

AGENDA ITEM – 3F



MEMORANDUM

DATE: January 12, 2026

TO: Honorable Mayor and City Councilmembers
Jessica Jagoe, City Administrator

FROM: Jake Reilly, Community Development Director

SUBJECT: Affordable housing policy

Budgeted Amount:
N/A

Actual Amount:
N/A

Funding Source:
N/A

Council Should Consider

Council should consider and provide direction on approaches to increasing the supply of housing in Arden Hills.

Background

At the October 27, 2025, work session, the City Council received information and discussed various approaches to increasing the supply of affordable places to live in Arden Hills. Based on that conversation, staff has generated answers to questions that were raised during and after the meeting and identifies in this memorandum three approaches designed to offer market-driven solutions.

As established in earlier memos on the subject, housing is considered affordable when it costs the owner or renter not more than 30 percent of their income, including taxes, utilities, and insurance. In many cases for rental properties, that amount must also include any fees necessary to rent a unit. For example, cable or internet fees, parking fees, pet fees, etc. In today’s rental market, separating out different fees from the rent has been a mechanism for multi-family property owners to both right-size the cost of living to the tenant and recoup as much of the cost of the development and maintenance of a multi-family property and its amenities as possible, including addressing future property maintenance needs.

For example, management companies at newer apartment complexes constructed in recent years in the metropolitan area typically attempt to “unbundle” aspects of the rent in one or more of the following ways. Parking spaces are rented separate from the unit, allowing for resident preferences

to own or maintain a car to reduce costs while at the same time allowing each household to have more than one car per bedroom, if that is what the household needs. Increasingly some or all utilities such as heat, electricity, water, and garbage collection services are no longer included in the rent; some places are charging property maintenance fees, and pet-friendly apartments are both more common and come with a premium additional monthly rent.

Ultimately, the fact remains that there are some key factors in ensuring people of all kinds can live in a place, two of which are supply and perception. On the supply side, when there is a sufficient supply of homes available to either/or renters and owners of any kind, scarcity isn't driving up the cost of a place to live. When it comes to perception, both how "easy" a developer perceives a locality is to develop in and neighborhood perception all influence whether a developer of any kind will find a place desirable to build in.

Discussion

Starting with the supply side, the Metropolitan Council has identified that Arden Hills can be expected to absorb a certain number of households that need homes that are affordable to them between now and 2040. The Metropolitan Council identifies the need for Arden Hills to be able to house 373 households making at or below 80% of the Area Median Income (AMI) by 2040. Based on the city and county's adopted Comprehensive Plans, Rice Creek Commons is expected to be the location for those homes. Given more recent information, including a 2022 study associated with the County's Economic Competitiveness & Inclusion Plan¹ suggests that the Metropolitan Council's estimate is insufficient to adequately address the overall number of cost-burdened households. Ramsey County is one of the most cost-burdened counties in the state and the most cost-burdened county in the seven-county metropolitan area. Arden Hills (and Ramsey County) are not alone in the expectation set by forecasters at the Metropolitan Council. All communities within the metropolitan council area are aware of the number of affordable units expected to be accommodated within each government entity's boundary and at what affordability levels. However, it is important to remember that not only is there no legal mandate to produce a specific number of units by affordability band, nor is there a legal mechanism to enforce it. All the numbers are based on estimates that take into consideration essential population statistics such as births, deaths, and migrations (both people moving to here and to somewhere else). Some of the things models can't consider but researchers have anecdotal evidence to support include in-migration due to cultural, political, or climate factors. As a place with a lower-than-average cost of living and a higher-than-average quality of life, Minnesota has historically been an in-migration state.

Ultimately, supply of housing will come when the cost of land plus the cost of construction is of interest to a developer. Higher density buildings are profitable in the locations that support them. Lexington Avenue is a prime example of a place where higher density buildings are able to be built. Not only because the cost of land is lower but also because people can walk to and from major employers and many services and businesses. Some of this supply (relative to the cost of land) can be addressed through zoning code reforms.

Zoning code reforms

Parking: While it is clear that the approximately 1,900 new homes in Rice Creek Commons will positively affect the supply side of the housing equation, the timeline to development is not yet determined. Arden Hills continues to be a desirable place to live and the cost to live here continues

¹ [Economic Competitiveness & Inclusion Plan | Ramsey County, Minnesota](#) (Accessed 11/12/2025)

to increase. Eliminating parking minimums continues to be the best way to positively increase not only the number of homes constructed but also positively influence the outcomes of small and large businesses alike. Now considered inefficient and undesirable, including in the corporate development world, establishing “parking minimums” or government rules that mandate specific minimum amounts of parking in new or changing buildings. These minimums have produced areas where more land is often devoted to parking than to the primary purpose of the buildings on the site. Off-street parking requirements reduce density because each building has its own parking that’s typically unavailable to the general public. Further, parking minimums have broken the link between using parking and paying for parking, while the prices of goods, including housing, continue to rise. When the parking and the housing are “unbundled” the developer can use their robust knowledge of the target market to determine how to right size the parking. This is true for single-family homes, multi-family complexes, and retail and office uses. For example, a condo association could own parking spaces as common property and lease them to the residents at a price that equates supply and demand. The rent from commonly owned parking spaces could then replace all or part of the fees residents pay to maintain their association. Parking wouldn’t be free, but those who own fewer cars would pay less. After unbundling, developers would likely find they could build condominiums more cheaply. If cities didn’t require parking, the market would supply it only when profitable. There would be fewer spaces, and spots that were frequently empty would be redeveloped. This is as true in large cities with transit options as it is for smaller cities with limited transit opportunities yet strong connections for people who walk or roll to parks, schools, businesses, services, and jobs.

Density: The cost of building housing has two components: how much does the land cost and how much does it cost to build whatever is allowed by the zoning code. The two concepts taken separately look like this:

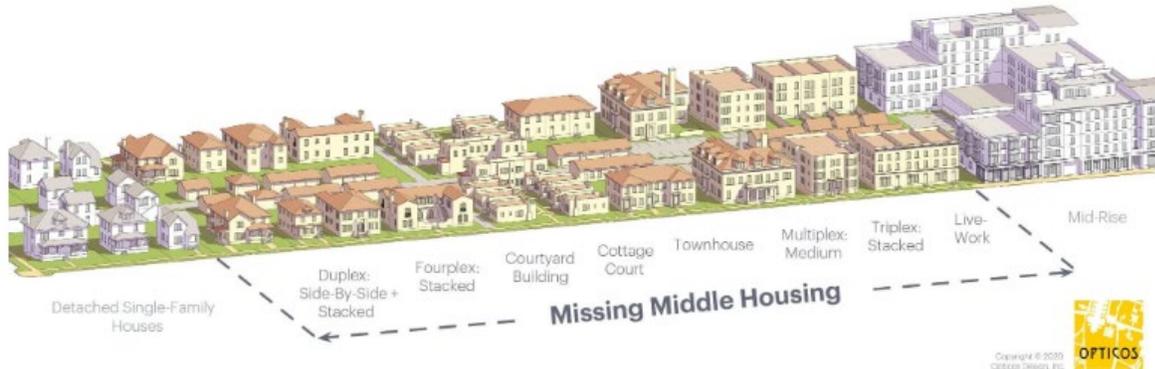
A piece of land on the market for \$ K has n units constructed on it and the cost of the land per unit is K/n . There is a point at which the cost savings start to slow down. For example, one can easily argue that building six units instead of one unit offers cost savings to the developer. However, there is also a point at which the savings start to level out. Further, in reality, land cost is partially dependent upon how much housing is allowed by the zoning code. For example, a piece of land upon which one can legally build 300 homes is going to cost a lot more than a piece of identically sized land where you can legally build six.

Construction costs for a given site also vary based on what can be built on it because the cost to build things vary greatly based on the size and complexity of the building and what is required by building codes. For example, above six stories you need steel-frame construction: that costs more than wood-frame construction. The Americans with Disabilities Act requires elevators in a building of six or more stories and, in most U.S. building codes, most apartment buildings must have two stairwells. Only one of these two expensive additions to the construction cost is truly necessary, and, in fact, most of the rest of the world does not have this prohibition on “single-stair” buildings in part because there are a lot of other negative consequences for energy efficiency and other factors.

And here is where local regulation can counter the goal of abundant and affordable housing: the mismatch between the physical requirements of construction and the regulatory requirements. This happens everywhere: three-unit buildings get stuck with the international commercial building code (IBC), which means costly features like sprinklers. Duplexes? They can use simpler residential code (IRC). The result is that three- to six-unit buildings become financially

unworkable on residential lots where they'd otherwise be the optimal way to deliver affordable housing that spreads land costs across multiple households.

However, there is a “sweet spot” that addresses the comprehensive plan goal to complement and preserve the character that is Arden Hills. In real terms, that is the maximum density of housing you could build while still using the cheapest construction techniques: the same used for a single-family house. This leads us back to the conversation about the so-called “missing middle” or the range of small-scale apartment housing ranging from duplexes all the way to small apartment buildings and including arranging buildings on lots in different ways, such as cottage courts.



Allowing for these types of developments and/or adding more options to add units to existing lots (including but not limited to subdividing large lots, allowing for three or more units by right, including so-called accessory units, and reducing minimum lot sizes) is the lowest cost option for cities to address the affordability of housing.

Looking at the adopted 2040 Comprehensive Plan, two directions with multiple solutions stand out:

- Encourage the incorporation of affordable and life-cycle housing into new development and redevelopment where feasible.
- Identify programs, policies, and strategies that encourage aging in community for senior citizens.

Density bonuses are a land-use tool that incentivizes more units per development and are useful where feasible. The concept is best used as an embedded component in the zoning code either through planned unit development regulations or development of a master plan that is adopted by the city council. Importantly, the idea of a density bonus does not have to be tied to a financial incentive. Instead, they are offered in exchange for something the city needs and/or wants. This could be affordable housing, additional park dedication or fees in lieu, and/or implementing enhanced aspects of sustainable building design.

Here are three examples of zoning code language for density bonuses:

1. City of Cottage Grove

In any PUD the maximum number of dwelling units allowed shall not exceed the base density identified in the land use districts in the comprehensive plan, except that:

- a) *Density bonuses consistent with the comprehensive plan and any adopted city policies may be granted if the proposed project meets certain objectives of the city as identified in the comprehensive plan. These objectives include but are not limited to affordable housing or other identified housing needs, sustainability, increased open space or greenway development.*
- b) *Density transfers within the PUD may be allowed provided the project area is at least 40 acres; however, this area requirement may be reduced when the project provides for the dedication of needed public infrastructure.*

2. City of Woodbury

Density bonuses consistent with the comprehensive plan may be granted by the City Council to increase the maximum permitted density for residentially guided land, if the proposed project meets certain affordable housing policies. The allowable total density increase under this provision shall not be increased more than twenty percent (20%). For determining AMI requirements, the City shall utilize Metropolitan Council data.

Area Median Income (AMI) Density Increases:	Density Bonus
<i>10 to 15% of the total units set aside for 30% AMI</i>	<i>15-20%</i>
<i>15 to 20% of the total units set aside for 31 to 50% AMI</i>	<i>10-15%</i>
<i>20 to 30% of the total units set aside for 51 to 80% AMI</i>	<i>10-15%</i>
Affordable housing site and design incentives:	
<i>Preservation of significant wooded areas and open space</i>	<i>0-5%</i>
<i>Sustainable design (i.e. LEED, Solar, etc.)</i>	<i>0-5%</i>
<i>Onsite amenities (common space, playgrounds, sport courts)</i>	<i>0-5%</i>
<i>Underground parking</i>	<i>0-5%</i>
<i>Transit Access (i.e. TOD, BRT, or park and rides)</i>	<i>0-5%</i>

3. City of Forest Lake

(1) Developers providing affordable housing units may qualify for the following incentives and zoning code modifications listed below. Approval of requested incentives and modifications shall be made by the City Council. The city, in determining the reasonableness of the incentives and modifications to be considered, shall recognize that it may be benefitted not only on the inclusion of affordable housing but overall quality of design, increase in efficiency in public facilities, location and amount of proposed common space and location, design and type of dwelling units.

(a) Density bonus. A developer may qualify for up to 15% increase in the otherwise allowable density for a property as determined by the Comprehensive Plan designation of the property may be allowed. The density bonus must be calculated by determining the largest number of units that may be built on the property, then multiplying the result by 1.15 and rounding up any fractions.

4. City of Golden Valley

Multifamily buildings shall be eligible for a density bonus of up to an additional three units per acre and senior and physical disability housing shall be eligible for a density bonus of up to an additional five units per acre, pursuant to the City's Residential Density Bonus Policy.

Other possible incentives within the zoning code include:

- Reducing or reimbursing fees associated with planning and zoning fees, building permit fees, sewer and water availability charges, parkland dedication fees in exchange for additional density, affordable units, additional greenspace, or sustainable building “enhancements.”
- Addressing potential site constraints such as reducing required setbacks and/or minimum lot sizes, reducing parking requirements, and/or reducing right-of-way widths.

As the city works with a consultant to address updates and improvements to the zoning code is a potentially opportune moment to implement these low/no-cost approaches to increasing the ability for more families to live in Arden Hills.

Creating a regulatory situation that is clearly amenable to developers’ needs and understands the complicated tension of developing more housing anywhere, addresses then issues associated with perception. Perception issues may include the “ease” of which a person can build additional places to live, whether as an individual homeowner expanding options for their own property or as a developer looking for a place to build at a greater scale. Scale and perception of impact on existing neighborhoods can also be addressed by these changes, allowing for more units that continue to be sensitive and complementary to the existing character of development, while adding net tax capacity to the city.

Budget Impact

N/A

Attachments

Attachment A: Presentation