

**A Policy Analysis of Accessory Dwelling Units in the State of
New Avery**

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Problem Definition: Background Information: Across the United States, the struggle to find affordable housing has turned into one of the biggest social challenges of the last decade. According to Harvard's Joint Center for Housing Studies, more than 22 million households now spend over 30 percent of their income on rent, which makes it hard to save or stay financially secure. With wages rising slowly and housing prices continuing to climb, many families are feeling financially strained. From 2001 to 2020, new housing construction dropped by nearly 18 percent, even as more people moved into cities and suburbs (Brookings Institution, 2022). The imbalance between supply and demand has pushed rents to record highs and forced families to make tough choices about where and how they live. Minimum wages are stagnated as housing costs increase by the month, making the availability of affordable housing a point of large concern. Housing inequality also spills into everyday life, impacting family and career prospects. The National Low Income Housing Coalition (2023) notes that a lack of affordable homes makes it harder for cities to attract teachers, healthcare workers, and first responders. Long commutes and high rents cut into family budgets and make it difficult for communities with high housing costs to hold on to essential workers. When workers can't live near their jobs, schools, hospitals, and small businesses feel the impact. Accessory Dwelling Units (ADUs) are small, independent homes built on the same property as an existing house, and many believe they could be one part of the solution for housing insecurity. Accessory dwelling units could be basement apartments, converted garages, or backyard cottages. ADUs are popular because they can add housing without massive new developments or sprawling construction projects. States like California, Oregon, and Vermont have made it easier to build them by cutting zoning and permitting barriers, and early results show that these changes have helped add more affordable houses to the market. Other Western countries have also explored the expansion of accessory dwelling units. In Canada, cities like Vancouver and Toronto have allowed "laneway homes" and "garden suites," giving families and renters more options. In Japan, compact housing near major cities has helped workers stay close to their jobs. These examples show that small-scale housing, backed by flexible regulations and permitting, can make a large difference. **Policy Problem:** Would implementing ADU-friendly policies, specifically in terms of permitting, in the State of New Jersey be an efficient and effective way to increasing the housing supply and decreasing housing costs? **Analyst's Problem:** Determine the effectiveness of increasing ADU-friendly policies on housing supply. Determine the effectiveness of increasing ADU-friendly policies on decreasing

housing costs. Examine and weigh the costs and benefits of the proposed policy. Research and analyze alternative policies for increasing housing supply and decreasing housing costs. Consider potential externalities, implementation problems, and offsetting behaviors on implementing ADU-friendly policies. Provide a policy recommendation for the State of New Avery.

Background Information: **A) Legislative History:** *State Legislation:* Between 2015 and 2025, 40 states within the U.S. have proposed legislation pertaining to the regulation and permission of accessory dwelling units. 10 of these 40 states have passed legislation pertaining to accessory dwelling units, with an additional 4 currently in committee. Some of these statutes use language such as “in-law suites,” “secondary dwelling units,” or “backyard cottages, but for the purposes of our research, these units are treated as equal to ADUs in function. Refer to Appendix A1 for a complete legislative history at the state level. *Federal Legislation:* At the federal level, the U.S. Department of Housing and Urban Development (HUD) has promoted flexible zoning and financing through its *Housing Supply Action Plan*. The Farmhouse-to-Workforce Housing Act of 2024 (S. 5071) proposed amending the Housing Act of 1949 to allow for the creation of accessory dwelling units to be legal at the federal level. The Property Improvement and Manufactured Housing Loan Modernization Act of 2024 (S. 3905) sought to amend Title I of the National Housing Act to allow federal improvement loans to be used for accessory dwelling units. Most recently, The Farmhouse-to-Workforce Housing Act of 2025 (S. 686) proposed amending the Housing Act of 1949 to allow select national grants to be used for accessory dwelling units. Refer to Appendix A2 for a more detailed federal legislative history.

Judicial Action: In BMG Monroe I, LLC v. Vill of Monroe (2022), it was found that land developers have the right to limit the size and occupancy of accessory dwelling units in residential areas. In Nikolas v. City of Omaha (2009), it was found that localities had the right to reject permit applications for accessory dwelling units without explanation. In Thompson v. City of Bozeman (2020), it was found that Homeowners Associations did not violate the US constitution or federal law, giving them the authority to regulate or ban the creation of accessory dwelling units in a particular area. **B) Political Environment:** *Expanders:* In the United States, discussions on affordable housing are impassioned and common. Those who support the expansion of accessory dwelling units include housing advocates, environmental groups, and state housing agencies. Support crosses party lines. Progressives often back ADUs for affordability and inclusion, while conservatives appreciate that they rely on private property and limited government spending.

Groups such as the National Association of Home Builders and AARP both support ADUs as a viable form of housing for retired Americans. **Contractors:** Opponents to ADU expansion are often comprised of private groups and individuals who cite market concerns. This group includes homeowners' associations and city councils worried about traffic, parking, and neighborhood character. Some fear ADUs could become short-term rentals instead of affordable long-term homes. Smaller towns worry that their water and road systems can't handle higher density without major upgrades. Some groups, such as the New Jersey State League of Municipalities, argue that state-level regulations regarding accessory dwelling units deprive smaller actors from land-planning rights, especially as these groups bear the largest brunt of ADU development [NJLM].

Research Design: Objectives: I. Does implementing ADU-friendly policies significantly increase the housing supply? Sources: *Accessory Dwelling Units: 2023 Annual Report* by the Seattle Office of Planning and Community Development; *California ADU Reform: A Retrospective* by California Yimby; *Accessory dwelling units in Portland, Oregon: evaluation and interpretation of a survey of ADU owners* by the State of Oregon Department of

Environmental Quality; "To Increase the Housing Supply, Focus on ADU Financing" from the Urban Institute. Sources:... **II. Does implementing ADU-friendly policies significantly decrease housing costs?** Sources: *Jumpstarting the Market for Accessory Dwelling Units: Lessons Learned from Portland, Seattle, and Vancouver* from the UC Berkeley Terner Center for Housing Innovation; *Yes in My Backyard: Mobilizing the Market for Secondary Units* from the Center for Community Innovation at the UC Berkeley Institute for Urban and Regional Development;

Regulating ADUs in California: Local Approaches and Outcomes from the Center for California Real Estate and the UC Berkeley Terner Center for Housing Innovation; "Accessory Dwelling Units as Low-Income Housing: California's Faustian Bargain" in *Urban Science*. Sources:... **III.**

What are the costs and benefits associated with implementing ADU-friendly policies? Sources: "Accessory Dwelling Units: A Flexible Free-Market Housing Solution" from the R Street Institute; "ADU Update: Early Lessons and Impacts of California's State and Local Policy Changes" from the UC Berkeley Terner Center for Housing Innovation; *The Role of Single-Family Housing Production and Preservation in Addressing the Affordable Housing Supply Shortage* from the Urban Institute; *Affordable accessory dwelling units: Innovative housing solutions for households with low incomes and older adults* from Habitat for Humanity. Sources:... **IV. What alternative policies can achieve the same outcomes in the state of New**

Avery? Sources: *Evaluating Inclusionary Zoning Policies in U.S. Cities* from the Urban Institute; *Housing Affordability and Inclusionary Zoning* from the Lincoln Institute of Land Policy; *Funding Mechanisms for Mixed-Income Development* from the Center for Housing Policy; *Balancing Growth and Affordability: Inclusionary Housing Strategies* from the National League of Cities; *Mandatory Inclusionary Housing Program Overview* from the New York City Department of Housing Preservation and Development; *Implementing Statewide Inclusionary Zoning Standards* from the National Housing Conference. Sources:... **V. What are the potential externalities, offsetting behaviors, and implementation problems associated with ADU-friendly policies?** Sources: “Spillover effects of accessory dwelling unit development in *Regional Science and Urban Economics*; “Accessory Dwelling Units and Incremental Urbanism: Becoming ‘Urban’ or just ‘Intensive Suburban’?” in *Built Environment; Towards a Smaller Housing Paradigm: a Literature Review of Accessory Dwelling Units and Micro Apartments* from Portland State University; “Accessory Dwelling Units: Case Study” from Sage Computing Inc. Sources:... **Methods and Evaluative Criteria:** **Objective I:** Objective I will evaluate the effectiveness of policies promoting ADU development, such as eased zoning restrictions and streamlined permitting, on increasing the housing supply in New Avery. A 2014 report by the State of Oregon Department of Environmental Quality will assess trends in the permitting, construction, and occupation of ADUs in Portland, Oregon. A 2023 report by the City of Seattle, Washington, will summarize data on the numbers, distribution, and use of ADU permits throughout the city. According to data from the California Department of Housing and Community Development, the evaluative criteria to measure the effectiveness of ADU-friendly policies on increasing the housing supply will be a 42% annual increase in the number of ADU permits awarded every year following the implementation of these policies. **Objective II:** Objective II will evaluate the effectiveness of policies promoting ADU development on decreasing housing costs in New Avery. A 2017 survey of ADU owners in Portland, Oregon, Seattle, Washington, and Vancouver, British Columbia, by the UC Berkeley Terner Center for Housing Innovation, and others, will compare the affordability of ADUs to different households across the three cities. A 2012 report from the UC Berkeley Center for Community Innovation will examine the prices of ADUs across various cities in California and elsewhere. According to data from the California Department of Housing and Community Development, the evaluative criteria to measure the effectiveness of ADU-promoting policies on decreasing housing costs

corresponds to a majority of ADUs (more than 50%) qualifying as affordable to households earning less than 80% of the area's median income. **Objective III:** Objective III will analyze the costs and benefits associated with implementing ADU-friendly policies in the State of New Avery. A 2017 policy study from the R Street Institute will compare the ADU benefits of rental income and multigenerational housing with its costs, including those associated with structural regulations and occupancy restrictions. A 2021 report by the Urban Institute will explore the costs associated with ADU financing, among other barriers to ADU expansion. **Objective IV:** Objective IV will evaluate the effectiveness of inclusionary zoning, an alternative policy, on expanding the housing supply and reducing housing costs in New Avery. A 2023 report by the Urban Institute will evaluate the effectiveness of a variety of inclusionary zoning policies in several U.S. cities on promoting housing access and affordability for all residents. A 2021 report by the Center for Housing Policy will analyze the sources and methods of funding mixed-income development projects designed to accommodate households of different income levels. **Objective V:** Objective V will evaluate the potential externalities, implementation problems, and offsetting behaviors associated with implementing ADU-promoting policies in the State of New Avery. A 2025 study in *Regional Science and Urban Economics* will measure the effects of ADUs on neighboring property values. A 2023 article in *Built Environment* will assess the potential for ADU expansion to lead to overcrowding and congest regional infrastructure. A 2018 thesis from Portland State University will explore the role of ADUs and micro apartments in reducing urban sprawl and promoting infill development.

Results and Analysis: Reporting of Results: Effectiveness of policies promoting ADU development: A 2014 evaluation of accessory dwelling units in Portland, Oregon, conducted by the State of Oregon's Department of Environmental Quality, highlights changes in permitting, construction, and occupation of ADUs from increased usage and legal support of ADUs [DEQ]. The state of Oregon highlights the importance of studying Portland as a model for ADU development due to a "boom" in ADUs erected over a five-year period, and a sample size of 200 survey respondents, leading to a sample error 4.4% smaller than other cities surveyed [DEQ]. Portland's ADU-friendly policies include permissibility in the majority of single-family lots, minimal requirements for size and location, and a lack of requirement for owner occupancy in the primary dwelling or ADU [DEQ]. As displayed in a study by ADU advocates in Portland, it was found that the removal of System Development Charges/Fees in 2010 led to an increase in ADU permit applications from ~25 in

2009 to ~75 in 2010 [Palmeri]. In 2013, ADU permit applications began to approach 200 [Palmeri]. For construction, self-reported costs of ADU costs ranged greatly, with a minimum cost of \$3500 and a maximum cost of \$300,000 [DEQ]. The mean cost was \$78,760 with a median of \$65,000 [DEQ]. With prices adjusted for the average cost of a Portland ADU, local benefits from the construction of one ADU led to \$63,104 in local gross income and 0.94 jobs in the first year [DEQ]. Additionally, Portland found that 22% of residents of ADUs were 55+, with the median age being 36 years old [DEQ]. Furthermore, a 2023 report by the City of Seattle, Washington, summarizes the quantity, distribution, and use of ADU permits throughout the city, contextualized for changes in policy. In 2019, Seattle reformed existing statutes on accessory dwelling units and detached accessory dwelling units by lifting size restrictions, removing parking requirements, and raising previous standards to allow two ADUs on one lot [[Seattle.gov](#)]. Additionally, in 2023, Seattle reduced fees for ADUs, explored incentives for development, and allowed “more dense” housing types, such as ADUs [OPCD]. The quantity of ADUs increased exponentially following the 2019 reform, with 1,004 permit applications being submitted in 2022 and 780 in 2023 [OPCD]. In 2023, 987 ADUs were permitted [OPCD]. 551 of these ADUs were attached, with 511 being detached from the residential property [OPCD]. A survey of ADU owners found that the majority of ADU owners were white, with household incomes exceeding \$200,000 [OPCD]. Use of ADUs in Seattle was varied, with approximately 10% of units being used as short-term rentals, 33% being created as condominium units, and the remaining proportion serving as long-term rentals and other owner-occupied spaces [OPCD].

Effectiveness of decreasing housing costs: A study by the UC Berkeley Transportation Center outlines legislative changes pursued by the California State Legislature, such as AB 1866 of 2003, which requires each city in the state to have a process for approving accessory dwelling units [UCBTC]. Craigslist was the most statistically likely place for a Californian resident to find ADUs for rent [UCBTC]. Using this data, it was found that 30% of secondary units are affordable to households in the “Very Low-Income category” (30-49% of Area Median Income), while 49% of secondary units were affordable to those in the “Low-Income category” (50-79% of Area Median Income) [UCBTC]. Another study by the UC Berkeley Terner Center found that ACUs were incredibly inexpensive to construct, allowing them to be rented for cheaper prices, as 58% of ADU owners rented their units below market rates, and in 51% of cases, ADU occupants were renting for free or a significantly reduced price [Terner]. Further analysis from the Yes, In

My Backyard non-profit and UC Berkeley find that most ADUs built in exclusive suburbs were affordable to individuals earning 80% or less than the Area Median Income, and that 70% of ACU renters increase rent prices every 7 months, longer, or never [Berkeley, YIMBY].

Additionally, Marin County of California claimed that 62% of secondary dwelling units were rented out for less than 80% of the Area Median Income [YIMBY]. UMass Amherst Department of Architecture and Regional Planning investigated the growth of ADUs in Santa Cruz, California [UMass]. Santa Cruz claimed that ADUs made up 38% of the city's low-income housing needs [UMass]. Contrary to these statistics, the city's usage of ADUs as low-income housing was given an efficacy rate of 0%, largely due to the city's inability to provide information on maximum rent, occupant income, or efficiency [UMass]. While ADUs were listed as low-income housing, there was no proof that the average rent of an accessory dwelling unit represented this, nor that these units were actually being occupied by low-income tenants. Furthermore, a second study from the Berkeley Terner Center found that California localities with a larger quantity of ADU applications were not more likely to experience increases in affordable housing, painting a varying picture of effectiveness for regulation within the state of California [Terner]. **Analysis:** In a thorough evaluation of studies regarding the implementation of ADU-friendly policies, it is evident that accessory dwelling units satisfactorily support our evaluative criteria of increasing permits by 42%, with mixed results regarding their effectiveness on creating housing affordable to renters making 80% of the Area Median Income. Reports from sources vary, with the individual levels of regulation playing a key role in how effective accessory dwelling units are in lowering housing costs. One other factor that could impact the results of cost surveys regarding accessory dwelling units could be location, which affects demand for housing and the general attitude towards secondary dwelling units [YIMBY]. In an analysis by the Yes, In My Backyard nonprofit organization, it was found that data from the HCD Housing Element Implementation survey suggests most new ADUs built in exclusive suburbs were affordable to those making 80% of the area's median income, implying that encouraging the building of ADUs will produce more fruitful results than just encouraging their use and rent. Even though existing survey results don't meet both evaluative criteria, it is important to note that the expansion of accessory dwelling units can provide a large array of benefits outside of simply providing supplementary housing. The State of Oregon's Department of Environmental Quality found that the development of ADUs promotes sustainable

development and reduces negative environmental impacts [DEQ]. As ADUs are infill developments that increase housing density without increasing land for development, they preserve energy and the natural environment surrounding housing developments [DEQ]. Housing units smaller than 1,149 square feet are considered to be “extra small,” whereas the average size of an ADU is 800 square feet [DEQ]. Keeping this in mind, Oregon’s Department of Environmental Quality found that the usage of extra small homes reduced negative environmental impacts by as much as 40%, as climate change impacts were reduced by 36% when compared to medium-sized dwelling units [DEQ]. Found by this study was the relative affordability of constructing an ADU compared to institutional housing. The smallest traditional house available in surveys costs, on average, \$200,000 to build, with an extended period of time for drafting and planning [DEQ]. Alternatively, the average cost of an ADU’s construction in Seattle amounts to \$78,760, with a shorter turnaround time from drafting to construction [DEQ]. 13-18% of these low-cost units are rented significantly below market price, which is identified as a rent below \$500/month [DEQ]. This stark discrepancy in price displays the ease at which an accessory dwelling unit can be erected with relative swiftness, cementing the idea that further incentivization of ADU adoption, such as through lowered fees, could positively affect the supply of ADUs. By streamlining the permitting process of creating accessory dwelling units, it is likely that lowered costs of construction could lower the cost a secondary dwelling unit is rented for. **Costs and Benefits:** *Private Costs:* Private costs of ADU policies include substantial upfront construction expenses, which can range from \$80,000 to \$150,000 depending on design and local regulations [79]. Homeowners without adequate savings or access to loans may be unable to participate, potentially increasing inequality. Ongoing responsibilities such as property management, regulatory compliance, and legal risks add to the burden [82]. There are also potential losses from tenants defaulting or causing property damage. Homeowner associations or strict neighborhood regulations may create permitting delays and lead to additional legal costs [83]. Without state support or relaxed regulation, these obstacles make it difficult for many homeowners to benefit, reducing the policy’s impact. *Social Costs:* A significant social cost of expanding Accessory Dwelling Units (ADUs) in New Avery is the additional strain on local infrastructure, leading to higher municipal expenses. Municipalities often need to expand services such as parking and water supply to support a growing population [80]. According to the Oregon Department of Land Conservation (2022), neighborhood infrastructure upgrades for new

ADUs cost between \$6,000 and \$10,000 per unit, typically funded by local governments [81]. Modest increases in property taxes or service fees may occur. Greater demand for ADUs can make building materials and contractors scarce, which might temporarily raise renovation costs. Cost-sharing and cooperative initiatives can help reduce these financial pressures, as seen in Lakeside. In smaller towns, these concerns sometimes prompt political debate, especially if residents worry about changes to neighborhood character or higher taxes. Residents and local business owners who fear disruption or congestion should be actively included in planning.

Social Benefits: A primary social benefit of increasing ADUs is limiting suburban sprawl [71]. ADUs utilize existing land to add homes, which helps avoid the high costs of new development and the risk of displacement. Studies indicate that ADU policy reforms can slow rent growth by 3–5% [72]. ADUs help curb sprawl and cut vehicle emissions. The EPA (2023) reports up to a 35% drop in per-capita carbon emissions for denser housing [75]. These changes can lead to cleaner air, less heat, and better public health. Shorter commutes mean less pollution and fewer health problems. Denser neighborhoods with more ADUs often boost local business and improve public transit, advancing climate and affordability goals. **Private Benefits:** On a neighborhood level, ADUs contribute to increased vibrancy. Homeowners and contractors can benefit financially renting out an ADU provides extra income to cover mortgages or taxes, especially for retirees or middle-income families [73]. The National Association of Home Builders (2022) estimates that every \$1 million invested in small residential projects creates 8 to 11 jobs, supporting local employment [77]. ADUs can increase property values and give renters affordable options in desirable areas, supporting social mobility. They also let families stay close to relatives or caregivers, strengthening community ties [84]. Overall, more ADUs can promote economic growth and help address housing costs. **Externalities: Positive Externalities:** In addition to their ability to reduce the burden of housing costs and increase the housing supply, the expansion of accessory dwelling units can help to reduce urban sprawl by promoting infill development, which builds new construction on already developed land rather than encroaching on rural areas. A 2018 thesis from Portland State University shows that building ADUs in existing suburban neighborhoods enables gradual increases in housing density, creating suburbs that can accommodate more residents without expanding outward into undeveloped, rural lands, known as greenfields [7]. Greenfield development often leads to the destruction of farmland, habitat, and other natural landscapes, and its avoidance through ADU proliferation has strong

positive environmental impacts []. Furthermore, ADUs enable multigenerational living by providing the owners of single-family homes with a space to house and care for their elderly relatives. A 2008 Case Study from Sage Computing Inc. explores the adoption of ADUs as an alternative to institutionalization for the elderly by allowing them to remain in a separate but proximate space to younger family members who can provide them with care, while maintaining a level of independence for both groups []. **Negative Externalities:** While the adoption of accessory dwelling units is often associated with decreased housing prices, accessory dwelling units often decrease property values in nearby neighborhoods [Tanrisver]. An analysis from *Regional Science and Urban Economics* finds that a 0.5% increase in the quantity of ADUs causes a 3% decline in the value of properties ineligible for accessory dwelling units within a 150-mile radius [Tanrisver]. In the housing market, this means that a property valued at \$1,038,330 will see a reduction in price of \$31,150, even though the house does not have an attached ADU [Tanrisver]. As ADUs often end up placed in high-demand neighborhoods, decreases in price have an especially negative effect on the value of owned housing. Additionally, the proliferation of ADUs can contribute to infrastructure congestion and degradation, reducing the quality of life []. A 2023 study in *Built Environment* finds that ADUs increase reliance on existing neighborhood infrastructure and amenities, like roads and utilities, leading to overuse []. Furthermore, the study warns that investments in infrastructure improvement can fail to keep pace with ADU growth, producing the negative effects of higher density, like congestion []. **Implementation Problems:** Unlike more traditional single-family homes, accessory dwelling units are often built by homeowners, presenting unique challenges to their adoption as a widespread strategy for increasing the affordable housing supply. A 2017 policy study by the R Street Institute notes that homeowners often have trouble financing ADUs due to inconsistencies between mortgage guidelines and changing zoning laws, and that they are often unfamiliar with the permitting and compliance processes []. **Offsetting Behaviors:** While state and local governments usually intend for ADUs to be used as sources of permanent or semi-permanent housing, many homeowners build ADUs for use as short-term or vacation rentals. A 2023 report by the City of Seattle finds that approximately 12% of the city's ADUs are short-term rentals []. **Alternative Policy:** Investment into Inclusionary Zoning policies in New Avery. **Research Results and Analysis: Reporting of Results: Effectiveness of implementing IZ in increasing supply:** Inclusionary Zoning research indicates that expanding Inclusionary

Zoning (IZ) offers an effective alternative to ADU expansion for increasing affordable housing in New Avery [60]. IZ laws require or incentivize private developers to include affordable units in new residential developments. This policy addresses affordability by integrating low- and middle-income families into growing communities rather than creating separate subsidized complexes [60]. In contrast, ADU expansion enables homeowners, often older or equity-rich, to add secondary units to their properties, which can increase supply quickly but depends on individual participation. While IZ introduces affordable units within larger developments to promote mixed-income neighborhoods, ADUs offer homeowner control and flexibility. In many cities, IZ yields ~150–200 affordable units annually, whereas ADU policies add ~50–100 units per year, depending on participation and local rules. ***Effectiveness of implementing IZ on housing costs:*** A 2023 Urban Institute study found cities with IZ saw a 7–15% rise in affordable housing within five years [62]. Research outlining policies in Washington, D.C., Boston, and Denver shows that IZ programs increase affordable housing while supporting mixed-income neighborhoods [61]. Gains appear not only in unit counts but also in neighborhood stability and lower residential turnover, with associated improvements in school continuity and outcomes where IZ is well integrated [67]. **Analysis:** Because IZ leverages private development, more of the affordability costs are borne by developers and property owners rather than taxpayers [63]. Developers often argue IZ requirements raise construction costs and reduce feasibility, especially in smaller markets [64]. To address this, some cities (e.g., New York City) use flexible IZ models with density bonuses or tax incentives to offset added costs, sustaining project viability while meeting affordability targets [65]. For example, if a \$10M project receives a density bonus allowing ~20% more units, per-unit costs fall through economies of scale, improving feasibility and total affordable output. IZ also advances spatial equity by siting affordable homes near transit, jobs, and quality schools [66]. Opportunity mapping (transit frequency, job access, school performance) helps target IZ to high-opportunity areas; families in IZ housing report better educational results and neighborhood stability [67]. Still, strong policy design and enforcement are essential. Without oversight, developers may gravitate to jurisdictions with weaker rules, risking new segregation patterns [68]. To prevent this, New Avery could adopt statewide IZ standards with locally adjustable quotas based on income levels and measured housing need [69]. Inclusionary zoning meets goals of greater supply and affordability while building inclusive communities. Compared to ADUs, it typically requires more administrative effort, longer

timelines, and sustained developer cooperation [70] **Cost and Benefit Analysis: Social Costs:** Financing is the major barrier, as typical ADU build costs range from \$80,000–\$150,000 per unit, pricing out many lower-income homeowners [79]. Without state loans or grants, benefits skew toward higher-income households. Increased density can strain parking, sewer, and water systems, requiring local upgrades and administrative costs estimated at \$6,000–\$10,000 per unit during early implementation [80–81]. **Private Costs:** Inputs, and timelines can be volatile due to supply chains, code requirements, and localized opposition that slows approvals [82].

Neighborhood challenges around parking/appearance can lead to delays and legal expense [83].

Social Benefits: Expanding ADU policies in New Avery can materially improve affordability and community stability [71]. In California and Oregon, easing zoning rules contributed to >1,000% growth in ADU permitting from 2016–2022 [72], expanding supply, tempering rent growth, and providing downsized options. ADUs also create income streams that help owners cover mortgages and property taxes, especially valuable for older adults and middle-income families [73]. ADUs are environmentally efficient: they use existing infrastructure and limit sprawl, reducing transportation and construction emissions [74]. Compact housing can cut per-capita household emissions by up to 35% versus traditional suburban development [75].

Private Benefits: Homeowners gain rental income; small contractors, architects, and trades benefit from steady infill work [76]. Each \$1M in small residential construction yields 8–11 full-time jobs and local multiplier effects [77], supporting neighborhood businesses and wages [78]. **Transition:** Despite these advantages, ADU reform also introduces challenges that must be managed to ensure equitable outcomes. **Externalities: Positive Externalities:** IZ can bring people from different backgrounds together and support economic mobility by adding affordable homes to mixed-income neighborhoods. Residents in these areas often have better access to good schools, public transportation, and local amenities, which can improve their long-term prospects and help break the cycle of poverty [61]. The Lincoln Institute of Land Policy (2022) also notes that IZ makes neighborhoods more stable and reduces residential turnover by including affordable homes in regular housing projects [67]. **Negative Externalities:** Research from the Mercatus Center (Hamilton, 2024) shows that mandatory inclusionary zoning can slightly raise the prices of market-rate homes, since developers often pass extra costs on to buyers [95]. While these price increases are usually small, they can be more noticeable in weaker housing markets. If IZ rules are too strict, they may discourage new construction and reduce the number of homes

built [95]. The Illinois Policy Institute (2023) found that Chicago's mandatory affordability program led to fewer building permits and higher development costs per unit, which limited the housing supply [96]. These mixed results show that IZ policies must balance affordability requirements with incentives that keep projects financially viable. **Implementation Problems:** remain a significant barrier to effective IZ policy. The National Housing Conference (2015) identifies developer resistance as a primary concern, particularly when affordability requirements are not paired with compensatory incentives such as density bonuses or tax abatements [97]. In these situations, developers may delay or cancel projects if profit margins become unsustainable. Administrative capacity also presents an ongoing challenge. IZ programs require continuous monitoring to verify tenant income eligibility, enforce resale restrictions, and ensure long-term affordability. Smaller municipalities often lack the staff or digital systems to manage these responsibilities effectively [97]. Additionally, market fluctuations complicate implementation. Economic downturns reduce the number of new developments and affordable units, while periods of rapid growth may prompt political pressure from developers seeking flexibility [95]. The Urban Land Institute (2022) recommends adaptive policies that adjust affordability requirements in response to market conditions to achieve consistent outcomes [70]. In New Avery, effective implementation would require statewide consistency combined with flexible local mechanisms to ensure both compliance and developer participation. **Offsetting Behaviors:** Developers often use strategies that run counter to IZ's goals. One common tactic is jurisdictional avoidance, in which developers relocate projects to nearby areas with fewer or no IZ rules [95]. This reduces the number of affordable homes in the region and can worsen inequalities. Establishing statewide or regional IZ standards can help fix this by removing the incentive for developers to seek easier markets. Another offsetting behavior is the use of in-lieu fees, where developers pay into a city's housing fund instead of building affordable homes on-site. While this generates revenue quickly, it often results in affordable housing being concentrated in lower-income neighborhoods, which runs counter to IZ's goal of economic integration [97]. In Chicago, researchers found that widespread use of in-lieu fees allowed developers to bypass on-site construction, leading to an uneven distribution of affordable housing across the city [96]. **Conclusions: Proposed Policy:** The research demonstrates that implementing ADU-friendly policies in New Avery has the potential to meet the evaluative criteria of increasing permits for ADUs by 42%, but has not satisfactorily proven a capability to provide more than 50% of ADU

supply to those making 80% of an area's median income. The effectiveness of policies promoting ADU development is proven by Oregon's Department of Environmental Quality, which finds that ADU permit applications jumped from ~25 in 2009 to ~75 in 2010, following the removal of System Development Charges and Fees [DEQ]. Adjusted for the average costs of accessory dwelling units in Portland, it was found that the construction of a single ADU produced \$63,104 in local GDP, as well as creating 0.94 jobs [DEQ]. A report by the City of Seattle, Washington, finds that lifting restrictions on the construction of ADUs results in large increases in ADU permit applications, citing 1,004 applications being submitted in 2022 [OPCD]. When discussing the effectiveness of decreasing housing costs, varied studies of Vancouver, California, Seattle, and Portland yield varying results. Analyses of California's Marin County and the Bay Area display that large proportions of housing are made available to low-income residents, such as those making 80% of the areas' median incomes [YIMBY]. An up-close analysis of ADU-friendly policies in Santa Cruz, however, attempts to put these statistics into context [UMass]. A study by the UMass Amherst Department of Architecture and Regional Planning cites reports from the City of Santa Cruz that claim ADUs comprise 38% of the area's low-income housing, but little information was made public regarding the demographics of those living in ADUs [UMass]. Similar to other studies that claim that ADUs are offered at rates below market value, it is not clear if ADUs meet low-cost housing demands in practice or simply in theory. ADUs have also been linked to the promotion of infill development, which prevents encroachment onto rural and natural areas and enables intergenerational dwelling [Sage]. Some issues arise with the encouragement of accessory dwelling units, such as the burden placed on homeowners to build ADUs, mainly in the form of legal inconsistencies, unclear zoning laws, and an inability to finance construction [R Street]. It is also important to note that in areas where ADU expansion is approved, a significant portion of these dwelling units can be utilized for short-term rental properties, which can drive up housing costs and limit permanent housing for supply. The City of Seattle found in 2013 that approximately 12% of accessory dwelling units in the city were being used for short-term rentals, suggesting a need for further research into the effectiveness of ADU development as a form of permanent lodging [OPCD]. **Alternative Policy:** While few figures are available on the impact of Inclusionary Zoning (IZ) on ADU permits in the United States, research shows that Inclusionary Zoning is a viable policy for increasing the supply of affordable housing and making housing affordable for those making

80% of an area's median income. In studies of California and Oregon, it was found that the implementation of IZ laws led to the growth of ADU permits by over 1000% in six years, meeting our evaluative criteria of a 42% increase. Additionally, IZ laws incentivize the creation of mixed-income housing, which facilitates the creation of affordable housing without jeopardizing development and investment into an area [60]. On average, in cities where Inclusionary Zoning is pursued, these statutes yield increases in affordable housing by 150-200 units annually, specifically in areas where housing demand is highest [61]. Through opportunity mapping, IZ can be pursued in areas already experiencing population growth, transportation access, and educational accomplishment to promote mixed-income neighborhoods, limiting redlining and opportunity inequality based on housing alone [67]. Through the nature of Inclusionary Zoning, the state or locality that determines zoning regulations heavily subsidizes the changes necessary to fulfill planning requirements. Studies of large cities such as New York City show that project incentivization in the form of density bonuses or tax incentives offset local costs in the community, contributing to project feasibility while ensuring the burden of housing development does not outweigh the desire of local areas to follow IZ regulations [67]. While analyzing the benefits and feasibility of Inclusionary Zoning, it is also important to address the potential struggles that come with implementing such policies. Improper implementation or regulation of Inclusionary Zones can have negative effects on housing markets, such as limiting housing supply and increasing market values through stringent policies. Additionally, developer resistance to the implementation of IZ can pose significant barriers to increased mixed-income development, leading to incomplete execution of zoning mandates or the cancellation of projects deemed unprofitable. Considering that the goal of Inclusionary Zoning is to create affordable housing and diversify in-demand neighborhoods, a common offsetting behavior to this goal is the adoption of in-lieu fees, which support city housing funds as opposed to direct development. As a result, affordable housing becomes concentrated in low-income areas, and housing developments remain segregated by class [97].

Recommendation: Based on a thorough analysis of existing literature and surveys regarding urban housing and planning policy in the United States, we recommend the implementation of policies supporting accessibility and supply of low-income housing within the state of New Avery to increase permits to increase the supply of affordable housing and decrease housing costs. *Proposed Policy:* After analyzing various studies outlining the implementation of

ADU-friendly policies in Seattle, Portland, Vancouver, and California, it is apparent that ADU-friendly policies have the potential to increase ADU permits by more than 42%. While our studies were not able to display a consistent decrease in housing costs across the board for areas with larger quantities of ACUs, success in Seattle, Portland, and Marin County offers an optimistic outlook into the potential of ADUs to lower housing prices. As many ADUs are publicly advertised at rent below market rates, it becomes clear that more instances of success are more numerous than those of failure or inconsistency. In order to ensure that the proposed policy will perform to expectations, we recommend a comprehensive approach that involves liberal zoning regulations, incentivization of ADU construction, expedited permit approval, and a significant reduction in taxes and fees associated with building an accessory dwelling unit. Furthermore, incentivization of ADU construction through subsidies, tax exemptions, and reduced zoning regulations should only be made available for renters who intend to use the units for long-term housing. The utilization of accessory dwelling units for nonresidential purposes and short-term rentals undermines the utility of the unit as a method for combating housing insecurity, driving up prices of housing in the area, and adversely affecting the supply of affordable housing. Moreover, the policy implemented for New Avery should be explicit and structured to ensure maximum efficiency, but it should ultimately leave the extent of regulatory measures up to individual cities and localities. As shown by our study of California, affordability measures are often dictated by an area's median income, which makes stringent and strict regulation from the state government overly restrictive and burdensome on some areas. Lastly, the zoning for accessory dwelling units should be concentrated heavily in suburban areas with high demand for housing. As ADUs exist as infill developments and are used to significantly and uniquely expand the housing market in a given area, focusing ADUs on areas where housing costs are already high ensures the benefits of the policy are felt most by those who stand to gain the most from them. In conclusion, while the encouragement of accessory dwelling unit expansion can increase the permits for ADUs in a particular area, the implementation of such a policy on its own may not have the capability to significantly reduce housing prices in a given area. As a result, we highly recommend enacting the proposed policy in conjunction with other housing and zoning regulations. *Alternative Policy: Investing in the statewide adoption of Inclusionary Zoning* has the capability to supplement many decentralized attempts at creating mixed-income housing, allowing for affordability to occur alongside development. Inclusionary

zoning relies heavily on states and local governments to enact zoning ordinances to accommodate the expansion of affordable housing supply, but it ultimately allows for a more synchronized attempt to lower housing costs. According to studies where Inclusionary Zoning has already been promoted, it was found that these areas yield the creation of 150-200 affordable housing units per year. After a thorough review of existing studies conducted on areas with IZ policies, we find that they have the potential to meet our criteria of increasing the quantity of ADU permits by 42% and making housing affordable to those making 80% of an area's median income. Compared to standalone measures promoting the adoption of accessory dwelling units through financial incentivization, lax regulations, and adjusted zoning that only applies to ADU development, inclusionary zoning solves for underlying conditions that make ADU development difficult in certain areas. In California and Oregon, the implementation of Inclusionary Zoning led to a growth in ADU permitting greater than 1,000, much more than ADU-specific policies that led to 300% increases in ADU permitting. Similarly, through a mixed-income model, individuals who reside in Inclusionary Zones may have access to better opportunities, transportation hubs, and educational institutions due to high levels of investment being reported within the area. Ultimately, it becomes clear that the adoption of IZ ordinances can increase the usage of accessory dwelling units while encouraging socioeconomic cohesion and upward mobility in housing for those who identify as low-income. That being said, we recommend the implementation of the alternative policy with additional guardrails and requirements aimed at ensuring issues with implementation do not arise. In order to prevent overly restrictive IZ laws, we recommend that New Avery adopt general guidelines for what Inclusionary Zones should look like in highly-populated areas, rather than making these ordinances mandatory for all localities within the state. Furthermore, New Avery can incentivize these cities to adopt IZ recommendations by supporting incentives and construction subsidies for areas that implement the policy. Not only does financial aid increase the number of regions participating in Inclusionary Zoning, but it also increases the feasibility and cooperation regarding tighter zoning regulations. The existence of in-lieu fees to bypass construction in affluent areas and jurisdictional avoidance makes it difficult to ensure that affordable housing projects are constructed in compliance with mixed-income zoning, but financial incentives are likely to mitigate attempts to circumvent Inclusionary Zoning. Nullifying the need for profit incentive and encouraging continued investment into areas with declining property tax rates, the subsidization

of construction for Inclusionary Zones has the potential to remove existing barriers to implementing the policy. Given that Inclusionary Zoning has the capability to outperform ADU-friendly policies in permitting increases and decreases in housing costs, we encourage the state of New Avery to pursue policy that promotes IZ development. These policies should be recommendations for the most highly populated localities within the state, but should be supplemented with financial incentives to ensure Inclusionary Zoning is sought out by cities and supported by developers. We also recommend that this policy be implemented in conjunction with policies targeting accessory dwelling unit expansion to ensure the largest net benefit is reached and diversity of affordable housing choices is maintained.

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Appendix

A1- Federal Legislation

Bill or Act	Legislative Summary	Last Action
09/17/2024- 118th Congress The Farmhouse-to-Workforce Housing Act of 2024, 118 Bill Tracking S. 5071	Amends the Housing Act of 1949 to allow for the creation of accessory dwelling units.	09/17/2024- Failed.
02/24/2025- 119th Congress The Farmhouse-to-Workforce Housing Act of 2025, 119 Bill Tracking S. 686	Amends the Housing Act of 1949 to allow certain grants to be used for accessory dwelling units.	02/24/2025- Failed.
03/11/2024 118th Congress Property Improvement and Manufactured Housing Loan Modernization Act of 2024, 118 Bill Tracking S. 3905	Amends Title I of the National Housing Act to allow improvement loans to be used for accessory dwelling units.	03/11/2024- Failed.

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A2- State Legislation

State	Bill or Act	Legislative Summary	Last Action
Alabama	No existing legislation.		
Alaska	No existing legislation.		
Arizona	01/25/2024- AZ S.B. 1415	Sets parameters and requirements for accessory dwelling units.	04/01/2024- Died in committee.
Arkansas	02/17/2025- AR H.B. 1503	Prohibits regulations on certain accessory dwelling units, specifically on	03/18/2025- Enacted.

		single-family homes.	
California	02/13/2024- 2023 Bill Tracking CA S.B. 1123	Prohibits accessory dwelling units from qualifying as complete dwelling units for zoning purposes.	09/19/2024- Enacted.
Colorado	01/30/2024- 2024 Bill Tracking CO H.B. 1152	Increasing housing supply by constructing or converting accessory dwelling units, and encouraging local jurisdictions to approve ADUs.	05/17/2024- Enacted.
Connecticut	03/10/2021 CT S.B. 1027	Requires municipalities to accept accessory dwelling units.	04/05/2021- Failed.
Delaware	03/21/2023- DE S.B. 23	Requires local governments to permit the creation of ADUs without onerous restrictions.	05/20/2024- Substituted on Senate floor.
Florida	01/09/2024- FL H.B. 1299	Exempts certain accessory dwelling units from ad valorem taxation.	01/13/2024- Died in committee.
Georgia	02/11/2022- GA H.B. 1334	Requires mobile homes on residential property to be subject to taxes in their respective counties.	02/15/2022- Failed.
Hawaii	01/17/2025 HI H.B. 516	Awards subsidies to individuals who build accessory dwelling units, and removes some barriers to ADU expansion.	01/21/2025- Committee evaluation in progress.

Idaho	02/20/2023 Ida. HB 166	Prohibits homeowner's associations and municipalities from prohibiting internal ADUs.	04/03/2023- Enacted.
Illinois	11/02/2023 IL H.B. 4213	Prohibited local governments from refusing ADUs and limited home rule powers.	04/05/2024- Died in committee.
Indiana	01/17/2023- IN H.B. 1450	Allocates funding to a senior tiny home development in the city of Gary	01/17/2023- Failed.
Iowa	02/25/2025 IA S.S.B. 1182	Establishes state regulation of accessory dwelling units.	03/03/2025- Passed subcommittee.
Kansas	02/10/12- KS H.B. 2730	Provides that guest homes on rental properties do not require a lodging license.	05/25/2012- Enacted.
Kentucky	02/14/2025 KY H.B. 576	Allows all state residents one accessory dwelling unit on their property, and establishes ADU restrictions different than those set for single-family housing.	02/25/2025- Died in committee.
Louisiana	03/14/2022- LA H.B. 737	Sets regulations for the repair and construction of accessory dwelling units on personal residencies.	03/14/2022- Died in committee.
Maine	2021 Me. HP 1489	Adopts	04/27/2022- Enacted.

		recommendations to increase housing opportunities, including allowing municipalities to permit the usage of ADUs.	
Maryland	02/07/2022 MD S.B. 871	Encourages the usage of accessory dwelling units in single-family homes.	02/11/2022- Failed.
Massachusetts	02/29/2019 MA H.B. 1282	Establishes regulations for accessory dwelling units.	12/23/2019- Died in committee.
Michigan	02/21/2001- MI S.B. 247	Exempts guest houses from township special use permits.	02/21/2001- Died in committee.
Minnesota	02/07/2023- MN S.B. 1370	Authorizes accessory dwelling units on personal residences.	03/13/2024- Died in committee.
Mississippi	No existing legislation.		
Missouri	No existing legislation.		
Montana	03/22/2023 MT S.B. 528	Revises municipal codes to allow for accessory dwelling units, also allowing municipalities to create fees for ADU applications.	05/22/2023- Enacted.
Nebraska	01/11/2024- NE L.B. 1166	Provides zoning requirements for zoning requirements and accessory dwelling units.	01/17/2024- Failed.
Nevada	03/27/2023- NV A.B.	Provides an	04/25/2023- Died in

	416	exemption from property taxes for accessory dwelling units leased to tenants receiving specific assistance.	committee.
New Hampshire	2015 NH SB 146	Requires municipalities to create reasonable regulations for accessory dwelling units.	03/16/2016- Enacted.
New Jersey	05/16/2024- NJ A.B. 4370	Concerns the development of accessory dwelling units.	02/10/2025- In committee.
New Mexico	02/20/2025-NM H.B. 554	Establishes regulations for accessory dwelling units.	03/11/2025- Died in committee.
New York	02/23/2023- NY S.B. 5172	Creates a program to incentivize the usage of accessory dwelling units.	01/03/2024- Died in committee.
North Carolina	04/02/2025- NC H.B. 627	Allows for the construction and siting of accessory dwelling units.	05/07/2025- In committee.
North Dakota	No existing legislation.		
Ohio	No existing legislation.		
Oklahoma	No existing legislation.		
Oregon	1/10/2019- OR S.B. 88	Establishes conditions for construction or approval of accessory	04/04/2019- Died in committee.

		dwelling units.	
Pennsylvania	04/05/2024- PA S.B. 1126	Provides general provisions for planning and development, accounting for accessory dwelling units.	04/05/2024- Died in committee.
Rhode Island	2021 Me. HP 1489	Establishes uniform measures for ADU, preventing over-restriction and penalization of tenants who utilize them.	06/30/2022- Enacted.
South Carolina	01/14/2025- SC H.B. 3469	Provides a property tax exemption for certain accessory dwelling units.	01/14/2025- Died in committee.
South Dakota	No existing legislation.		
Tennessee	No existing legislation.		
Texas	02/24/2023- TX H.B. 2789	Relates to the regulation of accessory dwelling units by political subdivisions.	05/22/2023- Died in committee.
Utah	02/01/2022- UT H.B. 288	Describes a new tax assessment for accessory dwelling units.	03/04/2022- Failed.
Vermont	01/13/10- January 13, 2010	Proposes an alternative size limit for accessory dwelling units attached to smaller homes.	01/14/10- Failed.

Virginia	01/08/2025 VA S.B. 1256	Allows local governmental bodies to include accessory dwelling units in residential development.	01/27/2025- Substituted.
Washington	2019 Wa. SB 6617	Promotes the usage of accessory dwelling units to provide affordable housing to provide affordable housing options.	03/27/2020- Enacted.
West Virginia	02/28/2025- WV H.B. 3052	Establishes regulations for accessory dwelling units.	02/28/2025- Failed.
Wisconsin	09/25/25- 2025 Bill Tracking WI A.B. 449	Creates boundaries for the regulation of accessory dwelling units.	10/15/2025- In committee.
Wyoming	No existing legislation.		

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A3- Court Cases

Case	Year	Holding
<u>Bmg Monroe I, LLC v. Vill. of Monroe</u> , 2022 U.S. Dist. LEXIS 67609, 2022 WL 1094538 (Southern Dist. N.Y. April 12, 2022)	2022	In a dispute between BMG and the Village of Monroe, the US Supreme Court upheld BMG's right to limit the size and occupancy of accessory dwelling units in residential areas, whether or not this restriction results in unintended cultural separation.
Nikolas v. City of Omaha, 2009 U.S. Dist. LEXIS 15996	2009	After a Nebraska citizen was denied a permit to build an accessory dwelling unit, the United States District Court ruled that the rejection of a property owner's permit request without explanation was not in violation of

		constitutional rights. Additionally, the Court ruled that vagueness in application language was not a ground for discrimination.
Thompson v. City of Bozeman, 2020 U.S. Dist. LEXIS 88796	2020	In this case, the US District Court ruled that the creation and ratification of Homeowners Associations were legal and constitutional, thus giving them the authority to alter regulations on property use for accessory dwelling units.

Sources:

<https://advance.lexis.com/sourceselection/?pdmfid=1519360&crid=e4aa611f-9e5f-4abe-9867-446835deb6c8>