White Paper: Barriers and Opportunities to Creating Low-Density Multifamily Housing

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By Ahmad Abu-Khalaf

Enterprise

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Enterprise is a national nonprofit that exists to make a good home possible for the millions of families without one. We support community development organizations on the ground, aggregate and invest capital for impact, advance housing policy at every level of government, and build and manage communities ourselves. Since 1982, we have invested $44 billion and created 781,000 homes across all 50 states – all to make home and community places of pride, power and belonging. Join us at enterprisecommunity.org.

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PD&R provides thought leadership and data-backed recommendations to influence housing and community development policy, addressing both emerging policy issues and long-term needs. Read reports and policy briefs by the team (www.enterprisecommunity.org) and follow us on Twitter @E_HousingPolicy.

Table of Contents

Introduction

The supply of affordable housing falls short of demand in nearly every jurisdiction in the U.S. Nationwide, nearly 11 million renter households are severely cost burdened – in short, they spend more than 50% of their income on rent. This issue can be partially explained by the imbalance between U.S. housing supply and demand. A recent analysis from the National Association of REALTORS finds that between 2001 and 2020, the underbuilding gap in multifamily housing was 1.2 million units for multifamily developments with two to four units and 2.4 million units for multifamily housing developments with five or more units.[1] Exclusionary single-family zoning regulations that preserve large shares of land for single-family development and restrict the development of multifamily housing contribute to our persistent housing supply and affordability challenges.

At Enterprise, we recognize that the rising demand for affordable homes across the U.S. has created a pressing need to identify and explore innovative strategies to expand the supply of affordable homes and contain the cost of housing development. One promising approach: unlocking underutilized land zoned for single-family development to allow for low-density multifamily housing (LDMF) housing. Since there is no single agreed upon definition of LDMF development in the housing industry, this research broadly defines LDMF development as the type of development that would stand somewhere between single-family development and high-density multifamily development depending on the local density context.

Allowing for creating LDMF housing on land that was previously zoned for single-family development can help state and local jurisdictions address some of the negative impacts of exclusionary single-family zoning on their housing markets' supply and affordability issues. However, even when a jurisdiction amends its land use and zoning regulations to permit LDMF development in areas previously reserved for single-family development, there are still underlying regulatory and financial barriers to creating this type of development at scale. This white paper explores the potential positive outcomes of allowing LDMF development in areas previously reserved for single-family development, as well as prominent regulatory and financing challenges to creating LDMF housing.

What is LDMF Development?

While there is no single agreed upon definition of LDMF development, the housing industry has been using a range of terms to define it. These terms often define LDMF by setting a cap on the number of units included in a multifamily housing development located on an individual parcel or per given unit of land. Here are four brief examples:

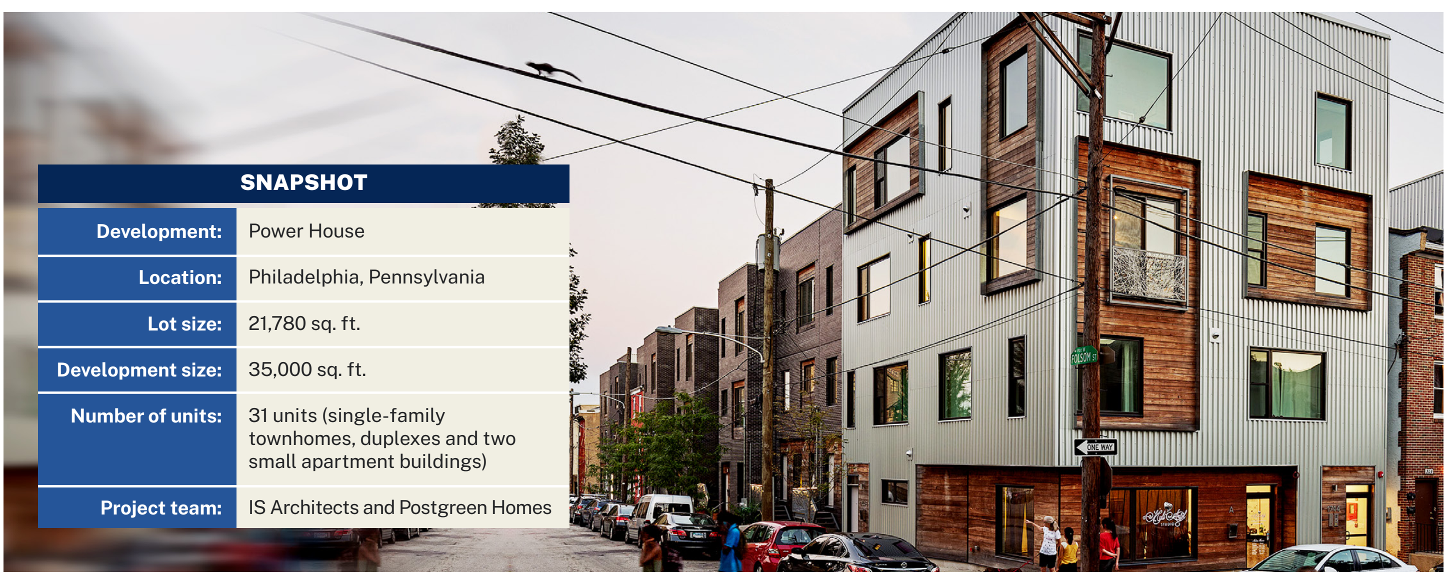
- Brent Toderian, city planner and urbanist with TODERIAN UrbanWORKS, uses the term “gentle density” to describe LDMF development as “attached, ground-oriented housing that’s more dense than a detached house, but with a similar scale and character,” such as duplexes, semi-detached homes, rowhouses and stacked townhouses.”[2]

- Another term is “missing middle housing,” in which Daniel Parolek, founding principal and president of Opticos Design, Inc., defines LDMF development as the type of housing that is “missing” because it has been illegal to build since the mid-1940s in many jurisdictions across the country and “middle” because it sits in the middle of the form and scale spectrum between detached single-family homes and mid-rise to high-rise apartment buildings.[3] This includes cottage courts, duplexes and fourplexes.

- Emily Hamilton, senior research fellow at the Mercatus Center at George Mason University, uses the term “stickplexes” to define LDMF development as housing developments with up to six units, since these developments have “per-square-foot construction costs roughly in line with detached houses due to avoidance of costly features like elevators and more expensive construction methods.”[4]

- A research report from the American Planning Association defines LDMF developments as properties that include “more than one but less than or equal to eight units per acre.”[5]

Acknowledging that the definition of LDMF varies across state and local housing markets depending on the market’s development density context, this research avoids using a broad definition of LDMF development. The density of such development would stand somewhere between single-family development and high-density multifamily development depending on the local density context. For example, residential development that is deemed LDMF housing in New York City is likely to be significantly different from development that is deemed LDMF housing in Portland, Oregon or Minneapolis, Minnesota. This white paper provides examples of completed developments from across the country to help contextualize the scale and variety of LDMF housing.



SNAPSHOT	
Development:	Power House
Location:	Philadelphia, Pennsylvania
Lot size:	21,780 sq. ft.
Development size:	35,000 sq. ft.
Number of units:	31 units (single-family townhomes, duplexes and two small apartment buildings)
Project team:	IS Architects and Postgreen Homes

What Could Permitting LDMF Development Help Accomplish?

Reserving large shares of land for single-family home development to restrict the types of home that can be built in particular neighborhoods, which is commonly known as exclusionary single-family zoning, continues to contribute to racial and economic inequities in the U.S. housing system. This includes persistent racial homeownership gaps, housing supply affordability challenges and climate change threats. Unlocking underutilized land zoned for single-family development to allow for LDMF housing has the potential to help jurisdictions address some of the housing inequities influenced by exclusionary single-family zoning in their housing markets.

Large-scale efforts to allow for LDMF housing on land previously zoned for single-family development, such as state-or city-wide zoning reform initiatives to permit some form of LDMF on parcels previously reserved for single-family development, are relatively new. Therefore, the housing industry has yet to see analyses that document the positive impact of such efforts on easing housing markets' supply and affordability challenges. The housing industry has also yet to see if such zoning reform efforts can significantly impact housing markets' supply and affordability conditions. Additionally, the success of permitting LDMF housing in areas previously reserved for single-family development in easing supply and affordability challenges will likely be influenced by a number of factors.

For example, the scale of the zoning reform effort to allow for LDMF housing could impact the success of this strategy in easing the jurisdiction's housing affordability and supply. That is because a zoning reform effort with a larger scale, such as state-, region-or city-wide zoning reform efforts, is likely to have a more significant impact on housing production and costs, compared to a smaller-scale effort that targets specific areas or parcels. Furthermore, other factors, including the housing market's developers' and tenants' appetite for LDMF housing, land and development costs and feasibility of LDMF housing in the local market, will likely influence the impact of this strategy on the market's housing supply and affordability.

Acknowledging that there is no one-size-fits-all strategy for addressing the negative impacts of exclusionary single-family zoning on housing supply and affordability, unlocking underutilized land zoned for single-family development to allow for LDMF housing has the potential to help jurisdictions address some of the negative impacts of exclusionary zoning on their housing markets' supply, affordability and resilience to climate change in a number of ways, including:

- **Addressing local opposition to boosting density:** Allowing for LDMF housing in predominantly single-family zoned neighborhoods could help address local opposition to higher density by ensuring that easing restrictive zoning will not lead to the development of towering apartment buildings across the jurisdiction or area that is undergoing a zoning reform.[6] This solution will likely be a politically viable market-based strategy to boost housing density in many jurisdictions across the country. The concept of increasing development density often raises local concerns regarding permitting taller, high-density buildings in single-family zoned areas, as well as experiencing accompanying overcrowding and congestion issues.[7]

  Efforts to permit LDMF housing in single-family zoned areas could be accompanied by educational and outreach activities designed to address some of the misconceptions about the impact of such development on the surrounding communities. For example, a zoning reform effort that would allow for LDMF housing with up to 10 units per parcel may require a low regulatory lift that does not induce heavy local opposition, compared to an effort to allow 50 or more units per parcel.

- **Containing the cost of housing development:** Some housing stakeholders believe that increasing permitted density in single-family zoned areas would help contain the cost of development, primarily through reducing the cost of land per unit. Under this framework, single-family zoning requires developers to purchase more land per housing development, which increases the cost of residential development and home purchase/rent price, while LDMF zoning reduces the cost of land per unit as land cost is spread over multiple units. The lower cost of land/unit could translate into lower overall residential development costs and home purchase/rent prices. Those assumptions are based on the concept that the additional land cost is typically transferred from the housing developer to the tenant in the form of higher home sale or rent prices. Additionally, reserving large shares of land for single-family development could indirectly make the housing market more expensive by limiting the overall supply of developable land and housing stock.[8]

  However, the price of land is not fixed. That is because when zoning reform occurs to bump a lot's highest and best use from single-family development to some form of LDMF development, the cost of land acquisition is likely to increase due to the possibility of attaining a higher return on investment via developing more housing units on the acquired lot. The highest and best use of a lot is the "reasonably probable and legal use of vacant land that is physically possible, appropriately supported, and financially feasible and that results in the highest value."[9] Generally, the existing owner of the lot will economically benefit from the additional value induced by the increase in the lot's highest and best use from single-family development to some form of LDMF development. However, the zoning reform will also offset former circumstances that created uncertainty in receiving a use variance to develop LDMF housing on the previously single-family zoned lot, making developing LDMF on the lot more risky, complex and costly.

- **Boosting housing supply and affordability:** Since single-family zoning contributes to housing supply scarcity, which has a spillover effect on home sales and rent prices, permitting LDMF housing in a market's single-family zoned areas could have positive impacts on a market's supply and affordability challenges. Recent research, which explore the impact of new market-rate development on nearby housing (four analyses were done on the neighborhood level and one on the city level), shows that adding market-rate housing makes nearby housing more affordable across the income distribution of surrounding rentals. This can be explained by the supply effect on affordability, meaning that new market-rate units can ease pressure on the market's existing housing stock and free up older unsubsidized units that are more affordable than new market-rate rentals, known as the filtering process.

  Additionally, increasing the housing market's supply by permitting smaller market-rate units, which could be more affordable to own or rent than single-family homes based on price per square-footage, may help ease the market's affordability issues and boost the diversity of housing options. However, it is important to differentiate here between housing affordability and affordable housing production. While a zoning reform effort to allow for some form of LDMF housing in single-family zoned areas could boost the jurisdiction's housing affordability, this effort will not necessarily result in the production of housing that is affordable to lower-income households, or even affordable for moderate-income households in high-cost markets.

  For example, a city-wide zoning reform effort to permit LDMF housing could lead to positive impacts on the city's supply and affordability issues in the long term. However, if the zoning reform effort results in the creation of market-rate units that are attainable/affordable to households earning 60-80% of the area median income (AMI), additional subsidies and targeted efforts will be required to ensure that this zoning reform efforts can create units that are affordable to households earning up to 60% of the AMI, including lower-income Black, Indigenous, people of color (BIPOC) households who have been previously priced out of the market due to historic discriminatory housing polices and supply constraints.

- **Mitigating the racial equity implications of exclusionary single-family zoning:** Exclusionary single-family zoning continues to contribute to racial and economic inequities in the U.S. housing system. Today's racial homeownership gaps are largely the result of historic discriminatory lending, both in government-backed mortgages and private lending, as well as exclusionary single-family zoning regulations that were born out of racial discrimination and segregation. For example, in the second quarter of 2021, 44.6% of non-Hispanic Black households and nearly 47.5% of Hispanic households owned their homes, compared to nearly 74% for white households. Additionally, BIPOC households who were not able to own homes, largely due to discriminatory home lending practices, were also unable to build generational wealth through attaining an appreciable asset from which they could build wealth.

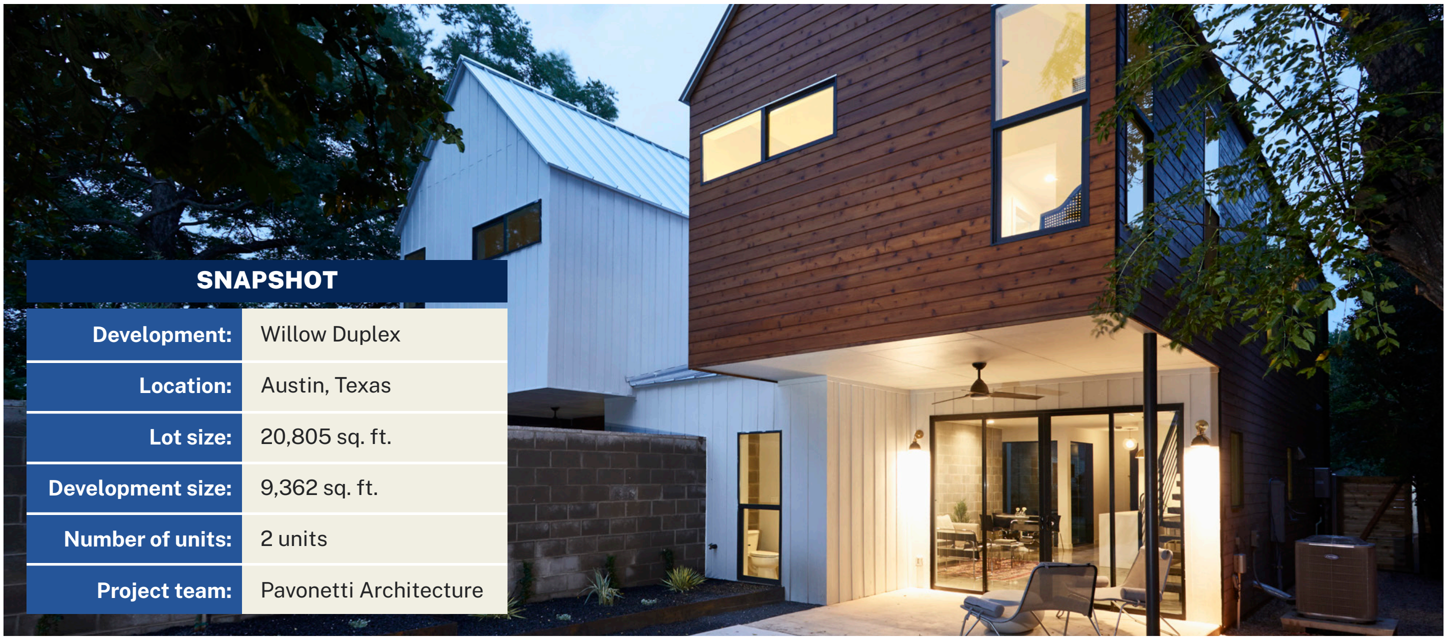
- **Addressing climate change threats:** With the rising intensity and frequency of climate change induced extreme weather events, such as flooding, extreme heat waves and wildfires, addressing the effects of residential development on climate change is more important now than ever. Residential buildings constitute nearly 6% of the total U.S. greenhouse gas emissions.[10] Recent research shows that revising exclusionary single-family zoning is key to combatting climate change.

Research suggests that doubling urban density in U.S. cities can reduce carbon pollution from household travel by nearly half and residential energy use by more than a third. However, efforts to make U.S. cities denser by allowing for some form of multifamily development in predominantly single-family zoned areas are often complicated by local opposition to any development other than single-family homebuilding, commonly known as the Not in My Backyard (NIMBY) phenomenon.

Additionally, climate change is expected to increase the intensity, frequency and impacts of extreme weather events, such as hurricanes, flooding and wildfires. These projections emphasize the urgency of ensuring that areas resilient to/at low risk of natural hazards have a multifamily housing stock that can accommodate projected climate-induced migrations. Some urban planners and architects are calling for determining the highest and best use for any parcel of land depending on the projected climate vulnerabilities facing it, as a strategy to respond to climate change induced migrations (climate migrations).[11] This strategy, which could include permitting LDMF housing in single-family zoned areas located in areas at low risk of climate change threats, would increase the permitted density in areas that are less vulnerable to climate change threats to accommodate climate migrations by increasing these areas' housing supply and options.

SNAPSHOT

Development:	AMP House Apartments
Location:	Minneapolis, Minnesota
Lot size:	6,312 sq. ft.
Development size:	7,950 sq. ft. (gross building area)
Number of units:	12 units
Project team:	Developer: AMP House Partners, LLC. Christian Dean Architecture - Jessica Harner, AIA; Christian Dean, AIA; and Elizabeth Schmiesing.



SNAPSHOT	
Development:	Willow Duplex
Location:	Austin, Texas
Lot size:	20,805 sq. ft.
Development size:	9,362 sq. ft.
Number of units:	2 units
Project team:	Pavonetti Architecture

Revisiting Single-Family Land Use and Zoning Regulations to Allow for LDMF Housing

Acknowledging that exclusionary single-family zoning contributes to a range of state and local housing challenges, including affordability challenges and racial inequities in housing, a number of jurisdictions across the country have been exploring reforming zoning regulations to allow for some form of LDMF development in all or some single-family zoned areas. Here are some brief examples:

- In 2019, Oregon became the first state to adopt zoning reform legislation on a statewide basis.[12] In August 2019, Oregon Governor Kate Brown signed into law House Bill (HB) 2001, a measure that eliminates local bans on duplexes in every low-density residential area in all cities with more than 10,000 residents and all urban lots in the Portland metro area. And in cities of more than 25,000 residents and within the Portland metro area, the legislation authorizes triplexes, fourplexes, attached townhomes and cottage clusters on some lots in all areas zoned for residential use.

- Nearly a year following the enactment of Oregon's HB 2001, the Portland City Council passed the Residential Infill Project, a zoning code reform that allows for gentle-density development, such as duplexes and triplexes, in the majority of the city's neighborhoods.[13] The zoning code reform allows for developing duplexes, triplexes and fourplexes in essentially all residential areas, and allows developers to create five-and six-unit homes if half of the units are available to low-income Portlanders at regulated, affordable prices. The Residential Infill Project also removes all parking mandates from three quarters of the city's residential land.

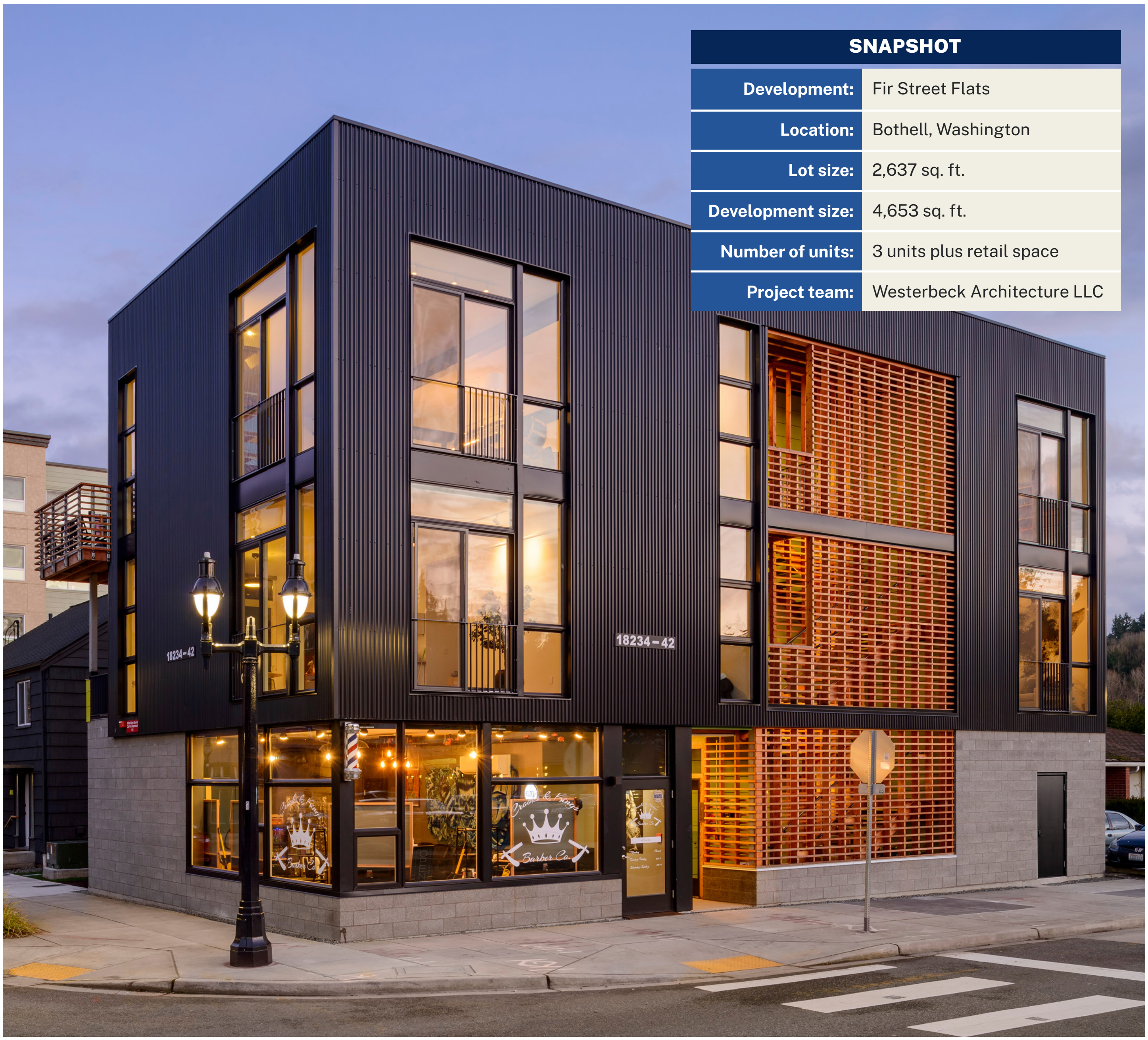
- In January 2020, Minneapolis 2040, a comprehensive plan that guides city-wide growth and change, went into effect, along with initial zoning changes that were enacted to help the city reach some of the Minneapolis 2040 goals.[14] These goals include eliminating disparities in housing, wealth, opportunity and health, as well as increasing the housing supply in a way that meets changing needs and desires. As required by state law, the city of Minneapolis has begun revising its zoning regulations to match the residential development guidelines that the city council approved with Minneapolis 2040, and has already altered its zoning regulations to permit the development of up to three units on all residential lots.

- In September 2021, California Governor Gavin Newsom signed into law SB 9 and 10. SB 9 authorizes building duplexes on parcels zoned for single-family development statewide, while allowing property owners to split their lots into two parcels. An analysis from the Terner Center for Housing Innovation at the University of California at Berkeley estimates that SB 9 could enable the production of nearly 700,000 new, market-feasible homes across the state.[15] SB 10 makes it easier for local jurisdictions to approve zoning changes that allow for smaller housing developments with up to 10 units in specific areas, including transit-rich neighborhoods and infill locations.[16] Additionally, prior to the enactment of these state-wide bills, a number of municipalities in California have pursued efforts aimed at allowing for a range of housing options in their single-family zoned areas. For example, in January 2021, the Sacramento City Council voted unanimously to approve a proposal to allow up to four units to be built on single-family zoned lots.[17]
- In addition to these jurisdiction-level zoning reform efforts, some local governments have moved toward using upzoning to permit denser development in specific neighborhoods. In 2019, the Seattle City Council approved the Mandatory Housing Affordability (MHA) upzones[18] to allow higher density and impose affordable housing requirements on more than two dozen neighborhoods. This measure upzones around 27 neighborhood hubs, an effort that includes permitting denser housing on about 6% of lots where new construction was previously reserved exclusively for single-family homes. Furthermore, New York City is currently considering the SoHo/NoHo Neighborhood Plan[19], a proposal to allow up to 3,200 new homes to be created in these two neighborhoods, while requiring affordable housing in all new developments to advance the city's goals of fair housing and equitable growth.

At the federal level, the Administration and members of Congress have released proposals that aim to incentivize state and local jurisdictions to address zoning barriers to housing production, which could include easing zoning restrictions on LDMF housing development. In June 2021, the Biden-Harris Administration released the Unlocking Possibilities proposal, which would enact a new $5 billion competitive grant program that would award flexible funding to state and local jurisdictions that take actions to address zoning restrictions on housing development.[20] These grants may be used by grantees to invest in and incentivize the implementation of land use and zoning policies that can remove barriers to housing production. Additionally, in March 2021, Senators Amy Klobuchar (D-MN), Rob Portman (R-OH) and Tim Kaine (D-VA) introduced the Housing Supply and Affordability Act[21], legislation that would establish a HUD-administered grant program that would allocate $300 million annually to assist state and local jurisdictions with reducing zoning restrictions that have limited the types of housing that can be built. Under the grant program, state and local jurisdictions may apply for either planning or implementation grants to ease zoning restrictions on housing production.

Prominent Barriers to Creating LDMF Housing

Addressing the negative impacts of exclusionary single-family zoning on jurisdictions' housing affordability and supply challenges require permitting some form(s) of multifamily housing in some/all areas reserved for single-family development. This action should be part of a comprehensive state or local housing plan that includes other housing strategies that can help address municipalities' affordability and supply challenges. However, even if a jurisdiction amends its land use and zoning regulations to permit LDMF development in areas previously reserved for single-family development, there are still underlying regulatory and financial barriers to creating this type of development at scale. Based on conversations with housing experts and advocates, our research identified prominent regulatory and financial barriers to developing LDMF housing.



SNAPSHOT	
Development:	Fir Street Flats
Location:	Bothell, Washington
Lot size:	2,637 sq. ft.
Development size:	4,653 sq. ft.
Number of units:	3 units plus retail space
Project team:	Westerbeck Architecture LLC

Prominent Regulatory Barriers to LDMF Housing

Single-family zoning continues to dominate residential land use, limiting where multifamily housing, including LDMF, can be developed. A recent analysis from The New York Times[22] found that single-family zoned residential land accounts for large shares of residential land in cities across the country; 84% of Charlotte, North Carolina's residential land, 81% in Seattle, 79% in Chicago and 75% in Los Angeles. This land use pattern creates a significant regulatory hurdle to developing LDMF housing, as large shares of developable land are exclusively reserved for single-family development and not zoned for LDMF housing development. Under these circumstances, developers interested in creating LDMF housing will likely pursue receiving a use variance to create this type of housing, a high-risk process that often increases the complexity, timeline and cost of residential development.

Even when a municipality amends its land use and zoning regulations to allow for LDMF development in areas previously reserved for single-family development, there may be a range of underlying zoning regulations that could either inhibit or negatively impact the physical and financial feasibility of LDMF development. It is important to ensure that these underlying zoning regulations are amended to allow for LDMF development, as developers won't be able to create LDMF developments within a zoning regulatory framework that was designed for single-family development otherwise.

Acknowledging that zoning regulations vary by jurisdiction, this research explores strategies to address prominent zoning requirements that have implications for both the physical and financial feasibility of LDMF housing development.

The racist legacy of land use and zoning regulations

The majority of U.S. jurisdictions have zoning regulations that preserve large swaths of developable land for single-family development and inhibit any form of multifamily development that comprise two or more housing units located on the same parcel. Today's single-family zoning regulations, which were born out of decades-old racist housing policies and practices, are no longer used by U.S. municipalities to explicitly exclude Black, Indigenous and other people of color (BIPOC) households from some neighborhoods. However, these regulations continue to economically exclude low-and moderate-income households who cannot afford single-family homes from entire neighborhoods reserved for single-family development. And since there is an inexorable link between income and race in the U.S., single-family zoning regulations continue to have a disparate impact on BIPOC households across the country.

To address today's single-family zoning regulations disparate impact on American BIPOC households, it is important to understand the historical systems and conditions in which these regulations were adopted and implemented.

Up until the U.S. Supreme Court outlawed race-based zoning in 1917, U.S. municipalities used race-based zoning to explicitly segregate neighborhoods by race, forcing BIPOC households to live in neighborhoods with substandard living conditions and fewer services. This practice occurred at a time when the federal government was not deeply involved in housing policy. Following the Supreme Court's decision to outlaw race-based zoning in 1917, U.S. municipalities moved toward using alternative strategies to segregate neighborhoods by race, including pricing BIPOC households out of desirable neighborhoods through reserving these areas for single-family development.

1. Revising minimum lot size requirements:

At a minimum, municipal governments must ensure that the underlying minimum lot size requirements allow for developing LDMF housing on parcels previously reserved for single-family development that witnessed a zoning reform to permit some form(s) of LDMF housing on these lots.

Minimum lot size requirements are imposed by local zoning regulations to ensure that the parcels that will be developed into a specific use are larger than a certain size (i.e., at least 7,000 or 12,000 square feet (sq. ft.)).[23] Municipalities link the issuance of permits necessary for developing a parcel to meeting their minimum lot size requirements and require that a developer apply for a variance when the lot is smaller than the required minimum lot size. Generally, minimum lot size requirements do not apply to parcels surveyed before these requirements were adopted by the municipality. This practice results in nonconforming lots that met previous minimum lot size requirements for the area in which they are located, but now are smaller than required minimum lot size due to changes in those requirements.[24]

When a municipality allows for developing LDMF housing in certain areas, while subjecting these areas to excessive minimum lot size requirements, this practice leads to creating regulatory barriers to developing this type of multifamily housing. That is because excessive minimum lot size requirements indirectly prohibit the development of sites that do not conform to the current lot size requirement into LDMF housing. This issue is particularly challenging when a jurisdiction's minimum lot size requirements are not coordinated with the prevalent pattern(s) of subdivided developable parcels.

For example, a municipality could amend its land use and zoning codes to permit LDMF housing in specific areas that primarily consist of parcels sized 1,000–4,000 sq. ft, while subjecting these areas to a minimum size requirement of 10,000 sq. ft. This action would largely inhibit the development of LDMF housing in the areas that witnessed a reform to address exclusionary single-family zoning, due to the municipality's excessive minimum size requirement. Furthermore, requiring developers to pursue a size variance to allow development on parcels that are smaller than the minimum site size requirement often increases the complexity, length and cost of development.

Even when a specific parcel meets the municipality's minimum lot size requirement, excessive minimum lot size requirements often increase the cost of development by requiring more square footage of land per unit. Research shows that large minimum lot size requirements have a positive, statistically significant effect on housing prices.[25] This means that even if minimum lot size requirements wouldn't necessarily inhibit the creation of some form(s) of LDMF housing, these requirements could negatively impact the financial feasibility of this type of development by requiring that developers acquire more square footage of land per unit (i.e., allowing building developments with up to 10 units on sites with minimum lot size of 50,000 sq. ft. vs. sites with minimum lot size of 25,000 sq. ft.). This additional cost will likely transfer from the developer to tenants in the form of higher home rent or purchase prices.

Several municipal governments have explored solutions to regulatory barriers induced by minimum lot size requirements. For example, in 1988, the city of Houston reduced its minimum lot size requirement from 5,000 to 1,400 sq. ft. on all parcels within the city's I-610 loop. In 2013, the city of Houston expanded the 1,400 sq. ft. minimum lot size requirement to cover the entire city.[26] Another example is the revision of the city of Denver's minimum lot size requirements for some residential areas to 4,500 sq. ft. for multifamily development.[27]

2. Revising development bulk requirements

Municipal governments must ensure that the underlying development bulk requirements allow for and do not negatively impact the development of LDMF housing on parcels previously reserved for single-family development that witnessed a zoning reform to permit some form(s) of LDMF housing on these lots.

Most municipal governments impose a range of zoning regulations, including floor area ratio, lot coverage, height and setback requirements, which collectively determine the maximum size and placement of a building on a specific parcel.[28] Even when a municipality amends its land use and zoning regulations to allow for LDMF development in areas previously reserved for single-family development, there may be a range of underlying bulk requirements that either inhibit or negatively impact the physical and financial feasibility of LDMF development. It is important to ensure that these underlying regulations are amended to support LDMF development, as developers in most cases won't be able to create LDMF developments within single-family developments' permitted building envelope and footprint. Some of the most common bulk requirements include:

- **Maximum lot coverage** mandates that the above ground development's footprint, including structures like covered garages and sheds, does not exceed a certain % of the lot's total area (i.e., development footprint does not exceed 30 or 40% of the parcel's total area).
- **Floor area ratio (FAR)** is the ratio of the development's total floor area to the parcel's total area. This means a FAR of 3.0 means that the developer can build three times as much as the lot's total square footage, and the gross floor area could be split over multiple floors. Municipalities use FARs to regulate the total square footage that can be developed on a parcel without imposing detailed development size and shape requirements.
- **Setback requirements** regulate the minimum distance any structure must be separated from the four lot lines, creating minimum front, rear and side setbacks. These requirements are typically adopted to ensure privacy and adequate light and air access to neighboring properties.
- **Building height caps** define the maximum permitted vertical distance between a set level, such as ground level, and the uppermost portion of the structure. These requirements are typically calculated based on the lot's width and adopted to regulate the massing of development in relation to the massing of existing structures.

Imposing excessive development size and height requirements can inhibit the creation of LDMF housing and negatively impact the financial feasibility of this type of development. Therefore, any zoning reform effort to permit LDMF development in areas previously reserved for single-family development must include a review of the impact of existing bulk requirements on the success of the zoning reform in allowing for and encouraging the development of desired form(s) of LDMF housing. In the absence of an effort to amend the underlying bulk requirements, developers will not be able to create many/any forms of LDMF within single-family zoning's permitted building envelope, which is the maximum three-dimensional space on a specific lot within which a development can be built according to applicable high, lot coverage, FAR and setback requirements.[29]

For example, a municipality could enact a zoning reform effort to allow developing up to four units (commonly known as a fourplex) on formerly single-family zoned parcels, without amending the underlying development bulk requirements. Under this framework, LDMF development, such as triplexes or fourplexes, will likely not fit within single-family development's building envelope, which is regulated by maximum FAR/lot coverage, setbacks and height limits, among other requirements. The regulatory framework governing single-family development's permitted size and height must be amended to allow for the desired form(s) of LDMF development. Such effort should be undertaken in collaboration with developers who are interested in creating LDMF development in areas that witnessed zoning reform to ensure the zoning reform is accompanied with any necessary development bulk revisions.

3. Addressing excessive off-street parking requirements

Municipal governments must ensure that the underlying minimum on-site parking requirements allow for and do not negatively impact the development of LDMF housing on parcels previously reserved for single-family development that witnessed a zoning reform to permit some form(s) of LDMF housing on these lots.

Parking minimums are the number of off-street (on-site) parking spaces that are required by local zoning regulations for new development.[30] Imposing excessive minimum parking requirements can significantly hurt the viability of LDMF housing development. Under certain circumstances, excessive parking minimums could hurt the physical feasibility of a LDMF development proposal on a parcel that was previously zoned for single-family development, as the developer won't be able to fit both the permitted number of units and the minimum required number of parking spots on the development's parcel.

For example, a jurisdiction could require providing two off-street parking spots for each unit on a parcel that was rezoned to increase permitted density from single-family homes to some form of LDMF housing (i.e., up to six units per parcel). In the absence of any revisions on the site's parking minimums, developing six units on the site would require creating at least 12 on-site parking spots. The parcel's size may not allow for creating six units along with 12 surface parking spots on the site. Under this scenario, the developer would have to create less housing units on the site to meet parking minimums by creating surface parking spots.

This result is often described as the opportunity cost of parking minimums.[31] Excessive off-street parking requirements, which often do not match actual household demand for parking, can take large portions of developable land out of productive use. This means that these minimum off-street parking requirements can squeeze out additional housing units that otherwise would have been developed on the site. In addition to impacting developments' physical feasibility, excessive minimum parking requirements have implications for developments' financial feasibility. Excessive minimum parking requirements increase the cost of developing LDMF housing development by occupying valuable developable land and increasing construction costs.

Research indicates that creating a single structured parking space can add an average of $50,000 in per-unit costs, and these costs increase significantly when the development includes an underground parking structure.[32] When a developer is unable to meet parking minimums by creating surface parking for a site that will be developed into LDMF housing, pursuing an underground parking structure, when possible, becomes an alternative path with a higher price tag. The parking-induced additional costs are often passed from the developer to tenants in the form of higher rent/sale prices, increasing the tenant's housing cost burden.

Several municipal governments have explored jurisdiction-wide or targeted solutions to ease or eliminate parking minimums in their jurisdictions. For example, in January 2021, the South Bend (Indiana) City Council voted to eliminate parking minimums for residential development across the city.[33] Another example is the elimination of minimum parking requirements in the City of Buffalo in 2017, an action that has proven to lead to less parking in mixed-use developments.[34] Other jurisdictions pursued targeted parking minimums reform. In 2018, the Seattle City Council approved a package of parking reforms[35], expanding the areas where no parking is required to include specific areas near transit stops and reducing minimum off-street parking requirements for below-market housing construction. Additionally, the California State Legislature explored a proposal that would prohibit imposing and enforcing local minimum parking requirements on development sites located within a half mile of a major transit stop or transit corridor.[36]

In addition, to address challenges induced by minimum lot size, development bulk and minimum parking requirements, municipalities can support the development of LDMF housing by allowing for the by-right development of this type of housing. By-right zoning means that a development proposal would receive a building permit under a ministerial approval, which determines that an application complies with a set of established standards, such as the current underlying zoning requirements for the parcel where the project will be constructed. A ministerial review would allow development proposals to receive building permits without going under additional reviews and public hearings or meetings additional conditions. Municipalities can explore allowing for the by-right development of desired forms of LDMF housing development to mitigate cost and time challenges induced by local permitting processes. One example is the city of Cambridge's (Massachusetts) Affordable Housing Overlay (AHO)[37], which was approved by the city council in October 2020. This overlay zoning allows for the as-of-right-permitting of affordable housing projects (developments in which units are affordable to households earning up to 100% of the AMI) that meet all applicable zoning requirements without subjecting them to special permits or variances from the Planning Board or the Board of Zoning Appeal.

SNAPSHOT	
Development:	Accessory dwelling unit (ADU)
Location:	Portland, Oregon
Lot size:	5,000 sq. ft.
Development size:	ADU development footprint = 380 sq. ft. ADU living space = 600 sq. ft.
Number of units:	1 unit
Project team:	Webster Wilson Architecture

Prominent Challenges to Financing LDMF Housing

Financing Barriers Induced by Land Assembly

Developers pursuing developing a site into LDMF housing must demonstrate that the proposed development project is financially feasible to secure debt and equity capital to finance the project's pre-development and construction phases. There are a number of factors that impact the financial feasibility of a proposed LDMF housing development. One of the prominent factors that impact the financial viability of LDMF housing development is the cost of land assembly. Developing LDMF housing in an area that was previously zoned for single-family development may require acquiring multiple contiguous smaller sites, which could be owned by different landowners, to merge those lots into one larger development site. Under such circumstances, the developer may experience challenging land assembly processes, which could require offering higher land purchase prices to incentivize holdouts to sell their lots.

Additionally, the characteristics of developable land can have a significant impact on the cost of land assembly for LDMF development. This includes whether the lots that will be combined include any existing structures. If a zoning reform effort occurs in a built-up area that was previously reserved for single-family development, then the developer will incur additional costs related to the acquisition of any existing structures (compared to undeveloped land), unless the structure is in a state that does not add any significant value to the overall property acquisition costs. This is particularly true for LDMF housing projects that require demolishing any existing structures on the acquired land, where the developer is paying to acquire the land and the structure as well as the demolition costs. (Moving from using the land as a single-family home to greater density requires that the returns on building more densely are greater than the acquisition, demolition and construction costs.) As an alternative, the developer may consider either rehabilitating or adding to the existing structure to create LDMF housing, such as adding an Accessory Dwelling Unit to an existing structure or converting an existing structure into a duplex.

The cost of land acquisition for developing housing on a specific site is ultimately going to be determined by the number of housing units that can be developed on the site, even if the current use is not at maximum density. The number of units that can be built will be a function of zoning and building mass regulations but could change based on developer requests for variances and community feedback. Developers are often incentivized to pursue the greatest feasible density to allow them to spread the fixed development costs over a larger number of housing units.

The characteristics of the local housing market can derail the financial feasibility of LDMF housing development. In high-cost markets, the high cost of land acquisition will likely negatively impact the financial feasibility of creating a LDMF housing development, as the developer will pay a premium to acquire and assemble a group of parcels into one larger site that can be developed into LDMF housing. Under such circumstances, the developer will likely develop the assembled site into higher-priced rental buildings or condominiums to ensure that the development project will pencil out. Otherwise, some form of public subsidy will be needed to create more affordably priced market-rate LDMF housing, or if there are underlying inclusionary zoning (IZ) regulations, then these IZ requirements will result in the creation of a specific number of affordable housing units on the site.

While land cost-related challenges are likely to be less prevalent in less expensive housing markets, these challenges could still occur in markets with rising demand for developable land and housing, which would negatively impact the financial viability of LDMF housing development in such markets. In these markets, land banks and municipal governments, among other landowners, who are interested in supporting proposals to create LDMF housing could offer developers interested in developing this type of housing parcels owned by a landbank or a public entity at a discounted price. Such property transactions could be attached to subsidies that would ensure that that developed LDMF housing is affordable to targeted income levels. In markets with weaker demand for housing, including those that experience property vacancy and/or blight, the market conditions will likely not incentivize developers to create LDMF housing, as the local market is not there yet. Alternatively, the ability to offer smaller homes than what is otherwise available may make LDMF attractive from an affordability perspective even in weaker markets.

Financing Barriers Induced by Lending and Investment Requirements

There is a consensus among housing developers and experts that inadequate access to financing is one of the prominent challenges to developing smaller-scale multifamily housing, including LDMF housing. Due to the scale of development, LDMF housing is likely to be developed by small-scale developers, unless a large-scale developer acquires a group of smaller sites or a larger subdivided site to create LDMF housing on these sites as one real estate project under one real estate portfolio. Barriers to accessing financing for developing LDMF housing primarily stem from the scale of development and the fact that these developments are often pursued by small-scale developers. Focusing on conventional lending for market-rate housing, this section discusses common barriers to accessing financing for the developing LDMF housing:

- **Challenges induced by access to equity capital:** Conventional lending products typically cover up to 80-85% of the total development's cost through offering debt capital, which means that the developer is required to cover the remaining development cost either through personal equity or equity debt from investors. Even when small-scale developers qualify for securing capital debt, securing equity necessary to finance real estate development is often challenging for small-scale developers who do not always have access to personal equity and face barriers to securing equity debt due to perceived capacity risk (when their ability to successfully complete and operate a real development is questioned and therefore, offering equity debt is deemed risky by investors). Under such circumstances, small-scale developers will face significant challenges in securing equity needed to finance any real estate developments, including LDMF developments. For example, even when a small-scale developer qualifies for accessing a conventional lending product that covers 70% of the total development cost of a $3.5 million LDMF development, the developer would be required to secure nearly $1 million in equity to finance the remaining development cost. This task is challenging for small-scale developers who do not have access to personal equity or face challenges in accessing equity debt from investors, especially small-scale developers of color.

SNAPSHOT	
Development:	Cloverdale749
Location:	Los Angeles, California
Lot size:	6,389 sq. ft.
Development size:	10,500 sq. ft.
Number of units:	6 units
Project team:	Lorcan O'Herlihy Architects

- **Challenges induced by developer capacity requirements:** Small-scale developers pursuing LDMF development often face barriers to meet lenders' and inverstors' requirements for receiving debt and equity capital. Generally, these requirements are adopted by lenders and investors to examine the developer's capacity and ability to successfully develop and operate the proposed housing development, so that the developer would be able to pay back lenders the borrowed debt capital and the expected financial return on equity investments. Some prominent requirements are related to having specific liquidity and net worth levels. Lenders and investors may also require small developers to meet specific track record requirements, which are set to examine the developer's ability to successfully complete a proposed project based on the successful completion of similar real estate developments in the past. This is particularly challenging for emerging small-scale developers.

- **Challenges induced by mortgage origination and servicing costs:** Generally, the time and effort required to underwrite a loan for a LDMF development is nearly equal to the time and effort needed to underwrite a loan for a larger-scale multifamily development. Loan underwriters charge developers a loan origination and servicing fee, which is typically a specific percentage of the total development cost (also known as the real estate deal cost). Regardless of the real estate development's scale and total cost, loan underwriters will dedicate fixed costs, such as legal, personnel and overhead expenses, toward processing, originating and servicing the requested debt capital. Under some circumstances, loan underwriters will deem underwriting loans for LDMF development to not be cost effective, especially when the cost of fixed loan originating expenses, such as dedicated personnel and legal fees, outweighs the projected financial return on originating a LDMF loan.

- **Challenges induced by perceived risk in loan underwriting:** Lenders may perceive financing LDMF housing development as a risky investment due to a range of factors. For example, any unit vacancy in LDMF development is deemed to have a significant effect on the net operating income, which would negatively impact the developer's ability to pay back the monthly capital debt (loan) payments. For example, if two units are vacant in a 10-unit LDMF development during a specific period, the unit vacancy translates into an overall vacancy rate of 20%. However, if eight units are vacant in a 70-unit development, the development's overall vacancy rate would be lower than 12%. Additionally, some property operation costs in multifamily housing properties are fixed, such as expenses related to hiring property management and maintenance staff, regardless of the property size and number of units due to the economies of scale. Therefore, under certain circumstances, LDMF developments are deemed more expensive to operate than higher-density multifamily properties, as these fixed costs are divided over a smaller number of units in LDMF properties, compared to larger-scale multifamily developments.

While there is a nationwide scarcity of lending products tailored for LDMF development, there are public and private efforts that provide financing for developers pursuing LDMF housing development. Here are three brief examples:

- **Community Preservation Corporation's (CPC) Flex Small Loan Program:** CPC's Flex Small Loan program[38] offers flexible construction and permanent financing for developers of small multifamily rental properties, defined as developments with up to 20 units in Upstate New York and properties with up to 10 units in New York City. To support small multifamily rental housing, CPC offers construction loans that range between $100,000 and $2.5 million, with flexible terms, including offering 24-month standard construction loans with up to a 90% Loan to Cost (the ratio between the total loan amount and total cost of the project) and 10% cash equity. Under certain circumstances, CPC's lending product may cover the full development cost of a small multifamily rental development. Additionally, CPC's lending product aims to lower construction loans' origination fees, as well as the legal and loan closing fees. This includes closing on the loan (the final phase of loan processing) in house as CPC's capacity allows and reducing legal fees for small loans.

CPC also takes a number of steps to mitigate fees induced by required third party reports, such as requiring the borrowers to submit short form engineers' reviews and streamlined environmental reports. CPC also offers borrowers the option to pursue forward-committed permanent loans, which would give the borrower assurance that the lender will convert the construction loan into a permanent mortgage once the construction phase is completed (within the 24-month construction term set by CPC). The Flex Small Loan program offers permanent loans for small rental multifamily properties, and these loans range between $100,00 and $1 million, with a maximum 10-year term and a 30-year amortization schedule.

- **City of Minneapolis' Missing Middle Housing Pilot:** The city of Minneapolis launched its Missing Middle Housing pilot[39] to encourage the development of affordable rental housing properties with two to 20 units. The program requires developing new-construction properties on vacant parcel/contiguous parcels across the city of Minneapolis and that at least 20% of the development's units are affordable to tenants earning up to 50% of the area median income. The affordability term is at least a 30-year term. The city financing, which is only available for the affordable housing units, is development gap financing that covers the difference between the total development cost of developing the project's affordable units and the amount of debt and equity the developer can secure for these affordable units. The development gap financing is structured as a loan secured with a note and mortgage on the property. Available total development gap financing for Missing Middle rental developments is up to $70,000 per affordable unit, and developments that demonstrate the need for deeper subsidy may be eligible for up to $95,000 per affordable unit. The gap financing was made available by the city through a notice of funding availability application process, which solicited applications for funding proposals.

- **Family Housing Fund's (FHF) Building Equity in Small Multifamily Ownership Program:** FHF's Building Equity in Small Multifamily Ownership program[40] is designed to enable first-time homebuyers of color across the state of Minnesota to build wealth through home equity and rental income as owner-occupant landlords of properties with two to four units. FHF launched this program to take advantage of the state's recent zoning changes that allowed for the development of up to fourplexes on single-family zoned parcels to help close racial disparities in housing-related wealth, increase the state's supply of locally owned small rental properties, and assist first-time homebuyers of color in earning additional income from rent and home equity appreciation.

This effort includes providing acquisition and construction loans to increase Minnesota's supply of properties two to four units, while prioritizing loans for local developers of color and facilitating sales for first-time homebuyers. The program aims to ensure that participating owner-occupant landlords are well positioned to be successful homeowners and responsible landlords through a set of actions. This includes providing credit enhancement to reduce perceived risk among lenders, piloting a new mortgage product that includes escrow to enable landlords to save for future repairs, and developing owner-occupant training and homeownership education programs.

Key Takeaways

- Today's single-family zoning regulations, which were born out of decades-old racist housing policies and practices, continue to economically exclude low- and moderate-income households who cannot afford single-family homes from entire neighborhoods reserved for single-family development. And since there is an inexorable link between income and race in the U.S., single-family zoning regulations continue to have a disparate impact on Black, Indigenous and other people of color (BIPOC) households across the U.S.

- Unlocking underutilized land zoned for single-family development to allow for LDMF housing has the potential to help jurisdictions address some of the negative impacts of exclusionary zoning on their housing markets' supply and affordability issues. However, this strategy cannot solely address persistent state and local housing supply and affordability challenges, and therefore, should be part of a comprehensive state or local housing plan that includes other housing strategies that can help address municipalities' affordability and supply challenges.

- While there is no single agreed upon definition of LDMF development, the housing industry has been using a range of terms to define this type of development, including gentle density and missing middle housing. Acknowledging that the definition of LDMF varies across state and local housing markets depending on the market's development density context, this research broadly defines LDMF development as the type of development that would stand somewhere between single-family development and high-density multifamily development depending on the local density context.

- Even when a jurisdiction amends its land use and zoning regulations to permit LDMF development in areas previously reserved for single-family development, there are still underlying regulatory and financial barriers to creating this type of development at scale:
    - Prominent zoning requirements that have implications for both the physical and financial feasibility of LDMF housing development, which include:
        - Excessive minimum lot size requirements
        - Excessive development bulk requirements
        - Excessive off-street parking requirements
    - Common barriers to accessing financing for the development of LDMF housing include:
        - Challenges in securing equity debt needed for financing LDMF development
        - Challenges in securing debt capital needed for financing LDMF development
            - Fixed mortgage origination and servicing costs
            - Restrictive loan underwriting capacity requirements
            - Perceived risk in loan underwriting

- Supporting the development of LDMF requires addressing the regulatory and financial barriers to creating this type of development at scale. This could include reviewing the underlying zoning regulations to ensure that they won't inhibit or restrict the development of the desired types of LDMH housing, as well as creating lending products that are tailored for financing LDMF development. This means that these lending products would be designed to address the barriers to financing LDMF that stem from the scale of development and the fact that these developments are often pursued by small-scale developers.

Enterprise

Enterprise will continue to research and disseminate best practices on expanding the supply of affordable homes and containing the cost of affordable housing development.

For additional resources and more information on these efforts, please visit www.enterprisecommunity.org.

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