



■ MODEST DENSIFICATION

Modest Densification & Housing Affordability

Housing Affordability Institute's Modest Densification series highlights how zoning modernization through modest densification can increase housing inventory, affordability, and access.



A TOOL FOR INCREASING HOUSING AFFORDABILITY

Housing affordability has become a growing concern in many cities and regions across the United States. As populations grow and demographics change, the demand for housing has increased at a faster pace than new housing creation, leading to rising home prices and rental costs.

Cities such as Minneapolis and Houston, suburbs including Bloomington, Minn., and Richfield, Minn., and states like Montana, California, and Massachusetts have all embraced modest densification in their strategies to address this growing issue. Where modest densification as a by-right development option has been embraced, more affordable housing options can legally be built, with many of these options being what is generally considered “missing middle housing.”

USING MODEST DENSIFICATION TO ADDRESS FISCAL ZONING

Contemporary zoning regulations often restrict the density and types of housing that can be built in specific areas. This limitation on housing supply exacerbates the affordability issue, as demand outpaces available units. Today, contemporary zoning often employs fiscal zoning, which uses local land use powers to increase housing costs to a point that a certain level of household income or wealth is required to build in a given community.

Fiscal zoning, a common form of exclusionary zoning, is often pursued with good intentions: to better manage local finances. The outcomes, however, contribute to the escalation of housing

costs. This practice involves local governments prioritizing revenue generation from certain types of development, such as large-lot, single-family housing with luxury aesthetic features, to boost tax revenues. This approach, however, limits and decreases housing affordability by favoring higher-value projects. Additionally, developers may face increased fees and requirements that accompany the pursuit of more lucrative projects, ultimately passing these expenses onto potential homebuyers or renters. The result of fiscal zoning is local policies that exacerbate housing affordability challenges, creating a barrier for individuals and families seeking reasonably priced housing.

LEGALIZING MORE HOUSING OPTIONS

Modest densification can facilitate the construction of a more diverse range of housing options by right, catering to different income levels and lifestyles. Contemporary zoning practices often favor larger, single-family homes on larger lots, which are inherently more expensive. However, not everyone prefers, needs, or can afford such housing.

Modest densification can promote the development of smaller, more affordable homes like duplexes, triplexes, and accessory dwelling units (ADUs), thus providing housing choices for individuals, young families, and seniors alike. By implementing modest densification at the local or state level, more housing options can be allowed by-right, instead of by zoning variances such as planned unit developments (PUDs). Modest densification can increase affordability over PUDs by eliminating the fiscal devices used by municipalities as a requirement for subdivision approval.





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Enabling modestly denser by-right developments, such as smaller homes on smaller lots, ADUs, townhouses, apartments, and condominiums in areas previously zoned exclusively for large-lot, single-family homes, can address housing affordability issues for new construction by reducing construction costs. Absent by-right modest densification, developers often must use PUDs to bypass standard zoning controls. In order to get a PUD approved, which is a common requirement in Minnesota, project applicants are forced into negotiations with the city in exchange for project approvals. PUDs can increase housing costs due to the “give-to-get” aspects of negotiations.

The Minneapolis suburb of Bloomington, Minn., examined the cost impacts of its 2023 modest densification proposal and found several simple zoning-related changes dramatically reduced the minimum cost of construction in the city. In addition to the cost savings of smaller lots, the city highlighted the following reductions on the minimum requirements for development.

- Reduction of front setbacks: **\$1,100**
- Reduction of parking requirements: **\$7,500**
- Removal of the minimum square footage requirement: **\$40,000** (estimating a 400 sq. foot smaller home)

There is a growing pool of research that demonstrates that development improves housing affordability for existing housing, both for-ownership and for-rent. According to Evan Mast of the W.E. Upjohn, who studied the increased mobility

in housing markets caused by the creation of new, market-rate housing:

“The short-run effect of new market-rate housing on the market for middle- and low-income housing is crucial to the current policy debate, where government intervention and market-based strategies are often pitted against each other. My results suggest that new market-rate housing construction can improve housing affordability for middle- and low-income households, even in the short run.”¹

Additional research on Finnish housing markets tells a similar story:

“In addition to the direct effect of increasing the housing stock in the neighborhood it is built in, new market-rate housing may have more far-reaching indirect effects through a moving chain process. As new residents move into the newly constructed units, they vacate their old units. These vacant units then get occupied by a new set of residents whose old units become vacant and so on. Through this process, new market-rate housing can have moderating price effects not only in its immediate neighborhood, but also in the city’s lower-income neighborhoods, by effectively loosening the housing market in these areas through vacancies.”²

By increasing the supply of housing, zoning reform that includes modest densification helps to balance demand and supply dynamics, thereby putting downward pressure on housing prices.

¹ Mast, Evan. “JUE Insights: The effect of new market-rate housing construction on the low-income housing market.” *Journal of Urban Economics*. 2023.

² Bratu, Cristina; Harjunen, Oskari; Saarimaa, Tuukka. “JUE Insight: City-wide effects of new housing supply: Evidence from moving chains.” *Journal of Urban Economics*. 2023.

Disclosure: The author of this report assisted the city of Bloomington in their cost analysis.