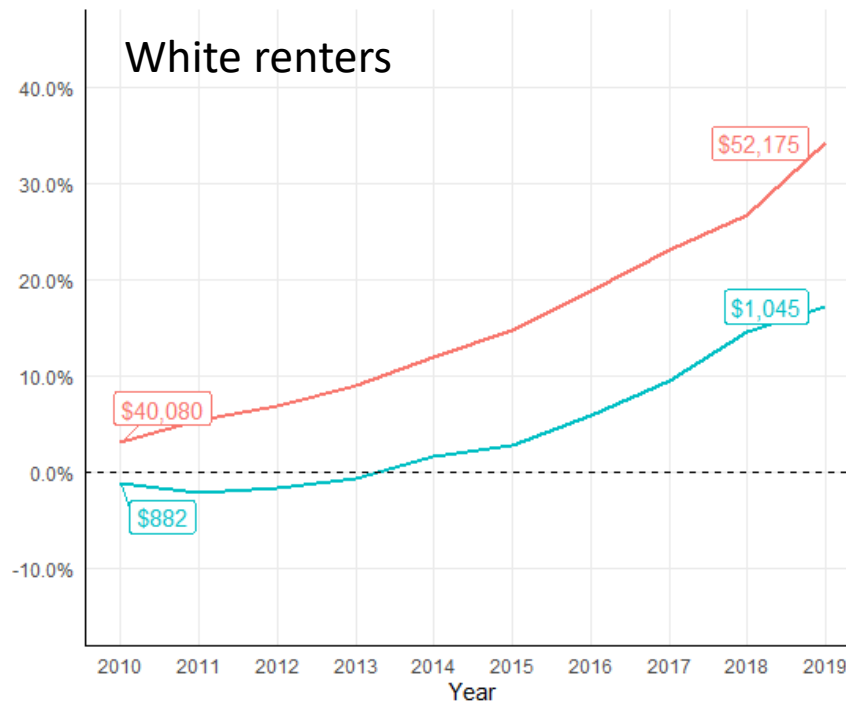
Cumulative change in rent and household income for median renters, 2010-2019



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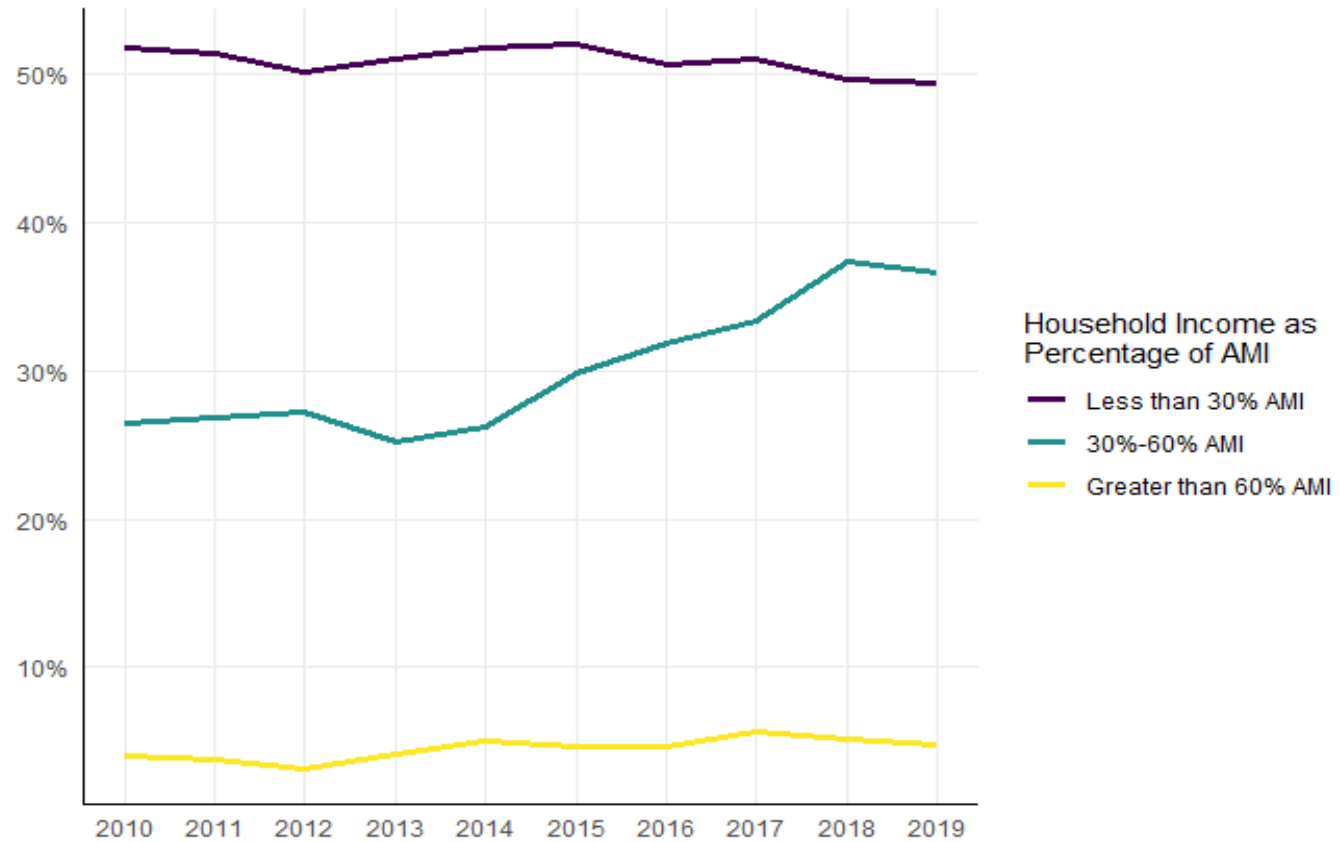
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Affordability

Percentage of households cost-burdened (paying >30% of income on rent)



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Tenant focus groups

Two focus groups (one conducted in Spanish)

- Don't think of rent increases in pct terms
- For families in larger units, even 3% to 5% increases difficult
- Multiple rent increases in a single 12-month period
- Costs go beyond rent; increasing use of fees
- Concerns about maintenance, repairs, and responsiveness
- Concerns about
 - being able to stay in their unit
 - being able to find another if they can't stay

Minneapolis market analysis

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- **Tenant focus groups**

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Review of other programs

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Program design options

Choice of cap

- Flat pct increase
- Pegged to CPI
- CPI + pct
- Nominal amount
- Maximum increases

Exceptions to cap

- Pass throughs (maintenance, CI, utilities, property taxes)
- “fair or reasonable return”
- “banked” increases
- Limits to exceptions (max increases)

Exemptions

- New construction (rolling or fixed)
- Small buildings (single family homes, 2-4 unit buildings)
- Owner-occupation

Decontrol

- Vacancy decontrol? (full or partial)

Compliance & education

- Tenant or petition driven
- Monitoring
- Dispute resolution
- Public information
- Fees to support implementation

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Impacts

1. Highly dependent on program design
2. Effective in preventing large rent increases
3. Produce lower rents than would exist otherwise
4. Little evidence that production of new housing slows
5. Few negative impacts on major quality components, greater negative impacts on aesthetic quality

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Impacts

6. Some evidence of loss of rental units

- condo conversion
- tear downs (replaced by new construction)
- market withdrawals

7. Need for complementary policies

- tenant protections when vacancy decontrol is in effect
- preservation policies for condos and NOAH

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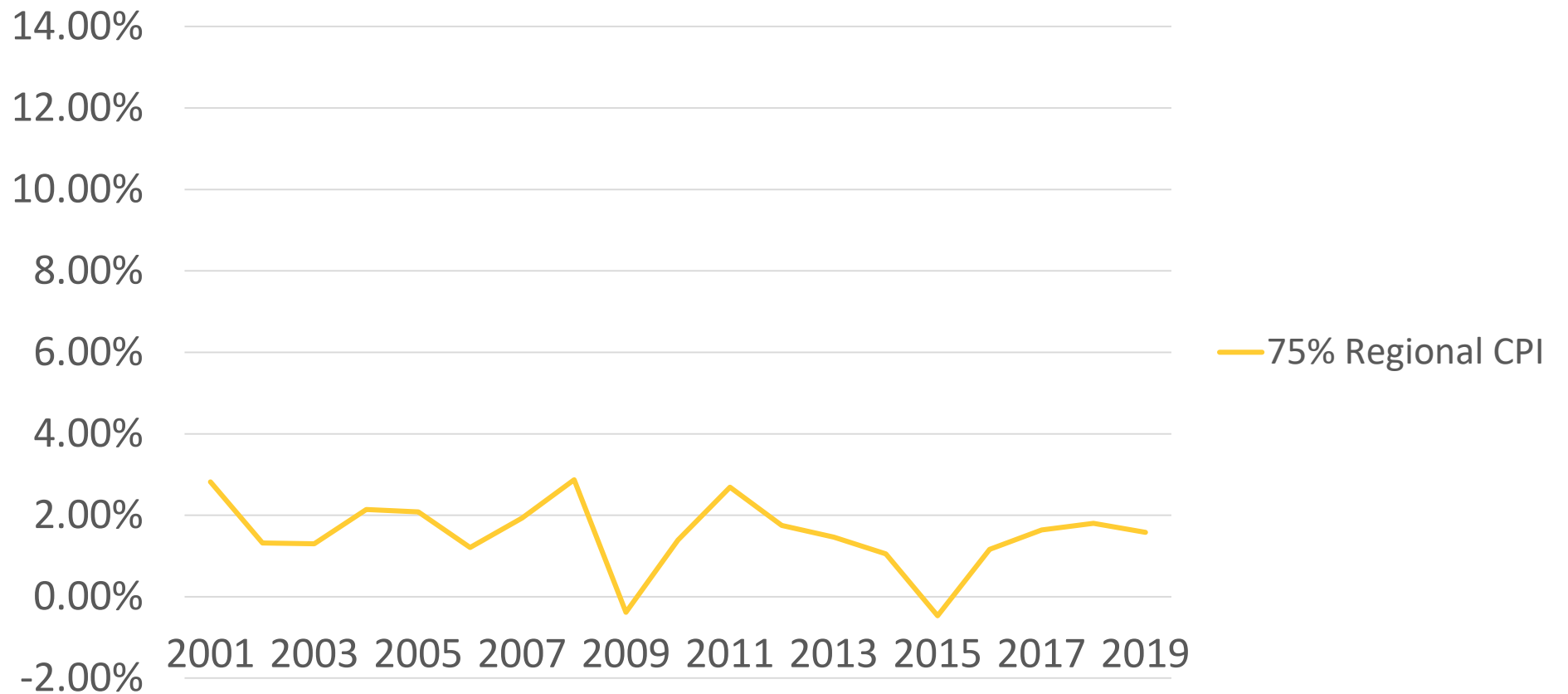
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Potential impact of rent caps

Example Rent Caps Applied to Mpls 2001-2019



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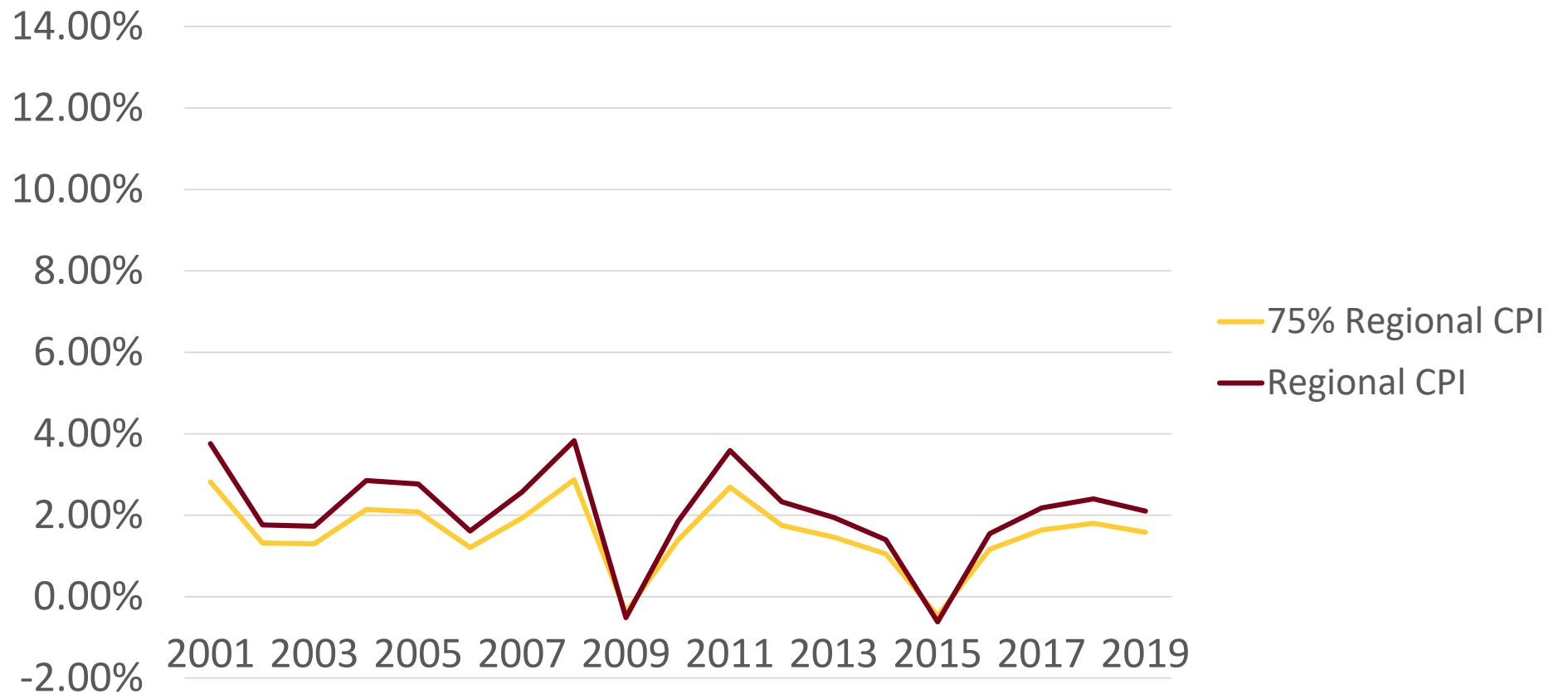
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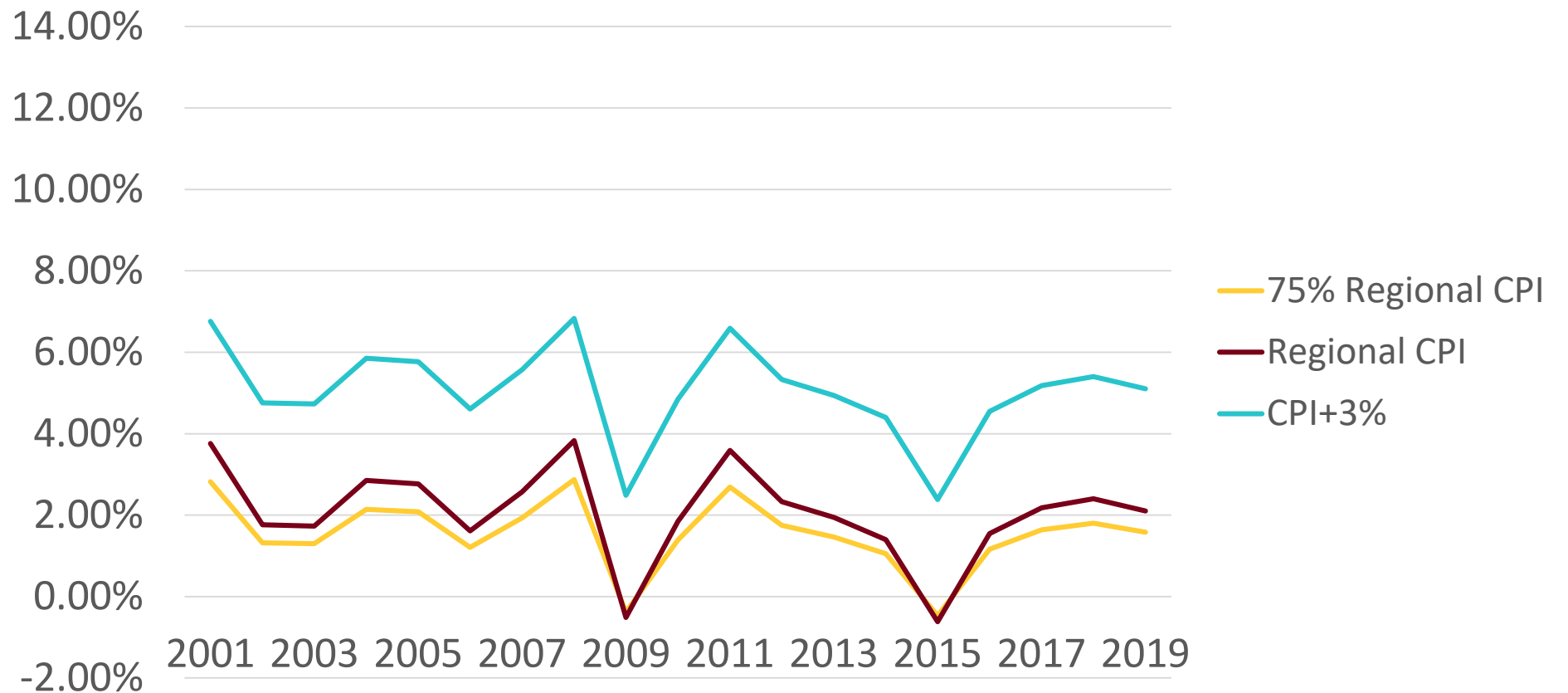
Example Rent Caps Applied to Mpls 2001-2019



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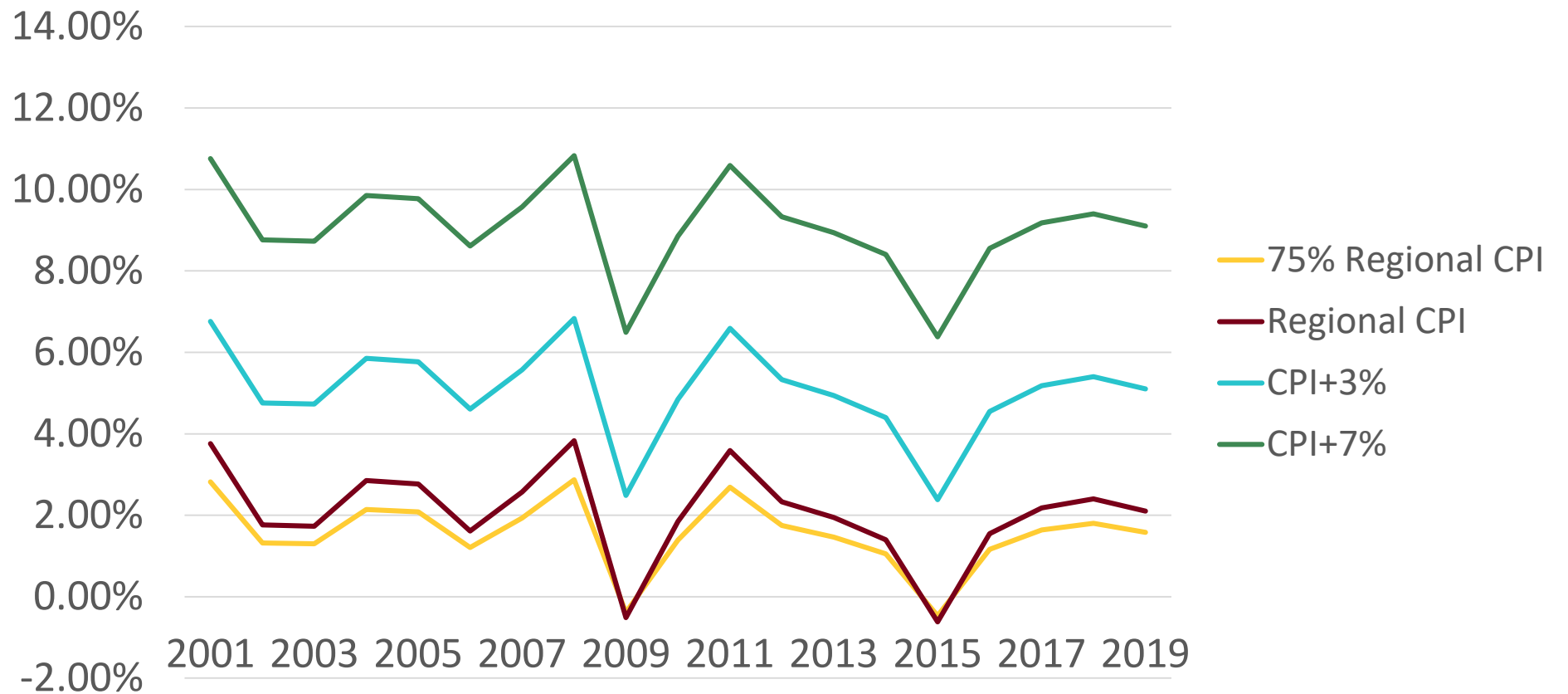
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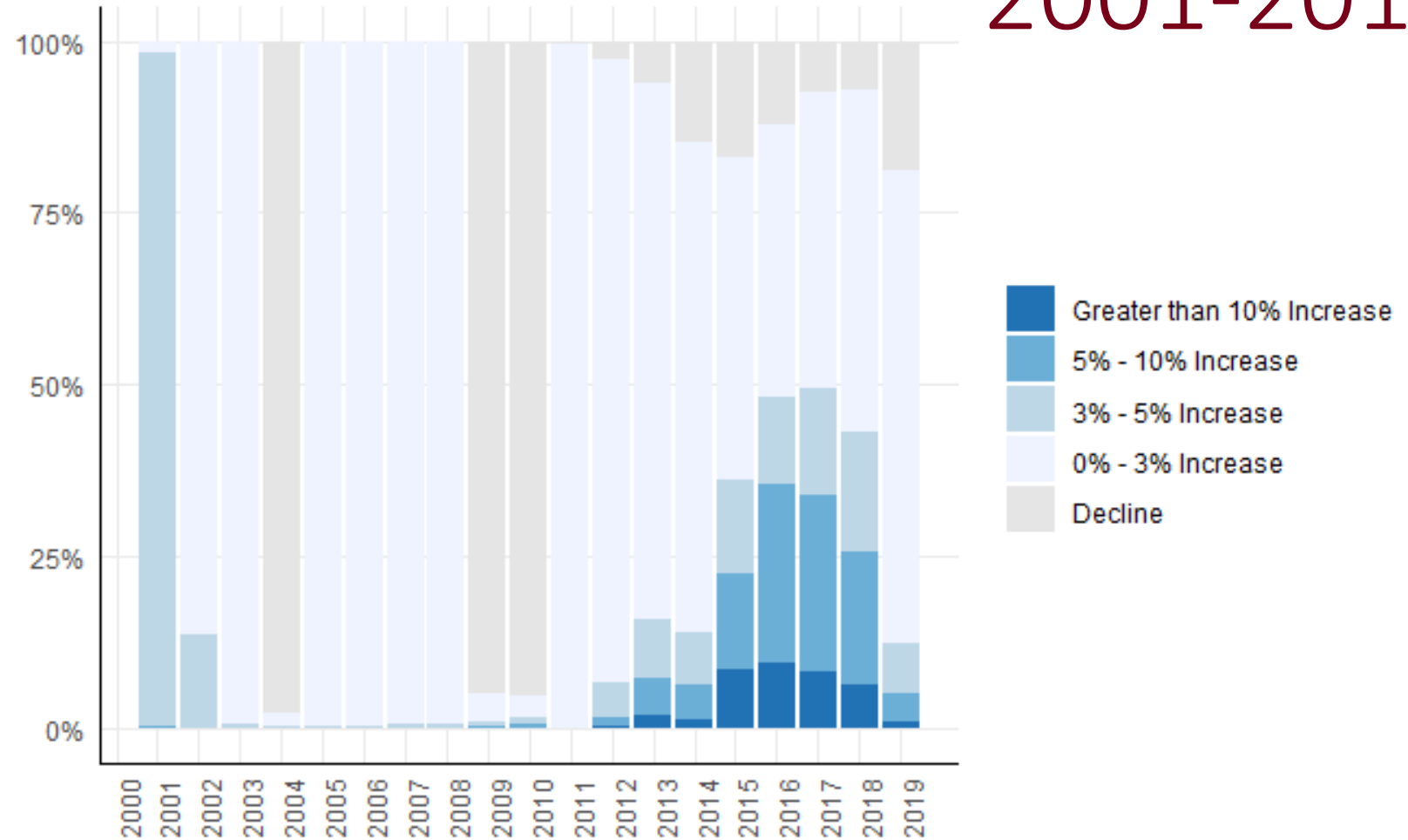
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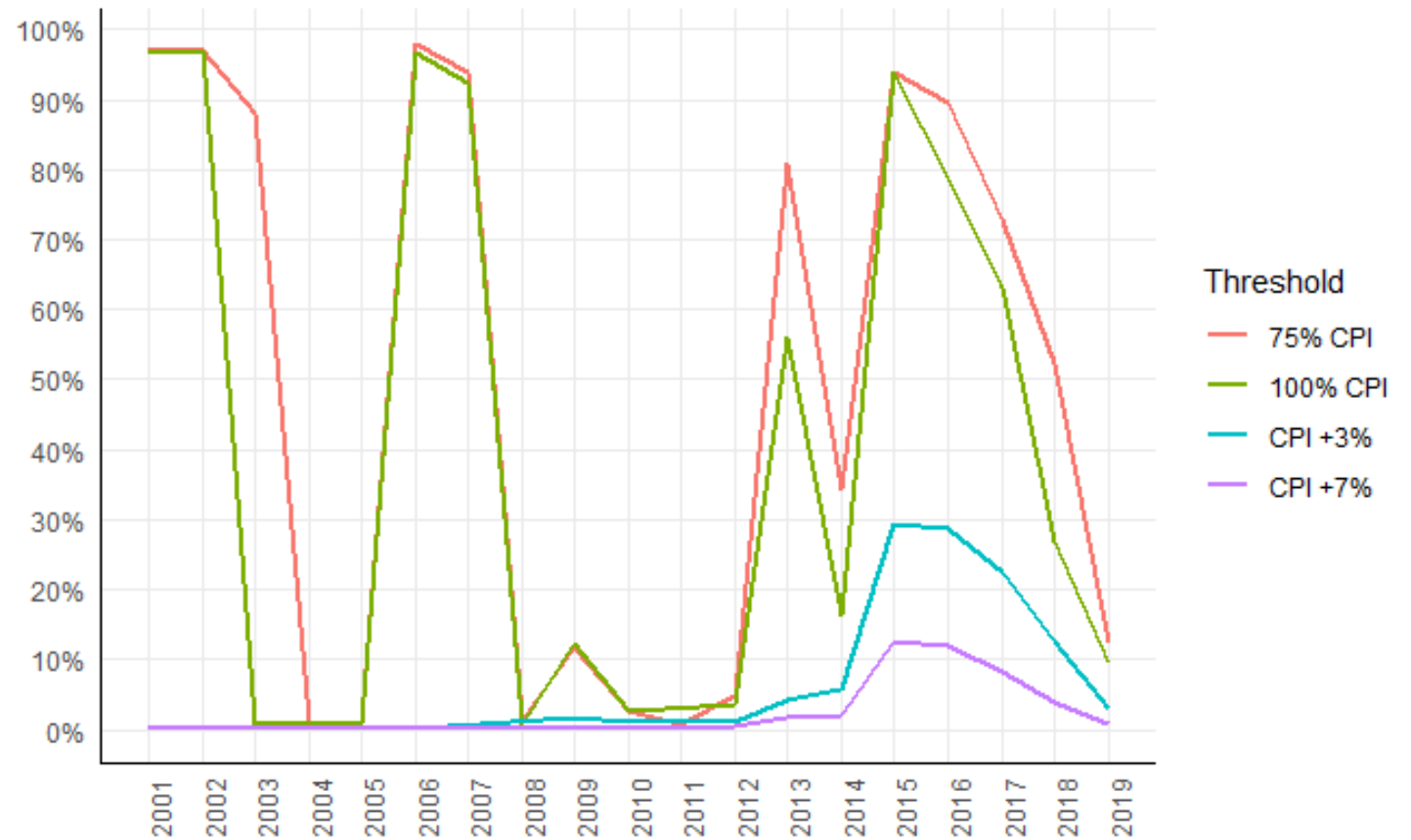
Rent increases in Minneapolis 2001-2019



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Rent caps compared to rent trends (2001-2019)

Percentage of units that would have been covered by rent caps at different levels, 2001-2019



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Rent caps compared to rent trends (2001-2019)

Percent difference in rent in 2019 between baseline and cap, by rent increase percentile

Cap	10 th pctile	Median	90 th pctile
75% CPI	8.1	17.3	28.7
100% CPI	5.3	13.8	25.7
CPI +3%	0.0	3.8	13.9
CPI +7%	0.0	0.0	7.2

* Assumes:

- New construction exemption of 20 years
- Continuous occupancy over 19 years or no vacancy decontrol

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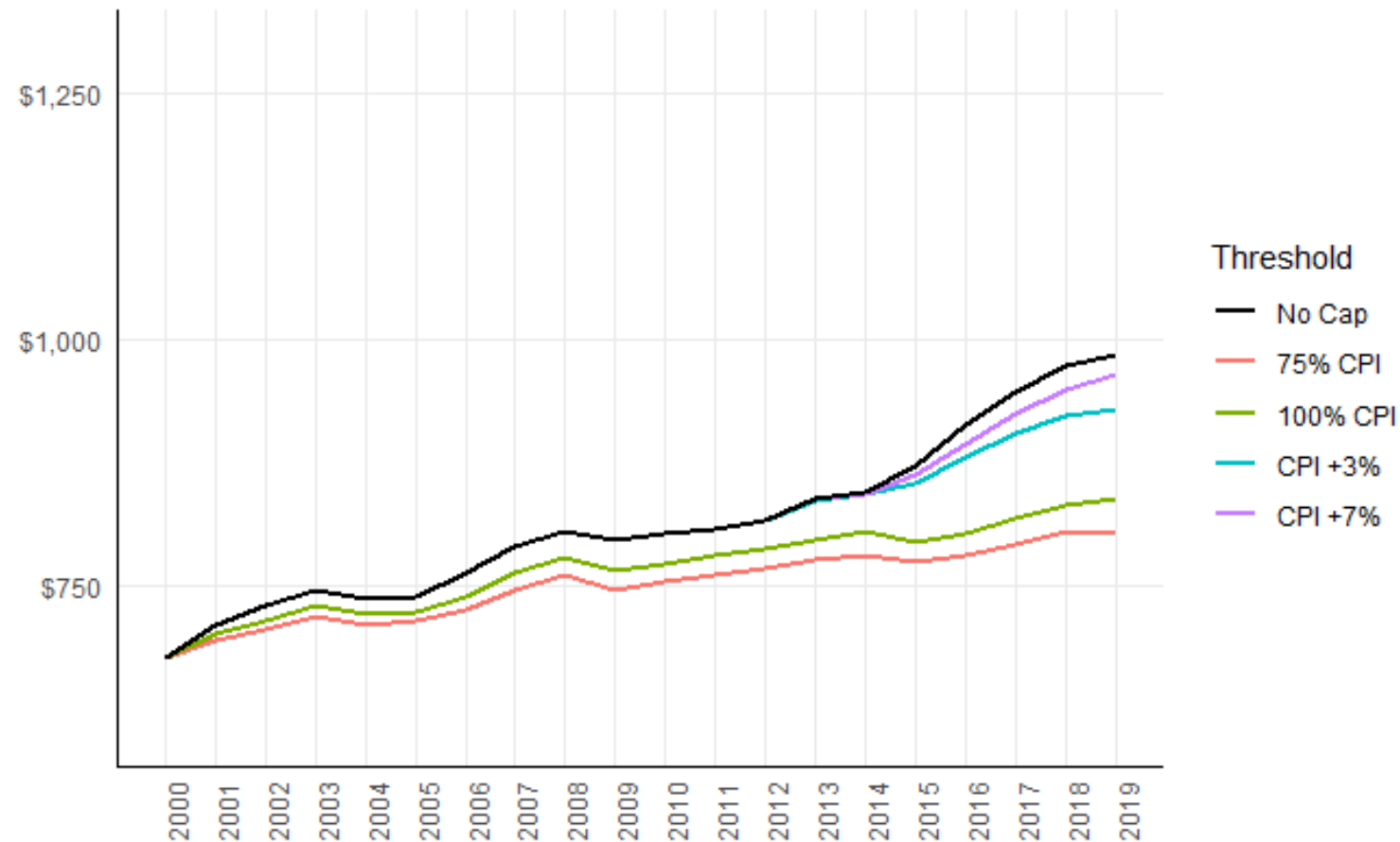
Summary

Rent caps compared to rent trends (2001-2019)*

Cap	10th	Median	90th	Average annual reduction in rent due to rent caps
75% CPI	\$536	\$885	\$1,684	
100% CPI	\$339	\$615	\$1,244	
CPI +3%	\$0	\$87	\$548	
CPI +7%	\$0	\$0	\$239	

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Rent caps compared to rent trends (2001-2019)*



Hypothetical median rent under different rent caps

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Building-level economic impacts

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Summary

Economic analysis - interviews

30 interviews (developers, owners, investors, lenders)

- Potential impacts in **both short and long term**
- Perhaps less immediate impact on tenants & landlords related to rents, more significant impacts on property values, tax base, reinvestment, housing quality, housing supply
- Even if rent cap would not affect them, they would be incentivized to raise rents before RS begins
- Worried about “compliance costs”
- Some said they would exit the Mpls market
- Conversion to condo is a definite possibility
- Less reinvestment in properties under RS and a decline in quality
- Slowing / stopping of new development
- *“it depends...”*

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Economic analysis - modeling

□ Estimating apartment building economics under different rent caps

- **Average annual return**
- Estimated annual return in 2018
- Average annual increase in value (appreciation)
- Total increase in value (appreciation)
- **Internal Rate of Return (IRR)**

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Average Annual Returns, 2009-2018



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Review of other programs

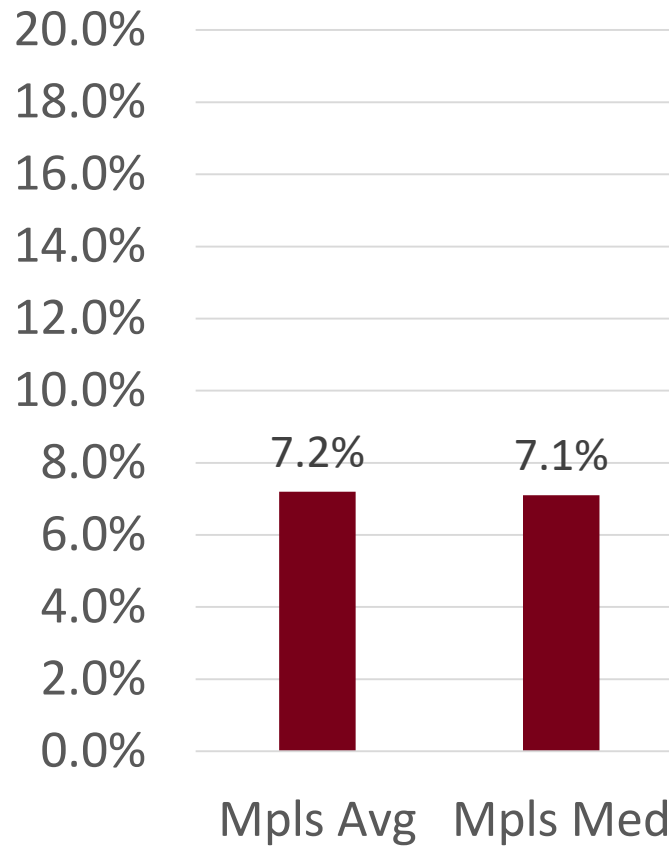
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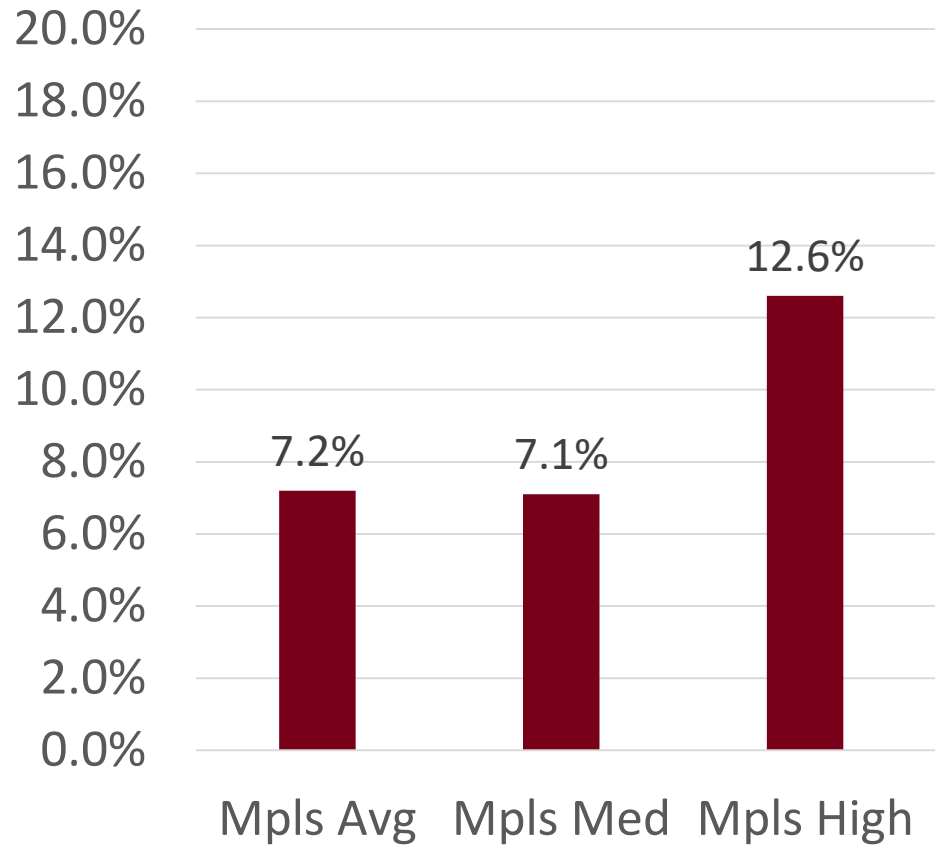
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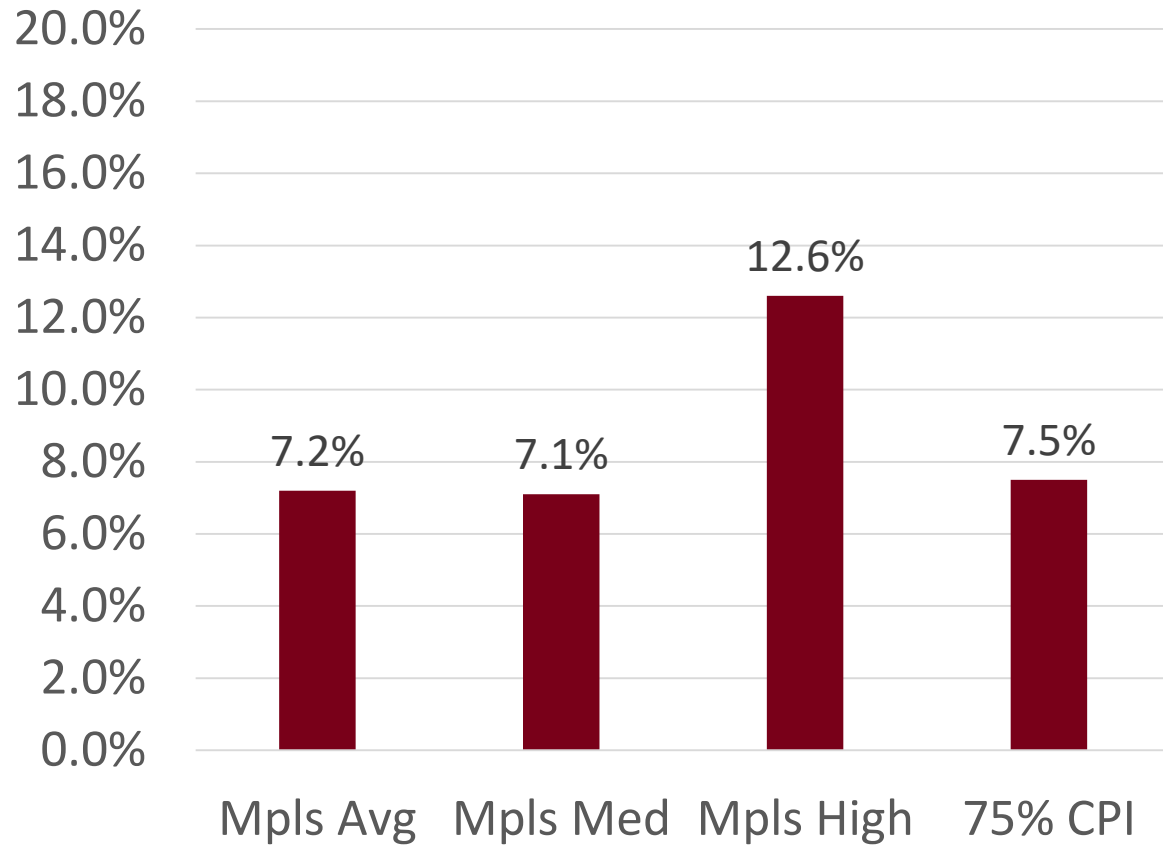
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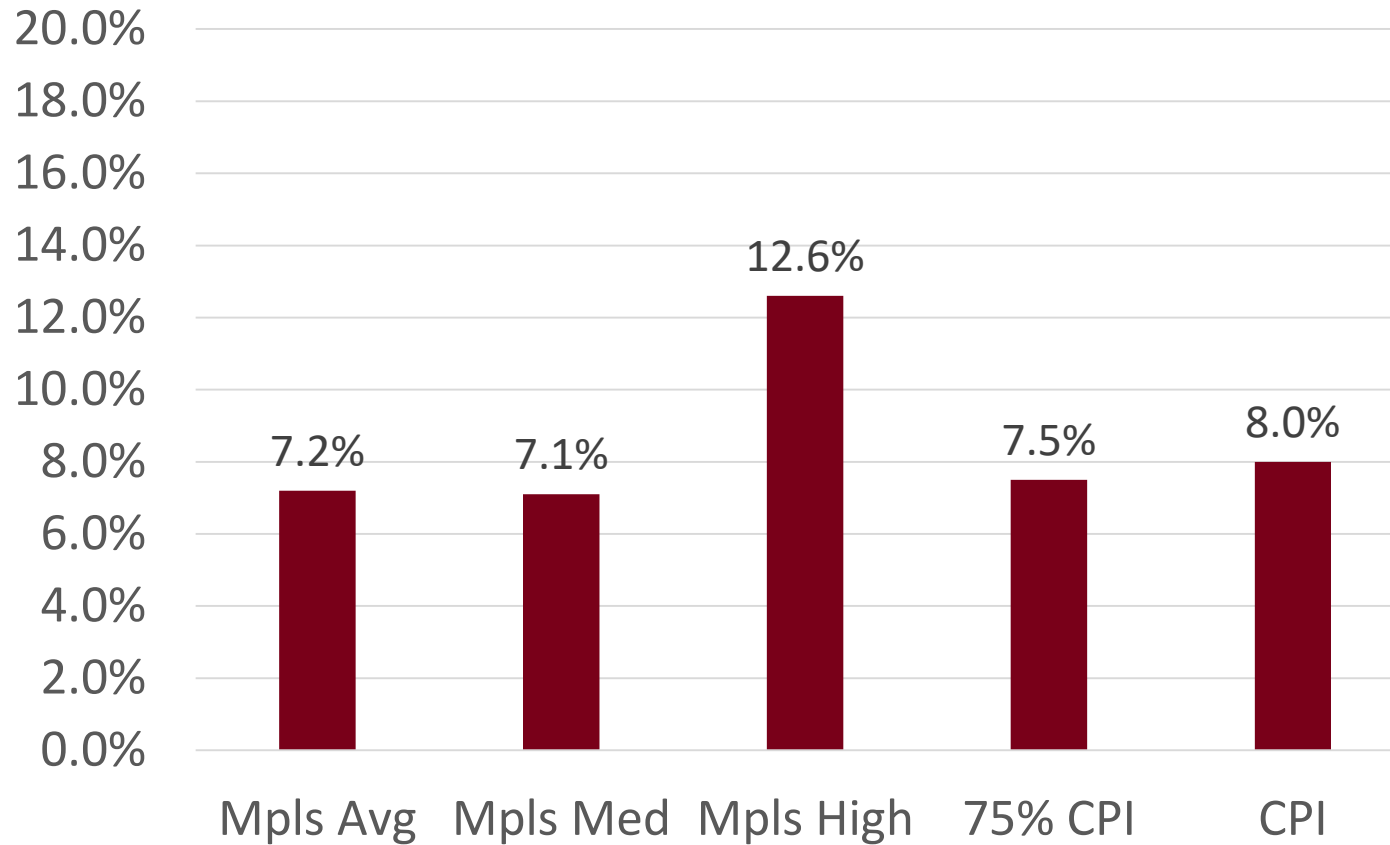
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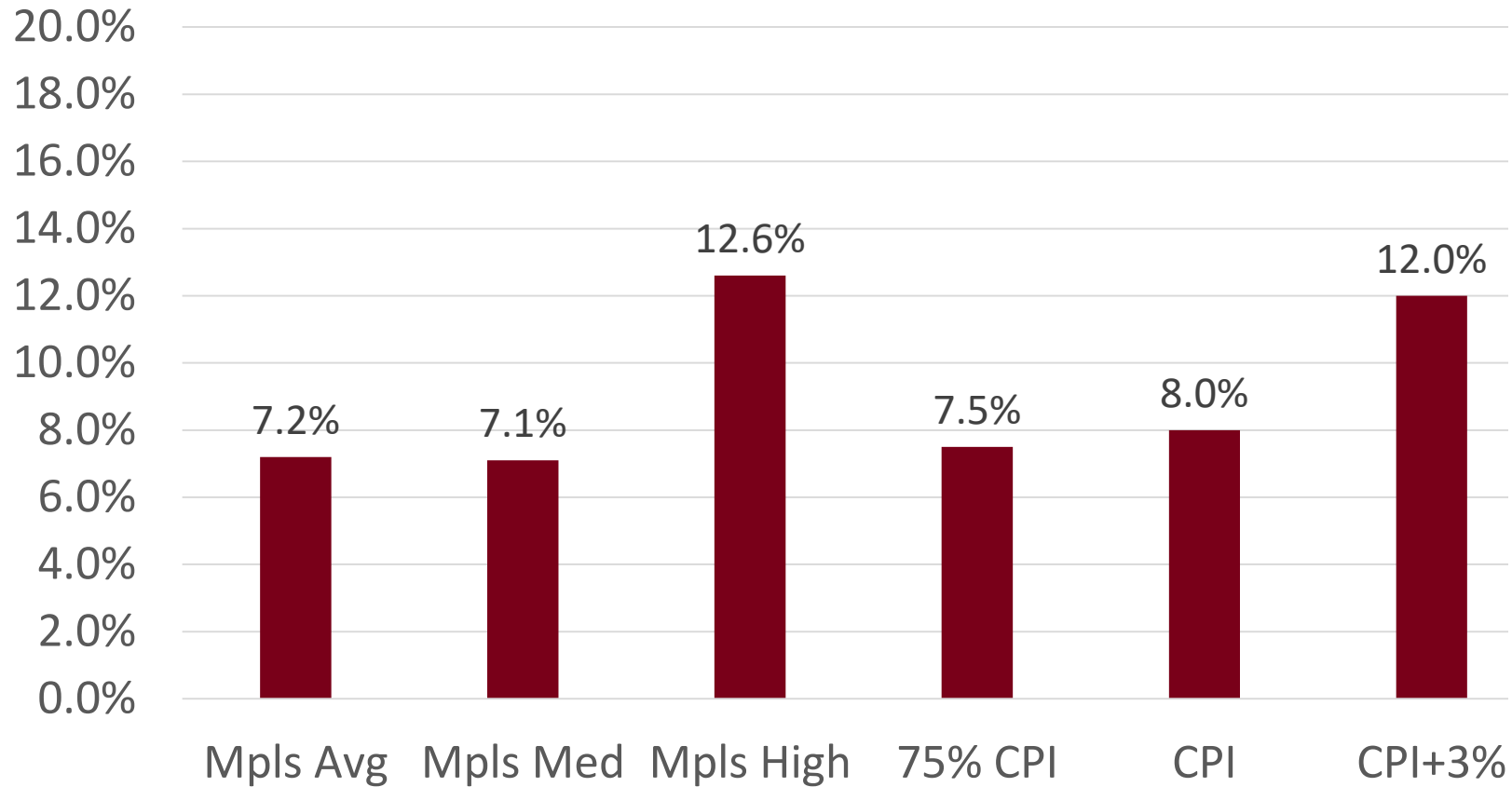
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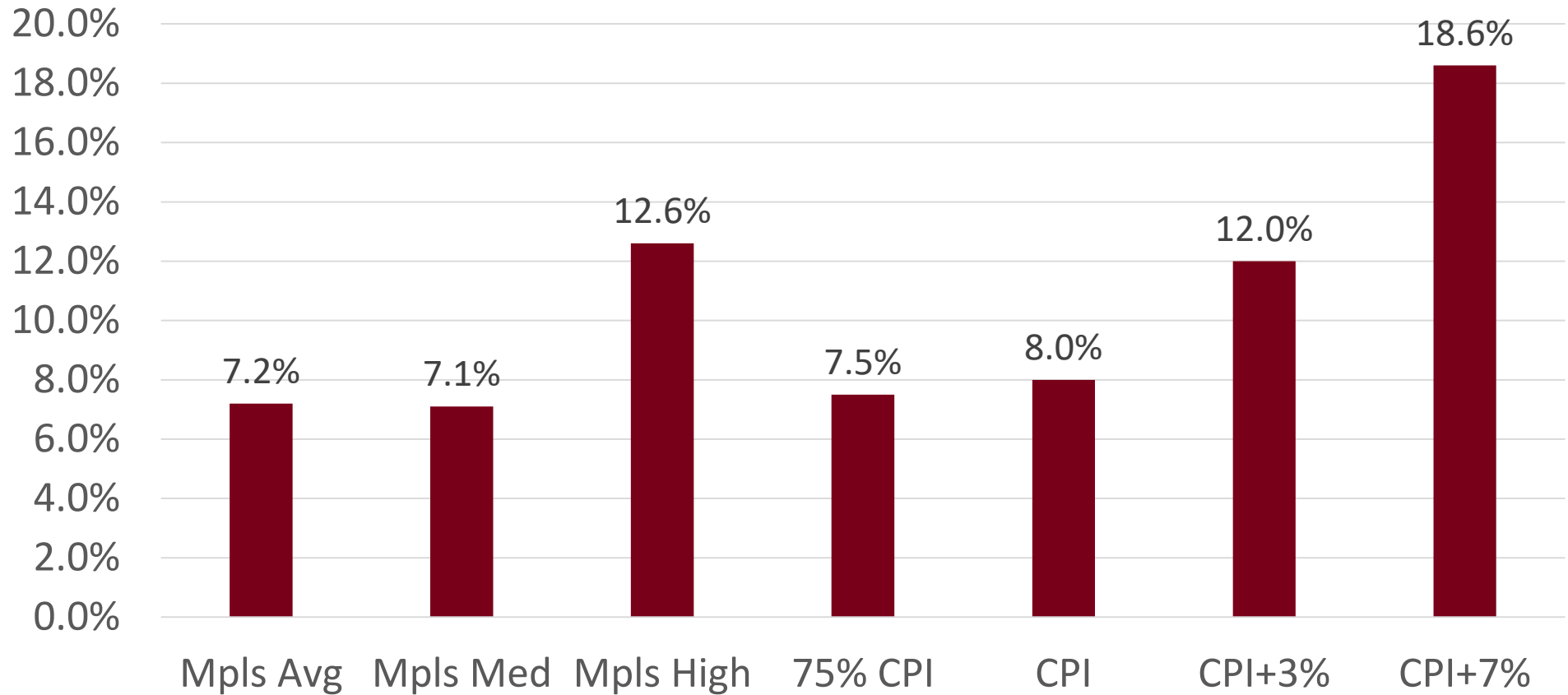
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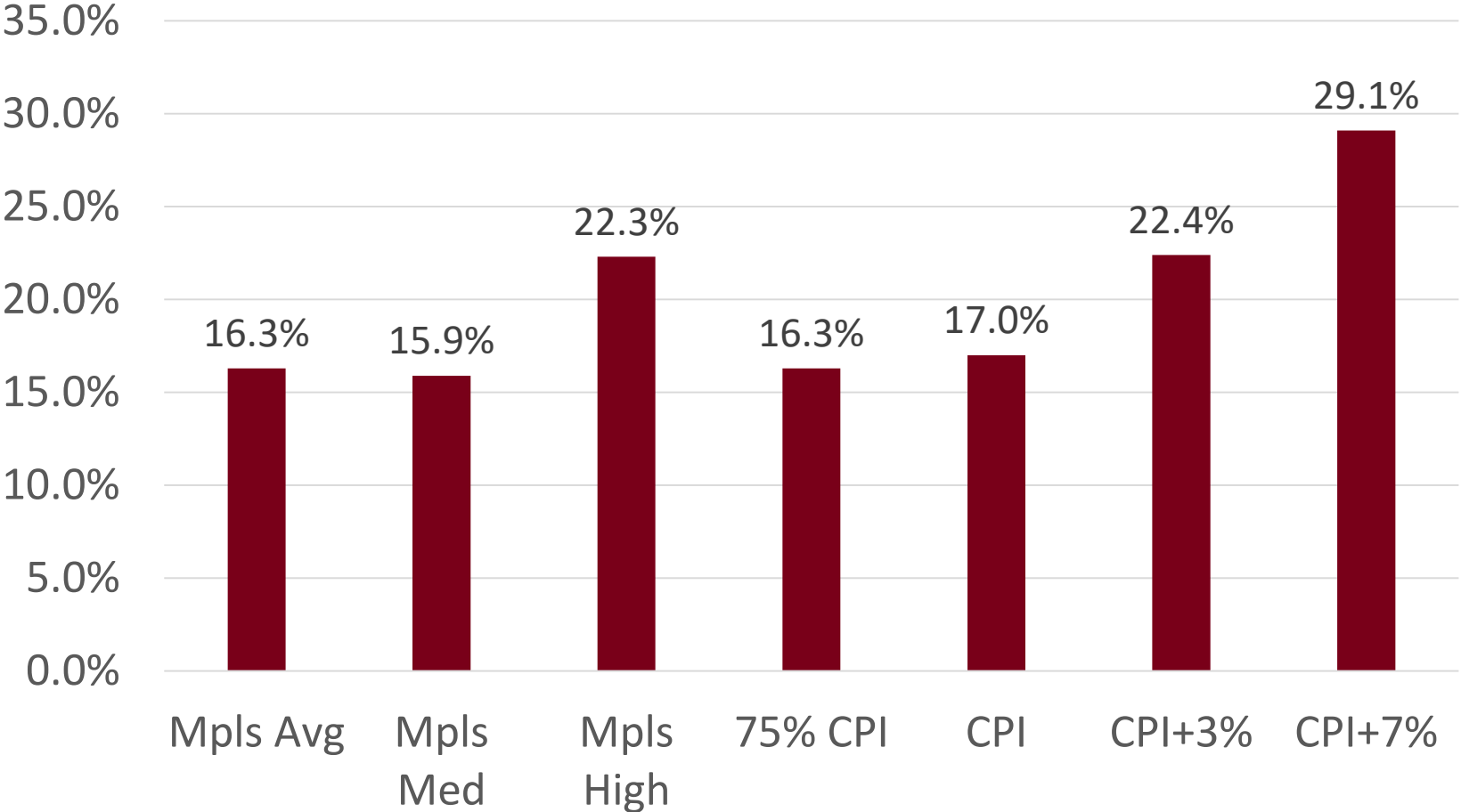
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Internal Rate of Return, 2009-2018



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Summary

- Policy design choices & complementary policies
- Affordability and rent increase issues at the bottom of the market, not seen elsewhere in the market
- Scope and scale of impacts depends on market and choice of caps
- Consistency of the story told by rent data, population data, and building economics modeling

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