

## COMMENTARY

# Affordable housing unchained: We don't need more subsidies in Minnesota. We need fewer rules and fees.

The state stands out with substantially higher state and local government regulatory costs.

By Peter Coyle | APRIL 6, 2018 — 5:46PM

Each newly elected public servant has a set of priorities. Among local government officials, the list typically includes affordable housing. While the focus is deserved, the discussion of housing affordability usually misses the mark.

Homeownership across Minnesota has declined in recent years, from nearly 75 percent to approximately 70 percent. Newly employed millennials saddled with college debt are often held back from purchasing a home.

Adding to the challenge here in Minnesota is the fact that the state stands out with substantially higher state and local government regulatory costs. According to media reports, the same home costs some \$20,000 more to construct in Minnesota than in Wisconsin, and similar comparisons play out for other neighboring states.

The National Association of Homebuilders has determined that regulatory costs comprise approximately 25 percent of the total price of a new home. These costs are not borne by the builder but instead are passed along to the home buyer. The impact is dramatic. Ten years ago, more than 70 percent of the new-housing market in the Twin Cities consisted of homes costing less than \$325,000. Today, only about a third of new homes fall below that price point.

Many people think the only way to create affordable housing is to devote large public subsidies to buy down the cost of a few projects. In fact, tens of millions of dollars are spent each year in Minnesota for this purpose; Gov. Mark Dayton proposes about \$100 million for affordable housing as part of his 2018 bonding proposal. Such contributions, while well-intended and valuable to the beneficiaries, result in too few affordable-housing units to make a real difference, often at a disproportionate cost to taxpayers.

The largest unmet need for single-family housing in Minnesota and around the country is the entry-level home for the first-time buyer. Homebuilders would flock to serve this market if the economics of building such homes were addressed.

From this vantage point, "affordability" must truly be the goal, with our focus on that large segment of the population who desire to own their own home but have incomes too high for public subsidy yet too low to purchase an entry-level home at current costs. Targeting this population will require real courage by elected officials, as it will compel them to actually take tangible steps to help contain housing costs.

In the interest of spurring earnest (and honest) discussion about how best to support the construction of more housing that is actually affordable to more Minnesotans, I offer the following outline of major obstacles based on several decades of advising private housing developers and contractors:

## Local government regulations

Cities often use their regulatory power to mandate minimum development and construction standards that inhibit the supply of housing.



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Cities in the metro area are required to approve long-range plans that demonstrate how residential densities of at least three housing units per acre can be achieved.

Homebuilders will tell you that many cities don't meet this standard and that some don't even try.

Many cities place minimum building sizes or other expensive conditions on new homes or garages, ostensibly to preserve surrounding home values and control property taxes. Too often, a city forces a housing developer to remove buildable lots from a project, which are permitted by local standards, based on opposition from nearby homeowners. By the time the developer also removes land for streets and utilities, parks and unbuildable areas (steep slopes or wetlands), as little as half the original parcel often remains to be built upon.

Homebuilders will tell you that they could build and sell smaller homes on smaller lots, at more affordable prices — if only local regulations would allow it.

The city of Minneapolis is considering whether to allow fourplex dwellings to be constructed in all residential districts of the city. Providing more options to construct more housing units would be helpful. Yet this proposal already is attracting substantial neighborhood opposition.

### **Local government fees**

Private, for-profit and nonprofit housing developers agree that local government fees imposed on new housing of all types have become punitive. Many cities see tapping developers and contractors as an easier source of funding for public infrastructure than looking to their general taxpayers. Cities that are in a growth mode generate millions of dollars using this approach.

Many of these costs are inflexible and apply regardless of the value of the housing being constructed. This includes park fees ranging from \$1,000 to \$6,000 per housing unit and transportation fees ranging from \$5,000 to \$7,000 per unit. One local builder identified 37 separate state and local fees charged on the development, construction and sale of a single housing unit.

While politically expedient, targeting new housing to raise public funds severely limits homebuilders' ability to construct entry-level housing that is affordable to a young family or worker with a modest income.

To be clear, housing contractors accept requirements that they pay for all necessary infrastructure to directly support their developments, including streets, sewer and water systems, roadways and stormwater controls. They annually expend tens of millions of dollars for this purpose in the Twin Cities alone. However, if they object to "extra" fees, they risk having their project delayed or killed. As a result, the private and nonprofit market is compelled to construct more-expensive housing to absorb these local government costs, which are simply passed along to the consumer.

Unfortunately, the consequences are dire. When costs rise by as little as \$1,000 per housing unit, as many as 4,000 Minnesotans are priced out of the market for those units.

### **State regulation**

Constructing a home in Minnesota requires approval by myriad state, local and federal agencies. There is not currently the means by which such agencies can coordinate their regulatory actions to minimize the financial impact on housing, even though in Minnesota new regulations are required to undergo "cost/benefit" review.

The most recent version of the Minnesota building code imposes thousands of dollars of added cost on a new home. Added to this burden is the independent regulatory action of state agencies, such as the Pollution Control Agency or the Department of Health, which

currently are promulgating new regulations applicable to housing. These regulations will bring added compliance costs.

While the individual components of the building code undoubtedly have merit considered by themselves, when combined they erect a strong impediment to constructing housing that is more broadly affordable.

What can local elected officials do to help repair this broken system?

1) Minnesota needs a coherent strategy to address housing affordability, regardless of whether it's constructed by for-profit or nonprofit entities. This strategy must shine a bright light on state agencies to ensure that any new regulation avoids or minimizes to the greatest extent possible the negative impact on housing affordability.

2) State law establishes the authority for cities to adopt comprehensive plans governing future growth. Once a plan is enacted (with its attendant residential density projection), officials should stick to it, unless the plan is formally amended. Land-pricing and home-pricing models rely on projected residential densities in local comprehensive plans. If such plans are not adhered to, whether due to local politics or NIMBY pushback, the cost of a project must be reallocated to the housing units finally approved, increasing the per-unit cost.

3) Local regulation of land use through zoning and subdivision ordinances imposes direct costs on housing through requirements for oversized lots, mandatory building size or other mandates. Yet Minneapolis, St. Paul and many first-ring suburbs have very desirable neighborhoods composed of smaller housing units on smaller lots. These homes have held or even increased their value over the years. We should encourage more cities across Minnesota to revisit their local regulations to address this arbitrary obstacle to housing affordability.

4) Local government fees are an unchecked burden on housing affordability that threatens the dream of homeownership for many Minnesotans. Theoretically, state law places a limit on local government fees, but it is largely ineffective. There are legitimate concerns about protecting taxpayers from the direct financial burdens of new housing development. The good news is that builders accept their responsibility to shoulder that direct cost. They should not, however, be a source of funding for public infrastructure that serves the general public and is unrelated to their housing developments. We need a clearer statewide standard to address this problem.

By themselves, these actions won't solve the housing affordability problem in Minnesota. But by taking tangible action to control costs, and not simply promoting more public subsidy, we will be able to confirm the degree to which state and local public bodies are committed to housing affordability for all Minnesotans.

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