Citizens League Report on Rent Control

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INTRODUCTION

We were asked by the Citizens League Board of Directors in the fall of 1980 to develop and recommend a League position on rent control. Our charge instructs us to (a) become familiar with the facts on the price of rental housing and how rents have increased in comparison with other essential living expenses; (b) try to understand specific problems to which rent control proposals are being addressed, and reach conclusions on the extent to which these problems would be met through rent control; (c) become familiar with the extent to which rent control is in existence elsewhere in the nation, and the results in these locations; and (d) determine the impact which rent control would have on maintenance of rental dwellings, new construction of rental dwellings, housing demand in parts of the metropolitan area without rent control, supply and cost of housing for low and moderate-income households, and commercial-industrial development.

At the time we were given the assignment a coalition of citizen groups was considering the possibility of circulating petitions for a rent control charter amendment in Minneapolis. Since then the coalition has decided to concentrate first on seeking passage of a rent control ordinance by the Minneapolis City Council. As of early February 1981 the ordinance had not been introduced officially.

During the course of our work we began to see the dimensions of a much larger issue, the changing financial burden of housing for all persons, renters and owners. We looked at this issue only slightly. Our assigned task, of course, was to deal only with rent control, and that took almost all of our time.

We don't fully understand what is happening, but there are some signs which indicate that the financial burden question will emerge as a far more serious issue in the 1980s than many persons now recognize. In most income categories, housing will be claiming a larger portion of the household budget. Persons most significantly affected will be those of low income who are using current income to pay for housing, whether through rent or mortgage payments.

Most of us are familiar with the fact that higher energy prices, higher interest rates and higher inflation rates have resulted in significant increases in housing costs. Beyond these factors, some persons are sensing that major additional increases will occur as lenders move away from fixed-interest, long-term mortgages.

One response is to move to transform the nation's housing stock into smaller, more efficient, units. But unlike replacing the nation's supply of large, fuel-consuming cars with small, energy-efficient models, this process will take many years longer, probably 50 years or more. Moreover, neighborhood opposition and restrictive zoning and building codes often may stand in the way of allowing changes.

We're not sure where these issues will lead us. But they urgently need attention, in the Citizens League and elsewhere.

BACKGROUND

Rent control seems to be growing rapidly as a national issue.

Last summer a National Tenants Union was established with an avowed objective of making tenants' rights, including rent control, a major issue in the 1980s. Owners of rental property have organized themselves into the National Multi-Housing Council to fight rent control. The Council apparently will ask Congress to block federal housing funds in cities with rent control.

Rent controls have been adopted in some cities in Alaska, California, Connecticut, Florida, Maryland, Massachusetts, New Jersey and New York plus the District of Columbia and have been considered in 22 other states. Last November, voters rejected rent controls in Seattle, Oakland and San Diego. But voters in Thousand Oaks, Calif., decided against repeal of their controls. Los Angeles County exempted newly constructed apartments from controls, but the city of Los Angeles rejected such a move, according to the *Wall Street Journal.*

Rent control was imposed nationally during World War I and World War II and was imposed as part of President Nixon's wage-price controls in 1971-73.

We found that the motivation nationally for rent controls lies not just in the desire to keep rents reasonable. There is an indication that some advocates of rent control are using the issue to advance broader social strategies of how wealth and property should be shared. This was indicated in an article in the magazine *Social Policy* in January-February 1980 co-authored by a vice president of the New Jersey Tenants Organization.

Locally, a main target of rent control is "speculation."

The Coalition for Affordable Housing, the citizens' group advocating rent control in Minneapolis, told us that "speculation" in the rental housing market is the root reason for rent control. The advocates claim that apartment buildings are being bought and sold repeatedly by speculators in the rental housing market, with the price–and, thereby, the rent–going up with each sale. The Coalition believes tenants should not be forced to pay higher rents because of such speculation. If rent control were adopted, Coalition representatives argue, landlords would not be allowed to increase rents automatically to recover the higher mortgage payments required when property is sold for a higher price.

We were unable to obtain data on the frequency in turnover of apartment owners nor the degree that rents increase when buildings change hands.

Other targets seem to be (a) unreasonable rent increases, or "gouging," (b) displacement of lower-income households when dwellings are rehabilitated, and (c) maintenance of apartments.

These other reasons are stated by some advocates of rent control, including the Coalition. They say some landlords are increasing rent by unreasonable amounts for no other reason than they know the rent can be increased and they still can keep the units filled. Sometimes lower-income tenants are displaced because they can't afford the higher rents which are charged, the advocates claim. Or they claim that some landlords are pocketing too much of the rent for their own use instead of using an adequate amount to keep the units in decent repair.

A Rent Adjustment Board would establish a uniform allowable percentage increase in rent and act on applications for variances from that percentage, according to the proposal being debated here.

A preliminary draft of a proposed ordinance in Minneapolis has been prepared by the Coalition for Affordable Housing. Owner-occupied buildings with four or fewer apartments would be exempt. New apartments would be exempt for the first five years. Units owned or operated by government agencies would be exempt if so declared by the state or federal government. Approximately 20,000 units out of a total of 90,000 units in Minneapolis would be exempt, according to the Coalition.

Proposed membership of the Rent Adjustment Board is not settled, according to the Coalition. Originally, the Coalition had recommended that the Board be elected by popular vote of the people. Now the Coalition is urging an appointive Board. Details of who would make the appointments apparently are pending. Efforts are being made to assure adequate representation from lower-income groups on any such Board.

Landlords or tenants in controlled units would be allowed to petition for variances if they felt the annual allowable increase–assumed to represent a normal increase in operating expense–were unfair. If landlords would seek higher increases, they would have to demonstrate why a higher level were justified, such as the expense incurred by a higher mortgage when a building changes hands, provided the selling price is not inflated. The draft ordinance states that tenants should not be forced to absorb the costs of the owner's mismanagement or "imprudent" financing decisions. The Board would decide what constitutes an "imprudent" decision. Tenants would be allowed to request an amount below the allowable increase set by the Board if they felt landlords were not keeping units maintained properly or if they felt the landlord's costs or services had decreased.

The Rent Adjustment Board and its staff would be financed by an annual fee, set by the Board, on all controlled units in the city.

Conversion of existing apartment buildings to condominiums would be prohibited for 18 months. Under state law, such a prohibition could be renewed by the City Council every 18 months. Conversion to cooperative apartments would be allowed at any time if (a) two-thirds of the tenants approve, (b) most units are reserved for low and moderate-income households, and (c) owners' return is limited to original investment plus a set rate of return.

IMPLICATIONS OF THE RENT CONTROL PROPOSAL

We evaluated several possibilities about what might happen under rent control. In a few situations we felt confident about expressing an opinion. In other situations we simply described the alternative scenarios without concluding which alternative seemed most likely.

"Speculation" might be reduced.

If buyers are not guaranteed that they can increase rents to cover higher mortgage expense, they might be less interested in acquiring the property. Or they might not be willing to pay as much. On the other hand, a Rent Adjustment Board might interpret "prudent financing decisions" liberally, meaning that the Board would allow buyers to pass on higher mortgage expense.

As we noted earlier, we don't know the degree of speculation now occurring.

The actual impact on rent levels is unclear.

It seems reasonable to expect that a Rent Adjustment Board would be able to prevent extraordinary rent increases, or "gouging." However, it is possible landlords still could convince the Board that higher-than-normal increases are justified. What constitutes "gouging" definitely is a perception, not an established fact. What is reasonable in the eyes of one person may constitute "gouging" in the eyes of another. The Rent Adjustment Board would have to make such judgments.

We have found that most of the information about "gouging" is episodic, not statistical. Individuals can cite specific instances of unusual increases, but overall statistics on rent increases don't substantiate the claim. Except for the last few months, rents consistently have lagged behind price increases on other items, according to the consumer price index information for the Minneapolis-Saint Paul metropolitan area. Since 1967, for example, the rise in the consumer price index for rental housing has been lower than all categories except clothing and alcoholic beverages.

Representatives from the Coalition for Affordable Housing said that rents should increase more slowly than the consumer price index because, they said, only about 45-55 percent operating expense of a landlord's expenses are subject to inflation. The remainder, debt service, remains constant. Coalition representatives presented data which they said indicates that rents are rising faster than the increase in operating expense.

Using this guideline, the Coalition estimates that most landlords' cost increases would justify rent increases of less than 5.5 percent annually.

A survey of 500 renters conducted by the Coalition for Affordable Housing revealed that about 44 percent of the tenants in buildings that would be subject to rent control in Minneapolis did not experience any increase in rent in the last year. Another 20 percent of the tenants reported increases in rent of up to 7.5 percent; another 15 percent of the tenants reported increases between 7.5 percent and 10 percent; and another 21 percent reported increases in excess of 10 percent. The survey did not reveal whether—for those tenants who reported increases—there had been an increase in the previous year, or not, thereby making it impossible to determine the average annual increase.

The above figures do not distinguish between persons who have lived at their current addresses for less than a year or for more than a year. The Coalition said that when only persons who have lived in their current units for at least a year are counted, the following percentage increases in rents are found:

no increase	34.5%
under 5%	8.9
5-10%	30.4
10-15%	11.1
over 15%	14.6

These figures reveal an approximate weighted average increase of about 7.5%.

An allowable percentage increase in rent probably would act as a floor as well as a ceiling.

The proposed ordinance, if adopted, would not require landlords to impose rent increases as high as allowed by the Board. If the data above is representative, about one-third of the tenants now receive increases less frequently than once a year. However, it is likely that under rent control landlords would follow the allowable annual percentage increase established by the Board. If they chose to increase rents less frequently, they would not forego the opportunity to impose increases which are as great, in total, as those which are increased annually. However, they would likely decide that it would be too difficult to explain to tenants why a certain increase, even if imposed less frequently than annually, differs from the annual percentage increase imposed by the Board.

The impact on low-income persons is not clear.

Rent control would treat all tenants alike, irrespective of income. If rent control holds down rent, then low-income and other tenants would benefit. It is possible, however, that higher-income tenants might remain in rental housing longer, instead of buying their own homes. This could have the effect of pushing rents higher for prospective renters in all income categories. Finding fewer places to rent in the rent-controlled community, the prospective renters would begin seeking places to live in nearby communities without rent control. This would mean an increase in the number of apartment-seekers in the non-rent-controlled communities. More competition for a limited number of units might then produce higher rents in those communities.

Some of the best information we obtained on the burden of rent on low-income persons came from our analysis of 1978 data from the Minnesota Department of Revenue, which gives income tax rebates to renters, based on the size of rent relative to income. Among elderly people whose rent is at least $114 a month, the survey found that at least 60 percent of them were paying more than one-fourth of their income in rent. Even among the non-elderly, at least 30 percent of them in this rental category were paying more than one-fourth of their income in rent.

We spent considerable time learning about a federal government housing subsidy program called "Section 8." See Appendix for detailed discussion of this program. Persons who are able to receive a Section 8 subsidy receive a great deal of assistance—up to $4,000 a year. But, because of limited appropriations, only a small percentage of eligible persons receive assistance. According to the Metropolitan Council, about 57,000 households in the metropolitan area not receiving any form of assistance now would be potentially-eligible. This is exclusive of some 37,000 households already receiving some form of housing subsidy.

Required building maintenance might improve. Discretionary maintenance might decline.

There does not appear today to be widespread dissatisfaction with apartment building maintenance. Nevertheless, where landlords are not performing essential tasks, rent control could prompt them to do a better job. Such landlords would want to avoid tenant petitions to the Rent Adjustment Board, which might oblige them to open their books to defend against a petition.

It also is possible that some owners would forego certain discretionary maintenance. For example, they might keep the hall carpet clean, but they might not replace the carpet as frequently. Such owners might have anticipated their property would ultimately bring a profit to them upon resale, but under rent control they may see the market value reduced. Thus, they may conclude the best way to recover investment is to reduce maintenance to the minimum amount necessary.

Coalition representatives said they have no quarrel with the existing level of building maintenance generally. Census data bears this out. The 1977 annual housing survey by the Census Bureau of Twin Cities area renters indicated that 24.5% of them felt their overall opinion of the structure was "excellent;" 47.7%, "good;" 21.8% "fair;" and 5.7% "poor."

Rents elsewhere in the metropolitan area might be held down, voluntarily, to remain competitive, or they might increase faster, in anticipation that rent control might spread.

We aren't sure what would happen. About 60 percent of all rental units in the metropolitan area are outside of Minneapolis, according to the Metropolitan Council. If rents actually are lower with rent control, landlords elsewhere might hold increases in line with controlled units to remain competitive. Or they might increase their rents faster, fearing that rent control would spread.

If rents in Saint Paul and the suburbs went up faster than in Minneapolis, this might be adequate reason for Minneapolis landlords to convince the Rent Adjustment Board that they should be allowed higher rents to stay with the competition.

Because the Twin Cities area is a single housing market, what happens in one geographic part of the market is likely to affect the rest of the market.

Vacancy rates are more likely to decrease than increase under rent control.

The rental market in the Twin Cities area today is the tightest it has been in at least five years, according to the Metropolitan Council. It does not appear that rent control would help produce more vacancies. If rents are lower with rent control, it is likely that demand would increase, thereby reducing vacancy rates further. An increase in demand seemingly would result in construction of more units, but rent control would create some uncertainty for investors, thereby working against the possibility of more construction. It should be kept in mind, of course, that such factors as cost of land, cost of construction, and interest rates are more important in determining whether new apartments would be built than is rent control by itself.

In a situation with heavy demand, controlled prices, and limited supply, there is a certain human instinct to try to find a way around these obstacles. Thus, reduced vacancies accompanied by rent control might prompt "black market" payments from tenants to landlords to obtain places to live.

To the extent that people now move to other apartments at least partially because of increasing rents, it is possible that under rent control people would move less frequently. The apartment turnover rate is about 50 percent annually in the metropolitan area, according to the Metropolitan Council. Some apartments may change occupants several times a year. Some may have the same occupants for several years in a row, according to the Metropolitan Council. A reduction in turnover is an advantage to landlords, because they can reduce the expense of fixing up vacated apartments for new tenants. It can save tenants the expense of moving. On the other hand, with fewer turnovers, the number of alternative places to live is reduced. This could increase the time and expense for persons who are seeking places to rent.

It is not clear whether the number of owners of rental property would decline if rent control were adopted.

There are thousands of owners of rental housing in Minneapolis and in the rest of the metropolitan area. Apparently no one knows exactly how many. The market is highly decentalized. One possibility is that small owners would not want to deal with the "hassles" of rent control. Instead they might sell to buyers of large amounts of rental housing, thereby reducing the total number of landlords. Were this to occur, do-it-yourself maintenance by small owners probably would be replaced by paid, professional maintenance carried out for large owners. This, in turn, would have an impact on the rents.

But we don't know what small owners would do. In fact, it is possible to construct a scenario in which the number of small owners would increase. Owner-occupied apartments of four or fewer units would be exempt from rent control. A large apartment building could be divided up so that no more than four units were owned by the same owner, who also lived in the building.

Property taxes on other properties probably would increase relative to rental housing.

Rent control would reduce the actual or perceived return that an owner would receive from investing in rental property. Consequently, this would reduce its market value, which, of course is a stated objective of the rent control advocates.

If the value of rental property declines, relative to other property, its share of the property tax burden will decline, too, thereby shifting the burden to homesteads and to businesses.

Interest in condominium conversion probably would increase.

Faced with rent controls, we believe it is likely that some apartment owners would be more inclined to convert their units to condominiums, which, if successful, would reduce the total number of available rental units. This would increase the options for home buyers and decrease the options for renters. Advocates of rent control are anticipating this effort by proposing that conversion be prohibited. Under state law, however, the prohibition is subject to renewal every 18 months. Rent control advocates, therefore, would be in a position of constantly fighting this "escape" valve.

Some apartment owners might convert their property to non-residential uses, such as offices.

Apartment units would be assessed fees to cover the expense of the Rent Adjustment Board, but there would be no way that owners or renters could "control" the level of such fees.

No one really knows what the expense of rent control would be. Under the proposed ordinance the Board would assess the expenses to the controlled units. If large numbers of owners and tenants engage in lengthy appeals, perhaps even in the courts, this would increase total expense.

Officials of the Coalition for Affordable Housing have estimated an annual fee of $5 on each of some 70,000 controlled units in Minneapolis would be sufficient to pay the expense. Elsewhere in the nation, annual fees have ranged from $5 to $48 per unit. We don't know whether fees support some or all the expenses of rent control in other cities.

Builders with alternative locations to build new rental housing in the metropolitan area are likely to favor non-rent-controlled communities.

All other factors being equal, it is likely that fewer new rental units would be built in Minneapolis than in other localities in the Twin Cities metropolitan area. Builders would be more likely to select locations with the potential for higher rate of return on capital investment.

Rent control advocates point out that studies of rent control elsewhere in the nation indicate that new construction is not markedly different between cities with and without rent control. Those studies, however, usually compare large cities in different metropolitan areas. The apartment building industry insists, on the other hand, that rent control definitely reduces construction of new units. At a minimum, rent control contains no positive incentives for new construction. All in all, we believe that the arguments which claim rent control would hinder new construction are more persuasive.

CONCLUSIONS

We have weighed the information presented to us and examined the implications of rent control as best we can construct them. The expectations of the advocates of rent control may be overly optimistic. Rent control might reduce speculation, hold down rents, reduce displacement of tenants and improve building maintenance, but there are enough questions raised about each of these possibilities to make the outcome uncertain at best. The ominous fears of the opponents of rent control may be exaggerated. Rent control might compound an already-tight housing market, but there are so many other factors affecting the construction of housing that it is almost impossible to isolate one factor, such as rent control.

But all in all, the evidence leads us to conclude that rent control should not be adopted. In summary, it promises more for tenants than it can deliver, and it doesn't attack the real problems of people's incomes and housing supply.

Rent control may produce expectations in tenants that could not be realized.

At best, the rents of a substantial number of tenants would be lower than they would have been. At worst, no one would have lower rents, and some people would have more frequent, higher rent increases than in the past.

Rent control won't ease the problems of the poor.

It is very likely that poor households would find that the allowable increases approved by the Rent Adjustment Board would exceed what they can afford. Under the proposed ordinance, the Board would be instructed to provide a reasonable level of increase annually. It would not be allowed to make exceptions for poor households.

The rent control controversy has helped us see more clearly that the real problem which needs to be attacked is lack of income for some renters.

Rent control would present another obstacle to provision of more housing.

While it might not be a decisive factor, rent control would increase the risk to investors and represent, thereby, a hinderance to the construction of more housing. Of course, the greater the shortage of units the more pressure there is to increase rents on the units which are available.

The benefits of a new public bureau to handle rent control administration are questionable.

A new public bureau would be set up, whose expenses are impossible to predict in advance, yet whose fees would be paid, in effect, by the very people the ordinance is intended to benefit. Once the bureau is established, it might be difficult to discontinue its operations, even if tenants and landlords were to agree, because other vested interests might want to keep it going.

If rent control were to be tried, it should come after other possibilities have been exhausted, not before.

As far as we could determine, other ways to get at the problem of "speculation" have not been attempted. For example, today only a few apartment owners submit itemized statements to their tenants explaining the reason for rent increases. If a landlord were required to itemize a rent statement, including reasons for any increase, this might deter some landlords from imposing increases which would be hard to justify. Ironically, the routine practices of office rentals are not followed in housing rental. In office rental, leases for terms as long as five years are not uncommon, with the landlord allowed to increase rents during the time of the lease for specific, itemized reasons.

A defined emergency of limited length is not present.

It is possible we might feel differently if the proposal were in response to a defined emergency of limited length, such as the imposition of control in World War II.

The proponents of rent control believe the present situation is an emergency. We agree that rapidly-rising rents do present a serious problem for some renters, just as do rapidly-rising prices of other essentials. Persons who are urging that rent control should be enacted claim that their effort is directed only at a minority of landlord-tenant relationships. Nevertheless, their proposed answer would apply to all of them. In fact, landlords and tenants could not legally exempt themselves from coverage by the proposed ordinance even if they were to mutually agree not to be covered.

RECOMMENDATIONS

To reduce the uncertainty which faces tenants concerning increases in rents, we recommend new ways be tried to accomplish negotiated rent control between landlords and tenants, individually, instead of adopting legislated rent control between landlords and tenants, collectively.

Much more imagination is needed than now is present in developing agreements between landlords and tenants. Sometimes leases are signed, but they do little more than specify a certain rent level for a period of time, usually not more than one year. But for at least one-half of the tenants in the metropolitan area (three-fourths in Minneapolis, according to the Coalition for Affordable Housing) a month-to-month "lease," probably oral, is all that governs the rent. This gives the tenant knowledge of the price of the product for only one month in advance. This is too much uncertainty in price for a product which usually takes such a large percentage of a tenant's monthly income. Moreover, a tenant must incur the extra expense of moving if he chooses not to accept a rent increase.

We urge the Minnesota Multi-Housing Association, the organization which represents apartment owners, to take the leadership in encouraging its members to devise new forms of landlord-tenant agreements. We urge groups which represent tenants to cooperate in such efforts, suggest model agreements, and assist their members in negotiating with landlords.

One possibility is that landlords could offer all tenants the choice of two options: (1) the present approach, in which the landlord fixes the rent and increases it as he desires, or (2) negotiated rent control, in which the landlord and tenant would agree on a formula whereby the increase in operating expenses and property taxes would be passed through to the tenant, automatically, as the increases occurred. The base rent in option (2) could start out higher. The tenant would be purchasing rent increase insurance, so to speak. In exchange for higher initial rent, the tenant would be protected from arbitrary increases in the future. Such an agreement would not require longer leases than now are common.

We urge the Minnesota Multi-Housing Association to prepare model forms for apartment owners to use in itemizing rent increases to tenants. Tenants shouldn't be expected to accept an increase in rent without being told the reasons. Itemized statements showing rent increases caused by higher maintenance expense and property taxes are common in the rental of office property.

We repeat—and urge again—the previously-adopted Citizens League recommendation for cash assistance program for the poor. This recommendation was central to our report on income maintenance in 1977 and was restated in the League's report on issues of the 80s which was adopted by the League Board last summer.

In the 1977 report the League recommended that the various types of aid programs for the poor be replaced by a single cash assistance program. The report paid special attention to the Section 8 rent subsidy program, which, according to the recommendations, would be one of the programs folded in. The report noted that Section 8 provides a substantial income supplement to those who receive it but that the subsidy is inequitable because so small a portion of the eligible population receives the subsidy.

Several other ideas came to our attention late in our task force work which merit further study. We list them here for information purposes, not as specific recommendations from the Citizens League.

- Whether a sliding-rate tax should be imposed on the capital gain in a sale of rental property, with the amount of the tax based on the size of the gain and the length of time between sales.

- Whether renters should be empowered to make physical improvements in their dwellings and deduct the cost from their rent.

- Whether to reduce property taxes on rental property relative to other types of property.

- Whether to adjust tax laws to further encourage development of cooperative and community-owned housing.

- Whether to empower tenants to organize and bargain with landlords as a group over rent, repairs and eviction.

APPENDIX

LEVELS OF RENT IN THE TWIN CITIES METROPOLITAN AREA.

The most current comparative data were given to us by the Guide Corporation, an organization which has contracts with apartment complexes to help match prospective tenants with vacant apartments. Officials of the Guide Corporation said they serve mainly middle and upper middle income persons. Following are the average rent ranges by community for August 1980 for the apartment complexes served by the Guide Corporation:

	STUDIO	1BR	2BR	3BR		STUDIO	1BR	2BR	3BR
PLYMOUTH	$252	$301	$352	$434	ROSEVILLE	$243	$292	$361	$483
NEW HOPE	---	275	321	391	ST. LOUIS PARK	230	283	361	461
BROOKLYN PARK	225	253	312	405	EAST ST. PAUL	204	263	316	388
WOODBURY	210	276	308	390	MINNEAPOLIS	209	289	388	592
MOUNDSVIEW	---	255	300	420	HOPKINS	198	308	378	432
WAYZATA	---	326	384	546	MINNETONKA	290	342	414	496
BURNSVILLE	242	288	350	417	EAGAN	207	264	315	403
BLOOMINGTON	253	306	378	426	EDINA	303	385	478	612
OSSEO	215	248	283	---	FRIDLEY	215	269	304	358
RICHFIELD	160	284	342	422	FALCON HEIGHTS	220	278	338	---
NEW BRIGHTON	201	273	317	389	COON RAPIDS	220	300	342	508
ROBBINSDALE	---	299	340	359	BROOKLYN CENTER	205	253	314	421
ST. ANTHONY	160	259	310	363	MAPLEWOOD	209	255	320	382
SHAKOPEE	228	271	301	365	EDEN PRAIRIE	280	334	427	497
SPRING PARK	234	279	322	---	MOUND	320	331	405	---
OAKDALE	195	211	277	410	SHOREVIEW	246	278	339	450
LITTLE CANADA	249	278	319	442	WEST ST. PAUL	208	274	326	438
SOUTH ST. PAUL	220	260	275	---	ST. PAUL	221	254	311	427
SAVAGE	---	250	300	370	CRYSTAL	---	277	325	399
GOLDEN VALLEY	---	278	294	---	ST. PAUL-Luxury	371	488	680	840
INVER GROVE	241	312	372	445	BLAINE	---	252	301	---
NORTH ST. PAUL	187	227	286	323	APPLE VALLEY	218	255	326	378
ST. ANTHONY PARK	---	263	282	---	LAUDERDALE	---	241	286	---
WHITE BEAR	190	258	286	330	FOREST LAKE	182	249	303	---
VADNAIS HEIGHTS	---	260	301	---	CHANHASSEN	240	279	335	---
CHASKA	152	249	291	---	ANOKA	225	265	317	384
ANOKA	225	265	317	384	SAINT PAUL	---	---	278	---
EXCELSIOR	225	278	295	---	FARMINGTON	199	229	279	---
PRIOR LAKE	---	250	290	---	CHAMPLIN	---	250	293	345
HIGHLAND PARK	---	423	573	748					

Rent which is charged by the owner of the building is not necessarily the same as rent paid by the individual, because in many cases persons will be sharing the rent. A considerable amount of data concerning rent actually paid by the individual is available from the Minnesota Department of Revenue. Renters are eligible for a special credit on their income tax. The credit varies according to income and size of rent.

The Citizens League purchased special computer runs from the Department of Revenue to obtain information, separately, for Minneapolis, Saint Paul and the suburban portion of the seven-county metropolitan area. Renters are divided into three categories: under 65, over 65, and disabled. The statistics cover only renters who file for the credit. Persons whose incomes are too high to be eligible for a credit would not be included. Following are the percentage of renters, by range of monthly rent, *exclusive of utilities, but before deducting the state credit,* for 1978:

RANGE OF MONTHLY RENT

	0-$37	$38-75	$76-113	$114-151	$152-189	$190-378	$379+	No. of Renters Filing
MINNEAPOLIS								
Under 65	5.3%	15.3%	21.9%	23.4%	18.2%	15.7%	0.2%	67,738
Over 65	13.2	17.4	13.9	17.0	16.1	21.5	0.8	20,026
Disabled	18.5	21.2	20.1	17.5	10.8	11.9	---	2,780
SAINT PAUL								
Over 65	5.0	14.1	20.5	24.6	18.4	17.2	0.2	34,001
Under 65	10.9	17.9	13.9	16.4	16.1	23.3	1.6	11,990
Disabled	14.9	29.7	15.2	19.3	8.3	12.6	---	1,548
SUBURBS								
Over 65	4.6	12.2	16.2	18.6	18.2	29.4	0.6	78,205
Under 65	5.2	11.0	9.6	13.2	15.8	43.2	1.9	14,068
Disabled	12.0	14.5	14.4	15.2	14.1	29.2	---	1,446

The annual housing survey for the Minneapolis-Saint Paul metropolitan area conducted by the U.S. Bureau of the Census revealed, for 1977, a median rent paid of $185 a month.

TAXES ON RENTAL HOUSING AND OWNER-OCCUPIED HOUSING.

For property tax purposes, rental housing is divided into six different categories, each of which is taxed differently.

1. **Rental** – Four or more units in the building, no fireproof construction; assessed value is *38 percent* of estimated market value.

2. **Rental** – Three or fewer units in the building. Assessed value is *28 percent* of estimated market value.

3. **Rental** – Four or fewer stories, fireproof construction; assessed value is *33-1/3 percent* of estimated market value.

4. **Rental** – Five or more stories, fireproof construction; assessed value is *25 percent* of estimated market value.

5. **Rental** – Subsidized housing for low or moderate income households, and elderly; assessed value is *20 percent* of estimated market value.

6. **Rental** – Subsidized housing provided by the Farmers Home Administration, in cities under 10,000 population only; assessed value is *5 percent* of estimated market value.

For *owner-occupied* housing, the assessed value is *16 percent* of the first $25,000 of estimated market value; *22 percent* of the next $25,000, and *28 percent* of the balance.

These classifications are in effect for taxes payable in 1981 and, in most cases, are lower than those in effect for previous years.

Until the 1970s, the classification system was not as complex. Previously, all rental property was assessed at 40 percent of estimated market value, and owner-occupied at 25 percent of the first $12,000 and 40 percent of the balance.

* * * * *

Here is an example of taxes payable for each of the preceding categories, using the following assumptions: $60,000 estimated market value of unit; 100 mills tax rate; $15,000 income of occupant.

	OWNER-OCCUPIED	(1) RENTAL	(2) RENTAL	(3) RENTAL	(4) RENTAL	(5) RENTAL	(6) RENTAL
Assessed Value	$12,300	$22,800	$16,800	$20,000	$15,000	$12,000	$3,000
Gross Tax	1,230	2,280	1,680	2,000	1,500	1,200	300
Net Tax After Homestead Credit	580	2,280	1,680	2,000	1,500	1,200	300
Net Tax After Circuit-Breaker	401	1,280	680	1,000	533	383	216

There are, of course, some important distinctions between owner-occupied and rental property **that must be kept in mind**:

1. The owner of rental property, not the occupant, pays the gross property tax. No homestead credit or circuitbreaker payments are made to the owner of rental property.

2. The example above assumes that the entire amount of the property tax is passed on to the renter, who then receives a circuit-breaker credit, based on income and size of tax. As a matter of fact, the law provides that the renter's credit shall be based on an assumption that 23 percent of the monthly rent, after deducting utilities or furniture provided by the landlord, represents property tax, irrespective to what the actual property tax on the units happens to be.

* * * * *

The example also does not take into consideration the deductions on state and federal income taxes which may be taken by owners, not renters. Owners-occupants can deduct property taxes paid and mortgage interest. Owners of rental property can deduct depreciation.

FEDERAL ASSISTANCE TO LOW-INCOME RENTERS.

In an attempt to better understand the extent to which the federal government assists low-income renters in the metropolitan area, we have compiled some statistics about the Section 8 program from the federal Department of Housing and Urban Development. This rental subsidy program is orgnanized in two parts: the existing program and the new construction program. In the existing program, a person is given a certificate which insures the tenant will pay only 25 percent of his or her income in rent. The government pays the rest. In the Section 8 new program, the government offers tax incentives to a developer to build a project, with the provision that a certain number of units are reserved for low and moderate-income tenants. The government also insures that the rent will be paid.

The table titled SECTION 8 EXISTING outlines the scope of the Section 8 existing subsidies. The total number of units in the program in the metropolitan area is 7,177. The average grant per unit is $1,719 ($143 per month) and the range of grant per year runs from $1,168 in Scott County to $2,094 in Bloomington. The average annual administrative cost per unit is $288, and ranges from $183 in Scott County to $337 in Saint Paul. The distribution of Section 8 tenants is fairly widespread throughout the area.

The Section 8 new program administers 4,085 units in the metropolitan area, again with a fairly wide distribution. On the table titled SECTION 8 NEW CONSTRUCTION, you will find the number of units per city, estimated subsidy figures for the 1980 contract year, the actual amount spent in 1979, and the costs per unit for 1979 and 1980. The assumed 1980 contract amount is always higher than what HUD will actually pay, since HUD assumes no contribution on the part of the renter. (Section 8 programs pay the rent, minus one-quarter of the renter's income. So, if someone has no income at all, HUD pays more subsidy than if there is some income. Since most people have at least some income, HUD almost never ends up paying the whole rent.)

A quick comparison of estimated contract projects as opposed to the actual expenses can be made by looking at the number in cities–such as Bloomington, Columbia Heights, Edina, Roseville and others–which are currently operating a Section 8 program. By checking what was spent in 1979 and looking at the contract amount for 1980, it is easy to tell that the contracts usually far exceed what is actually spent. In some cases, the estimated expense is double what was spent the year before for the same program.

The total sum spent in 1979 in the metropolitan area for Section 8 existing was $15,586,199. For Section 8 new, the figure was $6,501,301. The total for both programs was $22,087,500 for 10,232 units. For Minneapolis the 1979 totals were $3,168,663 for 1,525 units.

As of February 1981, income limits for Section 8 eligibility were $13,200 (one-person household); $15,100 (two persons); $17,000 (three-persons); $18,900 (four persons); $20,050 (five persons); $21,250 (six persons); $22,400 (seven persons) and $23,600 (eight or more persons).

SECTION 8 EXISTING, FROM 1980 ANNUAL REPORTS, FISCAL YEAR 1979

	UNITS	TOTAL COST	GRANTS	ADMINISTRATIVE	GRANT/UNIT	ADM/UNIT
Saint Paul	1,344	$2,979,650	$2,480,513	$452,571	$1,845	$337
Minneapolis	1,199	2,224,776	1,869,176	313,088	1,559	261
Plymouth	69	133,794	114,273	17,369	1,656	252
Bloomington	166	402,539	347,602	44,686	2,094	269
Metro Council	2,727	5,331,964	4,554,739	741,834	1,670	272
So. St. Paul	162	280,631	234,513	43,118	1,448	266
Scott County	101	157,772	118,003	18,449	1,168	183
Dakota County	1,248	2,742,414	2,334,729	387,685	1,871	311
St. Louis Park	161	332,659	284,025	48,634	1,764	302
TOTAL	7,177	$14,586,199	$12,337,573	$2,067,434	Avg. 1,143	Avg. $288

SECTION 8: NEW CONSTRUCTION

CITY	UNITS 1980	UNITS 1979	1980 CONTRACT*	1979 SPENT	1980 CONTRACT* YEAR	1980 CONTRACT* MONTH	1979 SPENT YEAR	1979 SPENT MONTH
Minneapolis	850	326	$3,748,260	$943,887	$4410	$367	$2895	$241
St. Paul	235	185	847,296	468,972	3606	300	2535	211
Eden Prairie	168		679,920	432,219	4047	377	2573	214
Robbinsdale	110		372,312	291,411	3385	282	2649	221
Richfield	155	150	565,056	360,067	3646	304	2400	200
Fridley	195	92	875,616	199,519	4490	374	2169	181
Roseville	332		1,344,216	829,629	4175	348	2576	215
St. Louis Park	132		548,844	306,330	4158	346	2321	193
Columbia Heights	85		292,524	242,623	3441	287	2854	238
Bloomington	306		1,290,828	527,065	4211	352	1722	144
Brooklyn Center	153	41	760,908	135,079	4972	414	3295	275
Wayzata	77		297,768	232,472	3867	322	3019	252
Stillwater	136	0	592,236		4355	363	0	0
Brooklyn Park/ New Hope/ Robbinsdale	222		936,648	407,151	4219	353	1834	153
North St. Paul	117		445,536	378,176	3808	317	3232	269
Anoka	153	101	611,412	334,402	3996	330	3311	276
Plymouth	48	0	189,696	0	3952	329	0	0
Farmington	60		215,784	180,298	3596	300	3005	250
Edina	90		413,304	195,686	4592	383	2174	181
New Brighton	172		809,352	0	4706	392	0	0
Oak Park Heights	120		556,380	0	4637	386	0	0
Coon Rapids	14		75,600	36,315	5400	450	0	0
White Bear Lake	81		366,036	0	4519	377	0	0
Shakopee	56		281,364	0	5024	419	0	0
Chaska	28		153,924	0	5497	458	0	0
TOTALS	4095/3065		$17,270,820	$6,501,301				

* The estimated contract amount is always higher than the actual amount spent. See cover sheet.

TASK FORCE MEMBERSHIP AND ACTIVITY

The following persons participated actively in the deliberations of this task force:

Donald Van Hulzen, Chairman	**Norma Lorshbough**
Judy Alnes	**Barbara Lukermann**
Rochelle Barnhart	**Sister Joan Mitchell**
Betty Carr	**Luverne Molberg**
Alfred Dees	**Jack Parsons**
William Engebretson	**Steve Peterson**
Max Goldberg	**Michael Rivard**
Mary Healy	**Steven M. Rothschild**
Edward Hennen	**Michael Stutzer**
Ronald Kaatz	**James L. Weaver**
Jay Kiedrowski	**David Winter**

The following persons attended some meetings but did not participate in the discussion of conclusions and recommendations:

Tania Amochaev	**John M. Maas**
Dale Beihoffer	**William A. Madden**
Bright Dornblaser	**Charles Malkerson**
Ross J. Farmer	**Emil Shipka**
Charles M. Gray	**Fletcher Waller**
Larry Harris	**Deanne Westerlund**
Weiming Lu	**Vernon Wetternach**

Notices and minutes of meetings were shared with persons in the community who were known to be interested in rent control. Some of those persons attended some of our meetings. Three persons, in fact, attended virtually every meeting of the task force: **Carol Kelleher**, Coalition for Affordable Housing, **Mary Miranowski**, Minnesota Multi-Housing Association, and **Kenneth White**, office of the Mayor, Minneapolis.

Staff assistance was provided by **Vera Sparkes, Paula Ballanger, Robert de la Vega,** and **Paul Gilje** of the Citizens League staff.

The task force held a total of 14 meetings between October 2, 1980, and February 5, 1981. Meeting locations were alternated, as is customary in the Citizens League, between Saint Paul and Minneapolis.

During the first several weeks the task force received background information from resource persons. They were:

James Solem, executive director, Minnesota Housing Finance Agency

Nancy Reeves, director, housing program, Metropolitan Council

Charles Ballentine, member, housing staff, Metropolitan Council

Kathy Wallace, relocation counselor, Minneapolis Housing and Redevelopment Authority

Susan Carroll, Legal Aid Society, attorney, Coalition for Affordable Housing

Jack Cann, Coalition for Affordable Housing

Ray Harris, home builder, chairman, 1976 Minneapolis Rental Housing Task Force

Stuart W. Nolan, apartment builder and owner, the Stuart Corporation

Thomas W. LaSalle, apartment builder and owner, Realty Management Services

John G. Horner, general counsel, Minnesota Multi-Housing Association

Ann Kerr, vice president and general manager, the Guide Corporation

Fred Anderson, executive director, Community Emergency Service

Dee Otterstetter, Northside Coalition for Affordable Housing

Terri Thomas, Northside Coalition for Affordable Housing