

CITY OF MINNEAPOLIS

Renter Opportunity to Purchase (OTP) Draft Ordinance

Katie Topinka, Policy, Research
and Outreach Manager (CPED)

Michelle Basham (Consultant)

Alignment with City plans & policies

- Promotes preservation of affordable housing, reduces racial disparities and prevents renter displacement
- Advances City housing policy goals to support renters and increase BIPOC homeownership rates, as outlined in Minneapolis 2040 and in the Unified Housing Policy
- Values renters and creates opportunities for homeownership

Benefits of OTP for renters

- Creates opportunities for renters to become homeowners and/or to form cooperatives
- Creates a clear pathway for renters to purchase properties from property owners, or to assign rights to the City, or to qualified organizations (QOs).
 - Renters can assign rights in exchange for benefits that may improve the stability of their housing situation such as: rent stabilization agreements, long-term affordability covenants, or agreements guaranteeing ongoing renter rights in building decision-making.

Other potential benefits of OTP

- Nonprofit groups, BIPOC developers, and small scale owners will have potential opportunities to become Qualified Organizations (QOs) through a City Request for Qualifications (RFQ) process.
 - OTP provides a path for QOs to pursue NOAH preservation acquisitions in collaboration with renters and renter organizations (ROs) that may assign their rights to QOs.
- Although sales of properties covered by OTP will not always exceed typical sales timelines, the draft ordinance includes the potential for sellers to receive financial incentives for participating in the process when a sale process takes longer than anticipated.
- A “City” Opportunity to Purchase will enable the City to purchase properties directly, or to assign its rights to a QO.
 - Acquisition of the “Corcoran 5” properties by the Twin Cities Land Bank is a past example of the City working with renters and an affordable housing preservation partners to purchase a property.

Rental Properties covered by OTP

There are approximately 23,000 rental properties with over 103,000 licensed rental units in the City.

All rental properties are covered under OTP unless they are subject to certain exemptions, including:

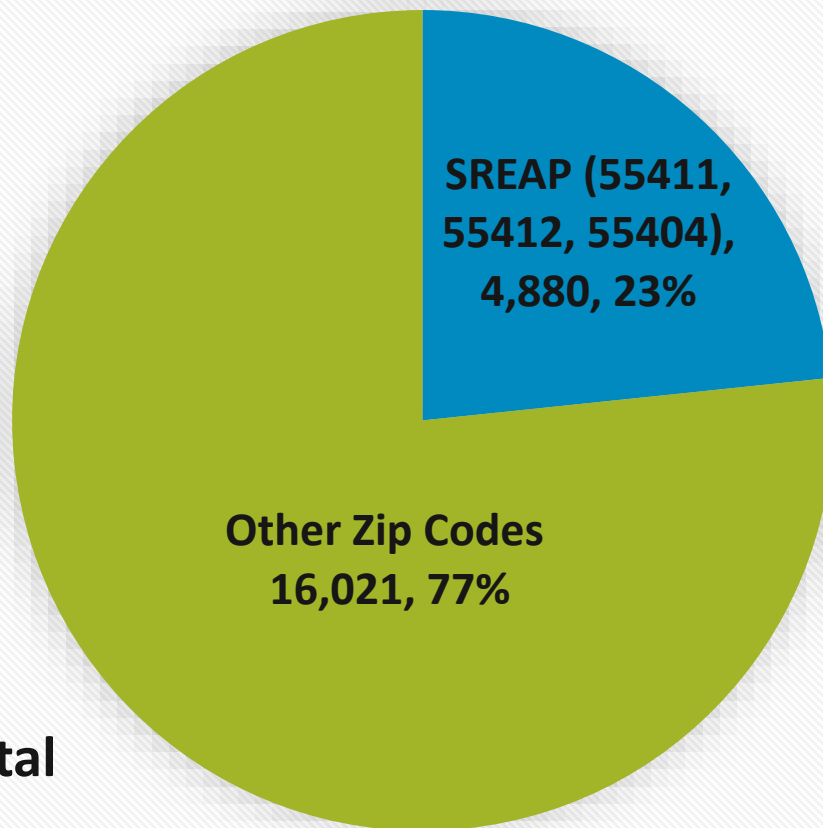
- Owner-occupied duplexes
- Accessory Dwelling Units
- New construction (less than 10 years old)
- Group housing & assisted living
- Housing cooperatives
- Certain types of existing subsidized housing may have federal, state, or local covenants that would not allow OTP
- Small property (1-4 unit) exemption: 1-4 unit rental properties owned by an individual are exempt if the individual has an interest in five (5) or fewer rental dwelling licenses in the city.

Certain specific types of property transfers are also exempted, such as:

- Some transfers within families
- Some transfers related to revocable trusts
- Some types of transfers after the death of a natural person
- Transfer of property to a public agency; or transfer based on a court order
- Limited types of corporate/organizational transfers such as: transfers of a fractional interest, transfers with a “no consideration” deed

Rental Housing and the Strategic Racial Equity Action Plan (SREAP)

Location of small (1-4 unit) rental properties in Minneapolis



20,901 small (1-4 unit) rental properties

- **SREAP seeks to promote Housing Stability for renters in 55411, 55412 and 55404**
- 23% of small (1-4 unit) rental properties are in these zip codes
- Following slides examine impacts of OTP exemptions Citywide, and in SREAP zip codes

■ SREAP (55411, 55412, 55404) ■ Other Zip Codes

Exemption impact on small properties

Citywide, Small (1-4 unit) Rental Properties

City rental licensing data is current as of 10/2021

Ownership Type	Individuals		Investor-Owned**	All Owners
Subject to OTP	2,671 (13%)	+	1,033 (100%)	3,704 (18%)
Exempt	17,197 (87%)	+	0	17,197 (82%)
Total	19,868		1,033	20,901

SREAP Zip Codes*, Small (1-4 unit) Rental Properties

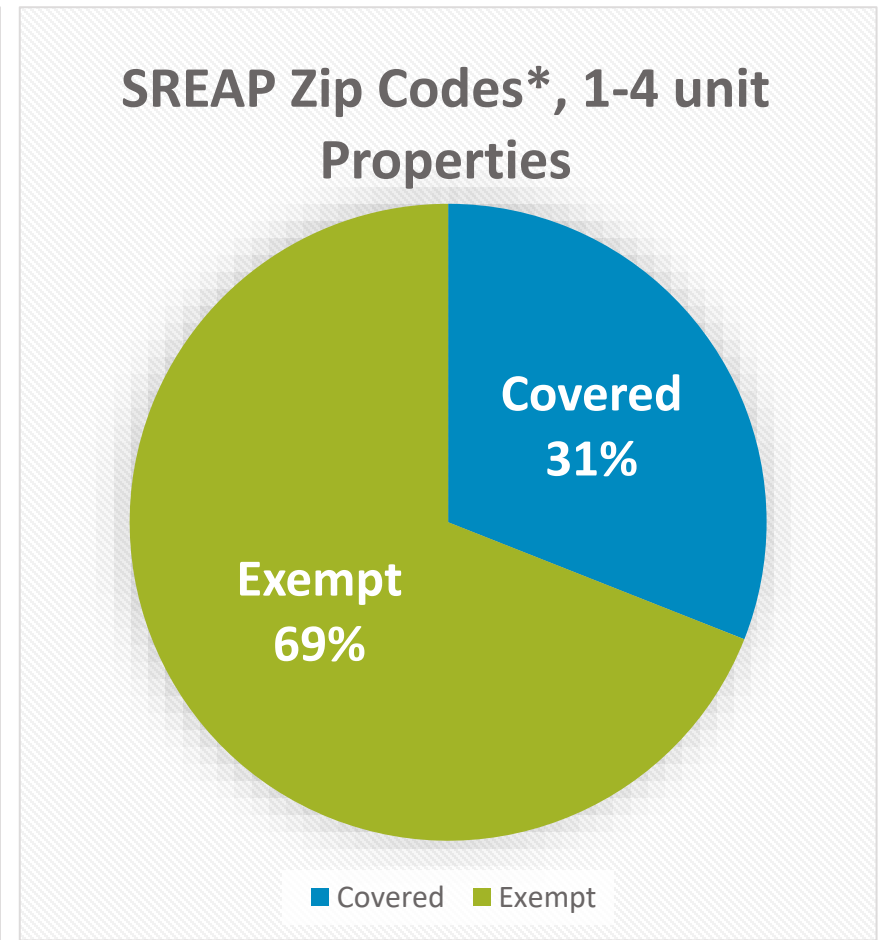
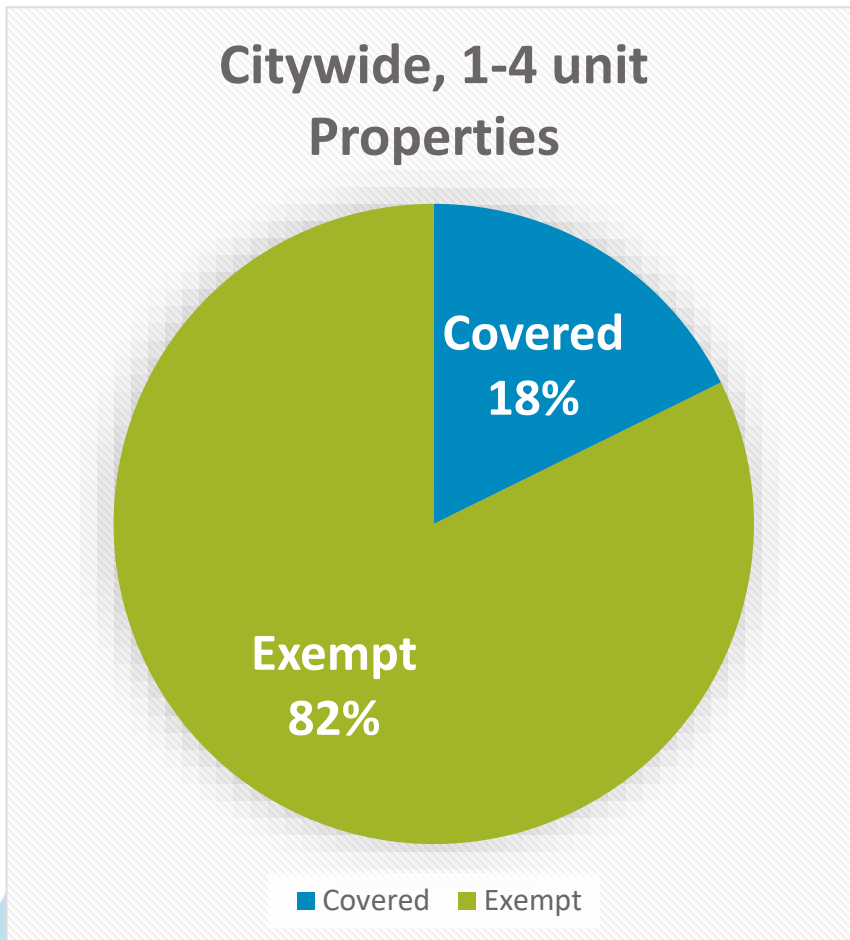
Ownership Type	Individuals		Investor Owned**	All Owners
Subject to OTP	1,091 (24%)	+	421 (100%)	1,512 (31%)
Exempt	3,367 (76%)	+	0	3,367 (69%)
Total	4,458		421	4,879

*55404, 55411, 55412

**Investor-Owned means properties owned by an investment trust, as defined in Section 856 of the Internal Revenue Code, a corporation, or a limited liability company (LLC) where at least one member is a corporation

Exemption impact on small properties, continued

City rental licensing data is current as of 10/2021



*55404, 55411, 55412

Ordinance Process

1. When the owner of a rental building decides to sell, they must notify renters of their right to submit a **Statement of Interest** to purchase the building.
2. Renters have time (i.e. 30 days in 1-4 unit buildings) to submit a statement of interest to the seller or assign their rights to a **Qualified Organization (QO)**. Rights automatically go to QOs if renters do not submit a statement of interest. The City will select QOs through an RFP process.
3. Renters in larger buildings (5+ units) will need to form **Renter Organizations (ROs)** with greater than 50% renter participation and work with **Supportive Partners** (groups certified by City to provide homeownership counseling and other assistance). Rights automatically go to QOs if renters don't succeed in forming a RO or do not submit a statement of interest.

Ordinance Process, Continued

4. Renters in small buildings (2-4 units) do not need to form a RO, but the majority of households must agree to allow interested renter(s) to exercise their rights.
5. For transactions that move beyond the **Statement of Interest** Process, sellers must allot time for renters or QOs to complete the following:
 - Submit an offer and provide an earnest money deposit
 - If the first offer is rejected, additional time to match 3rd party offers (aka a renters' Right of First Refusal)
 - Once an offer is accepted, time to secure financing and close the transaction

Renter OTP Process Outline

Step 1: Owner notifies renters that they plan to sell



Renter OTP ends if no Statement of Interest is submitted

Step 2: Renters, Renter Organization (RO), City, or Qualified Organization (QO) *have rights* to submit a **Statement of Interest** to purchase



Step 3A: Renter, RO, City, or QO are allotted time to **Submit an Offer** *only if* they submit a Statement of Interest



Owner Accepts Offer



Step 4: Renter (RO), City, or QO are allotted time to **Secure Financing and Close the Sale**



Owner Rejects Offer
Owner accepts 3rd party offer



Step 3B: Right of First Refusal, Renter, ROs, City, or QOs have chance to match 3rd party offer



Renter OTP ends if Renter, RO, City or QO fails to match 3rd party offer



Renter OTP Process – Timelines

Step 1: Owner notifies renters that they plan to sell



Renter OTP ends if no Statement of Interest is submitted

Step 2: Renters, Renter Organization (RO), City, or Qualified Organization (QO) have rights to submit a Statement of Interest to purchase

51+ units: 105 Renter Organization (RO) required
5-50 units: 90 days (RO required)
1-4 units: 45 days (no RO required)

Step 3A: Renter, RO, City, or QO allotted time to Submit an Offer if they submit Statement of Interest

51+ units: 105 days
5-50 units: 90 days
1-4 units: 45 days

Owner Accepts Offer

Step 4: Renter (RO), City or QO allotted time to Secure Financing and Close the Sale

51+ Units: 150 days
5-50 Units: 120 days
1-4 Units: 60 days

Buyers and sellers can mutually agree to extensions for closing

Owner Rejects Offer

Owner accepts 3rd party offer

Step 3B: Right of First Refusal, Renter, ROs, City or QOs have chance to match 3rd party offer

51+ Units: 45 days
5-50 Units: 30 days
1-4: Units 30 days

Renter OTP ends if Renter, RO, City or QO fails to match 3rd party offer

OTP Phased-in approach

Phase	Entities with OTP	Building age	Property size	Estimated* annual volume of transactions covered by OTP	Projected timeline
1	<ul style="list-style-type: none"> · Renters · Renter organizations (ROs) · City of Minneapolis 	10+ years old	Single family, duplex, triplex, fourplex	137 buildings totaling 248 housing units	6 months after securing staffing & funding
2	Entities listed above plus qualified organizations (QOs)	10+ years old	Buildings up to nine units	149 buildings totaling 332 housing units	Effective 12 months after Phase 1
3	All entities listed above	10+ years old	All building sizes up to nineteen units	174 buildings totaling 652 housing units	6 months after securing staffing & funding
4	All entities listed above	10+ years old	All building sizes	191 buildings totaling 1,212 housing units	6 months after securing staffing & funding
5	All entities listed above	<ul style="list-style-type: none"> - All 1-4 unit properties including those less than 10 years old. - 10+ years old for 5+ unit properties. - Enhanced City support & service levels for all buildings. 	All building sizes	208 buildings totaling 1,772 housing units	Effective 12 months after Phase 4

***Annualized sales data for buildings and housing units covered by OTP is estimated based on recent historical data between 2017 and 2021. Data current as of June 2021.**