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To: Minnesota House Housing Finance and Policy Committee

Date: Tuesday, March 7, 2023

Subject: Written Testimony on HF 2235 - Legalizing Affordable Housing Act

Chair Howard, Vice Chair Agbaje, and members of the Housing Finance and Policy Committee, thank you for the opportunity to provide written comments on HF 2235. HF 2235 is a significant first step toward addressing Minnesota's housing challenge through modernizing the state's housing policies by strengthening the housing market, lifting unnecessary roadblocks, increasing housing affordability, and addressing racial inequities in housing.

On behalf of Zillow, we would like to express our appreciation to Representative Elkins for considering the critical issues of housing affordability and racial equity by bringing this legislation forward. Zillow is committed to reducing barriers to housing by expanding access and addressing the critical inventory shortage throughout Minnesota.

As part of this commitment, our team of research economists examines housing market data and economic trends, and we share this research and data to help inform policymakers as they work to address the urgent housing issues facing our communities.

According to the Zillow Home Value Index, home values in the Minneapolis-St. Paul metro area have appreciated by over 37% in the last five years.¹ This has made homeownership increasingly unattainable as potential homebuyers face a combination of price increases and a shrinking supply of homes.

This housing affordability crisis also perpetuates extreme economic and racial inequities across Minnesota. Specifically, in the Minneapolis-St. Paul region, the Black homeownership rate is currently just 26%, compared to the white homeownership rate of 76%. This is the lowest Black homeownership rate and the largest gap between Black and white homeownership rates in the entire nation out of all 59 metropolitan areas studied in Zillow's research.

Creating new, "missing middle" housing options in HF 2235 offers opportunities to ease these challenges and unlock homeownership for more Minnesota residents. According to our research, reforming residential zoning rules - even modestly - to allow for more housing construction and density would be the most effective way to increase housing supply.

Unfortunately, Minnesota has experienced a massive shortfall in housing construction over the last decade-plus since 2008. Escalating housing prices across the country (including in

¹ <https://www.zillow.com/research/data/>

Minnesota) are closely tied to an ongoing inventory shortage, which is a function of both very high demand and insufficient supply to meet that demand.

Over the last decade-plus, home builders have simply built fewer new housing units than they used to. If building permits had been issued at historical rates between 2008 and 2020, over 40,000 additional new housing units would have been constructed in the Minneapolis-St. Paul region.²

Zillow's 2021 Home Price Expectations Survey polled housing experts and found that relaxing zoning rules to allow for more-efficient new home construction would be the most effective way to increase supply in a housing market facing historic inventory constraints.³ Reforming zoning rules to allow for even a modest amount of new density in overwhelmingly single-family dominant zoned communities could lead to millions of new housing units being built nationwide.

Moreover, there is broad public support for measures to create more housing inventory. A 2022 report by our research economists found that 73% of homeowners surveyed support “modest densification” options, including allowing accessory dwelling units, duplexes, and triplexes⁴. Support was higher among renters (84%).

Single-family zoned neighborhoods account for the lion’s share of land in metropolitan America. Over the years, these neighborhoods have generally become insulated from denser development by a thickening tangle of regulations. Thankfully, modest and straightforward zoning updates can be achieved without drastically changing neighborhoods.

According to Zillow’s research, out of 17 major metropolitan areas studied, the Minneapolis-St. Paul region has the fifth-highest proportion of housing units zoned for single-family use at 74% of the total housing units. Minneapolis-St. Paul also had the lowest number of housing units located in two to 49-unit structures at only 16% of total housing units.⁵

Neighborhoods that are made up of primarily single-family detached homes are whiter and more racially segregated.⁶ In the Minneapolis-St. Paul region, while 76% of the population of the metropolitan area is white, the average neighborhood of single-family detached homes is almost 87% white.

Under the status quo, Zillow estimates that the Minneapolis-St. Paul region is expected to add a little more than 380,000 housing units over the next two decades by 2040. The Metropolitan Council projects that the region’s population will grow by roughly 563,000 between 2020 and 2040, so these housing units will not address the needs of future population growth, let alone begin to chip away at the current shortage of housing units for the region’s current population.

² <https://www.zillow.com/research/housing-permits-shortfall-2021-30373/>

³ <https://www.zillow.com/research/zhpe-zoning-housing-supply-q22021-29600/>

⁴ <https://www.zillow.com/research/modest-densification-zhar-30934/>

⁵ <https://www.zillow.com/research/modest-densification-new-homes-25881/>

⁶ <https://www.zillow.com/research/diverse-housing-racial-integration-27555/>

Even by making relatively minor changes to local zoning rules, such as allowing two housing units to be built on only one out of every ten lots zoned for single-family use, the region could add over 115,000 additional new housing units to this total - a 30% improvement over the status quo. Increasing density to allow four housing units to be constructed on the same number of single-family zoned lots could add over 345,000 additional new housing units by 2040 - a 91% improvement.

Reforming zoning laws to allow for more multi-family housing would be a significant step forward in addressing housing inequities. As a result, HF 2235 is a major first step toward addressing Minnesota's housing challenge by modernizing the state's housing policies by strengthening the housing market, lifting unnecessary roadblocks, increasing housing affordability, and addressing racial inequities in housing.

Thank you for the opportunity to provide comments on this crucial legislation, and please feel free to reach out to us with any questions.