

## Legalizing Lot Splits Will Enable More Affordable Housing in Colorado

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Chair Exum, Vice Chair Snyder, and members of the Senate Local Government & Housing Committee, thank you for allowing me to offer testimony on the issue of legalizing lot splits. I am Emily Hamilton, a senior research fellow at the Mercatus Center at George Mason University, where I am codirector of the Urbanity Project. I study housing policy and housing affordability across the country and how reforms to housing policy like those proposed in House Bill 26-1308 have affected housing market outcomes. I am also a Colorado native and lived there until I graduated from Grand Junction High School.

Research shows that zoning rules and long, uncertain approval processes for new housing construction are the key drivers of housing scarcity and high house prices. But places that make it easy to build new housing of all types can remain affordable even as they grow quickly. Allowing lot splits is one effective way to create opportunities to build smaller houses on smaller lots, enabling the starter home construction that Colorado needs.

### Minimum Lot Size Requirements and Opportunities for Reform

Minimum lot size requirements mandate that each house sit on a yard of a certain size. These requirements take away property owners' right to build a house on a smaller piece of land than the rules require. In places where land is expensive, each house is packaged with a costly piece of land, making it unaffordable for many would-be homeowners. Further, requiring that each house have an expensive yard also leads home builders to build only large, fancy houses, because land prices alone push home prices beyond what families looking for basic starter homes can afford.

Minimum lot size requirements are one of the biggest factors in making housing expensive. By creating the opportunity to cut lot sizes in half, H.B. 26-1308 will open up opportunities for lower-cost construction.

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Allowing small-lot construction is a proven path toward abundant, relatively low-cost housing. Because small-lot construction makes lower-cost homeownership possible, buyers can take advantage of the simple financing and lower interest rates available for owner-occupied housing. And in places where this type of development is legal, homeowners have shown that it is a type of housing they want.

### **Smaller Lots Delivering More Affordable Housing in the Real World**

Much of what we know about the benefits of reducing minimum lot size requirements in the US comes from reforms implemented in Houston, TX, starting in 1998. Since then, about 80,000 small-lot houses have been built.<sup>1</sup> Compared to other large Sun Belt regions, Houston is the most affordable in terms of median house price relative to median income. Its affordability is due in no small part to its legalization of starter home construction. I have attached to this testimony a policy brief I authored on Houston's minimum lot size reforms.

Economist Mike Mei estimates that the reform has benefited the average Houston household by about \$18,000 in 2010 dollars.<sup>2</sup> The city's small-lot construction takes place in many parts of the city, both in new subdivisions at the outskirts and in infill properties close to job centers.

At the state level, Oregon is seeing results from new laws that allow urban lots to be split into two to six smaller lots, with one new unit on each lot. In Portland, the lot split law has helped facilitate 1,400 new infill units.<sup>3</sup> These smaller houses are selling for \$250,000 to \$300,000 less than new housing on typically sized lots.

### **Conclusion**

Local governments' authority to regulate housing development, including minimum lot sizes, rests on their power to pass rules that protect Colorado's health, safety, and welfare. But when local land use restrictions cause statewide affordability problems, state legislators have a responsibility to set some limits on the extent to which local governments can restrict property owners' right to build housing.

### **Attachment**

Emily Hamilton, "Learning from Houston's Townhouse Reforms" (Mercatus Policy Brief, Mercatus Center at George Mason University, April 2023).

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<sup>1</sup> Emily Hamilton, "Learning from Houston's Townhouse Reforms" (Mercatus Policy Brief, Mercatus Center at George Mason University, April 2023).

<sup>2</sup> Mike Mei, "House Size and Household Size: The Distributional Effects of the Minimum Lot Size Regulation" (Working Paper, November 16, 2022), 33.

<sup>3</sup> City of Portland Bureau of Planning and Sustainability, *Middle Housing in the Single-Dwelling Zones: Progress Report 2018-2024*, January 2025.