



THE UNIVERSITY OF CHICAGO

INSTITUTE OF POLITICS

Affordable Housing Policy Challenge

ADUUnlock: Accelerating ADU Access

Presented By:

Emma Janssen
2024

The College

Jane Jingyi Ma
2025

Harris School of
Public Policy

Tiffany Li
2026

The College

Beiqi Shi
2025

Harris School of
Public Policy

Overview:

Accessory Dwelling Units (ADUs) have gained popularity as a means of combating the housing crisis. ADUs, sometimes called “granny flats” due to their ability to support proximity to aging family members, are small, independent residential units located on the same lot as a stand-alone home. ADUs are often in basements, attics, or separate buildings behind the main home on the lot. Building ADUs is significantly less expensive than constructing new apartments or homes and uses pre-existing lot space, introducing gentle density on already occupied land.

The Problem:

Lack of supply: There is a national lack of affordable housing. The U.S. has an estimated shortage of 3.8 million housing units as the rate of household formation outpaces new housing construction ([Axios, 2023](#)). This shortage is worse for extremely low-income renters, who are facing a shortage of 7.3 million affordable and available rental units ([Housing Matters, 2023](#)). This lack of housing supply has contributed to homelessness, with 582,462 individuals nationwide experiencing homelessness in 2023 ([Today’s Homeowner, 2023](#)).

Cost burden: In Chicago and throughout the U.S., incomes haven’t kept up with housing cost increases. From 2016 to 2021, median rent nationwide has increased by 22% while median household income has increased by only 15% ([Governing, 2023](#)). In 2021, 51% of Chicago rental households were cost-burdened (i.e. they spent 30% more of their monthly income on housing). Among the lowest-income households, nearly 89% were cost-burdened ([IHS, 2023](#)). Nationally, 49% of all renters, representing 21.6 million households, were cost-burdened in 2021—an all-time high since 2001 ([JCHS, 2023](#)).

Racial equity: Affordable housing is particularly difficult for people of color to access. 42.7% of white renters are cost-burdened, compared to 54.7% for Black renters and 53.7% for Hispanic renters ([JCHS, 2017](#)). People of color are disproportionately affected by rising housing costs, including due to neighborhood gentrification. During the pandemic, 9.7% of Black renter households and 8.7% of Hispanic households reported likely eviction within two months. This is staggeringly higher than the numbers for white (4.4%) and Asian (3.7%) renters ([JCHS, 2021](#)).

Policy:

Summary: We recommend establishing a federal program which allows states to access grants, conditional on the removal of barriers to constructing ADUs in those states. This funding, which states have discretion to use for any initiative that will support affordable housing, will be accessible on a tiered basis, with a menu of various reform options that can qualify states for funding. For example, each action in a list of actions could be assigned a certain number of points. If a state takes enough actions to meet a given threshold of points, it could access funding of the tier corresponding to that point threshold.

Vision: By removing barriers and allowing for an expanded set of housing options, our policy increases **freedom** for homeowners and renters alike, while increasing the **affordability** of housing. The tiered funding for various reform options that we propose allows states the **flexibility** to tailor their approach to local circumstances. Our policy will also help increase social and family **connection** because ADUs help support multi-generational living and allow elderly people to age in place, surrounded by family members and their community. It also increases **sustainability** by reducing sprawl and commuting emissions, alongside the possibility of using environmentally friendly modular ADU units ([NAR, 2022](#)).

Evidence for success: In 2019, California passed sweeping reforms making it easier to build ADUs. It saw an almost 200% increase in the number of ADUs built in 2022 from 2019. In 2022 alone, 17,460 ADUs were built in California ([Cato Institute, 2023](#)). 27% of ADUs completed in California since 2018 qualify as affordable units ([Bipartisan Policy, 2023](#)). Seattle also removed barriers to building ADUs in 2019. This led to a 253% increase in permitted ADUs from 2019 to 2022. States including New Hampshire and Montana have passed recent ADU reforms with positive results ([Governing, 2023](#); [Mercatus, 2023](#)). Chicago has also run a successful ADU pilot program that city leaders are hoping to expand ([IAP, 2023](#)).

Sustainability: This policy is highly sustainable. Once ADUs are built, they become long-lasting fixtures of neighborhoods. As communities benefit from more ADUs, politicians will be reluctant to repeal state ADU policies and reverse the progress that has already been made. States that implement a quota of affordably-priced ADUs may also place time limitations on these affordable units (e.g. requiring that they remain below market value for 30 years), creating a robust long-term supply of affordable housing. Property taxes collected from newly built ADUs could provide a considerable amount of tax revenue to support the program itself.

Implementation:

The Department of Housing and Urban Development (HUD) will house the program, help states navigate the program, and administer grants to qualifying states. Examples of possible reforms that can qualify states for

grants include removing zone and lot size restrictions on building ADUs, streamlining the permitting process, requiring that a certain share of ADUs be rented at an affordable rate, or running a pilot program if ADUs have not been allowed in the state up to this point. The timeline for this policy will largely be driven by individual states and how long they take to meet the threshold of policies to qualify for grants. Some states with robust ADU legislation (such as California) may already be eligible, while others could take 2-5 years to build up their ADU policies.

Cost-effectiveness and Funding the Program:

Cost-effectiveness: existing programs suggest that funding to encourage ADUs is highly cost-effective. In California, \$100 million was used to fund the construction of an estimated 34,500 ADUs from September 2021 to March 2023 ([NCSHA, 2023](#); [Bipartisan Policy, 2023](#)). This amounts to less than \$2900 to incentivize each unit. In Chicago, \$1.1 million was used to fund the construction of 462 units, which amounts to a cost of less than \$2400 to incentivize each unit ([IAP, 2023](#)). By comparison, the HUD through its HOME program used 1.5 billion dollars in 2022 to help create over 15,000 units of housing ([HUD, 2023](#)). This amounts to \$100,000 per unit. Using the California figure of \$2900 per unit, funding to incentivize 15,000 ADU units would only cost 4.4 million dollars, or less than 0.3% of the HOME program's 2022 expenditure.

Funding: We propose that the funding for our policy fall under the HUD Office of Community Planning and Development's (CPD's) annual Formula Grant Program, which gives grants to promote decent housing especially for low and moderate income people ([HUD, 2023](#)). The Formula Grant Program allocated a total of \$6.3 billion in grants in 2022. As a subproject of the Formula Grant Program, we propose to allocate \$200 million towards our policy. It could be redirected spending or new spending. Even if it were entirely new spending, this would increase the overall annual budget by only 3.2% while helping to build approximately 70,000 ADUs annually in the US.

Stakeholders:

Homeowners who build ADUs will gain an additional source of income; space for elderly people to 'age in place,' allowing families to stay near each other; and increased property value as ADUs are estimated to increase a property's value by 20-30% ([ArchitectsLA, 2021](#)). Renters and unhoused people will have an increased supply of affordable rental housing, especially if a proportion of ADUs are required to be rented at an affordable price. ADUs can act as stepping stones to other forms of housing, allowing renters to build up wealth. Additionally, the existence of ADUs increases the supply of housing on the market, which will decrease rent prices broadly ([Roberts, HW Media, 2023](#)). Local governments could also gain property tax revenues. If 70,000 ADUs were built with an average value of \$100,000 each (considering that the median U.S. home value in 2023 is \$416,100) and we take a low estimate of a 1% property tax, governments would gain \$70 million per year worth of property tax revenue ([FRED, 2023](#)). Elected officials of both parties will approve of the economic gain that increased demand for construction materials and services from ADUs will bring, alongside the multigenerational living and community benefits offered by ADUs. Conservative politicians will support the local flexibility and control the policy offers, and that it is largely market-driven. Liberal politicians are consistent supporters of increased housing density due to its affordability and environmental benefits. Environmental groups will support the increased density of ADUs, which leads to less suburban sprawl and commute times, reducing vehicle emissions. The financial and construction industries will support the increased demand for construction and home renovation from ADUs, often financed by loans. Elderly people and their families will support aging in place (89% of elderly people), which can help avoid expensive assisted living facility costs ([Clow, HW Media, 2023](#)) and alleviate the health risks of social isolation, which elderly people living alone are at higher risk of (HHS, 2023). Black, brown, and lower-income homeowners will also benefit from the increased equity brought by removing barriers to building ADUs ([Turner Center, 2022](#)).

Potential obstacles:

The policy runs the risk of exacerbating existing housing inequities if ADUs are only constructed in wealthier neighborhoods and rented at an unaffordable price, making them inaccessible to lower-income renters. The policy will address this risk by encouraging states to earmark a percentage of ADUs that must be rented at an affordable rate. In addition, it removes costly barriers to building ADUs, making the process cheaper so homeowners of more moderate means can build ADUs and increase housing supply in less wealthy neighborhoods. We also anticipate potential pushback from community members about ADUs changing neighborhood culture and appearance. However, ADUs are almost always discretely integrated into pre-existing housing, by being built in attics, basements, or behind existing homes ([AARP, 2019](#)). Additionally, increased housing will decrease homelessness and poverty, which will promote stronger, more economically sound neighborhoods in the long run.

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What are ADUs?

Stakeholders

Homeowners



Elderly and families

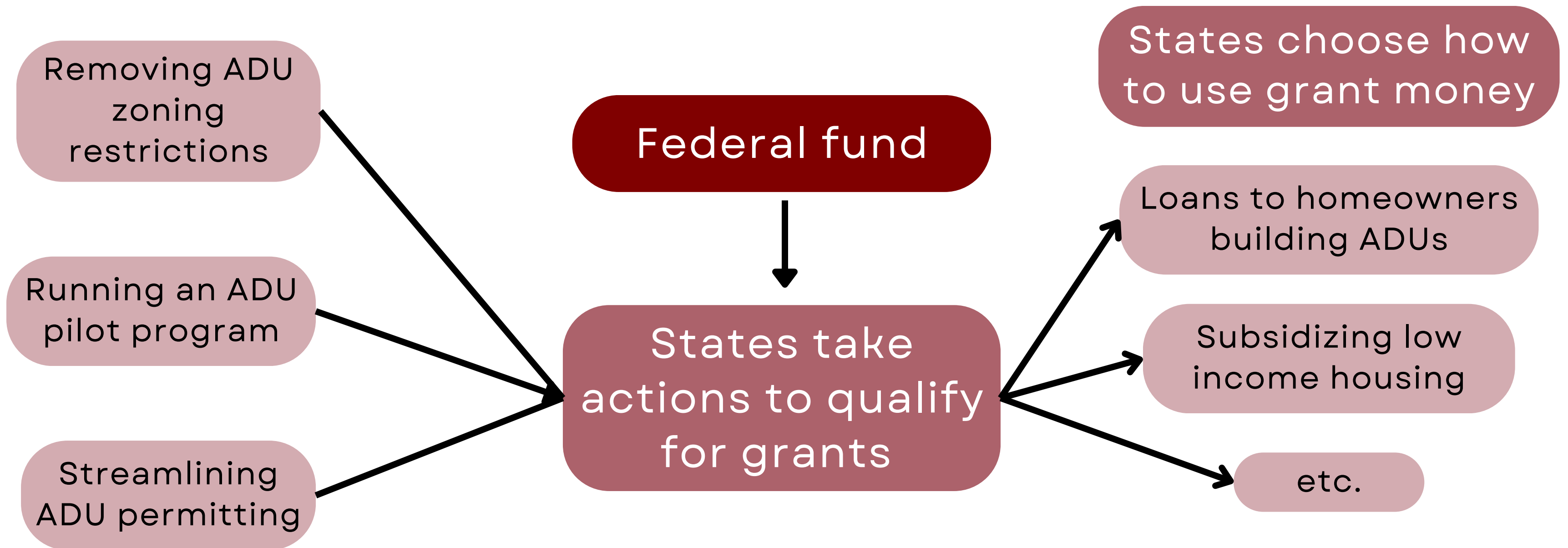
Renters



Interest groups



Our Policy



Our Policy

Incentive-based



Local freedom
and flexibility



Sustainable

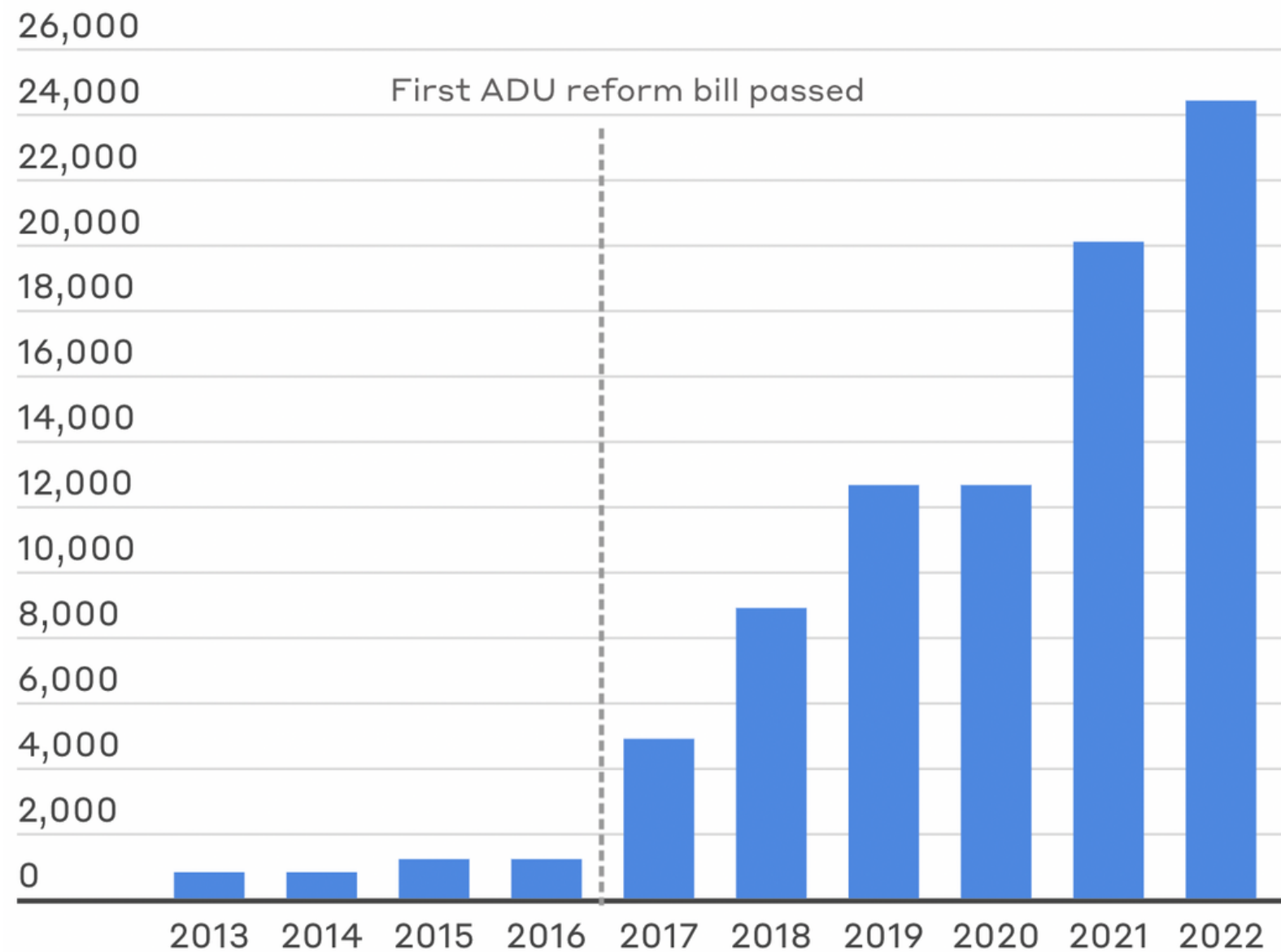


Affordable



Feasibility

Accessory Dwelling Units Permitted in California

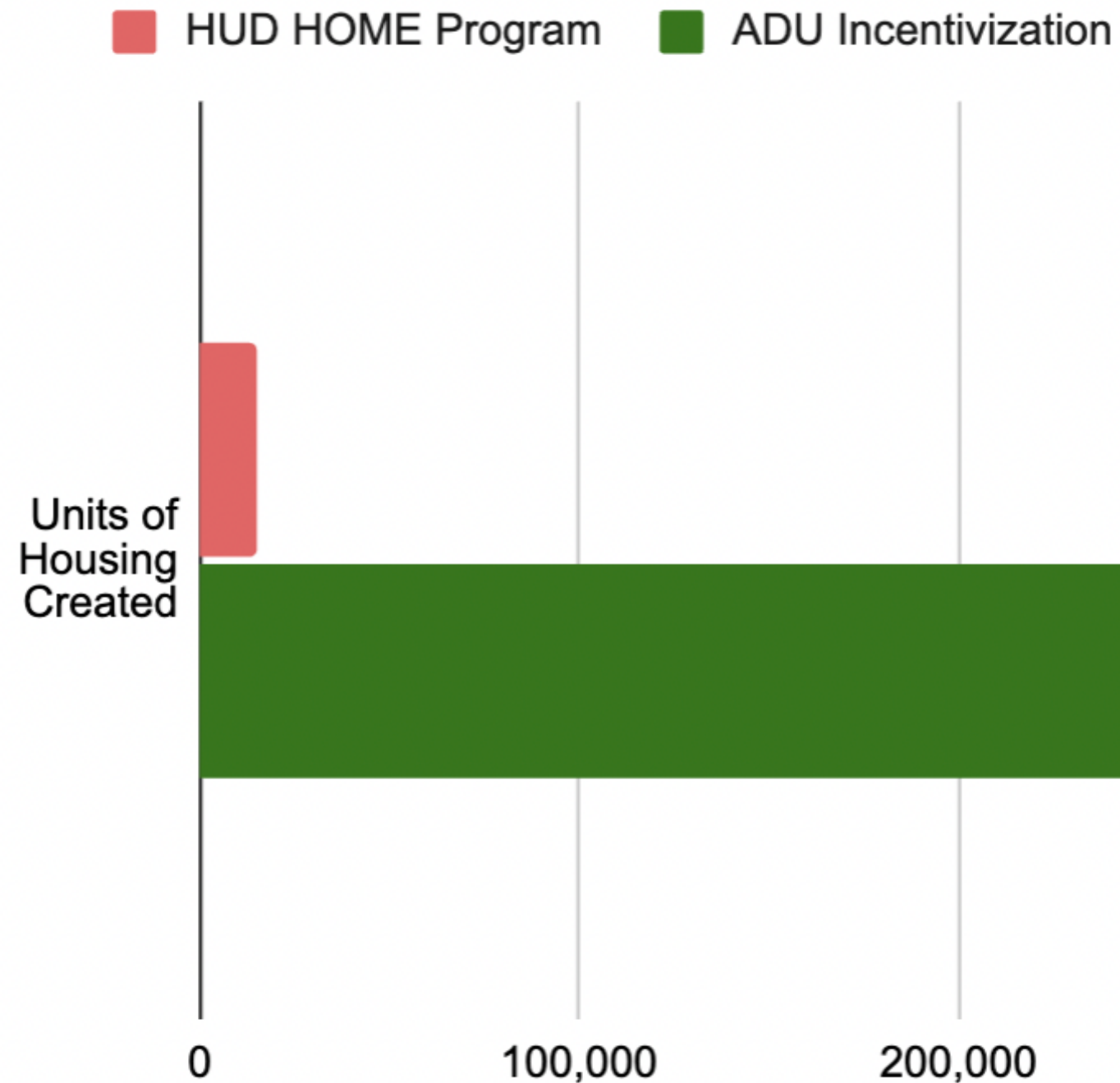


Source: [California Department of Housing and Community Development](#); M. Nolan Gray

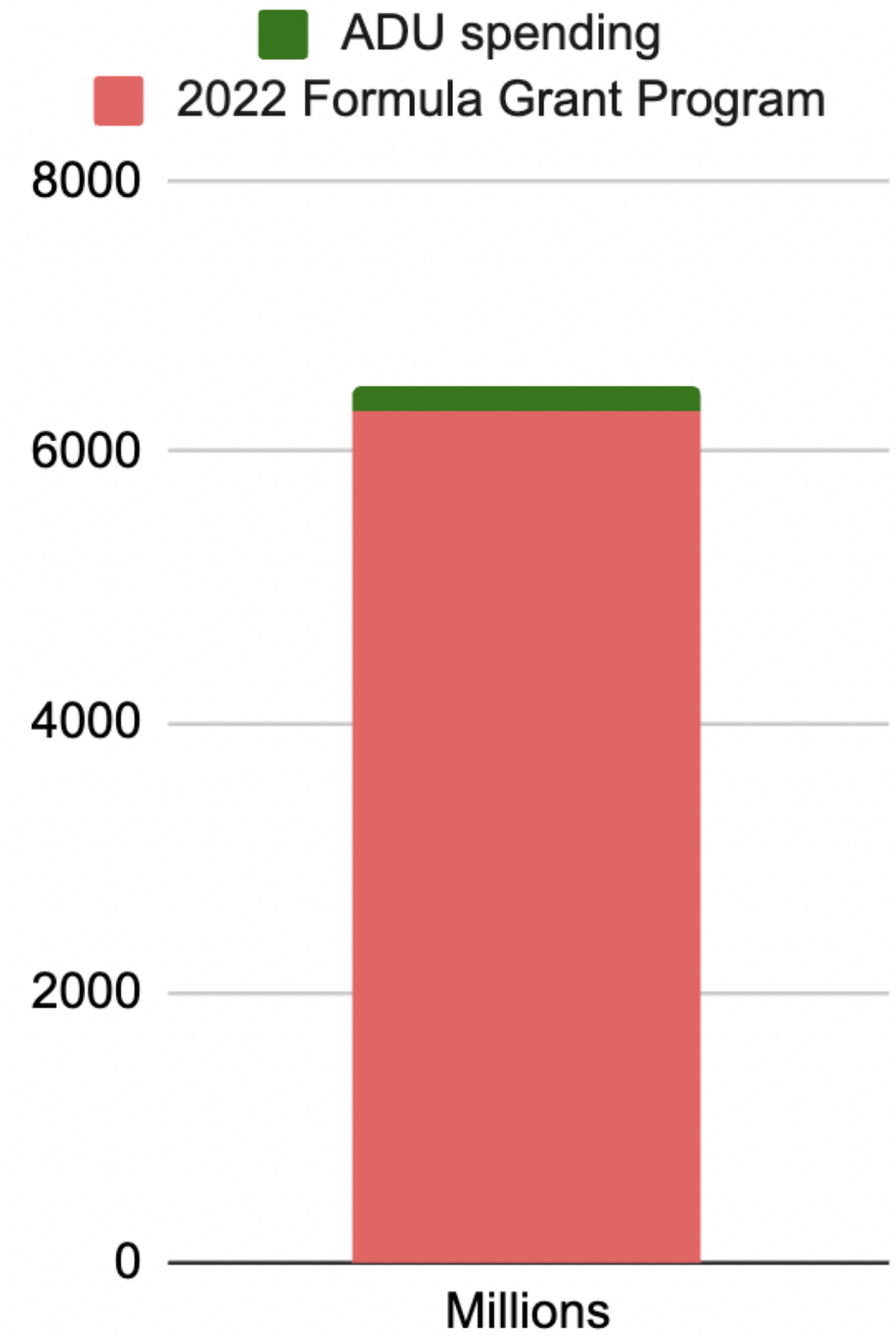


Feasibility

How many units would \$741M create if spent on:



Our Proposed Budget





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