U.S. Chamber of Commerce

AEI

Strong Foundations

A Playbook for Housing and Economic Growth

Oak Lawn Village, Illinois

Overview

Housing has long been a cornerstone of the American dream and the nation's economy, but a supply–demand imbalance has pushed the U.S. market into crisis, driving up prices and limiting workforce mobility. Addressing this shortage is essential to stabilize the market and sustain economic resilience, so the U.S. Chamber of Commerce and the AEI Housing Center* have released Strong Foundations: A Playbook for Housing and Economic Growth, a guide that gives state and local leaders actionable solutions. The playbook is backed by location specific data on affordability, net migration, and homeless displacement pressure. These data allow officials to make informed decisions to reinforce housing stability and spur growth.

We thank our data providers – First American, Intercontinental Exchange, U.S. Parcl Labs, Zoneomics, and Cotality – our analysis would be impossible without their data. We also acknowledge the use of data from Bureau of Labor Statistics, Bureau of Economic Analysis, SafeGraph, U.S. Census, Overture Maps, OpenStreetMap, ESRI Community Maps, Microsoft, Freddie Mac, U.S. Department of Housing and Urban Development, IRS, and the U.S. Geological Survey.

The Key to Housing Abundance

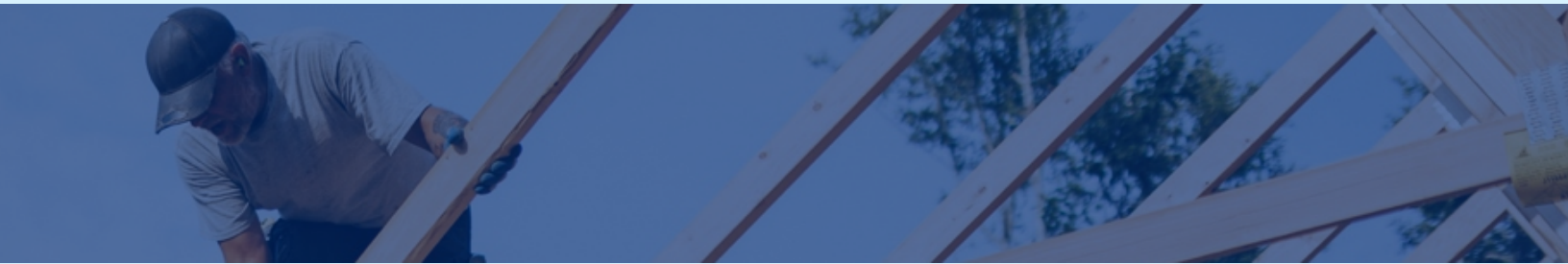
Small lots, small lots, small lots. Enabling small lots are essential to building more family-sized starter homes.

Key ways to unlock smaller lots and new housing supply

- **Lot size flexibility in new subdivisions:** allow the building of homes on small lots instead of only large lots. Small lots enable the construction of starter single-family homes and townhomes.
- **Home dwelling type and lot split flexibilities on existing lots:** allow the construction of a variety of dwelling types and sizes, including duplexes, triplexes, quadplexes, townhomes, and ADUs.
- **Flexibility to build homes near jobs:** allow for a residential overlay by-right in non-residential districts such as commercial/retail, bringing people closer to jobs and amenities.

Building in flexibility for lot size and density will help unleash new housing supply, restore affordability for buyers and renters alike, and reopen the path to ownership for working families.

* *AEI Housing Center scholars Edward Pinto, Tobias Peter, and Arthur Gailes.*



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Executive Summary

Options Communities Should Consider to Add Up to 237 Homes Annually in Oak Lawn Village, Illinois

While every community has differences in infrastructure such as road, schools, and sewer and water availability, and local laws vary, our Housing Playbook offers strategies to help add more housing supply to meet growing demand.

Option 1: Home Dwelling Type and Lot Split Flexibilities on Existing Lots

- Municipalities should consider allowing duplexes, other multiplexes, townhomes, or accessory dwelling units (ADUs) on single-family lots and allow lot-splits by setting a minimum lot size of no more than 1,200 square feet for new lots.

Projection: 170 net new homes annually with a median value of $348,000, which is 34% below today's median value of Oak Lawn Village's new SFD infill housing built from 2014-2024.

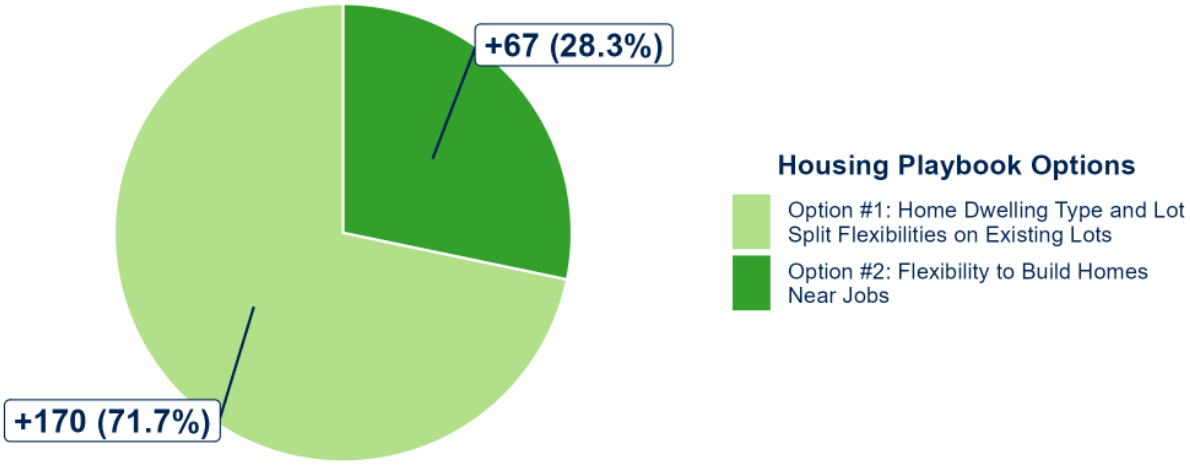
Option 2: Flexibility to Build Homes Near Jobs

- Allow for a residential overlay by-right in non-residential areas, which could include shopping areas or other appropriate commercial districts, bringing people closer to jobs and amenities.

Projection: 67 net new homes annually.

How Oak Lawn Village Could Add 237 Homes Per Year

*Following the AEI Housing Success Playbook Would Increase New Homes by 1 099%**



** Compared to new single and multi-family homes built from 2010-2023. Source: 2023 5-year ACS and AEI Housing Center, https://aeihousingcenter.org/playbook.*

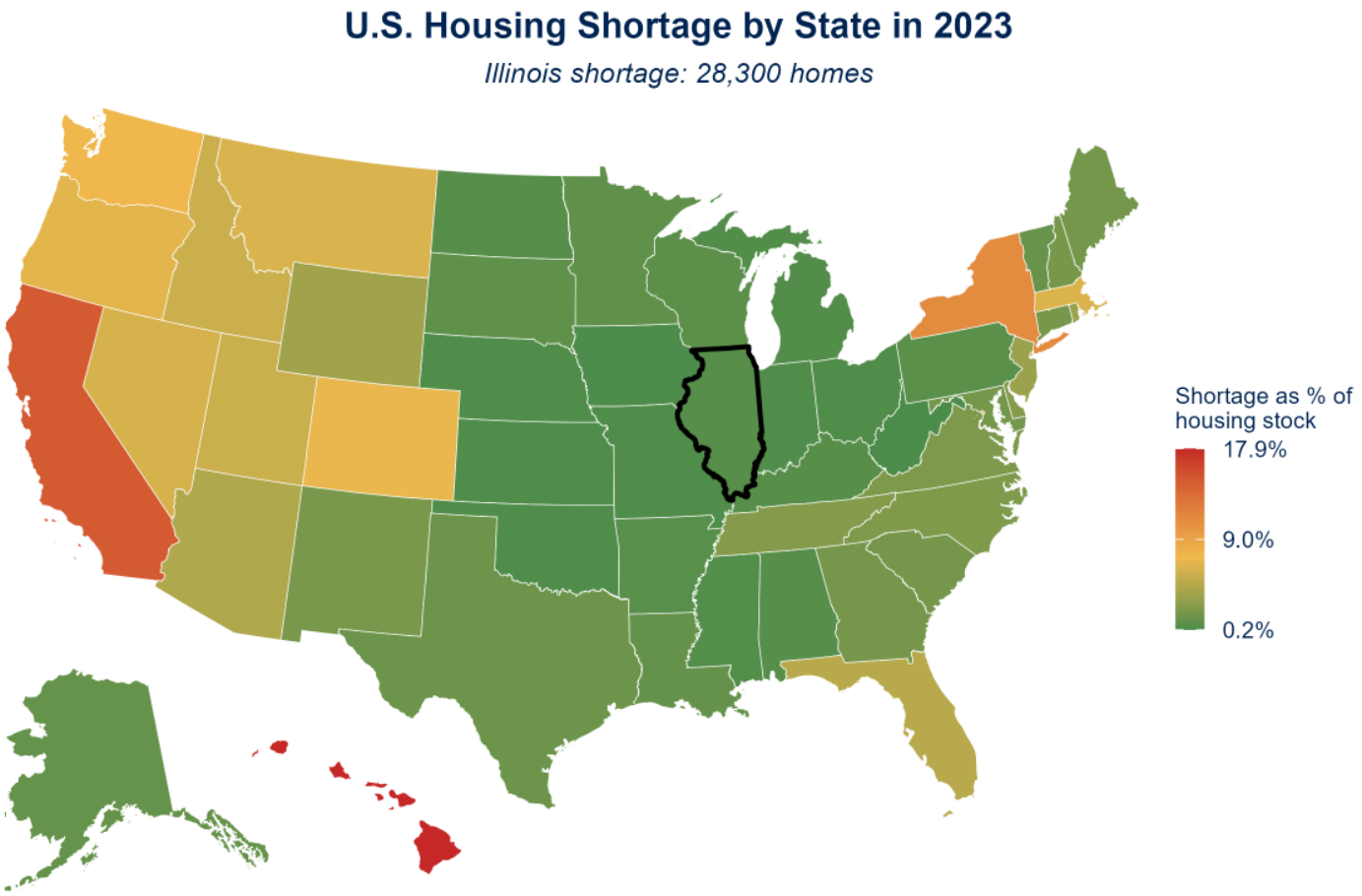
Impact of the Housing Shortage

Recent studies estimate that the national housing shortage ranges from around 4 to 8 million homes. In this shortage analysis, we use the mid-point of about 6 million homes.[1] The map below shows where that shortage lies.

Oak Lawn Village is short **50** homes—roughly **0.2%** of its entire housing stock. That shortage is an invisible hand squeezing families out of home ownership, pushing rents higher, and forcing workers to commute farther from jobs and schools. Every year we fail to close it, prices climb faster than wages, overcrowding worsens, and the dream of a starter home slips further away.

Fixing the nation's housing shortage would:

- Bring home price growth in alignment with wage growth.
- Give renting families a path to home ownership.
- Relieve upward pressure on homelessness and displacement.



Source: 2023 1-Year American Community Survey (ACS) and AEI Housing Center, https://heat.aeihousingcenter.org/toolkit/housing_shortage.

[1] We assume a national housing shortage of 6 million homes - a midpoint between various studies estimating a shortage of between 4 and 8 million (see for example: Up for Growth, Zillow, Realtor.com, McKinsey). We then allocate that shortage to counties (or cities) using the ratio of median home price to income.

Why Allow for Lot Size and Location Flexibility?

This gives owners the right to build homes that most people can afford—whether in new neighborhoods, existing communities, or near jobs. It increases supply and affordability by allowing people to build starter homes on **smaller lots in new residential subdivisions**, and by **allowing duplexes, triplexes, fourplexes, townhomes, or ADUs** on single-family lots. It also refers to location – allowing **homes near jobs** and amenities in commercial and other non-residential areas.

It creates more affordable starter homes by using land more efficiently. This approach reduces sprawl, infrastructure costs, and energy use. By building smaller homes on smaller lots, we can significantly increase the supply of lower-priced, family-sized homes while freeing up existing housing stock.

It creates more workforce housing since single-family detached homes and townhomes average about 3.5 and 2.8 bedrooms respectively and are suitable for raising a family and naturally affordable shared living arrangements (42% of renters live in single-family homes).

What is the flexibility to build homes near jobs?

Legalizing single-family, multifamily, and mixed-use residential by right in all commercial, industrial, and mixed-use areas. This allows people to live near their jobs and amenities if they choose.

By-right housing can transform underused commercial and industrial properties into owner-occupied and rental homes, helping cities make better use of land and infrastructure. Combined with small lots, this helps give people of all incomes greater choice in where and how they choose to live.

The Housing Affordability Trifecta: Why Smaller Lots Mean Lower Home Prices

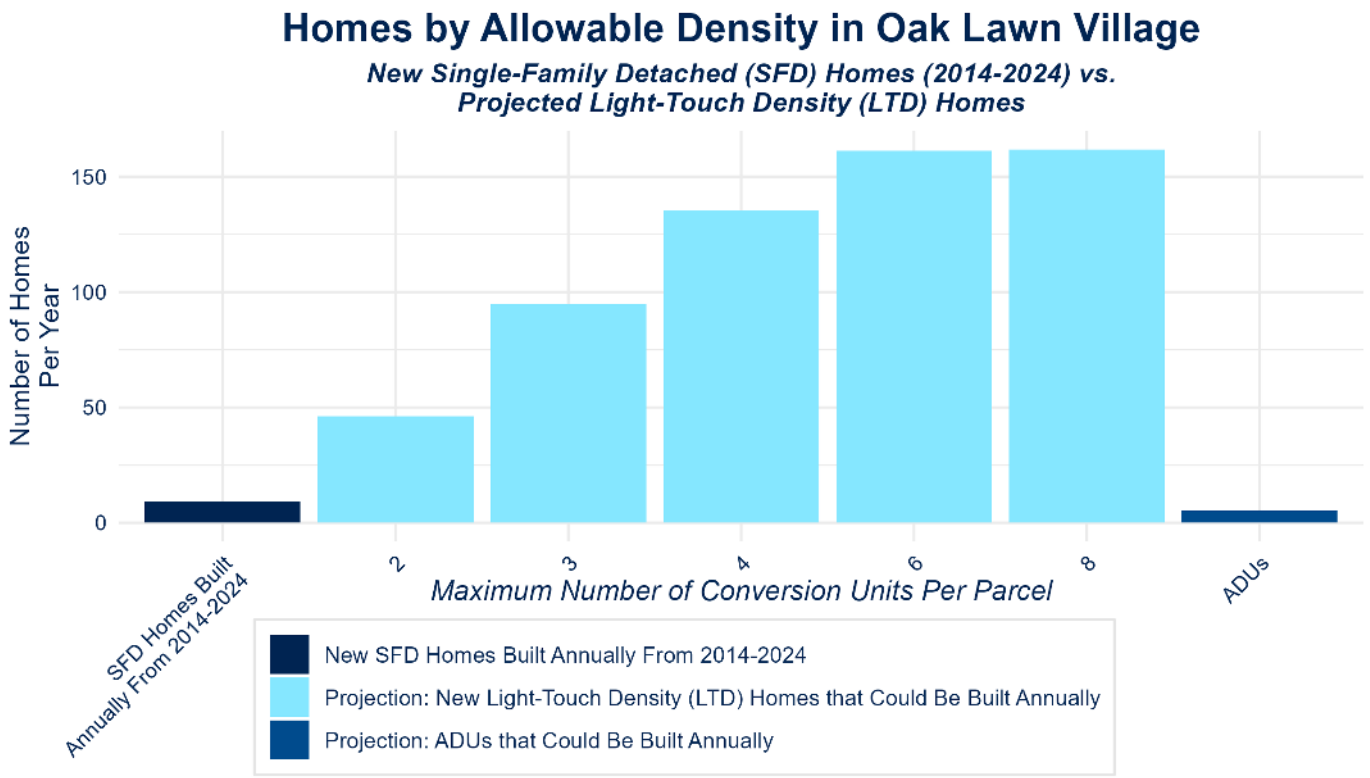
- **Smaller lots** → lower land costs
- **Smaller homes** with standard finishes → more affordable per home
- **More townhomes** → efficient land use, lower cost per square foot

Diving Deeper: Option 1: Home Dwelling Type and Lot Split Flexibilities on Existing Lots

Allowing home dwelling type and lot split flexibilities on existing lots in single-family neighborhoods in Oak Lawn Village could add 170 homes per year, or about 18 times more than the current rate of SFD construction in Oak Lawn Village.

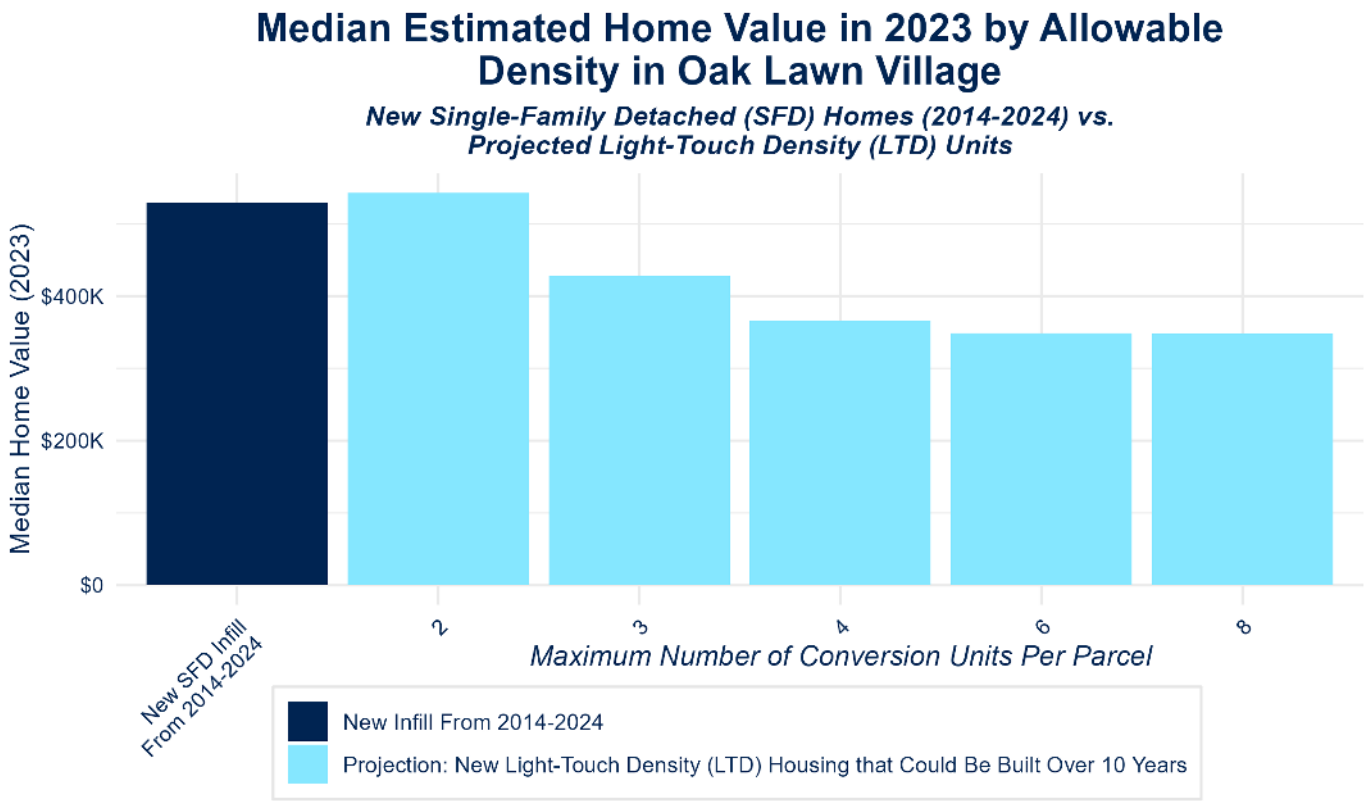
These new homes are created through the legalization of home dwelling types or by splitting existing lots into smaller parcels. They can take the form of smaller lot SFD homes, townhomes, 2–8 home multiplexes, and ADUs in neighborhoods currently restricted to single-family detached homes.[2] To achieve this outcome, Oak Lawn Village should set a minimum lot size of no more than 1,200 sq.ft. for new lots created through single-family lot splits.

This bar chart compares **the number of new SFD homes built in Oak Lawn Village from 2014-2024** (shown in dark blue) to the **potential number of homes** that could be created by these flexibilities.



Source: First American and AEI Housing Center, https://heat.aeihousingcenter.org/toolkit/ltd_chart.

[2] Projections for ADUs are given only in cases when they are the highest and best use of land. In areas with high land values, duplex, triplex, and townhome conversions are typically the higher and better land use. If both ADUs and small multiplexes make financial sense, we assume the option that produces the most homes on that lot. Light-Touch Density: Housing Supply and Affordability Estimates.



Source: First American and AEI Housing Center, https://heat.aeihousingcenter.org/toolkit/ltd_chart.

Diving Deeper: Option 2: Flexibility to Build Homes Near Jobs

Legalizing housing in commercial and other areas by allowing single-family, multifamily, and mixed-use residential homes to be built by right in non-residential areas.[3]

This allows for the transformation of underused land into vibrant walkable neighborhoods, without the need to expand into undeveloped areas or invest in new infrastructure.

This policy is a win-win-win:

- Residents can live closer to jobs, shops, and other amenities. This can be especially helpful for service workers working nearby.
- Cities can expand their tax base without increasing tax rates.
- Local businesses can gain more foot traffic and new customers.

Residential overlays help solve housing shortages, reduce commutes, cut transportation and housing costs, and make better use of existing infrastructure — easing costs for families, reducing strain on public services, and supporting healthier, more livable communities.

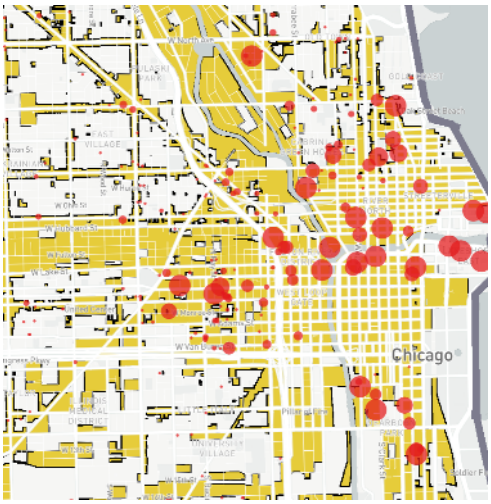
Option 2′s estimate for additional homes per year is based on the subject city's current level of home production in its current commercial, industrial, and mixed-use areas as compared to best-in-class cities that are similar in size.

To explore Residential in Commercial areas in your jurisdiction, click here. Here are two successful examples:

Residential in Commercial Successes and Opportunity: Miami built over 2,000 homes/year in residential overlay areas (yellow) from 2012-2024. Chicago only built 600/year, and has more opportunity to grow.[4]

Miami

Chicago



Source: First American, Zoneomics, Overture Maps, OpenStreetMap, ESRI Community Maps, Microsoft, and AEI Housing Center, https://heat.aeihousingcenter.org/toolkit/luv_map.

[3] The playbook does not include estimates for the supply benefits gained from adding more housing in adjacent residential areas within 1/4 mile of residential overlay areas as they are included in Option 2 estimates.

[4] Note: Each dot represents a multi-family home built from 2010-2024, sized by the number of units in the property.

For more, see: AEI Housing Center's Housing and Economic Analysis Toolkit (HEAT) Residential in Commercial

A Path to Housing Abundance: Implementation Strategy

The three most important things in addressing housing abundance and affordability: **"small lots, small lots, small lots."** Smaller lots allow more homes to be built on the same amount of land. This reduces land costs, leads to smaller, but usually still family-sized homes, and promotes townhomes, which cost less to build than a similarly sized detached home. They also provide home-sharing opportunities for service workers.

Across the country—and around the world—case studies consistently reveal a formula for successful housing supply reform:

- **Allow small lot flexibility for new subdivisions, home dwelling type and lot split flexibilities on existing lots, and the flexibility to build homes near jobs** by adopting one or more of the reform options outlined above,
- **Enable by-right zoning**, so projects don't get delayed or killed by discretionary reviews,
- **Follow the Keep it Short and Simple (KISS) principle** instead of micromanaging the process.

How Does the KISS Principle Unlock Housing Supply?

The KISS principle refers to eliminating unnecessary complexity in the homebuilding process. Simplicity brings certainty, lowers costs, and makes small-scale infill and larger-scale development both feasible and attractive. See *Full List of KISS Reforms to Consider* for more details.

Others Are Doing it, and Model Legislation Is Available

Several states—including Texas, California, Montana, Vermont, Oregon, and Washington—have recently enacted legislation to support housing abundance.

The key to successful reform lies in adhering to the Housing Abundance Success Sequence while avoiding unnecessary micromanagement. A range of legislative templates and model bills are readily available to guide this process. Texas SB-15 (lot size flexibility for new residential subdivisions in larger cities) and Texas SB-840 (residential and mixed-use housing on all commercial and light industrial land in larger cities) were enacted in mid-2025. Taken together, these two bills implement Playbook Options 1 and 3. Implementation of Option 1 and 2 can be accomplished through a single model bill: the AEI Model Starter Homes Act, which sets minimum lot sizes for both residential subdivisions and home dwelling type and lot split flexibilities on existing lots. A second model bill, AEI Model Multifamily and Mixed-Use Residential in Certain Zoning Classifications, covers Option 3. It would allow for a residential overlay by-right in commercial, industrial, and mixed use zones.

Boosting Housing Supply Keeps Home Prices in Check – Especially in High Job Growth Markets

In fast-growing metros, home prices tend to rise sharply when housing supply doesn't keep pace with job growth.[5]

This graphic shows that metros with high employment growth, but low new construction shares, experienced the steepest increases in home prices between 2012 and 2019 (before the pandemic).[6]

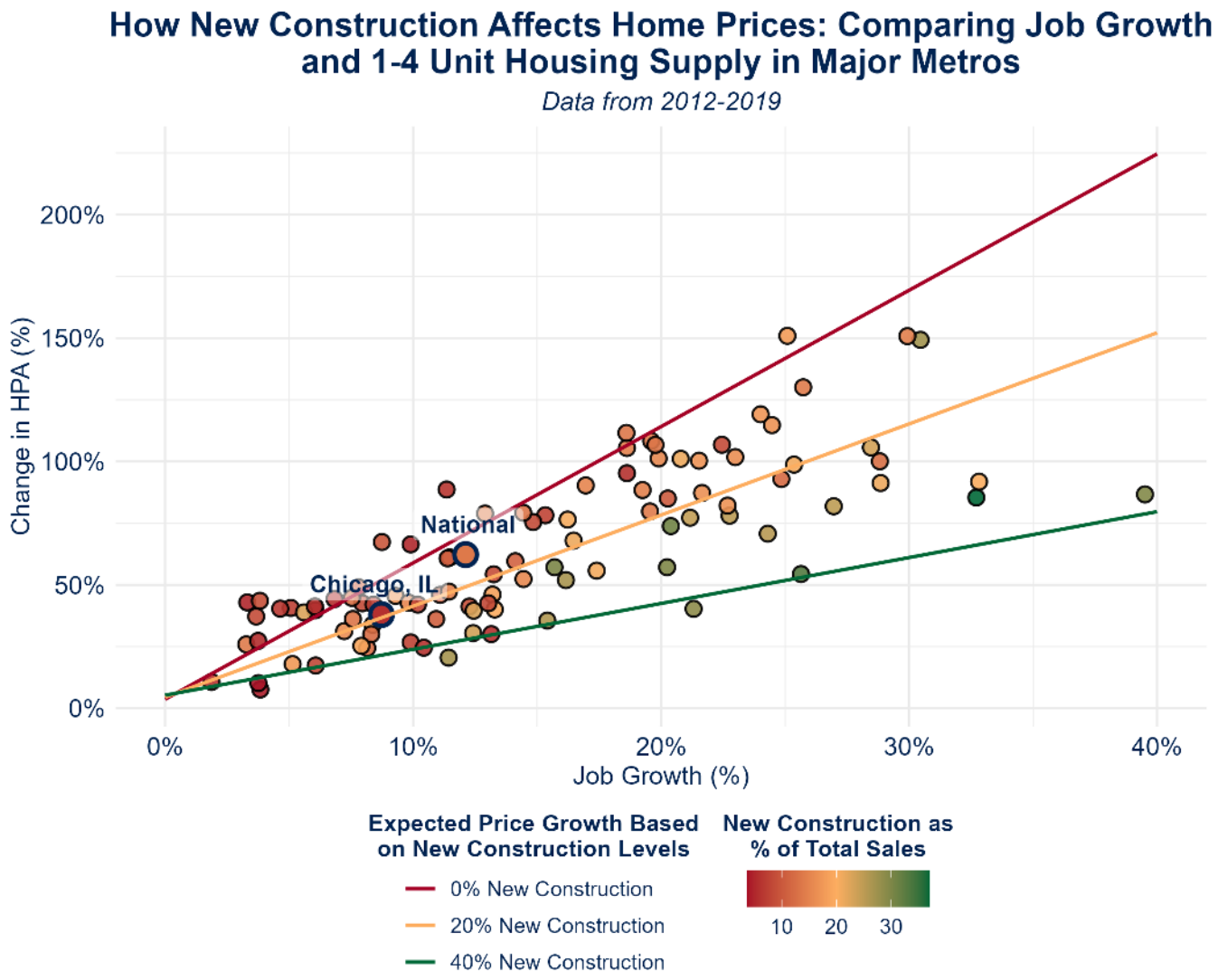
This trend is measured by home price appreciation (HPA)—the percentage increase in constant-quality home values over time. When demand for housing rises but new construction lags behind, prices appreciate faster.

Building more homes in high job-growth areas helps slow home price increases, making housing more naturally affordable. This highlights how boosting supply can relieve affordability pressures.

From 2012-2019, the Chicago, IL had **below cumulative employment growth** and **below average share of new home construction**, compared to national averages. As a result, home price appreciation of 38% was below the national average of 62%.

[5] AEI Housing Center's HEAT: Metro Supply & Demand.

[6] Although more recent data are available, we use data through 2019 to avoid the atypical market disruptions caused by the pandemic. This approach allows us to better capture the relationship between home prices, new housing supply, and job growth under more typical, pre-pandemic conditions.



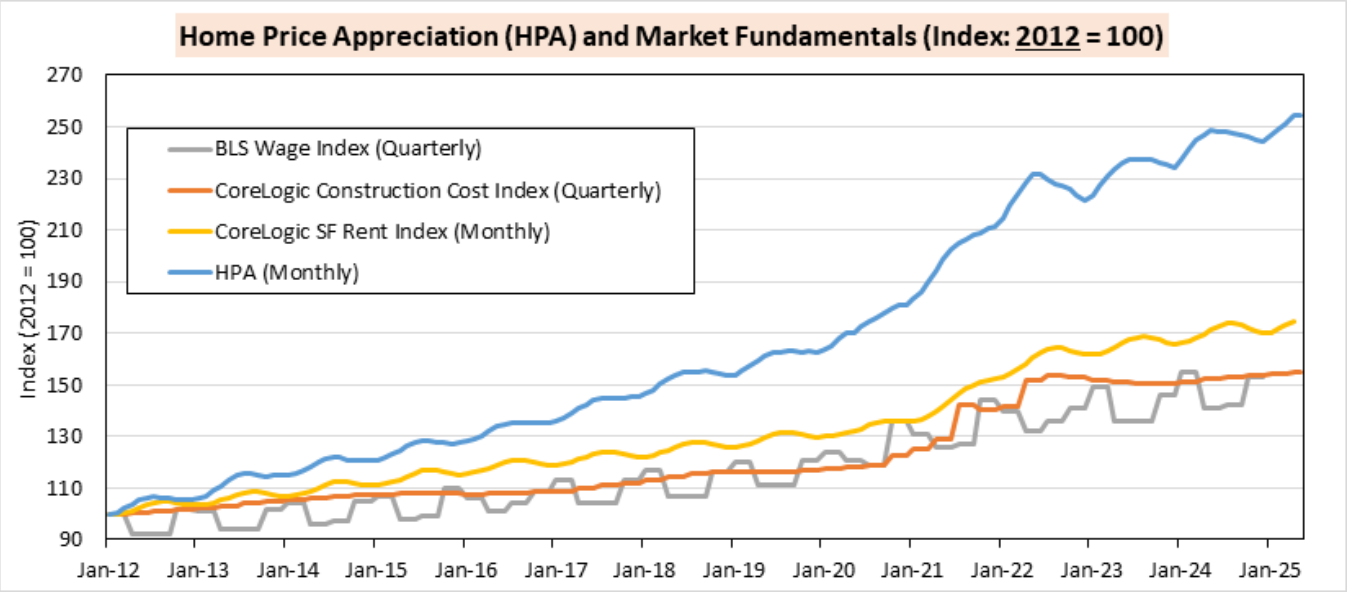
MSA	Job Growth	Home Price Growth	New Homes as % of 1-4 Unit Sales
Chicago, IL	9%	38%	6%
National	12%	62%	14%

Source: Freddie Mac, Bureau of Economic Analysis (BEA), and AEI Housing Center, https://heat.aeihousingcenter.org/toolkit/supply_demand.

At the national level, home prices have become disconnected from fundamentals

- Home prices have nearly tripled since 2012, with many areas having risen much faster than incomes for decades.
- Wages, rents, and construction costs have risen much more slowly.

The growing disconnect between construction costs and home prices suggests the main force behind higher prices is regulation that makes land scarce and adds to building costs.



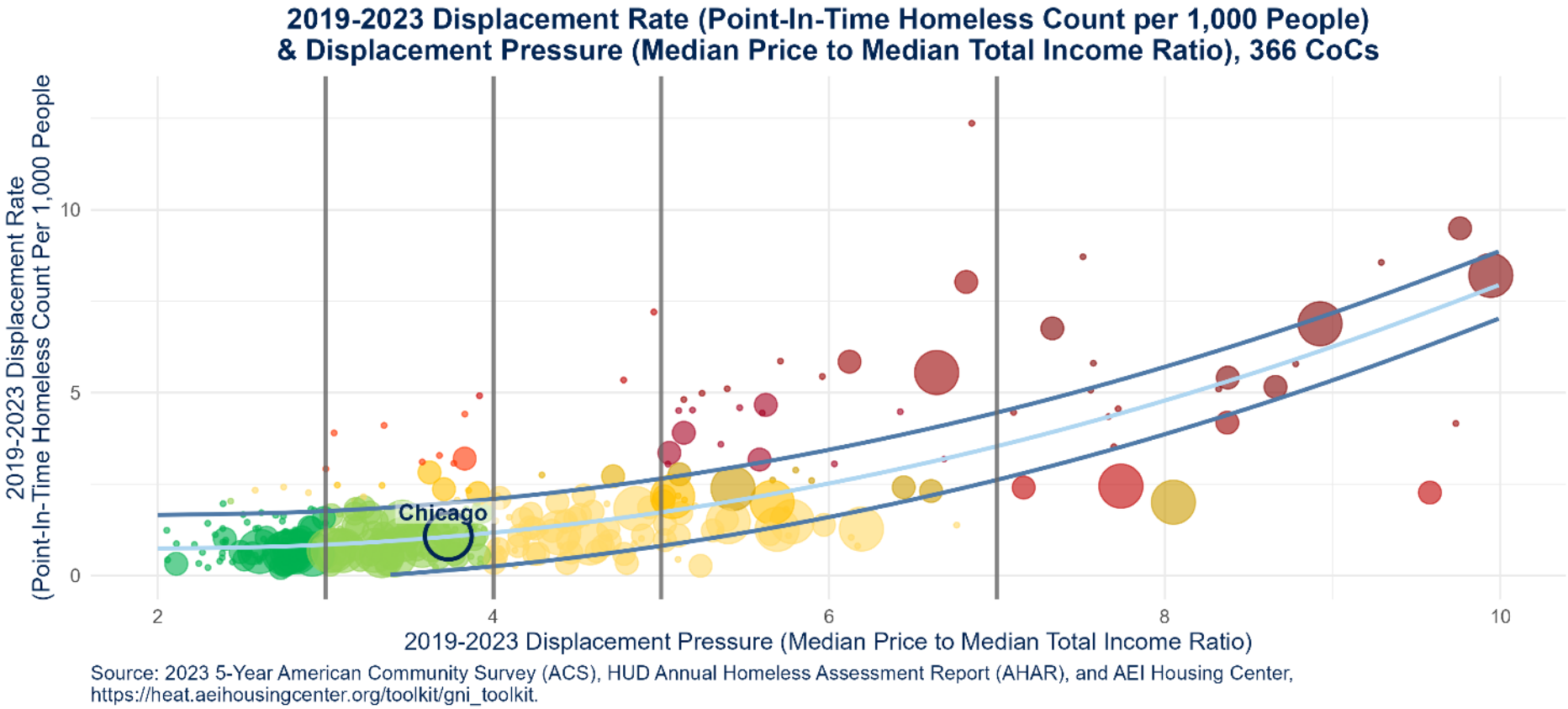
Source: Bureau of Labor Statistics (BLS), Cotality, and AEI Housing Center, https://www.aei.org/housing.

Rising Home Prices Drive Displacement and Homelessness

When home prices rise faster than incomes, displacement pressure increases—and with it the risk of homelessness. Communities that fail to keep housing supply in line with demand experience the steepest price hikes, making even modest apartments unaffordable and pushing out those on the margins.[7]

The solution is clear: **legalize and enable the construction of more homes in the middle price range** so that more older homes "filter down" to lower-income households over time. This is important as it provides more rapid rehousing opportunities for formerly homeless individuals and families.

The chart below shows that as housing becomes less affordable—measured by the ratio of home prices to income—homelessness tends to increase sharply, especially once that ratio exceeds 5.0. Communities that build too little housing face the highest displacement rates.



Source: 2023 5-Year American Community Survey (ACS), HUD Annual Homeless Assessment Report (AHAR), and AEI Housing Center, https://aeihousingcenter.org/good_neighbors_toolkit/.

[7] Of 54 variables tested, the ratio of median home price to median income had the greatest explanatory power. AEI Housing Center Good Neighbors Toolkit

Institutional Investors Own Less Than 1% of U.S. Single-Family Homes

Despite drawing widespread public condemnation, **institutional investors play only a minor role in most single-family housing markets.**[8] The data make this clear:

- Institutional investors—defined as those owning 100+ homes—make up just 1.0% of the national single-family housing stock.
- Nationally, mom and pop investors—defined as those owning less than 100 homes— own 12.4% of single-family housing stock. The vast majority of investor-owned homes are generally held by small, mom-and-pop landlords with portfolios of 2–9 homes.[9]
- In **96% of U.S. counties**, investor-owned homes account for less than 2% of all single-family homes.
- Just **14 metro areas**—including Atlanta, Dallas, Houston, Phoenix, Charlotte, and Tampa—account for half of all investor-owned homes nationwide.
- In **Cook County**, institutional investors own just 1.2% of single-family homes.

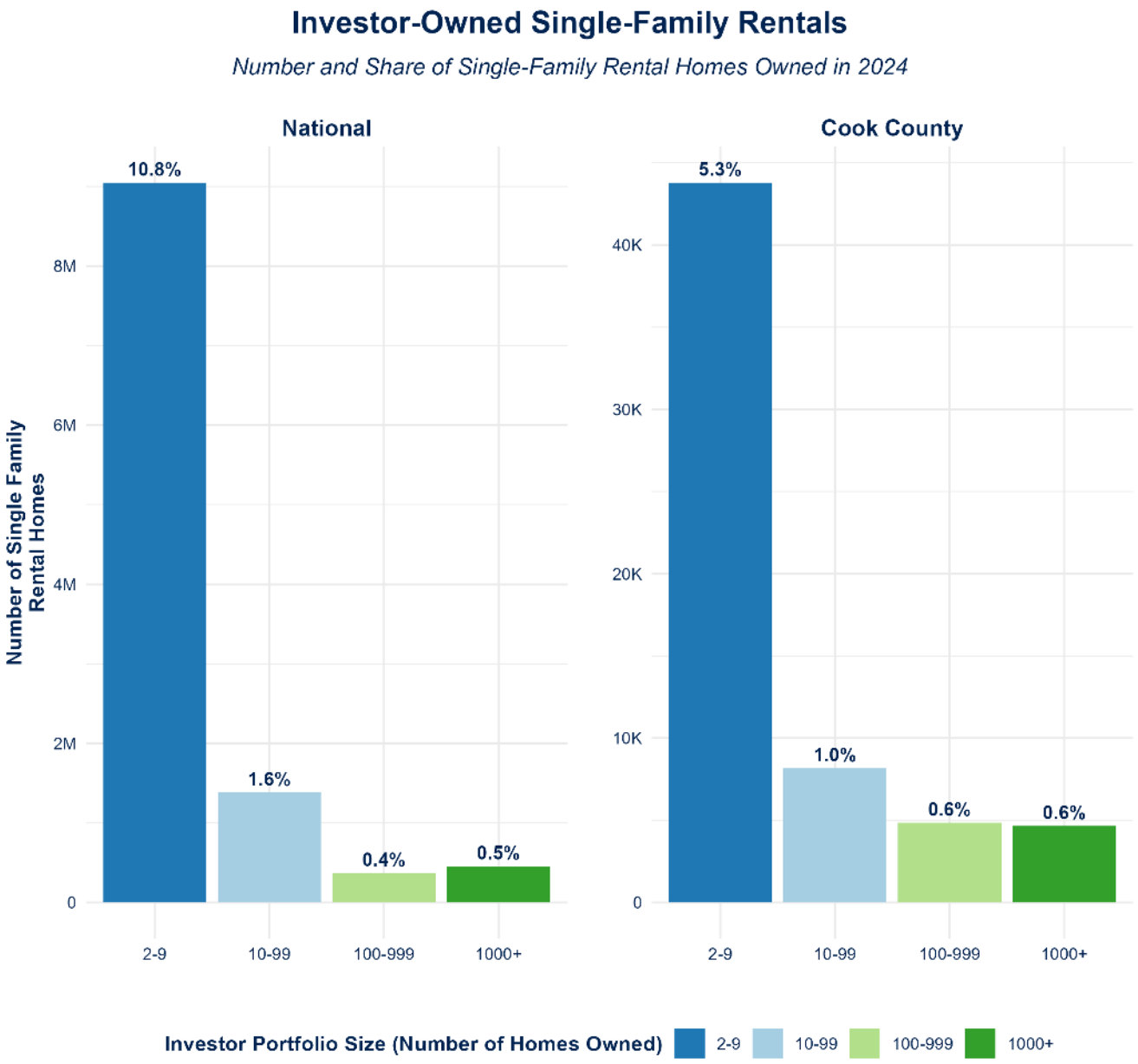
Institutional investors capitalize on regulatory failures that have created a housing scarcity.

- They purchase homes in places where supply is constrained, betting on continued price and rent appreciation. Their focus is on markets with strong fundamentals, high demand, and limited new construction.
- They don't reduce housing supply; they shift homes from the owner occupied to the rental market. The total number of units remains the same.
- Most recently, low interest rates—especially during the pandemic—have fueled their activity.

The bottom line: **Fix the supply problem, and investor influence will fade.**

[8] AEI Housing Center's HEAT: Investor Shares

[9] We define institutional investors as entities that own more than 100 units. Their combined shares are add to 1% (0.44% + 0.54%). According to the Census Bureau's American Community Survey (ACS), there are about 11.2 million long-term rental units in the US in 2023, about the same number of rental units in the Parcl Lab's data. However, Parcl Labs' definition of investor-owned homes includes second homes, since they track the count of properties owned by individuals or entities. According to the ACS, second homes account for about 4.5 million homes. Since we assume that most of these second homes are owned by small-scale investors, this can reduce their ownership share from 12.4% to 7.4%.

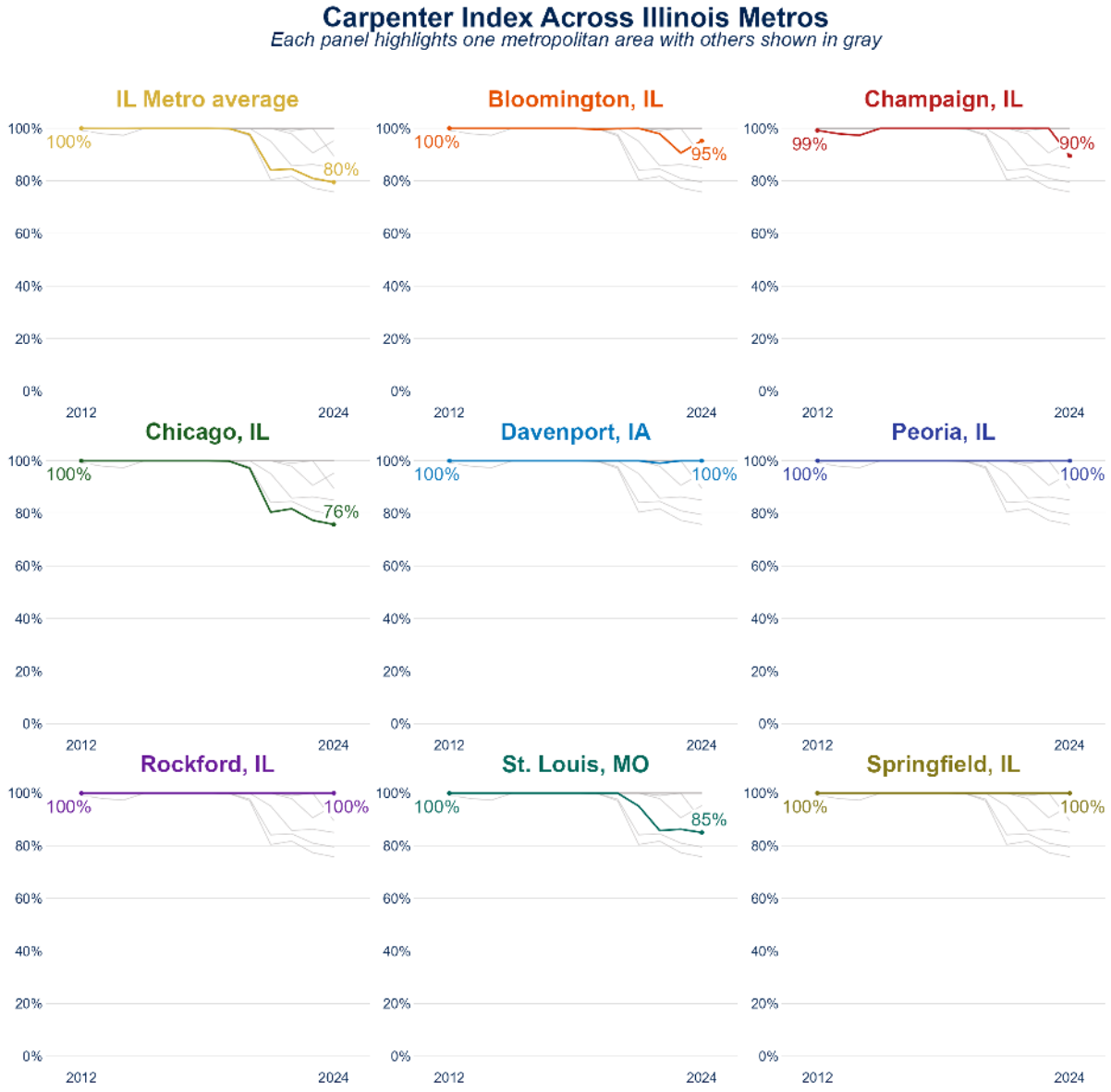


Note: Percentages represent the percent of the total single family stock held by investors in each portfolio size group in the nation and Oak Lawn Village. Source: 2021 5-Year American Community Survey (ACS) Microdata, Parcl Labs, and AEI Housing Center, https://heat.aeihousingcenter.org/toolkit/investor_share.

Carpenter Index: Declining Affordability for Working-Class Households

The Carpenter Index measures the percentage of entry-level homes in a metro that a carpenter-headed household can afford. It offers a clear snapshot of how home ownership is becoming increasingly out of reach for blue-collar workers across many metro areas.

Affordability for carpenter households (a proxy for blue-collar workers) has generally declined across Illinois's metros. The median carpenter household was able to purchase the bottom 80% of entry level homes across Illinois's metros, down from 100% in 2012. Over the same period, the Chicago Carpenter Index declined from 100% to 76%.[10]



Data are limited to the largest 8 metros out of 8 in Illinois. Illinois contains 2 metros that cross state boundaries: Davenport, IA (with 54% of its population in Illinois) and St. Louis, MO (24%). The state average is a population-weighted average of the Carpenter Index for the largest metros in the state, using only the in-state portion of each metro's population. We rank metros based on their purchase home sales from 2012 to 2019 in the Public Records. The Carpenter Index is available for all 12 years (2012-2024) for 320 of the largest 400 metros nationally. The remaining metros are missing the index for 1 to 9 years (26 metros) or for all years (54 metros) due to the unavailability of wage data or sale records. Source: First American, Intercontinental Exchange (ICE), Bureau of Labor Statistics (BLS), and AEI Housing Center, https://heat.aeihousingcenter.org/toolkit/hmi_400.

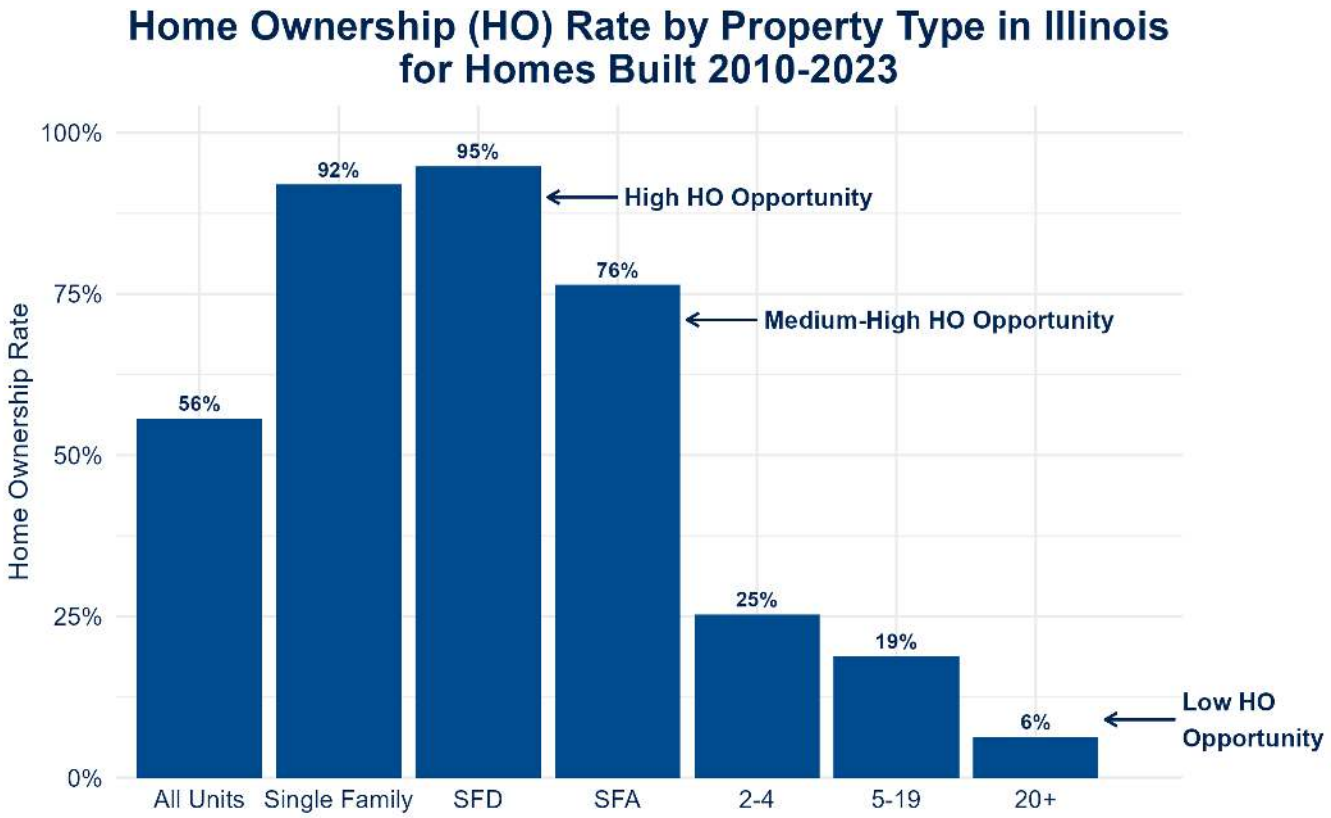
[10] For more detail, see AEI Housing Center's HEAT: Housing Market Indicators (Largest 400 Metros)

Home Ownership and Number of Bedrooms by Property Type

Illinois's home ownership rate for homes built from 2010-2023 is 56% – 10 percentage points below the national average of 66%.[11]

The bar chart below shows the Illinois home ownership rate by property type for homes built from 2010-2023 and bedroom count by home type, for properties built from 2010-2023 and all properties.

- Single-family detached (SFD) and attached (SFA) have high or medium home ownership opportunity (95% and 76%, respectively), while multifamily (MF) properties with 20+ units have low home ownership opportunity (6.3%).



Average Number of Bedrooms by Property Type in Illinois

Bedroom Opportunity			High				Low
	All Units	Single Family	SFD	SFA	2-4	5-19	20+
Homes Built 2010-2023	2.6	3.5	**3.6**	**2.6**	2.2	1.8	1.2
Total Housing Stock	2.7	3.2	**3.3**	**2.6**	2.2	1.7	1.3

Note: All results are calculated using Census-created household weights. Source: 2023 American Community Survey (ACS) 5-Year Microdata and AEI Housing Center, https://heat.aeihousingcenter.org/toolkit/median_rent_value.

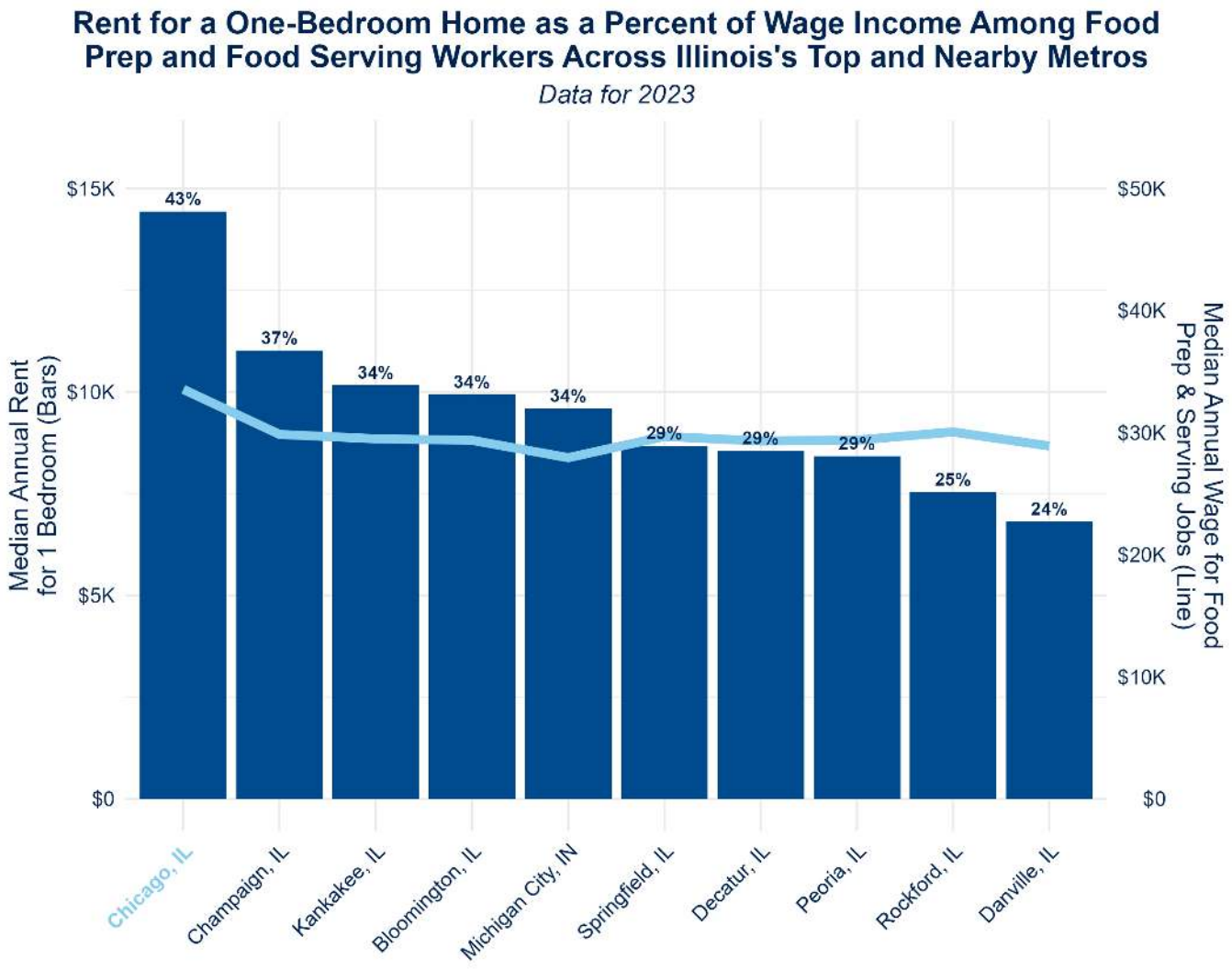
[11] FRED.

Rent Burden on Food Preparation and Food Service Workers

Across metropolitan areas, rent and home prices vary dramatically - but wages by occupation barely budge.

In high-cost metros, land use limits on home and apartment construction directly create **heavier rent burdens for low wage service workers.**

Occupations like food preparation and food serving (14M workers), cleaning and maintenance (6M), personal care (4.6M), sales (14.3M), office and administrative support (19M), production (9M), and transportation (15M) make up nearly half of all U.S. jobs – yet these workers typically earn about **80% of the national median wage.**



Note: The chart shows Chicago, IL, the remaining metros in Illinois, and the nearest metro to Chicago, IL with available data. Percentages are the share of income spent on rent annually. Source: 2023 1-Year American Community Survey (ACS), Bureau of Labor Statistics (BLS), and AEI Housing Center, https://aeihousingcenter.org/good_neighbors_toolkit/

The chart above highlights the wage/1-bedroom relationship across Illinois's 9 largest metros and their nearest metros. While wages for food preparation and food service workers remain relatively flat across metros, rent burdens increase substantially in higher-cost areas.

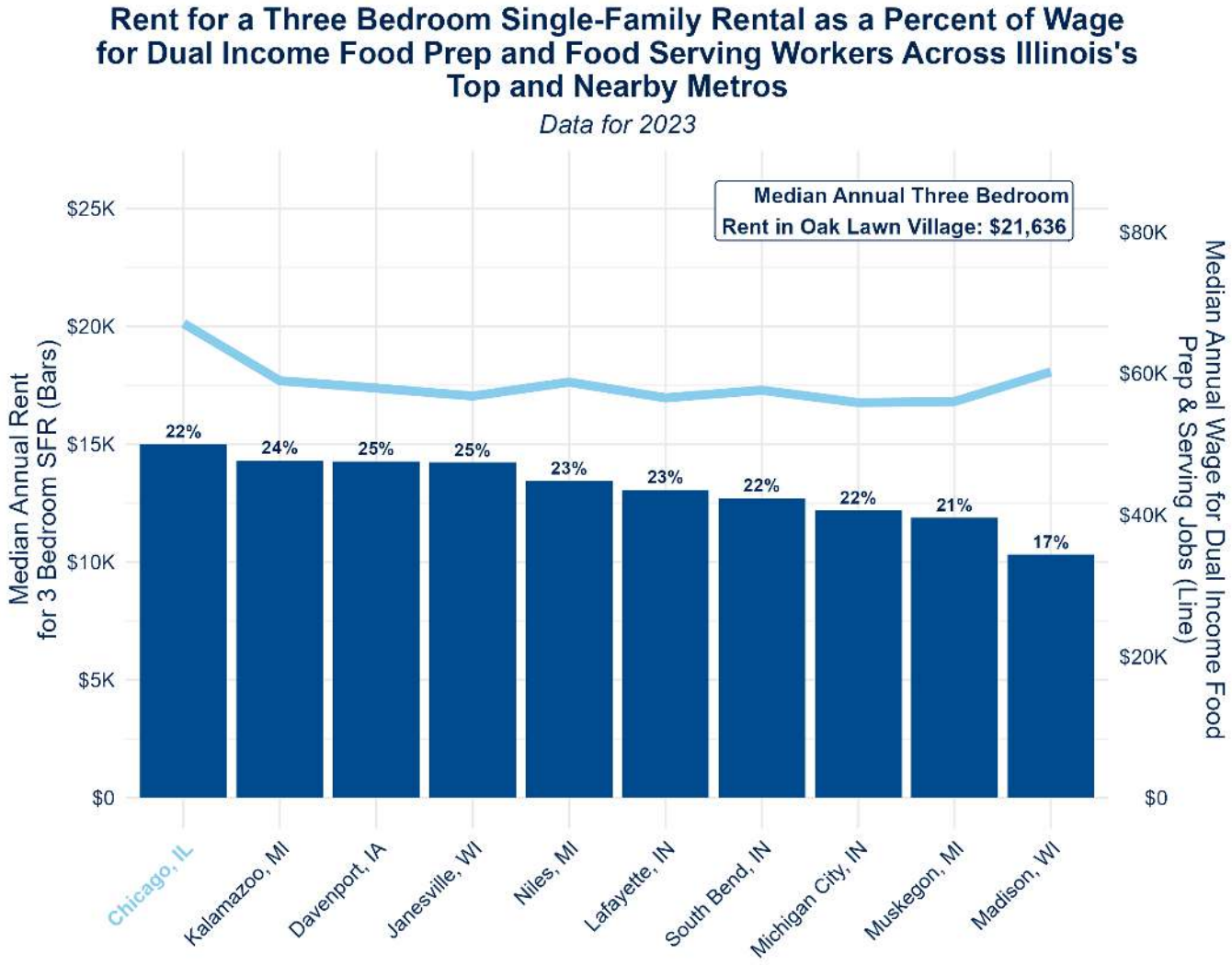
Chicago, IL and Danville, IL MSAs:

- **Median wage for food preparation and food serving workers:** $33,540 (38% of AMI) in Chicago, IL vs $28,900 (53% of AMI) in Danville, IL.
- **Median annual rent for a 1-bedroom apartment:** $14,436 in Chicago, IL (112% higher) vs $6,816 in Danville, IL.
- **Resulting rent burden:** A one-bedroom apartment in Chicago, IL costs **43% of the income of food preparation and food serving workers**, compared with **24%** in Danville, IL.

However, keep in mind that across the nation, only 32% of renters rent a 1-bedroom apartment.

Three-Bedroom Cost Burden: A More Common Scenario

A more typical housing arrangement for lower-wage or service-sector workers is renting a multi-bedroom home. In this analysis, we examine the cost burden associated with renting a three-bedroom **single-family home**, which is one of the most common configurations for shared housing among these workers. While the median gross rent for a three-bedroom home is 24% higher than for a one-bedroom apartment nationally, these households generally include an average of 2.1 adults, helping to distribute costs across multiple earners.



Note: The chart shows Chicago, IL and the 9 nearest metros to Chicago, IL with available data. Percentages are the share of income spent on rent annually. Earners within a dual income household are assumed to be in the same occupation. Source: 2023 5-Year American Community Survey (ACS) Microdata, Bureau of Labor Statistics (BLS), and AEI Housing Center, https://aeihousingcenter.org/good_neighbors_toolkit/

Janesville, WI and Chicago, IL MSAs:

- **Median wages for dual-earner food preparation and food serving households:** $56,820 in Janesville, WI and $67,080 in Chicago, IL, reflecting comparable earnings.
- **Median annual rent for a three-bedroom single-family home:** $14,220 in Janesville, WI (25% higher) and $15,000 in Chicago, IL.
- **Resulting rent burden:** A three-bedroom single-family home in Janesville, WI costs **25% of the income of dual-earner food preparation and food serving households**, compared with 22% in Chicago, IL.

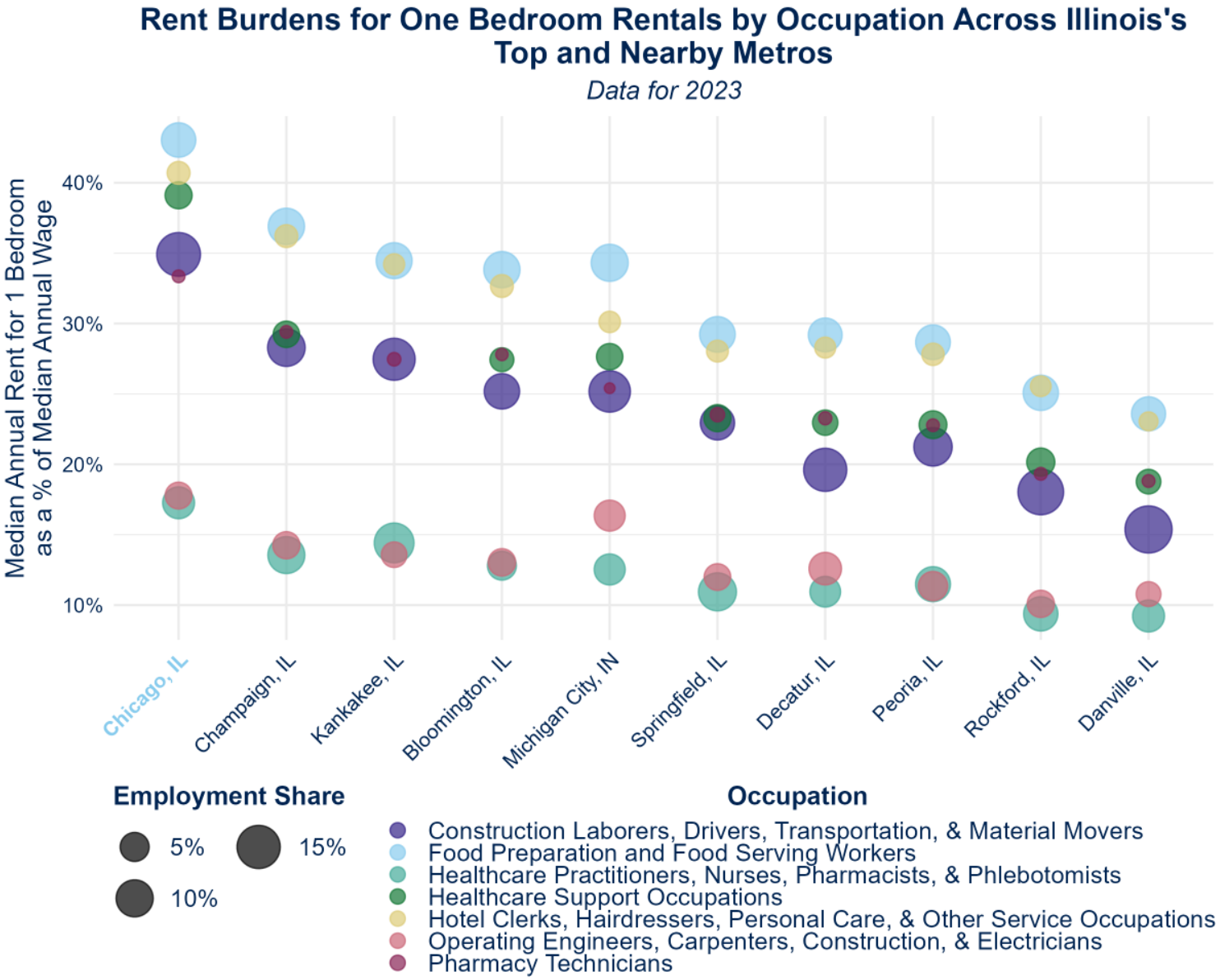
This analysis underscores that even with multiple earners, rent burdens remain severe in high-cost metros, further emphasizing the need to **increase housing supply in high-rent areas** to alleviate cost pressures on service-sector workers.

Rent Burden Across Occupations

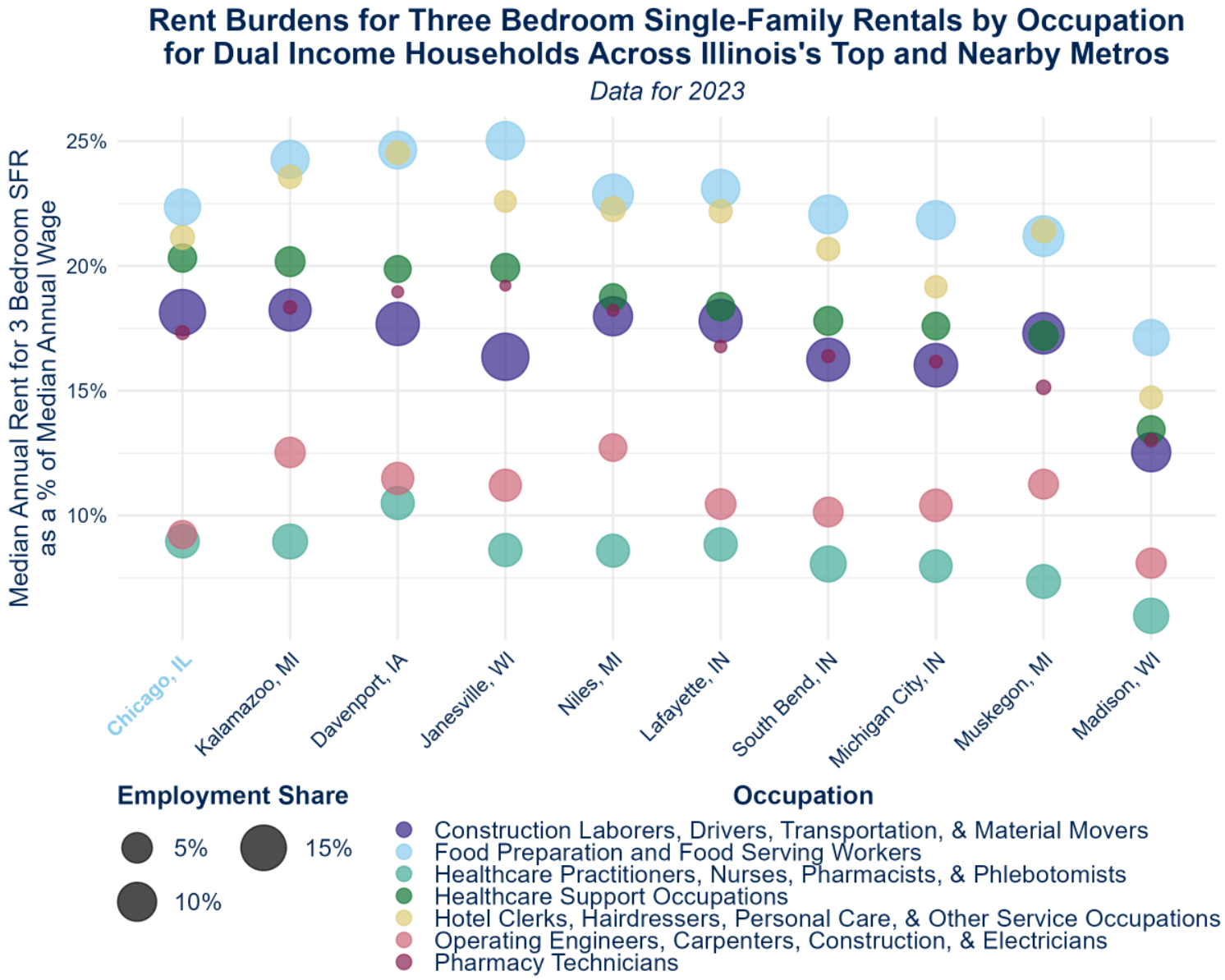
Looking beyond food preparation and food serving workers, the charts below compare median rent for 1--bedroom apartments and 3-bedroom homes to wages across a range of common occupations.

In high-cost metros, service workers – especially those in food preparation and food serving, cleaning, and healthcare support – are often paying nearly **half of their income in rent**. Even in more affordable areas, rent burdens remain high for many.

The size of each bubble shows how many workers in that metro fall into each category.



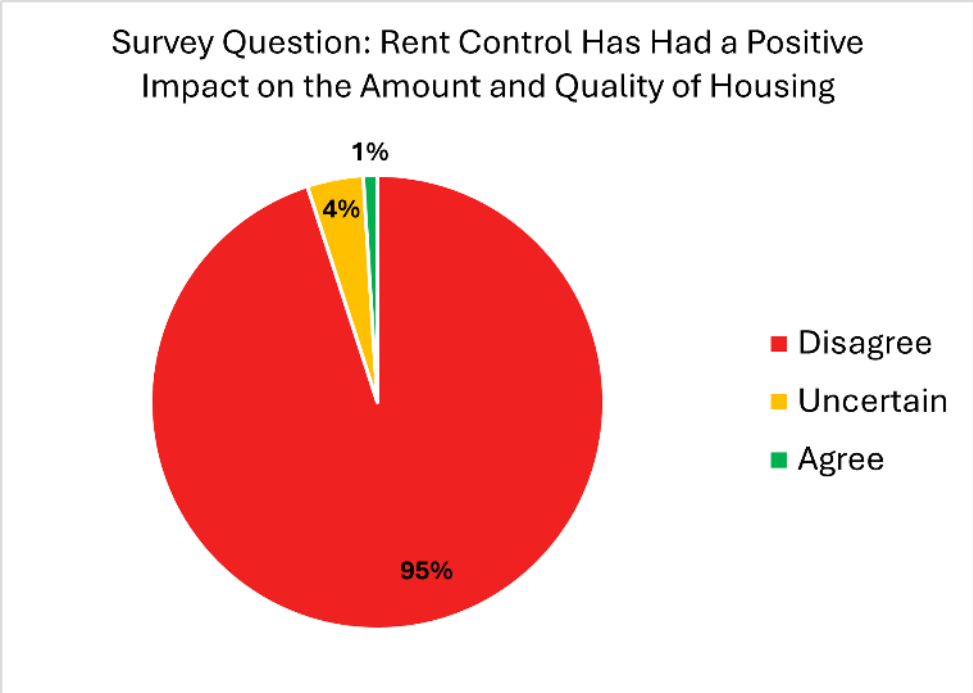
Note: The chart shows Chicago, IL, the remaining metros in Illinois, and the nearest metro to Chicago, IL with available data. Source: 2023 1-Year American Community Survey (ACS), Bureau of Labor Statistics (BLS), and AEI Housing Center, https://aeihousingcenter.org/good_neighbors_toolkit/



Note: The chart shows Chicago, IL and the 9 nearest metros to Chicago, IL with available data. Earners within a dual income household are assumed to be in the same occupation. Source: 2023 5-Year American Community Survey (ACS) Microdata, Bureau of Labor Statistics (BLS), and AEI Housing Center, https://aeihousingcenter.org/good_neighbors_toolkit/

Rent Control: A Proven Way to Make Housing Scarce and Expensive

Economists from across the political spectrum agree that even modest rent controls would not help middle-income Americans. This consensus reflects decades of research and examples across the U.S. and around the world.



Note: The survey was conducted among 41 leading economists across the political spectrum. Question Text: Local ordinances that limit rent increases for some rental housing units, such as in New York and San Francisco, have had a positive impact over the past three decades on the amount and quality of broadly affordable rental housing in cities that have used them. Source: The Kent A. Clark Center's 2012 Expert Survey on Rent Caps in the U.S.

Rent control consistently **reduces affordable housing supply**.

- Developers halt new construction.
- Existing rental units are converted from standard units into luxury or for-sale housing.
- Mobility declines, as tenants in rent-controlled apartments stay put, worsening displacement pressures.

These dynamics often **benefit higher-income households**, who are overrepresented in rent-controlled units, while **lower-income renters face higher market rents** and fewer options.

The Economic Costs Are Significant

Studies show that rent control can:

- Reduce supply and raise overall rents: Rent control in San Francisco caused impacted landlords to reduce housing supply by 15%, likely resulting in long run rent increases
- Reduces the housing quality
- Depress employment and earnings
- Lowers property values
- Increase homelessness

The bottom line: Housing unaffordability is caused by demand outpacing supply. Increasing housing supply is the key to unlocking lasting affordability.

Full List of KISS (Keep it Short and Simple) Reforms to Consider:

The KISS principle refers to eliminating unnecessary complexity in the homebuilding process. Simplicity brings certainty, lowers costs, and makes small-scale infill and larger-scale development both feasible and attractive.

- **Enable smaller lots by reducing minimum lots sizes and simplifying lot splits**
  - *Why?* Enables cost-effective infill development by reducing time and administrative hurdles.
- **Implement pre-approved design templates**
  - *Why?* Streamlines the permitting of ADUs and small-scale units like backyard cottages, giving builders and homeowners clarity and confidence.
- **Implement permitting "shot clocks" or allow third-party reviews**
  - *Why?* Permitting delays are a hidden tax on housing.
- **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.
  - *Why?* It's illogical to legalize townhomes, for example, but then cap building heights at 1.5 stories.
- **Reduce parking mandates**
  - *Why?* Parking takes up space and drives up costs. Let the market decide how much parking is needed; and if parking is really at a premium, charge for curbside parking rather than requiring costly off-street parking.
- **Lower or waive impact fees**
  - *Why?* Increased property tax revenue from more housing will offset lost upfront fees.
- **Align energy and building codes with affordability goals:**
  - Lower energy standards for small or infill projects.
  - Apply the International Residential Code (IRC) to 3–6 unit buildings (as Memphis and North Carolina have done).
  - Allow single-staircase designs in multifamily projects.
  - Allow modular or off-site construction.
  - *Why?* These changes allow more developments to pencil out without sacrificing safety or livability.
  - Reform condo defect liability laws.
  - *Why?* Reduce frivolous lawsuits and revive the construction of entry-level ownership housing.

Note: Many of these steps are included in the AEI Housing Center's Light-touch Density Model Bill.

What is Micromanagement – and Why Does It Kill Housing?

Micromanagement in housing policy refers to layering complexity, red tape, or contradictory regulations on the building process. These rules often sound reasonable in isolation but together make new housing financially or logistically impossible to deliver.

Common Micromanagement Pitfalls:

- **Spot upzoning**
  - *Why?* Delivers windfalls to a few rather than enabling broad affordability.
- **Reliance on subsidies to add new supply**
  - *Why?* Subsidy pipelines are slow, complex, costly, corruption-prone, and crowd out private development, especially by smaller builders. They are insufficient to meet demand on their own.
- **Inclusionary zoning & income limits**
  - *Why?* Shrinks profitability, inflates rents on market-rate units, narrows the eligible tenant pool, and adds compliance headaches, especially for smaller builders.
- **Special treatment for subsidized housing only**
  - *Why?* Creates an uneven playing field that discourages unsubsidized supply. Market-rate builders face all the red tape, while only subsidized projects are streamlined. To solve the shortage, reform must apply to all housing—not just subsidized.
- **Special programs to "jumpstart" housing construction**
  - *Why?* They're politically driven, complex, expensive, corruption-prone, and hard to scale—distracting from broader reforms. If real needs exist, like financing for small builders, the market will respond, once it's legal and feasible to build.
- **Permit caps**
  - *Why?* Artificially suppress supply and create political gatekeeping that deters investment.
- **Owner-occupancy mandates**
  - *Why?* Restrict the ability to build or finance ADUs and reduce flexibility for homeowners and builders.
- **Rent control**
  - *Why?* Reduces the return on investment, discourages new construction, and encourages condo conversions or disinvestment.
- **Uneven regulations**
  - *Why?* Requiring more of infill housing than single-family homes undermines housing diversity.
- **Open space and landscaping minimums**
  - *Why?* They reduce buildable area, drive up costs, and make small-scale or infill housing financially and physically unviable. They also ignore that trees regrow over time.
- **Prevailing wage requirements for small-scale projects**
  - *Why?* Applies large-project labor standards to small infill efforts, significantly raising construction costs unnecessarily.
- **Basement granny flat height limits**
  - *Why?* Blocks natural conversions of many existing basements.

- **Growth boundaries**
  - *Why?* Artificially constrain land supply and increase land costs within the boundary, undermining affordability.
- **Housing needs assessments**
  - *Why?* Top-down, bureaucratic exercises that drain resources and delay action—measuring the shortage and leaning on subsidies instead of enabling real solutions.
- **Exclusive focus on Transit Oriented Development**
  - *Why?* Limits growth to narrow corridors while leaving most land off-limits. This results in small, high-cost units dominated by rentals, and in practice relies heavily on subsidies for affordability.

Find this playbook online

To read this playbook (and over 6,000 others for states, cities, metros, and more) online, visit https://aeihousingcenter.org/playbook, or scan the QR code below.

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 below.