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To: Minnesota Senate Local Government Policy Committee

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Subject: Written Testimony on SF 3259 - Legalizing Affordable Housing Act

Chair Jasinski, Vice Chair Newman, and members of the Minnesota Senate Local Government Policy Committee, thank you for the opportunity to provide written comments on SF 3259. SF 3259 is a major 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 all the cosponsors of this important legislation for considering the important issues of housing affordability and racial equity. Zillow is committed to reducing barriers to housing by expanding access and addressing the critical shortage of inventory throughout the state of Minnesota.

As part of this commitment, our team of research economists examine 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. 2021 was an unprecedented year for housing demand, coupled with a historic inventory shortage.¹

According to the Zillow Home Value Index, home values in the Minneapolis-St. Paul metro area have appreciated by 43% in the last five years, and 12% in the last year alone.² This has made homeownership increasingly unattainable as potential homebuyers face a combination of price increases and a shrinking supply of homes, and we expect home values will continue to climb in 2022, increasing by 16.4% by the end of the year when compared to 2021.³

This housing affordability crisis also perpetuates extreme economic and racial inequities in Minnesota's largest communities. 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.

¹ <https://www.zillow.com/research/december-2021-market-report-30530/>

² <https://www.zillow.com/research/january-2022-market-report-30669/>

³ <https://www.zillow.com/research/december-2021-market-report-30530/>

The creation of new, “missing middle” housing options 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 the state of Minnesota) are closely tied to an ongoing inventory shortage, which is a function of both very high demand and not enough supply to meet that demand.

Over the last decade-plus, home builders simply are not building as many new housing units as they used to. If building permits had been issued at historic rates between 2008 and 2020, there would have been over 40,000 additional new housing units constructed in the Minneapolis-St. Paul region.⁴

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.⁵ 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.

What’s more: there is broad public support for measures to create more housing inventory. A 2019 report issued by our research economists found that 57% of respondents in Minneapolis support constructing additional housing units in their communities.⁶

Single-family zoned neighborhoods account for the lion’s share of land in metropolitan America and, 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 that were zoned for single-family use at 74% of the total housing units in the region. 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.⁷

Neighborhoods that are made up of mostly single-family detached homes are whiter and more racially segregated.⁸ In Minneapolis-St. Paul, while 76% of the population of the metropolitan area is white, the average neighborhood of single-family detached homes is almost 87% white.

⁴ <https://www.zillow.com/research/housing-permits-shortfall-2021-30373/>

⁵ <https://www.zillow.com/research/zhpe-zoning-housing-supply-q22021-29600/>

⁶ <https://www.zillow.com/research/missing-middle-housing-adu-26617/>

⁷ <https://www.zillow.com/research/modest-densification-new-homes-25881/>

⁸ <https://www.zillow.com/research/diverse-housing-racial-integration-27555/>

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 won't 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.

Even by making relatively small 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.

In addition to adding more housing units, allowing for some measure of modest densification is also likely to expand the range of homes available to would-be residents. While the status quo is likely to produce mostly single-family homes and units in large apartment buildings, modest densification would enrich the mix by creating more so-called "missing middle" housing in two to four unit buildings, and therefore unlock life's next chapter to persons of color - who have for too long faced barriers to home ownership.

Homes in duplexes, triplexes and small to medium-sized multi-family buildings are often more affordable - and therefore likely more accessible - for groups that may likely be able to afford less, have less savings or do not have access to the intergenerational wealth that would allow them to more readily afford a detached single-family home.

Reforming zoning laws to allow for more multi-family housing would be a major step forward in addressing housing inequities. As a result, SF 3259 is a major 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.

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