

# POLICY FOCUS

**JUNE 2024**

## **Promote Housing Affordability by Expanding ADUs**

By Patrice Onwuka, Director, Center for Economic Opportunity

### **HIGHLIGHT**

Accessory dwelling units, or ADUs, are a little-known solution to the housing affordability crisis. By converting unused spaces or building residential units on their property, property owners can expand the supply of residential units, thereby reducing housing costs, especially for renters. Simultaneously, property owners enjoy new revenue streams and increased home values, which can be the key to financial security, particularly for many older women.

### **INTRODUCTION**

America is in the midst of a housing crisis. With a deficit of millions of housing units needing to be built compared to our growing population, housing prices have soared. As a result, a record **22.4 million** renters—half of all renter households—pay more than a third of their income on rent. For younger generations starting families, homeownership is increasingly an unattainable dream.

The U.S. must expand the supply of housing to measurably reduce housing costs. This can be done by ramping up new construction

or expanding residential units in existing structures. New construction is on the upswing, but it should be complemented by reforms to encourage the development of smaller living units on single-family plots of land.

Accessory dwelling units (ADUs) such as English basements, in-law suites, or converted garages can make excellent dwelling spaces for individual renters or family members. ADUs can generate needed primary or supplemental income for property owners while increasing their home values. Renters gain access to affordable units that are often less expensive than traditional one-bedroom apartments. ADUs allow older women to age in their homes, build financial security in their later years, or be cared for by loved ones.

State and local regulations prohibit or limit many enterprising people from building ADUs on their property. Policymakers should work with stakeholders on bipartisan regulatory reforms to unlock the potential of ADUs.

- **Reform restrictive zoning laws and permitting processes.**
- **Incentivize individuals** to build through grants, loans, and tax benefits.
- **Streamline opaque or biased approval procedures** that lead to delays and sink projects.

## THE HOUSING SHORTAGE

The United States has suffered from an acute housing shortage decades in the making due to the underbuilding of new homes and a growth in the population seeking housing—the classic problem of supply and demand. Industry experts estimate that the country is short between **1.5 million** and **5.5 million** houses (for sale and rent). This explains why

the Federal Reserve's aggressive interest rate hikes have not brought down housing prices.

Housing costs are a primary driver of our nation's consistently elevated inflation rate. The average price of a home in January 2021 was **\$236,450**, **rising 12 percent** from January 2020 to January 2021. In January of 2021, the median cost to rent an apartment was **\$1,639**. The average price of a home in January of 2024 was **\$310,521** and the median cost to rent was **\$1,964**. For renters in America, the severe housing shortage worsens unaffordability. A record **22.4 million** renter households (or half of U.S. renters) paid more than 30 percent of their income for rent and utilities. Among these households, nearly half (12.1 million) of them paid more than 50 percent of their income on rent. Increasing the housing supply could allow many renters access to their dream of homeownership while also bringing down rental prices for everyone else.

Going back to 1970, construction of single-family homes hovered between **1 and 1.5 million** units each year, accelerating after 2000 to a high of 2 million homes. Single-family home construction plummeted during the Great Recession to a low of barely over 500,000 units and has been steadily recovering—though not back to pre-recession levels. Importantly, the recovery in home building lags behind the demand for homes generated by Millennials—one of the largest generations. The construction of multifamily units has not helped alleviate the housing shortage either. Multifamily unit construction fell from its high of over 700,000 units per year in the 1970s to hover above 400,000 units since the mid-1990s.

Residential construction and new home sales spiked during the pandemic as Americans took advantage of low interest rates and

remote work to purchase homes. In the first quarter of 2024, a [near-record high percentage](#) of single-family homes for sale in the U.S. were new builds. While the reignition of home construction will expand supply, the additional homes will be insufficient to address the housing shortage. Especially in densely populated areas, we must look at other ways to expand the housing supply.

Land-use regulations and zoning restrictions make it difficult for builders to pursue new construction opportunities and push prices for homes higher in affected areas. Cities, suburbs, and other local jurisdictions also restrict the housing supply by limiting or prohibiting secondary living spaces on single-family residential lots also known as accessory dwelling units (ADUs).

**ADUs can be a solution to the housing shortage without changing the character of neighborhoods while accruing great benefits to homeowners, especially women and older Americans.**

Communities do not always welcome new construction of additional residential units, multifamily units, or low-income housing options in their neighborhoods, a sentiment known as not in my backyard (NIMBY). However, ADUs can be a solution to the housing shortage without changing the character of neighborhoods while accruing great benefits to homeowners, especially women and older Americans.

## **ADUs TO THE RESCUE**

Accessory dwelling units are not a novel concept but have long been fixtures in residential areas across the U.S. ADUs come in many sizes and forms. They may be attached, detached, or internal to the

primary home. However, they share a few common features: They are significantly smaller than the primary housing unit; they possess a separate kitchen, bathroom, and sleeping space; and they have an egress. A bonus room, sunroom, or family room would not qualify as an ADU.

Examples of ADUs include:

- Backyard cottages
- Guest houses
- Converted garages
- Above garage or workshop units
- Converted attics
- Additions or bump-outs that are added to the primary house
- Converted basements or English basements
- Granny flats or mother-in-law units

ADUs are commonly used to house family members, such as an aging parent or young adult seeking more independence from his or her parents. ADUs can also provide a private living space for a caregiver, such as an au pair, nanny, or [senior care provider](#). For middle-aged and older Americans, ADUs allow them to age in place by providing a living unit for someone who can no longer navigate the primary home.

These residences also can be rented out, providing homeowners with added income. Simultaneously, ADUs can boost a home's value by [35 percent](#). According to the National Realtors Association, in Houston, TX, homes with ADUs are valued 157 percent higher than an average home, though not all cities enjoy the same spiked value.

Finally, in areas with high rental prices, ADUs offer affordable housing options for renters. Because ADUs are located on land with a single-family house, they have no land costs. Homeowners can charge less than traditional rental apartments of similar size. English basement apartments—a popular form of ADUs in Washington, D.C.—can be rented out for **hundreds of dollars** below standard one-bedroom apartment listings. ADUs in Los Angeles County typically rent for \$400 less per month than the county’s median rent.

**In the following decades, many communities adopted zoning regulations prohibiting multiple residences on single lots. This effectively outlawed ADUs until the 1980s, when interest in them reemerged to address unaffordable housing costs, particularly in urban areas.**

There are potentially **millions** of ADUs already operating in the U.S., both known and unknown to local officials. These residences are concentrated on the west coast and in southern college towns. **Over half** of all ADUs in the United States today are in just four states: California (30 percent) Florida (12 percent), Texas (10 percent), and Georgia (5 percent), according to government data.

ADUs are common in older communities, but not those built since the end of World War II. In the following decades, many communities adopted zoning regulations prohibiting multiple residences on single lots. This effectively outlawed ADUs until the 1980s, when interest in them reemerged to address unaffordable housing costs, particularly in urban areas.

ADUs enjoy support as Americans learn about them and the financial benefits they provide to both property owners and renters. The ubiquity of the sharing economy—from

Uber to Airbnb—has increased Americans’ comfort with renting out privately owned spaces to strangers. According to a 2021 HarrisX consumer poll commissioned by Realtor.com, nearly **half** (49 percent) of American homeowners indicated they would be interested in renting out extra space in their homes for income.

Overwhelmingly, Millennials (67 percent), recent buyers (69 percent), and recent sellers (72 percent) are willing to monetize

their spaces. Additionally, half of Gen X (51 percent) and a third (34 percent) of Baby Boomers are interested in the idea.

## **FORGOTTEN WOMEN**

Women are **living longer** and **working later** into their older years. Yet, they are increasingly **concerned** about their financial futures, as they are **more likely** than men to have nothing saved or not enough saved for retirement. The term “Forgotten Women” is used for this group of age 50+ women, concerned about their financial futures, but who are often overlooked in political and policy discussions.

Homeownership provides long-term wealth-building capability for many women. For older single or widowed women, ADUs can be an exponential financial boost that firms up their retirement nest eggs or supplements retirement income. Renting out ADUs offers these women access to a host of benefits—



including guaranteed monthly passive income, increased net worth, tax benefits, credit building, and savings for retirement.

Forgotten women can age in their homes or with loved ones. ADUs facilitate intergenerational living for women who want to live around their families and serve as caregivers to grandchildren, or be cared for by their adult children.

## OBSTACLES TO ADUs

Housing and zoning policies are largely set by states and localities. ADUs face challenges from laws and regulations, costs, policymakers, and, in some cases, residents of communities. Increased education about the benefits of ADUs and the debunking of myths can help overcome these challenges.

In some communities, [zoning regulations and land-use restrictions](#)—as well as outright prohibitions—impede the expansion of ADUs. Even statewide zoning reforms to permit ADUs face opt-outs by local jurisdictions seeking to circumvent them.

Here are some common restrictions that make ADUs infeasible:

- **Mandatory lot sizes** that require an acre of land or more can eliminate many potential accessory dwelling units. This was the case in Connecticut before [zoning reform](#) was enacted in 2023.
- **Off-street parking requirements** can be difficult for homeowners to meet and eliminate healthy green spaces from their properties.
- **Size limits** on ADUs meant to prevent large structures from being built can impede homeowners from creating

structures big enough to meet their goals.

Some restrictions pertain to who can live in the ADU or how it can be used.

- **Owner-occupancy requirements**, such as in [Maryland](#), may require owners to live on the property or preclude anyone other than family members from living in the ADUs. This restriction eliminates the ability to generate income and makes securing bank financing more difficult.
- **Prohibitions on using ADUs as short-term rentals** have become increasingly popular as local restrictions on all short-term rentals (i.e., Airbnb or VRBO) spread broadly. ADUs may be well suited for short-term renting, but if the goal of ADUs is to expand the housing supply, opponents say that short-term rentals run counter to that.

The costs of building an ADU can also be prohibitive to property owners. In 2024, ADU building costs ranged from [\\$60,000 to \\$220,000](#) depending on the size and type, as well as the costs for design, materials, labor, and permitting. Not every homeowner can afford to fund a costly construction project out of pocket and some turn to financing, which can be difficult given lending rules or their financial situation.

Neighbors can also be a powerful force against ADU expansion. Motivated by understandable concerns about traffic, aesthetics, and property values, other property owners appear at town hall meetings or petition policymakers to oppose ADUs. However, even many common criticisms about the impact of added units are based on [misconceptions](#). If, for example, neighbors are worried about ugly units or shoddy work, policies can be crafted at the

local level to take into consideration the types and sizes of permitted ADUs to help preserve the character of a community.

## **SOLUTIONS TO EXPAND ADUs**

### **Zoning and Permitting Reforms**

States and localities should reform their zoning and land-use regulations and laws to permit the sensible development of ADUs. Reform onerous restrictions on lot sizes, size limits, and parking requirements. End owner-occupied requirements. States can consider preempting local zoning regulations that explicitly prohibit all ADUs while still providing local jurisdictions with discretion on permitting procedures and standards for development that protect legitimate concerns.

California provides an example of good regulatory reform. In 2016, the legislature enacted new laws easing restrictions for ADUs, such as easing or eliminating the off-street parking requirements and utility hookup fees that homeowners face when they create a second dwelling. About **80,000 ADUs** have been built since policy changes in 2016, and over a quarter (27 percent) of them have qualified as low- or moderate-income units, surpassing the 20 percent of all new permitted housing that qualified as low- or moderate-income.

### **Incentivize Individuals**

Through grants, low-interest loans, or tax relief for adding an ADU to a property, policymakers can help property owners defray building costs and the costs of securing permits for their added units. **Boston**, MA offers no-interest long-term loans to older and low-income owner-occupants to build out smaller, independent units in their homes. Other cities, such as **Charleston**, SC,

and **Orlando**, FL, offer grant or loan programs. **California** and **Maryland** have partnered with local organizations to offer grants and loans that would normally be unavailable to homeowners, as well as relaxing onerous regulations.

Federal policymakers could consider conditioning federal grants for housing programs on local permitting reforms or ADU incentive programs.

### **Streamline Procedures**

The approval process for ADU builds can be time-consuming, costly, and uncertain, delaying projects or even killing them. ADUs should be permitted “by right” to anyone who complies with a set of clear regulations rather than at the discretion of local officials, who may be biased in a process that can be protracted. Public hearing requirements for ADU projects should also be eliminated, as they may slow down or impede project construction.

The government’s regulatory agenda is often a driver of housing costs for new construction or existing homes. As national and local policymakers grapple with ways to bring down costs for Americans, they should consider eliminating needless red tape that discourages the creation of housing options such as ADUs. ADUs offer a path to financial security to many older Americans, especially women, intergenerational living for families, and affordable housing options for low-income individuals. Tested bipartisan reforms to permit ADUs demonstrate that collaboration between policymakers, builders, planners, regulators, and homeowners can strengthen communities and make a home for everyone.

## WHAT YOU CAN DO

### Get Informed

Learn more about homelessness in the U.S. Check out:

- [National Association of Realtors](#)
- [Mercatus Center](#)
- [AARP](#)

### Talk to Your Friends

Help your friends and family understand these important issues. Share this information, tell them about what's going on, and encourage them to join you in getting involved.

### Become a Leader in the Community

Start an Independent Women's Network chapter group so you can get together with friends each month to talk about a political/policy issue (it will be fun!). Write a letter to the editor. Show up at local government meetings and make your opinions known. Go to rallies. Better yet, organize rallies! A few motivated people can change the world.

### Remain Engaged Politically

Too many good citizens see election time as the only time they need to pay attention to politics. We need everyone to pay attention and hold elected officials accountable. Let your Representatives know your opinions. After all, they are supposed to work for you!

---

## Connect with IWF! Follow us on:

### WE RELY ON THE SUPPORT OF PEOPLE LIKE YOU!

Please visit us on our website [iwf.org](https://iwf.org) to get more information and consider making a donation to IWF.

### ABOUT INDEPENDENT WOMEN'S FORUM

Independent Women's Forum (IWF) is dedicated to building support for free markets, limited government, and individual responsibility. IWF, a non-partisan, 501(c)(3) research and educational institution, seeks to combat the too-common presumption that women want and benefit from big government, and build awareness of the ways that women are better served by greater economic freedom. By aggressively seeking earned media, providing easy-to-read, timely publications and commentary, and reaching out to the public, we seek to cultivate support for these important principles and encourage women to join us in working to return the country to limited, Constitutional government.