

FHFA Listening Session: *Using Accessory Dwelling Units to Increase Housing Supply*

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Disclosure: The author has a financial relationship with PlacesPlatform LLC, which is interested in meeting housing supply shortages through walkable oriented development.

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Key Points

There is no one silver bullet to address the severe land use regulations crimping our housing supply and contributing to growing unaffordability.

- The housing shortages we are experiencing took decades to develop and will take decades to resolve, and
- While ADUs can be a part of the solution, on their own they are unlikely to be an adequate solution.

Streamlined approvals and by-right zoning for duplexes, triplexes, or fourplexes can have a much larger impact on expanding supply than ADUs.

- As two case studies will show, modest changes to zoning can have a big impact on supply.
- However, this will only materially add to supply when the zoning to higher densities is by-right and localities make infill construction legal, easy, and feasible.

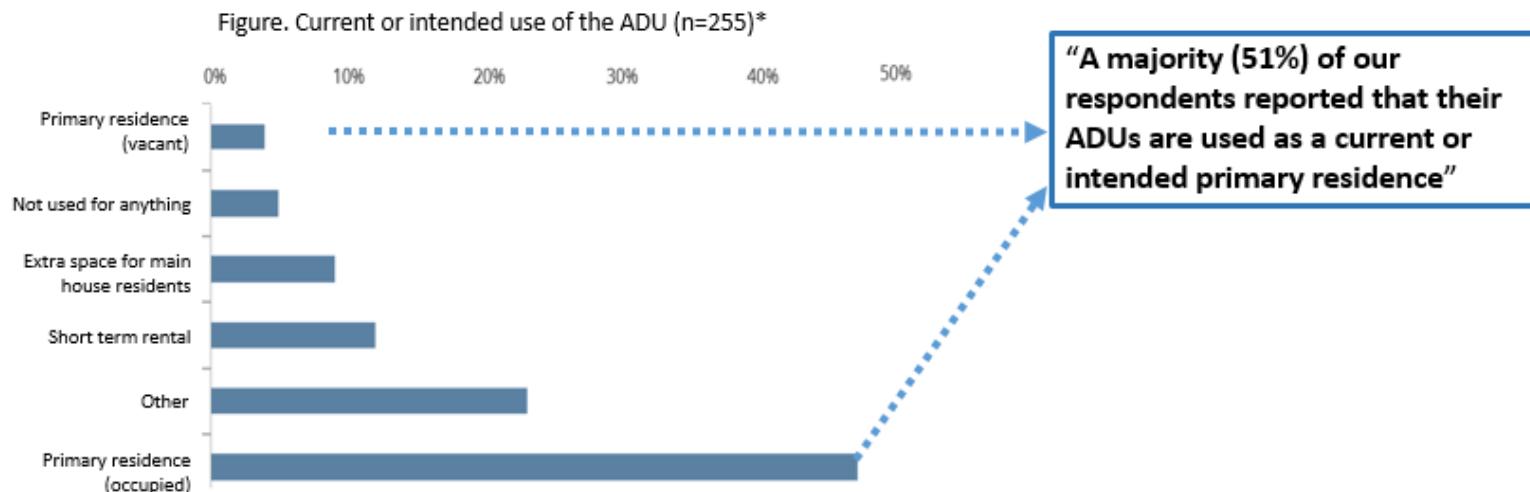
The AEI Housing Center has identified Walkable Oriented Developments (WOD) across the entire country, where modestly increasing residential density would result in a meaningful addition to the housing supply, enhance the vibrancy of the commercial area, and yield a significant boost in property tax revenue, while allowing the tax rate to fall.

In addressing the supply shortage, history has shown that heavy handed or one-size fits all federal government approaches must be avoided so as to reduce unintended consequences.

What is fundamentally a local and state issue can and should be resolved at these levels. State and local solutions are moving in this direction with increasing momentum.

ADUs Are an Important Component, but Won't Suffice

Evidence from California and the Pacific Northwest show that only around 50% of ADUs are used as current or intended primary residence.

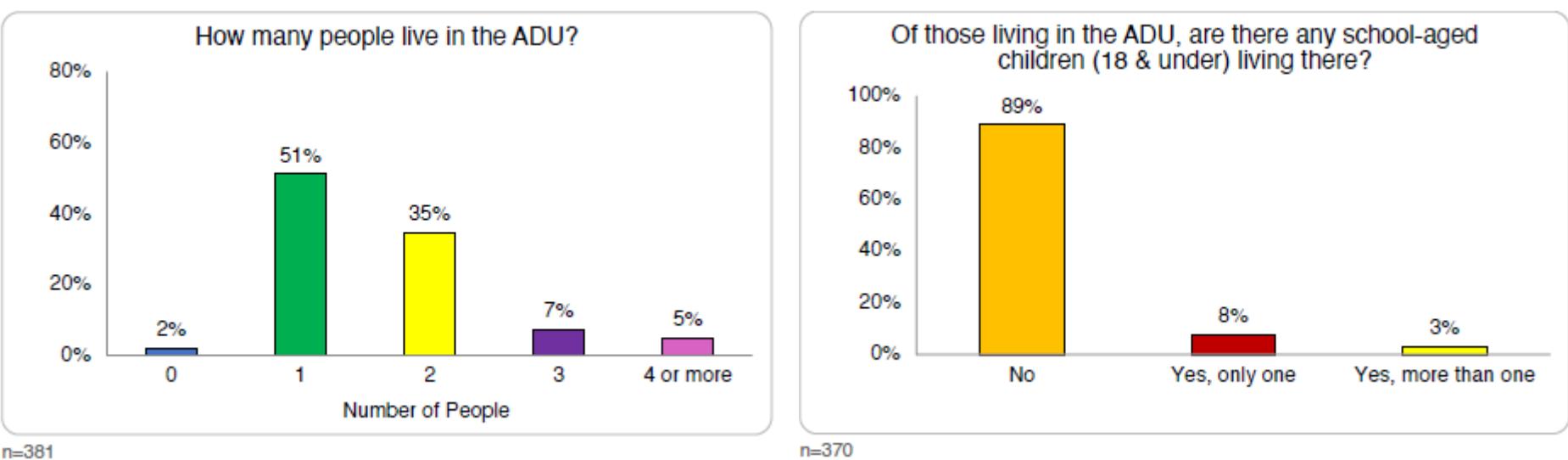


* *Jumpstarting the Market for Accessory Dwelling Units: Lessons Learned from Portland, Seattle, and Vancouver, Karen Chapple et al (pg. 17)*

Source: Chapple, Ganetsos, and Lopez, *Implementing the Backyard Revolution: Perspectives of California's ADU Owners*, UC Berkeley Center for Community Innovation, April 22, 2021, <https://www.aducalifornia.org/wp-content/uploads/2021/04/Implementing-the-Backyard-Revolution.pdf> and Chapple, Wegmann, Mashhood, and Coleman, *Jumpstarting the Market for Accessory Dwelling Units: Lessons learned from Portland, Seattle and Vancouver*, Terner Center for Housing Innovation, April 2021, <https://www.aducalifornia.org/wp-content/uploads/2021/04/Implementing-the-Backyard-Revolution.pdf>.

ADUs Are an Important Component, but Won't Suffice (cont.)

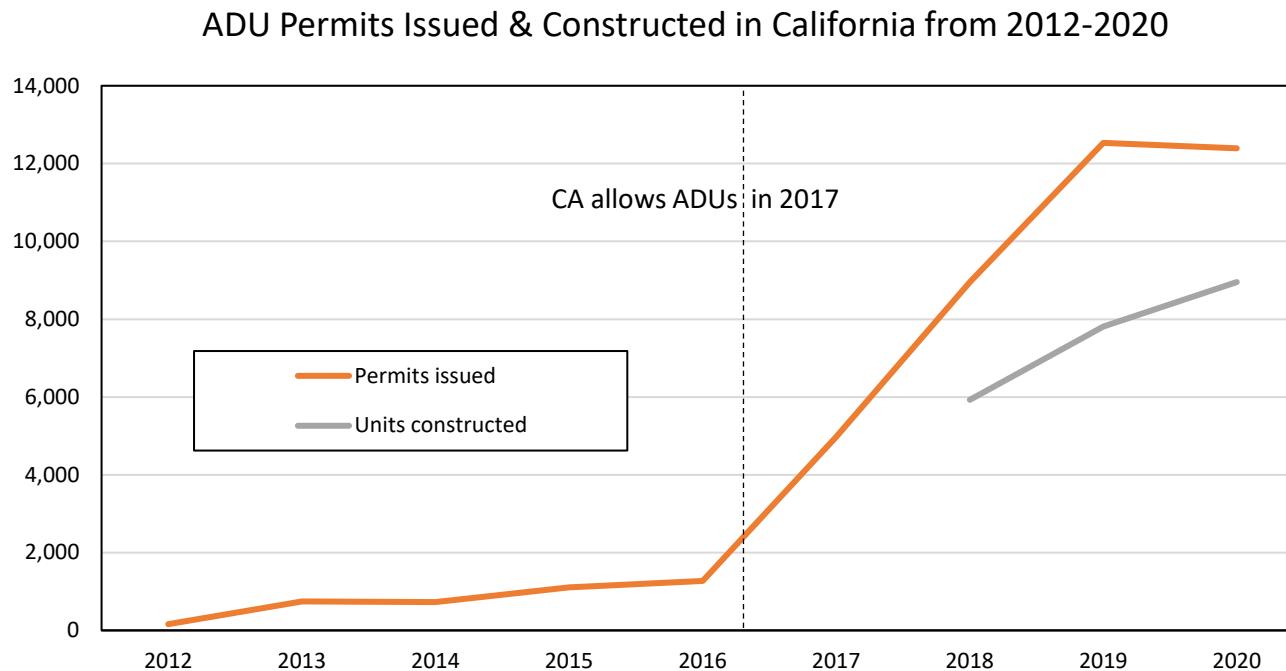
The attractiveness of ADUs is largely limited to childless singles or couples.



Source: Chapple, Ganetsos, and Lopez, *Implementing the Backyard Revolution: Perspectives of California's ADU Owners*, UC Berkeley Center for Community Innovation, April 22, 2021, <https://www.aducalifornia.org/wp-content/uploads/2021/04/Implementing-the-Backyard-Revolution.pdf>.

ADUs Are an Important Component, but Won't Suffice (cont.)

In California, ADU permitting appears to have peaked for now, indicating that ADUs might fill only a small fraction of the supply shortfall. However, ADUs do constitute some of the lowest hanging fruit in achieving land use reform.



Source: California Department of Housing & Community Development and <https://www.aducalifornia.org/>.

ADUs Are an Important Component, but Won't Suffice (cont.)

Evidence from Portland, Seattle, and Los Angeles - jurisdictions where ADU permit volume has grown tremendously in recent years - show that it will take a very long time for ADUs to meaningfully add to supply.

City	Stock of Single Family 1-unit (Attached and Detached)	Estimated Annual ADU Permit Volume	Annual ADU Additions x 50%	Number of Years for ADUs to Add 10% to Single-Family Stock
Portland, OR	160,000	625	313	51 years
Seattle, WA	160,000	400	200	80 years
Los Angeles, CA	625,000	5000	2500	25 years

Note: Authors' calculations using best available data.

How Zoning is Holding Back New Home Construction by the Private Sector

Single-family detached zoning policies espoused by the federal government starting in 1921 and widely adopted around the country have constrained the private sector's ability to build adequate housing, thus fueling housing unaffordability.

To add meaningfully to supply, heavy handed federal government approaches must be avoided. What is fundamentally a local and state issue can and should be solved at these levels.

As the two following case studies will show, modest changes to zoning can have a big impact on supply. These two jurisdictions permit what we call light-touch density (LTD), which we define as small-lot single-family houses, townhouses, duplexes, triplexes, and fourplexes. This provides the opportunity for a natural experiment.

The conversion to LTD homes becomes economical for the private sector when land prices rise, thus allowing private owners to convert to a higher and better use of the land, which means that older 1-unit homes may be torn down and replaced with duplexes, triplexes, or other higher unit count structures.

However, the conversion to higher densities can only occur under by-right zoning laws and only when localities make infill construction legal, easy, and feasible.

Two Case Studies: Background

Case Study 1:

Palisades Park, located across the George Washington Bridge from Manhattan, first adopted a zoning ordinance in 1939 when policymakers chose to implement combined one- and two-family zoning districts for nearly the entire jurisdiction with no zones that exclusively permit single-unit detached homes. Nonetheless, market forces and land prices led Palisades Park to be initially developed with single-unit detached housing. However, as home prices and land values increased, Palisades Park saw progressively more extensive two-family structures, especially duplex redevelopment. Leonia, a neighboring borough, took a different path, zoning almost all of its residential land for single-unit structures only. Its small areas zoned for multifamily development are mostly pushed to the edges of the borough.

Case Study 2:

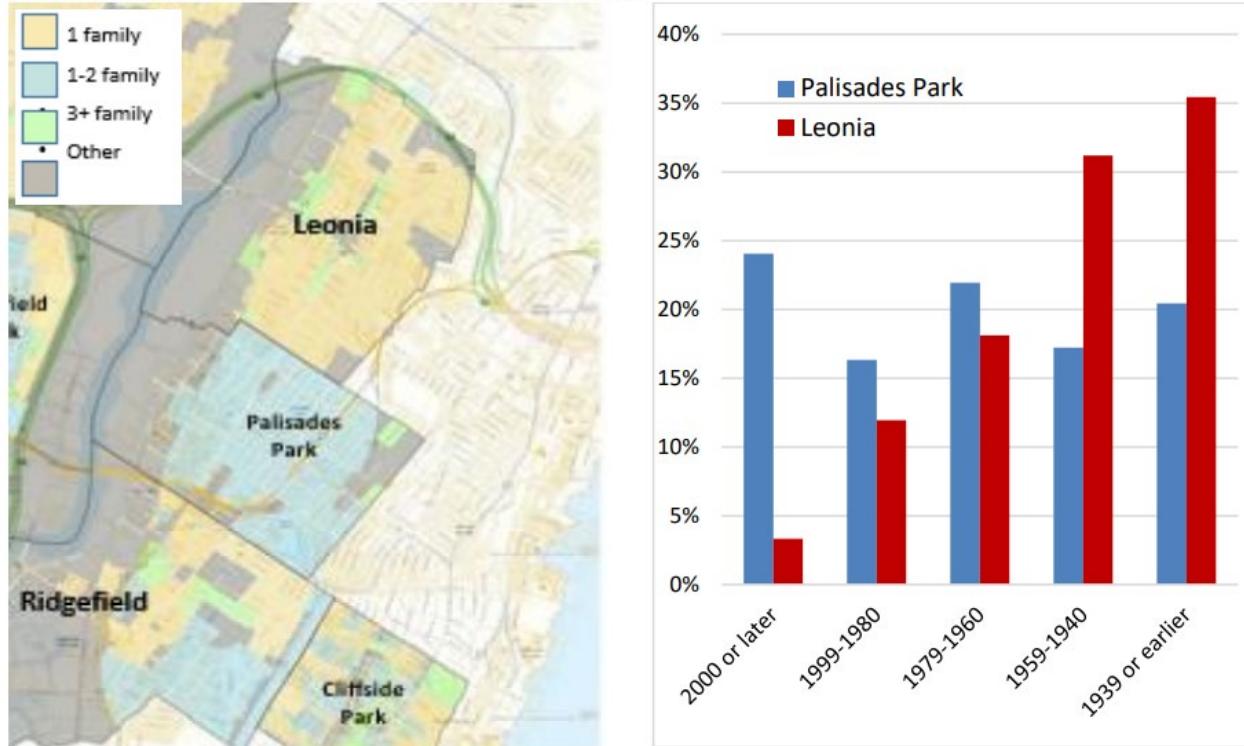
The City of Seattle, WA has many different zoning areas. The simplified zoning map on the next slide focuses on two zones in particular: Single-family (SF), which allows only 1-unit detached structures, and Low-Rise Multifamily (LRM), which allows for small multifamily structures with higher densities. Together these two zones account for 78% of all residential units in the City of Seattle, which allows for a natural experiment on the impact of zoning on new construction activity.

Case Study 1: Palisades Park and Leonia Boroughs in Bergen County, NJ

The housing outcomes of these 2 boroughs with relatively little empty land are telling:

- Since 1940, Palisades Park's population has grown 154%, Leonia's only 57%.
- This is due in part to the fact that Palisades Park has added 51% to its housing stock since 1969 while Leonia has only added 24% over the same period.
- Palisades Park experienced a 24% increase in its housing stock over the period from 2000 to 2013, while Leonia's was flat.

*Map and Chart: Residential Zones (left panel) and Share of Structures by Year Built (right panel):
Palisades Park and Leonia Boroughs in Bergen CO, NJ*



Note: "Other" is industrial or land not used for housing.

Source: 2018 5-year ACS and AEI Housing Center.

Source: Most recent borough zoning maps and AEI Housing Center.

Case Study 2: City of Seattle, WA

The SF zone contains almost 3 times as many units as the LRM zone. However in terms of new construction activity, the LRM zone has about twice as many new units built as the SF zone. The new construction share for homes built in 2000 or later added about 7% to the existing stock in the SF zone, but added a whopping 35% to existing stock in the LRM zone and 10% was added to stock just since 2015.

In the SF zone, 1-unit homes are replaced with newer, much larger 1-unit homes (2,600 sq. feet for the new ones vs 1,800 for the existing ones) and at much higher costs (\$1.25 million for the new ones vs \$875,000 for existing ones). In the LRM zone, lots that had a 1-unit structure are generally replaced with single-family attached townhomes. These townhomes are only marginally larger in sq. feet than the existing stock of detached homes and with only a modest price premium over existing homes in the same zone.

A simple back of the envelope calculation suggests that if the City of Seattle up-zoned all of its SF zone to a LRM zone, and 20% of the 1-unit structures were replaced with duplexes, private enterprise could potentially add up to 25,000 housing units or 11% to the housing stock over a decade without subsidies.

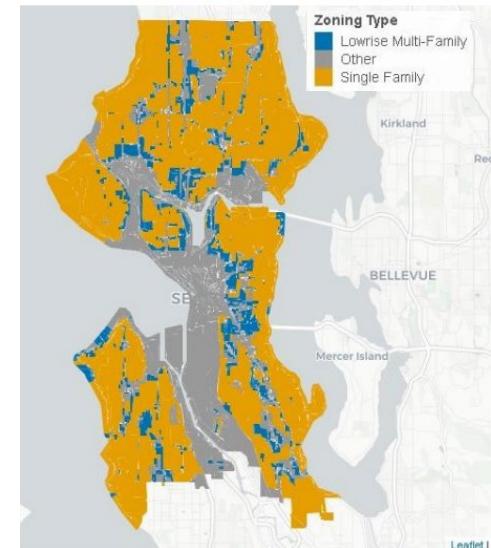
Table: City of Seattle Existing Housing Stock and New Construction Activity by Zone

	Single Family			Low-rise Multifamily		
	All Units	Built in 2000 or more recent	Built in 2015 or more recent	All Units	Built in 2000 or more recent	Built in 2015 or more recent
# of units	124,000	8,800	2,700	46,000	16,000	4,600
# of 1-units	116,000	7,700	200	9,200	1,200	300
% Additions to Housing Stock		7%	2%		35%	10%
Median Lot Size	5,700	5,100	5,000	4,500	1,400	1,300
Median Living Area	1,800	2,700	2,600	1,300	1,400	1,500
Median Price (in \$*)	875,000	1,245,000	1,300,000	715,000	765,000	845,000
Additions Price Premium over Existing		142%	149%		107%	118%

*Based on an Automated Valuation Model from Dec. 2020.

Note: Values are slightly rounded for readability.

Map: Simplified City of Seattle Zoning Map



Walkable Oriented Development (WOD)

- Since the 1950s the focus of suburban development has largely been on the separation by function: residential from commercial and office.
- This has included a strong bias towards travel by automobile with minimal or no consideration given to walkability, especially to run errands.
- These trends combined with overly restrictive zoning and land use laws have driven up the cost of land and created a severe rental and owner housing shortage.
- Research by the AEI Housing Center has shown that in the Washington, D.C. metro area, one-third of existing housing units are already located in both pre- and post-1950 Walkable Oriented Development (WOD) areas.
- A WOD is an area within a 10 minute walk of a set of existing commercial amenities. It may also include a transit station.
- Modestly increasing residential density in such areas even from a 1- to a 2-unit structure would result in a much needed and meaningful addition to our housing supply, enhance the vibrancy of commercial areas, and yield a significant boost in property tax revenue.
- WOD would bring housing closer to service jobs thereby reducing transportation and housing costs, while freeing up time for other activities such as recreation and child care.
- Nationally, the AEI Housing Center estimates that a focus on WOD has the potential to add 2 million private homes over 10 years to our housing stock while taking advantage of existing developed land and infrastructure at little taxpayer cost.
- The benefits from increased density in WOD areas provide a logical focus for FHFA in its effort to remedy zoning constraints on supply.

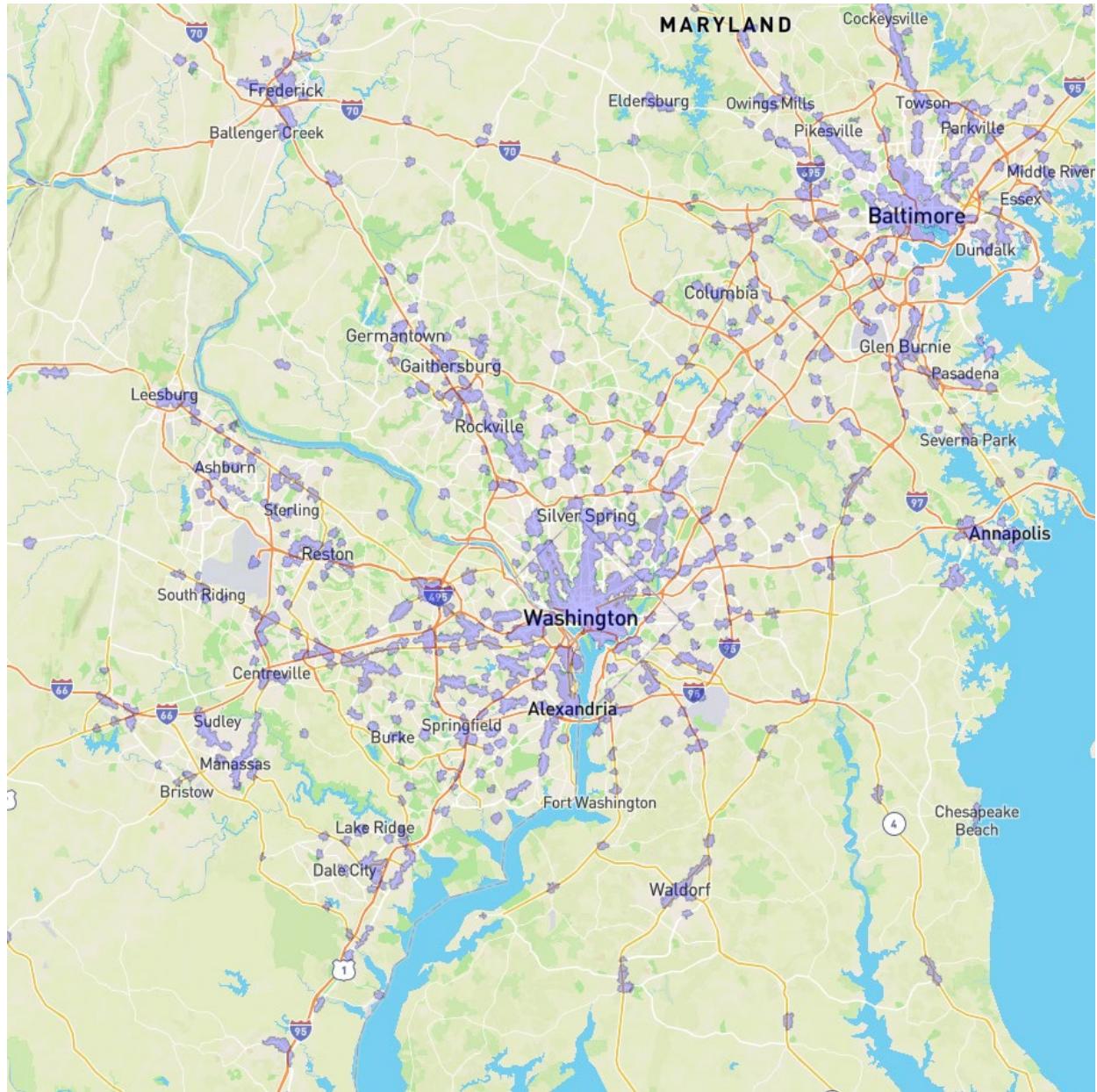
WODs in the Washington, DC metro

WODs in the DC metro contain about:

- $\frac{1}{4}$ of housing units and
- $\frac{9}{10}$ of restaurants, bars, and coffee shops

Across the country, WODs contain about:

- $\frac{1}{5}$ of housing units and
- $\frac{4}{5}$ of restaurants, bars, and coffee shops



WOD Can Assemble a Winning Coalition

Walkable Oriented Development (WOD) offers policymakers a sensible middle-of-the-road strategy to building a winning coalition to moderately increase density and to add to housing supply.

- An alternative between doing nothing and doing something that is highly disliked (ie. high-rise development or abolishing single-family zoning).
- Opportunity to create a coalition of many interest groups.

Group	How WOD appeals to them
Builders, Realtors, & Bankers	More homes to build; more homes to sell; more loans to originate.
Environmentalists	Limits urban sprawl; lower life-time emissions compared to green field new construction, reduces vehicle emissions; environmentally friendly new homes; avoids McMansions.
Market oriented, fiscal conservatives	Requires little new infrastructure spending; far cheaper than green field development; does not require transit stations; enhances property rights; mostly private sector driven.
Home owners	All else equal, property values will increase as the land has more value because it can be converted to a higher and better use, but the cost of land per newly built housing unit goes down; provides housing opportunities for one's children and grandchildren.
NIMBYs	Less opposition: limited to a predefined, relatively modest area around existing commercial development, avoids high-rise development; and offers a range of housing options for one's children and grandchildren.
Taxpayers	Prospect of lower taxes due to increased commercial activity and a broader residential tax base with minimal outlays for new infrastructure.
Local businesses	Offers a larger customer base.
Municipalities and states	Provides additional tax revenues; rehabilitates and strengthens neighborhoods; promotes economic development; limits sprawl; is an efficient use of existing infrastructure (sewers, utilities, streets, sidewalks, street lights, schools, trash collection, parks, fire and police).
Work from Home constituency	Enhances ability to Work from Home; allows more time for family and community.
Healthy lifestyle constituency	Health benefits from walking.

WOD Can Assemble a Winning Coalition (cont'd)

Additional benefits from WODs:

- WODs are present in nearly every community, including small towns.
- WOD relies on existing infrastructure and private action and investment, this requires minimal public investment and subsidies as contrasted with traditional Transit Oriented Development, which requires both.
 - This yields a tremendous reduction in political profit (rent) seeking.
- Small infrastructure improvements can yield big dividends:
 - Adding sidewalks and walking paths can enhance WODs and commercial vitality.
- Offers gradual development, thus limiting unintended consequences and allowing people time to adjust or move.
- Housing supply additions are across a broad range of price points, sizes, types, and tenure (owners and renters).
 - Every added housing unit could free up a housing unit elsewhere.
- Virtuous cycle as modest residential density boosts increase urban/suburban vitality and increase the number of Core Points of Amenity. This is good for property values and the tax base.
- Replaces functionally obsolete homes, which have low energy efficiency and deferred maintenance.
 - In many areas of the country, an aging housing stock and infrastructure such as sewers are ripe for upgrade. WODs coincide with this cycle.
- Opens up areas of with job and educational opportunities.
- While traffic may increase, the area's walkability will likely help offset the increase.