AEI Housing Center

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How to Address the Housing Shortage

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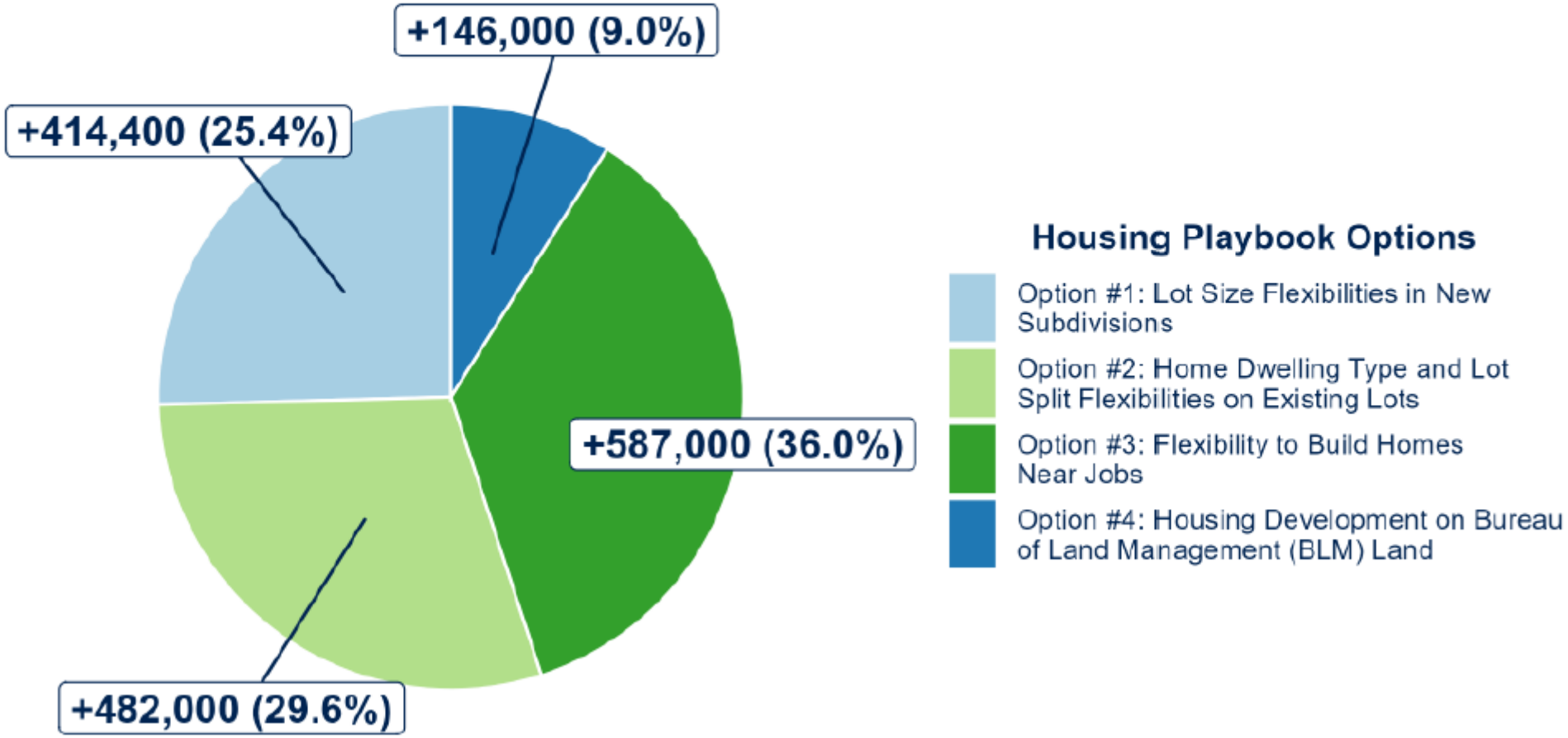
Housing Success Playbook: Focus on the big plays

How the Nation Could Add 1,629,400 Homes Per Year

*Following the AEI Housing Success Playbook Would Increase New Homes by 125%**



Source: AEI Housing Center and 2023 5-year ACS, https://heat.aeihousingcenter.org/toolkit/playbook.

Option 1: Lot size flexibility in new subdivisions

- **While we can't rewrite the past, we can shape the path forward.**
- Since 2000, the nation has built around 12 million single-family homes at an average lot size of 8,000 sq. ft.
- If the average lot size had been 5,500 sq. ft., the country could have produced an estimated 9 million homes more.
- These homes would have been smaller and more affordable.
- The key is to provide builders with lot size flexibility.

Source: AEI Housing Center, www.AEI.org/housing.

The three most important things in addressing housing supply and affordability: Smaller lots, smaller lots, smaller lots

Smaller lots unlock greater affordability by allowing more homes to be built. This reduces land costs, leads to smaller, but still family sized homes, and promotes townhomes, which cost less to build than a similarly sized detached home.

Example:
The satellite view below is of a portion of a neighborhood in Dilworth, MN -- about 5 miles east of Fargo.

The two rows of houses to the right take up roughly the same amount of land and were both built in 2003.

Top row:
6 single-family detached homes
2,300 sq. ft. of living area
4 bedrooms/3 baths
$336,000

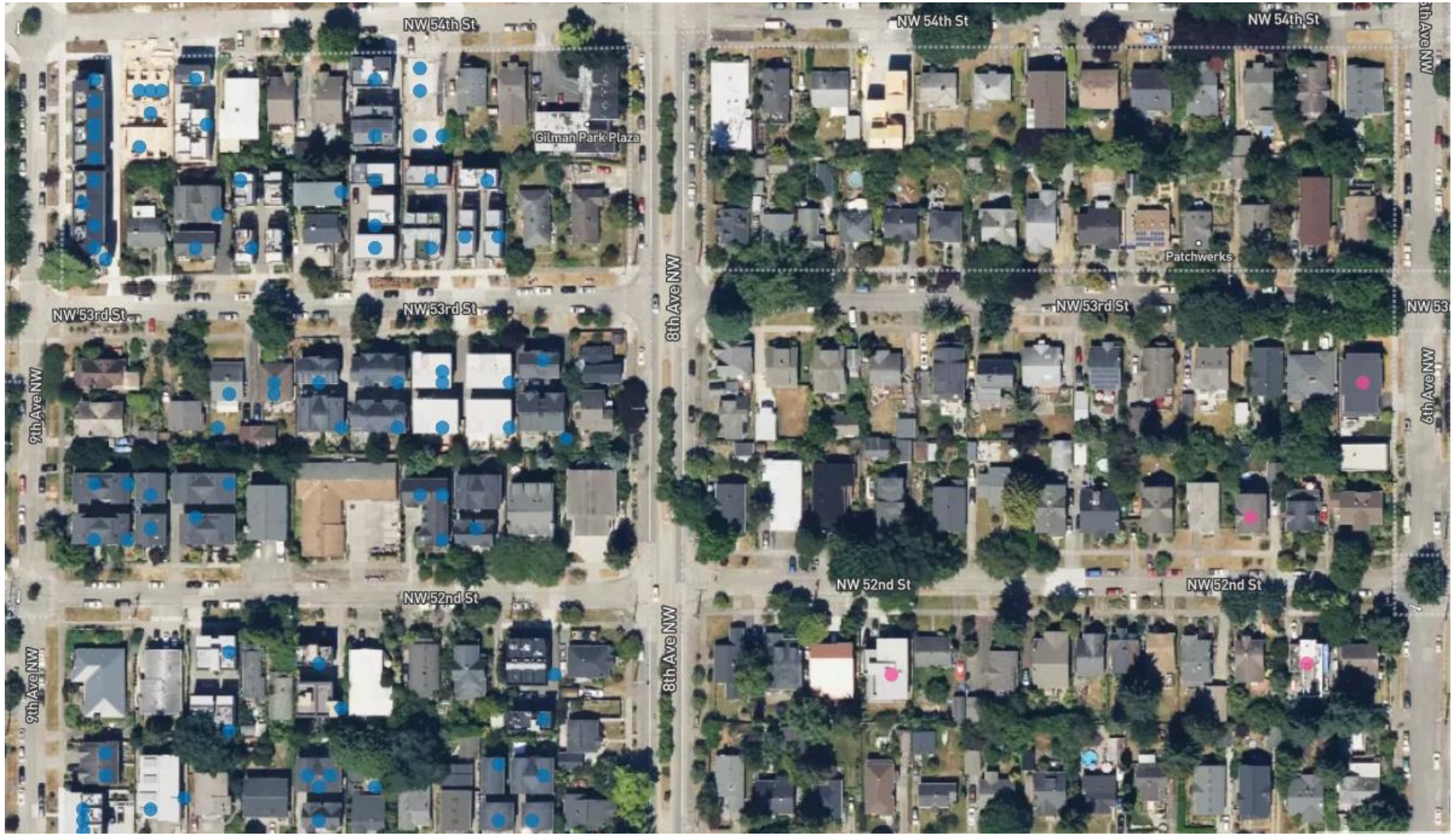
Bottom row:
10 twin homes
1,400 sq. ft. of living area
2 bedrooms/2 baths
$250,000 – *or 26% less*.

Source: Zillow and AEI Housing Center

Option 2: Home dwelling type and lot split flexibilities on existing lots

- Ideal for infill areas with higher land values.
- Conversion occurs at a rate of roughly 1% per year.
- Example: Seattle, which allowed this type of development in 1994 in a few areas of the city.

Single Family Homes Built in a Seattle Neighborhood since 1994



Source: OpenStreetMap, Google and AEI Housing Center.

Lots of townhome conversions in the LRM zone

Older homes are getting replaced with newer ones.

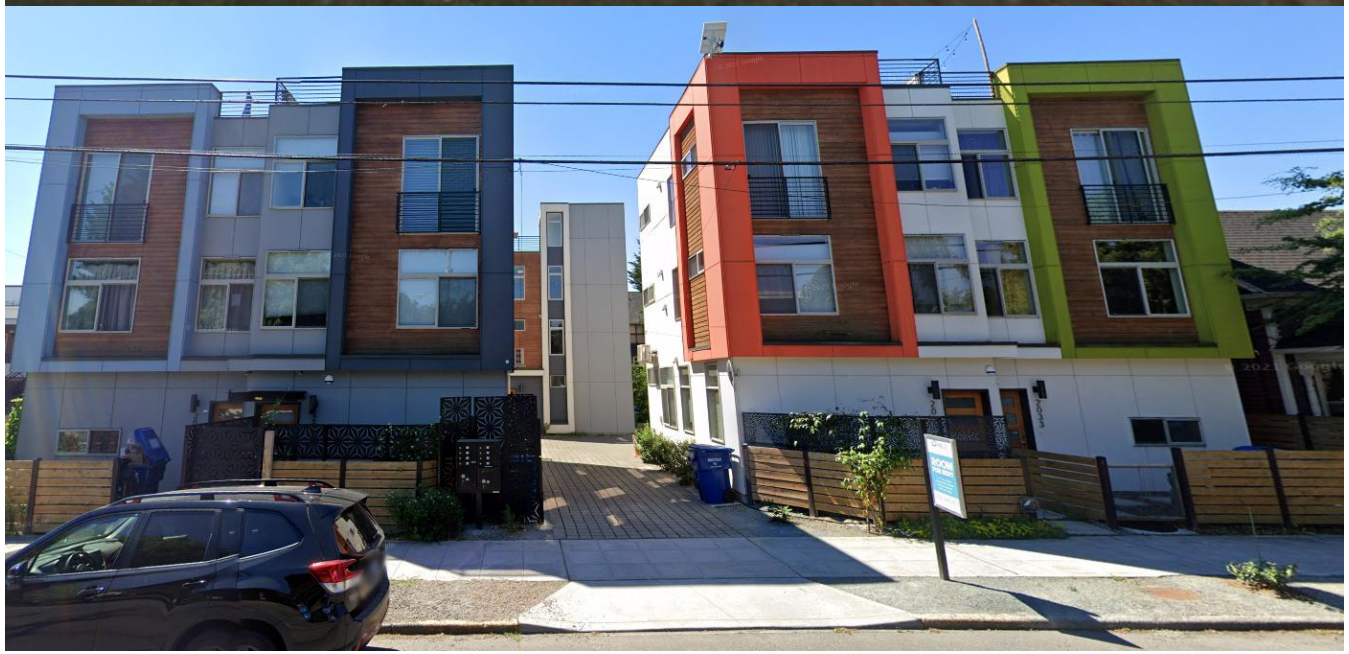
Top picture: as seen in 2007.

Bottom picture: as seen today.

The 2 original single-family detached units on separate lots were converted into 7 total units.

The same land area now hosts 2 duplexes upfront and 3 additional units in the back.

Each new home is valued at around $875,000 today, while each previous home may be valued at around $1 million today.



Source: Redfin, Zillow, and Google.

Building at moderately higher densities has a prophylactic effect on affordability

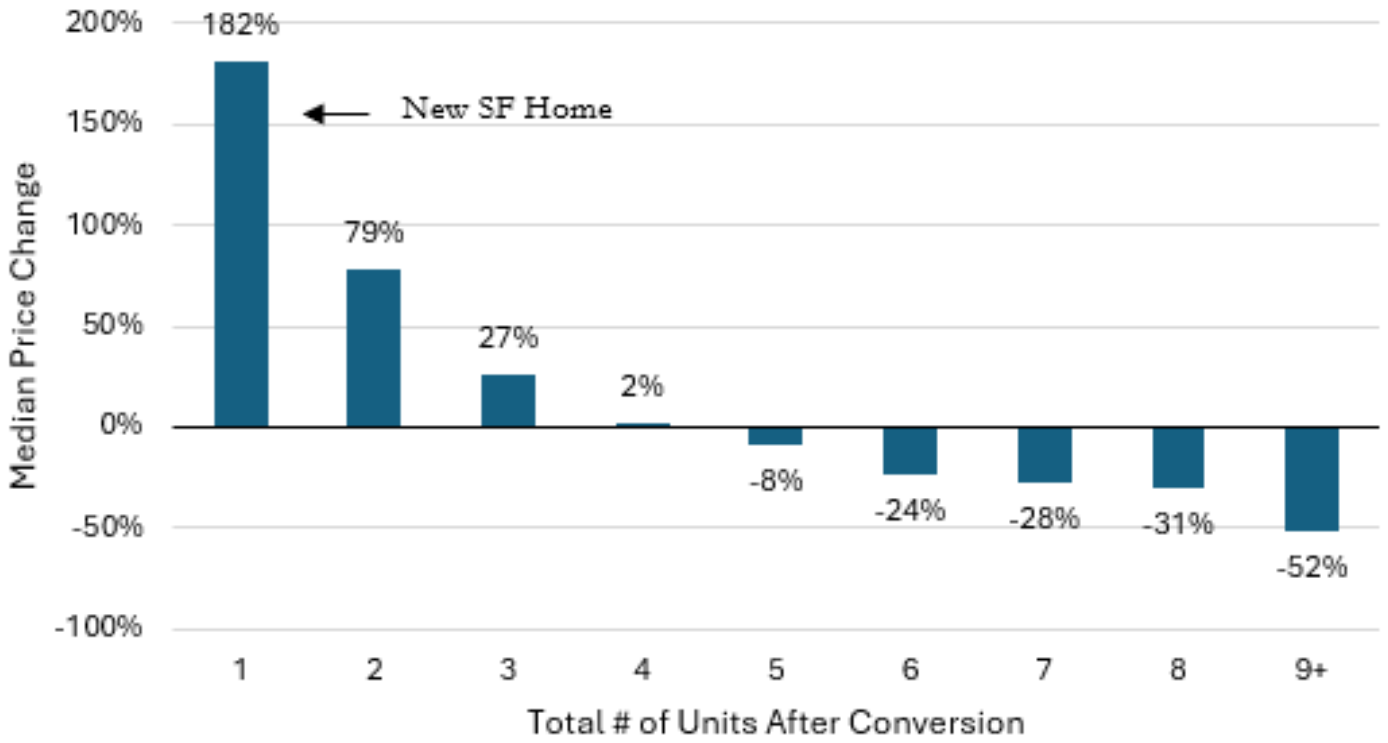
At greater densities, a home uses less land, and the home's gross living area drops commensurately. (In other words, builders build smaller homes on smaller lots – and vice versa.)

This has massive implications for affordability as data from actual housing conversions in Seattle show.*

Displacement pressures rise as each McMansion replaces a much more moderately priced home.

Converting to higher densities enables families of similar or even somewhat lower incomes to buy into the neighborhood, thereby promoting inclusion and filtering.

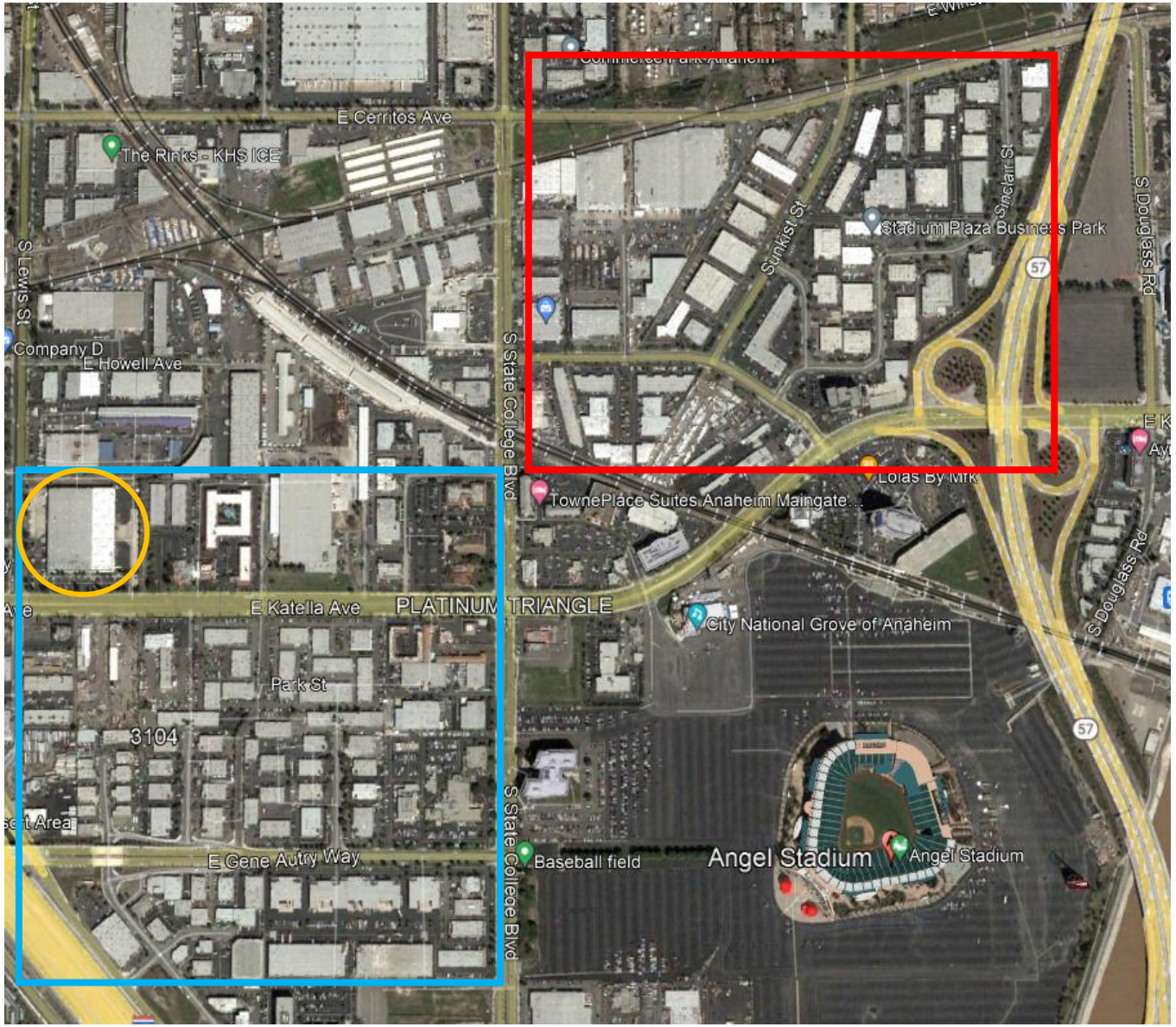
Figure 11. Median Price Change between the Unit Replaced and the New Units Built



Note: Data are for 4,200 conversions in Seattle SFD and LRM zones from the mid-19990s onward. A conversion is defined as the act of tearing down an existing single-family detached structure and replacing it with a new structure of varying unit totals.
Source: Krause (2015) and AEI Housing Center, www.AEI.org/housing.

Option 3: Flexibility to build homes near jobs

A natural experiment: The Anaheim neighborhood in 2003



Control Area

Example property

Treatment Area (Platinum Triangle)

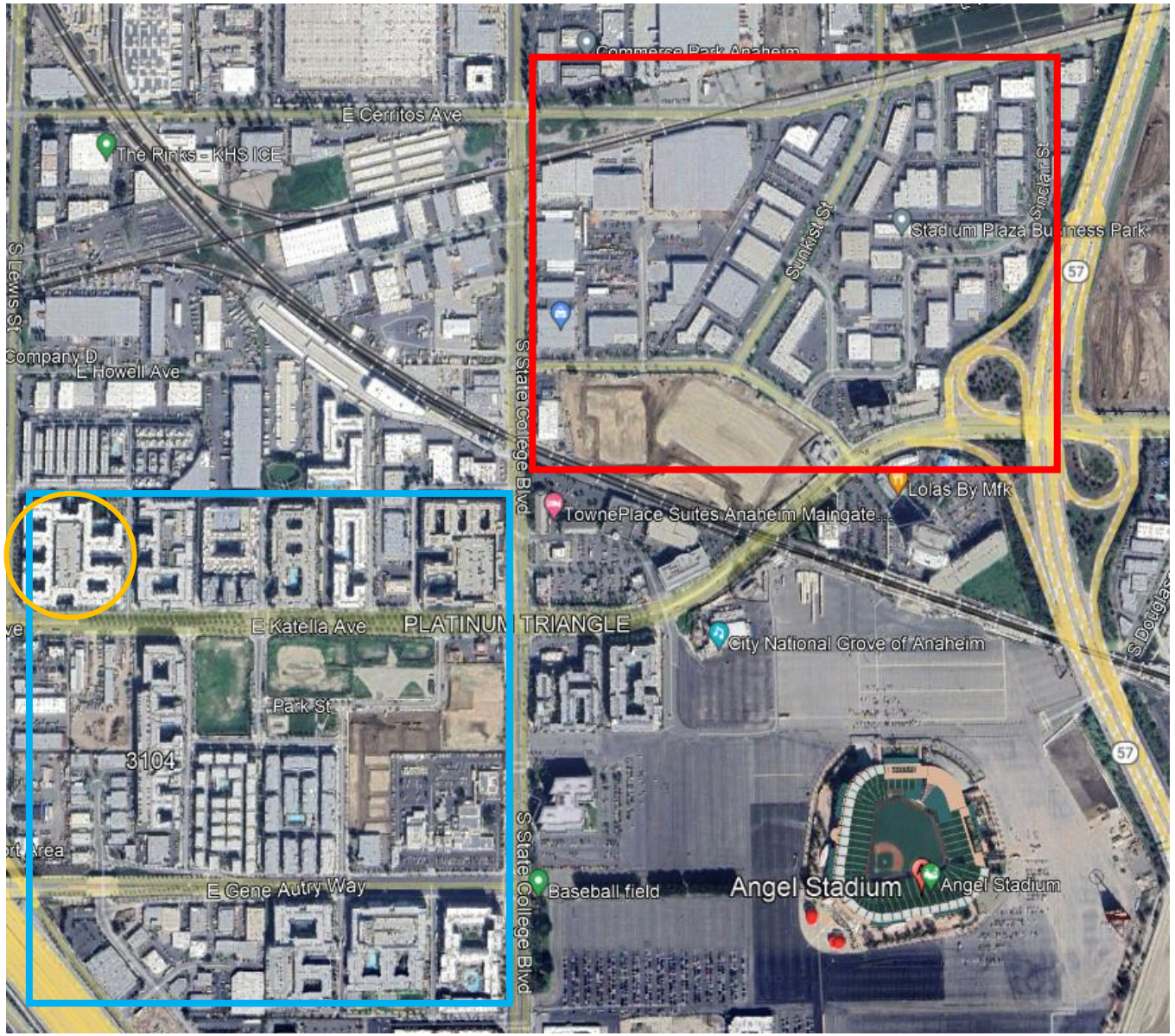
Source: Google and AEI Housing Center, www.AEI.org/housing.

Option 3: Flexibility to build homes near jobs (cont.)

A natural experiment: The Anaheim neighborhood in 2003

Example property

Treatment Area (Platinum Triangle)



Control Area

Source: Google and AEI Housing Center, www.AEI.org/housing.

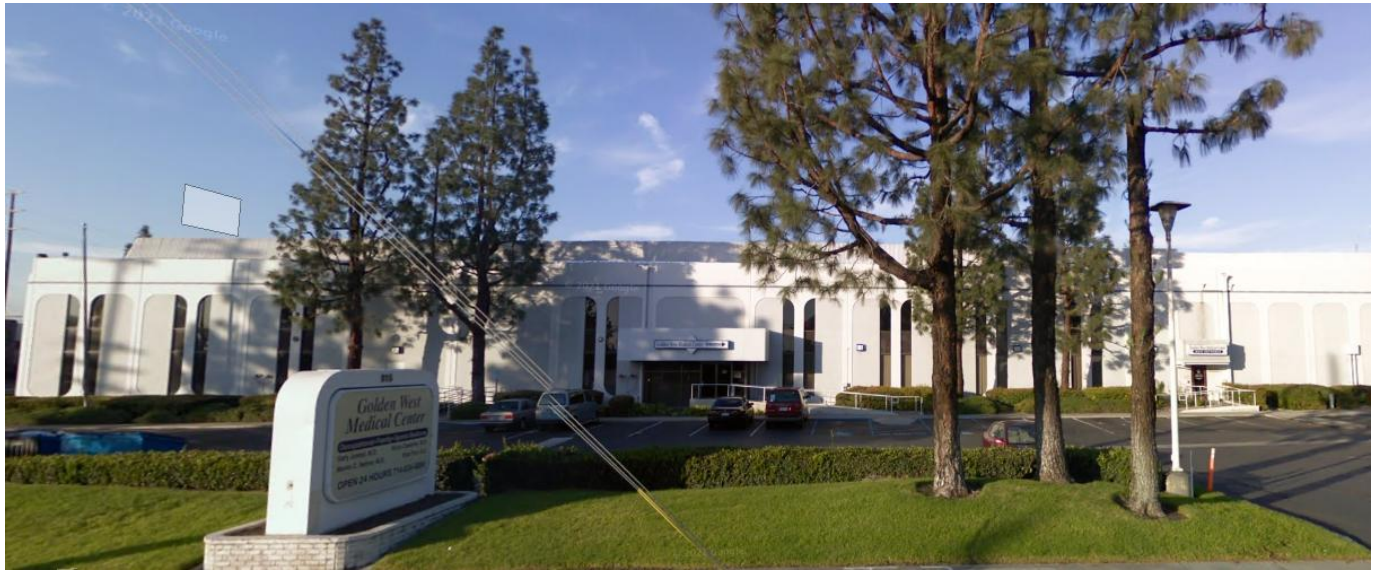
Example of a converted property in the treatment area (Platinum Triangle)

915 E Katella Ave, Anaheim, CA 92805

Land use:

- In 2011: Business Park with a medical center, design company, etc.
- In 2023: Multifamily building with 399 units on 5 stories.

Lot size: 287,000 sq. ft.



Converted from a business park (top photo from 2011) to a multifamily building (bottom photo from 2023) in 2015

Assessed Value:

- In 2023: $162 million (~ $564.8 per sq. ft.)

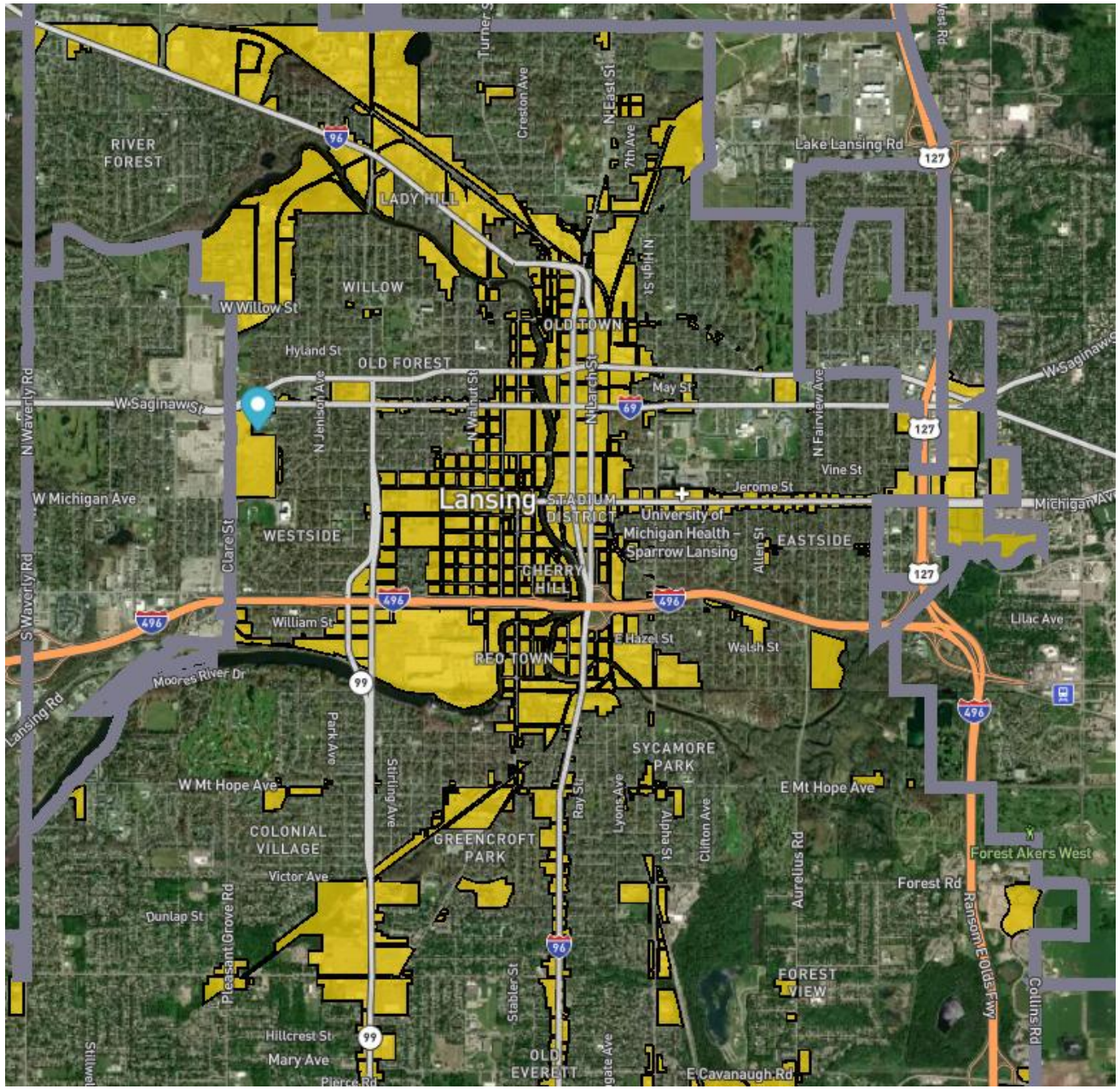
On a per sq. ft. basis, the assessed value of the multifamily building in 2023 is **15x the assessed value of the commercial property** in the control group.

In 2003, when both parcels were commercial properties, their assessed values were probably not too different from each other.

Source: Google, Attom, and AEI Housing Center, www.AEI.org/housing.

Option 3: Flexibility to build homes near jobs (cont.)

- Map of commercial- or industrial-zoned areas around Lansing, MI.

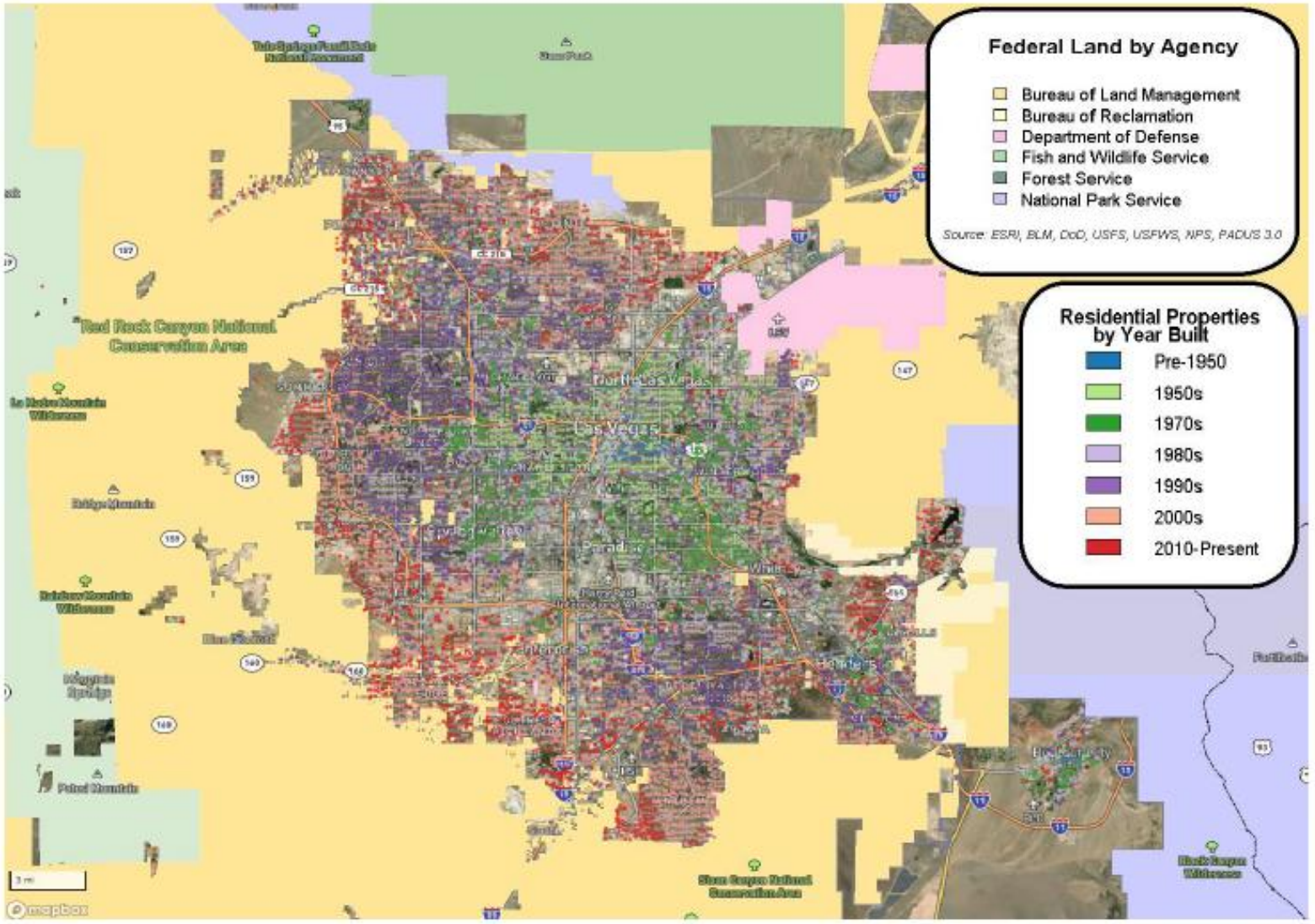


Source: AEI Housing Center.

Option 4: Housing Development on Bureau of Land Management Land

- Like many metros in the West, Las Vegas's growth is constrained by federal land.

Housing Development & Federal Land



To see the rest of Homesteading 2.0, explore our Homesteading 2.0 interactive map: https://heat.aeihousingcenter.org/toolkit/homestead_map
Source: BLM, AEI Housing Center, https://www.aei.org/housing.

Option 4: Housing Development on Bureau of Land Management Land (cont.)

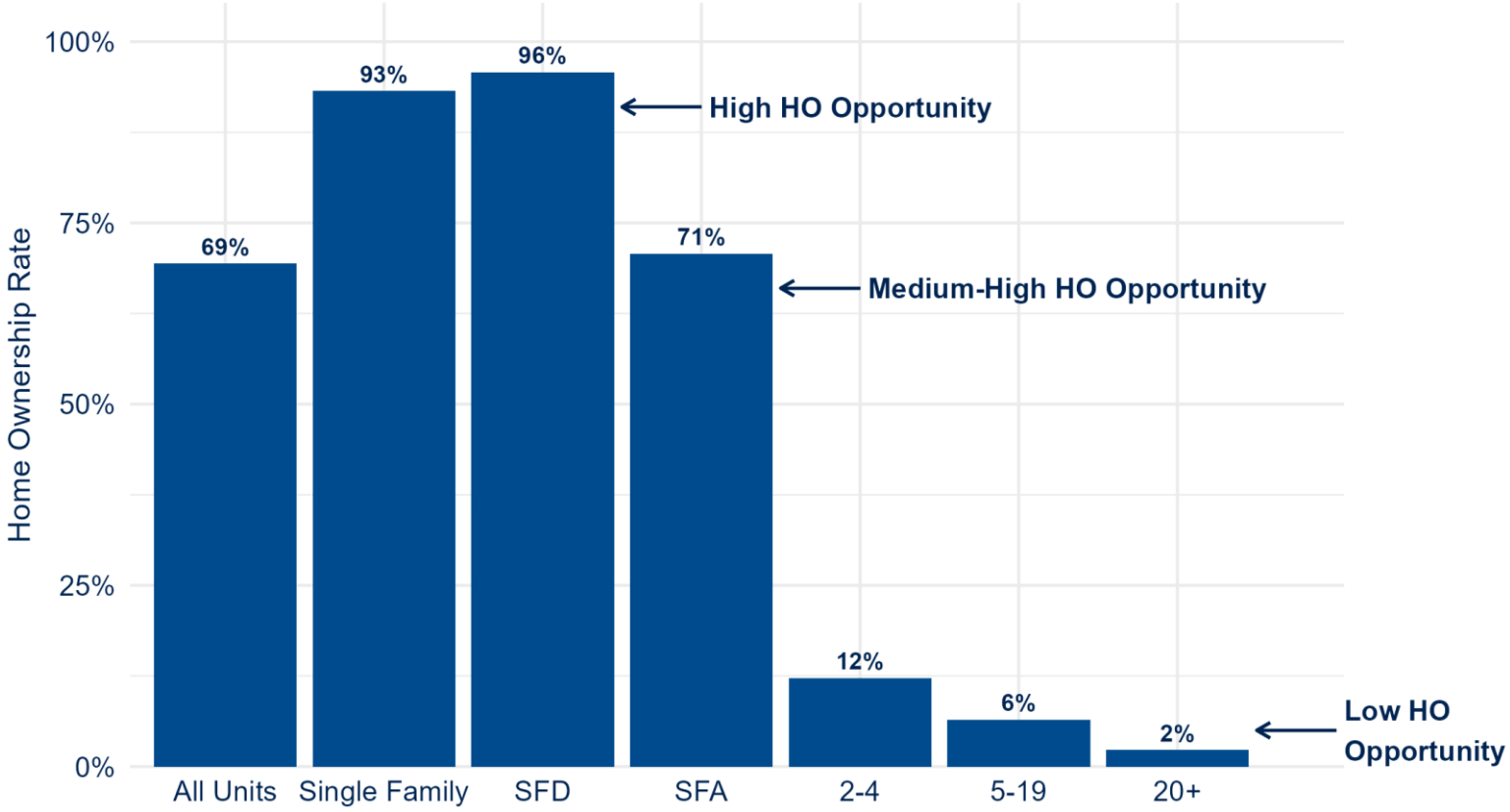
- The BLM manages 14,000 parcels like this – either within 5 miles of a single-family subdivision or within city limits. Each parcel can hold an average of 640 homes.

One example of BLM land (purple) directly adjacent to a recent development in Las Vegas.

Source: BLM and AEI Housing Center, www.AEI.org/housing.

Focusing on single-family homes is key to supporting families and improving home ownership opportunities

Home Ownership (HO) Rate by Property Type in Michigan for Homes Built 2010-2023



Average Number of Bedrooms by Property Type in Michigan

	All Units	Single Family	SFD	SFA	2-4	5-19	20+
Homes Built 2010-2023	3.0	3.4	3.5	2.5	2.1	1.9	1.3
Total Housing Stock	2.8	3.1	3.2	2.4	1.9	1.7	1.3

Note: All results are calculated using Census-created household weights.
Source: 2023 5-Year American Community Survey Microdata and AEI Housing Center, www.AEI.org/housing.

Legalize and they will build

Implement the Housing Abundance Success Sequence:

1. **Allow small lots, infill homes, and housing near jobs** by adopting one or more of the reform options outlined in the previous slides,
2. **Enable by-right zoning**, so projects don't get delayed or killed by discretionary reviews,
3. **Follow the Keep it Short and Simple (KISS) principle** instead of micromanaging the process.

Key KISS-Aligned Policies:

- **Enable smaller lots by reducing minimum lot sizes and simplifying lot splits**
- **Clean up the zoning code**
  - Adjust standards so they are small lot friendly, like: Floor Area Ratios (FAR), setback and height limits, demolition fees, etc.
- **Reduce parking mandates**
- **Implement preapproved design templates**
- **Implement permitting "shot clocks" or allow third-party reviews**
- **Lower or waive impact fees**
- **Align energy and building codes with affordability goals**

Common Micromanagement Pitfalls:

- **Spot upzoning**
- **Reliance on subsidies to add new supply**
- **Inclusionary zoning & income limits**
- **Special treatment for subsidized housing only**
- **Special programs to "jumpstart" housing construction**
- **Permit caps**
- **Owner-occupancy mandates**
- **Rent control**
- **Open space and landscaping minimums**
- **Wage requirements**
- **Basement granny flat height limits**
- **Growth boundaries**
- **Housing needs assessments**
- **Exclusive focus on Transit Oriented Development**

List of AEI Housing Supply Case Studies

1. Anaheim
2. California
3. Charlotte
4. Cherry Creek & Denver
    a. Denver Zoning Policies
5. Does Building Light-Touch Density Lower Single-Family Home Values?
6. Fargo
7. Filtering: Theory and Practice
8. Houston
    a. Houston Townhome Reforms (by Emily Hamilton, Mercatus Center)
9. Institutional Landlords
10. Los Angeles
11. Los Angeles Metro: McMansionization
12. Menlo Park, Palo Alto, and Los Altos (San Jose metro) Case Study
13. Minneapolis
14. Nashville (by Charles Gardner, Mercatus Center)
15. Palisades Park
16. Philadelphia
17. Phoenix & Arizona
18. Raleigh
19. San Diego ADU Construction
20. Sarasota
    a. Sarasota *(The Observer)*
21. Seattle: Low-Rise Multifamily and Housing Supply
22. Short-Term Rentals
23. Single-Room Occupancy Units (SROs)
24. Tokyo
25. Traditional Housing Subsidy Programs and Inclusionary Zoning
26. Unleashing the Swarm
27. Utah
28. Vienna, Austria

Access your Playbook

Find your playbook online

Over 6,600 individualized Playbooks are available online (nation, states, 571 MSAs, 1,000+ counties, and 4,600+ cities and places).
Visit https://aeihousingcenter.org/playbook, or scan the QR code.

Link to AEI HEAT Toolkit:

https://heat.aeihousingcenter.org/toolkit

Link to AEI Housing Market Indicators:

https://www.aei.org/housing/housing-market-indicators/

Background and Methodology

To read the background and methodology for this playbook, visit https://www.aei.org/strong-foundations-a-playbook-for-housing-and-economic-growth-methodology/, or scan the QR code.