

Legalizing More Flexibility for New Housing Can Help Revive the Starter Home in Minnesota

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Co-chairs Igo and Howard, Vice Chairs Dotseth and Kozlowski, and members of the Housing Finance and Policy Committee, thank you for allowing me to offer informational testimony relating to the Starter Homes Act, a bill that would modernize Minnesota’s antiquated zoning enabling act to restore certain basic property rights to Minnesotans, promote the revival of the starter home, and limit the regulatory barriers to more and lower-cost homes of all types, barriers that are contributing to the state’s ongoing housing shortage.

Local restrictions on individuals’ rights to build housing significantly contribute to high housing costs in Minnesota and across the United States.¹ Restoring property owners’ flexibility to build a greater variety of homes—as the City of Minneapolis has already begun to do²—is an essential step toward bringing rents and prices under control. Dozens of states have already enacted similar policies over the past few years, with 33 states enacting pro-housing reforms in 2025 alone.³ Minnesota was not one of those states.⁴

Minnesota’s local governments purportedly derive their authority to restrict property owners’ flexibility to subdivide land and to build homes from the zoning powers delegated by the state legislature.⁵ Those

¹ For examples of how common restrictions such as minimum lot size regulations drive up housing costs and how reforms to those regulations can ease price pressures, see, e.g., Salim Furth and MaryJo Webster, “Single Family Zoning and Race: Evidence from the Twin Cities” (Mercatus Center at George Mason University, October 11, 2022) and Emily Hamilton, “The Effects of Minimum-Lot-Size Reform on Houston Land Values” (Mercatus Center at George Mason University, January 9, 2024).

² Megan Thompson and Melanie Saltzman, “How Minneapolis Became the First to End Single-Family Zoning,” PBS (November 23, 2019).

³ Eli Kahn and Salim Furth, “Framing Futures: Pro-Housing Legislation Goes Vertical in 2025” (Mercatus Center at George Mason University, July 2025).

⁴ Id. Of the other 49 states, only Alaska, Wyoming, South Dakota, Wisconsin, Illinois, Missouri, Michigan, Oklahoma, New Mexico, Mississippi, Georgia, South Carolina, West Virginia, Pennsylvania, Delaware, and New York did not enact at least one pro-supply housing bill from July 2024 to June 2025.

⁵ See Minnesota Statutes § 462.357.

powers, however, did not and do not include the express power to limit the number of dwelling units per structure or the number of residential structures per lot.⁶ Nevertheless, localities have asserted these powers and used them to zone land for homes at low density even where available infrastructure could support more housing, including more single-family homes.⁷ State legislators therefore have a role in restoring balance by setting limits on local authorities' power to infringe on individual property rights, particularly when those infringements contribute to a statewide housing shortage.

Local Land Use Regulations Are Driving the Starter Home to Extinction

Land use regulations, such as those imposed by all, or virtually all, of Minnesota's jurisdictions, limit property owners' rights to build housing. The entry-level home, or starter home, has been particularly affected by these regulations.⁸ The Annual Housing Market Report recently issued by Minnesota Realtors found that, in 2025, median home prices in Minnesota rose 2.9 percent to an all-time record of \$355,000.⁹ Current listings show that of over 2,000 new-construction single-family homes listed for sale across Minnesota, only seven are priced at less than \$300,000.¹⁰ Across the nation, the proportion of first-time buyers declined to 21 percent, the lowest level in at least 45 years, with the median age of first-time buyers rising to around 40.¹¹

When increasing demand for housing meets a market where zoning rules constrain housing supply, the result is that a limited supply of homes becomes more expensive, forcing young families to postpone their aspirations of homeownership or endure financial hardship in competition for a scarce supply of rentals.

The Importance of Restoring Housing Flexibility for Choice and Affordability

The proposed bill would implement several commonsense reforms to curb abuses of local land use authority that are harming Minnesota's residents, especially residents hoping to purchase a home of their own within their budget.

First, the proposed bill would eliminate local mandates requiring house lots in undeveloped greenfield areas with adequate infrastructure to be larger than one-eighth of an acre. This reform would address one of the most pernicious contributors to the high cost of building new single-family homes.¹² It would

⁶ The specific authority granted to localities to regulate by form, rather than use, includes the power to "regulate . . . the location, height, width, bulk, type of foundation, number of stories, size of buildings and other structures, the percentage of lot which may be occupied, the size of yards and other open spaces [and] the density and distribution of population." Minnesota Statutes § 462.357. No express power to regulate lot sizes, to regulate the number of units per building, or the number of buildings per lot is included, and such a power would need to be inferred from the power to regulate density of population.

⁷ As an illustrative example, see the zoning code and zoning map of Rochester, Minnesota, which is predominantly zoned "R-1," a zone described as "intended to maintain and promote areas of low residential density." See City of Rochester Unified Development Code (UDC), updated January 5, 2026, <https://www.rochestermn.gov/departments/community-development/planning-zoning/unified-development-code-udc>.

⁸ Tadeo Ruiz Sandoval, "First-Time Buyers Often Sidelined in 2025 Minnesota Housing Market," *MPR News*, February 2, 2026.

⁹ 2025 Minnesota Annual Housing Market Report, January 28, 2026.

¹⁰ See Zillow.com, last accessed March 2, 2026.

¹¹ 2025 Minnesota Annual Housing Market Report, January 28, 2026.

¹² For example, see Charles Gardner, "How Reno's Minimum-Lot-Size Regulations Are Blocking Affordable Homeownership for Nevadans" (Mercatus Center at George Mason University, September 9, 2024). In 2025, both Texas

also end the practice of mandating homeowners associations for new residential developments, a practice that is far beyond localities' authorized zoning powers and that artificially limits housing choice for Minnesota residents. These changes, if enacted, will help promote lower-cost single-family homes that are affordable to more Minnesotans.

Second, the bill would restore the right of homeowners to build an accessory dwelling unit (ADU) on their property. To date, 18 states have enacted laws broadly legalizing ADU construction.¹³ In 2025, Minnesota's neighboring state of Iowa passed a strong ADU bill.¹⁴ The right to construct an ADU not only provides a valuable and useful right to Minnesota homeowners, but as experience from other states and cities shows, can also provide an important source of new housing supply.

Third, the bill would legalize residential uses in certain commercial districts, another commonsense reform that has been explored and adopted by several states.¹⁵ These laws can open up underutilized but centrally located land for residential development.¹⁶ Other positive ideas in the bill include administrative streamlining for multifamily permitting, the promotion of mixed housing districts, and a menu of additional pro-housing policies from which localities may choose.

The State's Role in Expanding Housing Options for Minnesotans

Zoning and other land use regulations are generally implemented at the local level, but the state, which remains the source of local zoning power, has an important role in setting limits on how much localities may stand in the way of new housing construction.

The benefits of new housing are dispersed. When new housing is built, it benefits the people who will live in it, but it also frees up less-expensive housing in other areas that residents of the new building are leaving behind. This dynamic improves housing affordability for others in the area. Despite these collective benefits, many residents resist the prospect of nearby housing construction and neighborhood change. State action can help reconcile these competing interests in a manner that respects the rights and interests of all state residents.

Reforms such as those proposed in this bill would achieve these benefits by setting reasonable limits on local use of zoning power. By transferring some control over what may be built from local governments to individual property owners, the bill would allow the housing market to better respond to rising demand, which would improve affordability without requiring government subsidies. The bill would also put Minnesota in the company of a rapidly growing list of states that have enacted legislation

and Maine enacted starter home bills that set limitations on certain localities' ability to mandate large lots. Texas SB 15 (2025) and Maine LD 1829 (2025).

¹³ See Emily Hamilton and Kol Peterson, "A Taxonomy of State Accessory Dwelling Unit Laws 2025" (Mercatus Center at George Mason University, August 2025).

¹⁴ General Assembly of the State of Iowa, Senate File 592 (2025).

¹⁵ Kahn and Furth, "Framing Futures"; Eli Kahn and Salim Furth, "Laying Foundations: Momentum Continues for Housing Supply Reforms in 2024" (Mercatus Center at George Mason University, July 22, 2024); and Eli Kahn and Salim Furth, "Breaking Ground: An Examination of Effective State Housing Reforms in 2023" (Mercatus Center at George Mason University, August 1, 2023).

¹⁶ Salim Furth and Eli Kahn, "Office Overhauls and 'God's Backyard': Reforms for Housing in Commercial Zones and Faith Land" (Mercatus Center at George Mason University, May 1, 2024).

promoting more flexibility in land use to control housing costs, increase housing options, and revive the starter home.