ANALYSIS

The Cost of Efficiency

An Analysis of Minnesota's 2038 Energy Mandate

Land use has dominated the housing conversation, but building codes are beginning to attract the attention of policymakers. In 2024, Minnesota enacted a law change requiring the state to abandon its six-year code cycle for the residential energy code, shifting to a new code every three years and moving to a 70% reduction in site energy use by 2038.

Minnesota has been the national leader in energy-efficient new construction for more than a decade, and in 2025, it was on average 53% more efficient than new homes built in 2006. Housing Affordability Institute commissioned an engineering and cost analysis to see what the impact of the 2038 energy efficiency mandate will be in terms of affordability.

In today's dollars and present technology, the 2038 energy efficiency mandate would yield a sizeable cost increase for a housing market that is already the most expensive in the region:

SLAB-ON-GRADE HOME	TWO-STORY WITH BASEMENT
+$28,423 *Climate Zone 6*	**+$44,171** *Climate Zone 6*
+$25,773 *Climate Zone 7*	**+$44,171** *Climate Zone 7*

These estimates are likely on the lower end of the scale. While these do include the loss of energy-efficiency rebates, which only pay for exceeding the building code standards, the cost of redesigning and reengineering home plans is too complex to estimate and depends on a homebuilder's scale and number of communities in which they built requiring home design changes under zoning rules.

Housing affordability is determined by home prices relative to income; utility costs in for-ownership settings are a non-factor. Neither mortgage underwriting standards nor price-to-income benchmarks include utilities in their affordability calculations.

> ***Minnesota's 2038 energy efficiency mandate will serve as a critical barrier to both affordability and supply, one that will be exacerbated by the loss of utility rebate programs.***

The level of cost increase will price out tens of thousands of would-be buyers, creating a hurdle to addressing Minnesota's housing shortage and declining homeownership rate.

BY THE NUMBERS

SLAB-ON-GRADE HOME

+7.86%
Construction Valuation Increase *Climate Zone 6*

+$28,423
Construction Cost Increase *Climate Zone 6*

+$25,773
Construction Cost Increase *Climate Zone 7*

66,310
Homebuyers Priced Out *Climate Zone 6*

TWO-STORY HOME

+12.21%
Construction Valuation Increase *Climate Zones 6 & 7*

+$44,171
Construction Cost Increase

103,050
Homebuyers Priced Out Statewide