



Chicago's Hidden Housing Solution:

How Additional Dwelling Unit Expansion Can Make the City More Affordable

LyLena D. Estabine
Policy Researcher, Illinois Policy Institute

January 2025

ILLINOIS
POLICY

Executive Summary

Chicago's 2020 Additional Dwelling Unit Ordinance, while well-intentioned, has stifled development. Despite 71% of Chicagoans being in favor of putting additional dwelling units on existing residential lots – higher than the national average – restrictive and inequitable regulations have ensured very few are built.¹ Only 44% of pre-approved applications have received building permits since the program's inception.²

This low rate of desired residences becoming actual homes points to substantial barriers in the development process. Inequitable restrictions on the West, South, and Southeast zones – such as owner-occupancy requirements, vacant lot development limitations and permit ceilings – limit potential development where it's most needed.³ The policy has also led to uneven development across the city, with North and Northwest zones seeing disproportionately more construction of these units. Despite 60.6% of eligible properties being in the West, South and Southeast zones, only 6.5% of permits have been granted in these areas, highlighting a stark disparity.⁴

The problems that have long plagued all housing development in Chicago only exacerbate the low number of these dwellings typically added to single-family residences, which include basement apartments, mother-in-law houses and garage flats. High permit fees, ranging from \$1,575 for interior units to \$2,075 for new backyard houses, pose a significant financial barrier.⁵

Long wait times, averaging 121.6 days from application to issuance, further complicate the process.⁶

As a result, Chicago lags other major cities in this kind of construction.⁷ The missed opportunity is significant, as additional dwelling units offer numerous benefits. In Chicago, the estimated cost to construct one of the units is about \$150,000, which is about half the cost of building or buying a single-family house in the city.⁸ They can reduce housing costs, with average construction for a unit costing 30% as much as a new house. They support aging in place, provide wealth-building opportunities for historically disadvantaged homeowners and combat the housing shortage while preserving neighborhood character. There's even the potential to improve socioeconomic diversity, provide some families with access to better schools.

To address these issues, this report recommends 12 expansions to the current ordinance. Key suggestions include removing pilot area limitations and extra requirements in specific zones, removing discretion in all residential zones over additional dwelling units that meet codes, reducing permit fees, allowing both conversion units and coach houses on the same property, and eliminating neighbor notification requirements. Implementing these recommendations would significantly increase the development of these units, improving housing affordability and promoting more equitable urban development across Chicago.

Introduction

Chicago is in the grip of a housing crisis that's hurting families and driving away neighbors. Median home prices have soared to \$368,000 in September 2024, up over 8% in the past two years.⁹ Families are being priced out of their neighborhoods,¹⁰ seniors struggle to downsize within their communities, and the gap between housing needs and availability widens daily. This crisis hits the city's poor the hardest because they can least afford it. Today, over 438,000 Chicago residents live in poverty.¹¹ Of those, 88% are officially considered "burdened" by housing costs, meaning they pay more than 30% of their income for housing.¹²

What's causing this crisis? How can it be repaired?

One impulse to address housing affordability is to have the government act by spending money and regulating behavior. That was certainly part of Vice President Kamala Harris' housing plan.¹³ Many aspects of it, especially the downpayment assistance program, would make the housing crisis worse. These grants would push up demand, which pushes up prices on a limited supply.¹⁴

Instead, research shows the best way to improve housing affordability is to increase supply.¹⁵

There is a simple solution to some of Chicago's housing supply woes hiding in plain sight – in backyards, above garages, even in basements.

It is a proven way to increase the supply of housing that is affordable: additional dwelling units. Sometimes referred to as in-law suites, granny flats, English basements, or cottage houses, these housing units are added to a primary residence as an additional home with their own kitchen, living area and entrance.¹⁶ These spaces, once a core component of urban housing strategy, can once again play a crucial role in addressing the city's housing challenges.

From the left-of-center Brookings Institution to the libertarian Cato Institute, policy leaders agree additional dwelling units are a prime way to address housing challenges. Cities such as Los Angeles have proven this method works, with nearly 27,000 permits issued since they passed their ordinance in 2016. One in every three housing permits the city issued in 2023 was for an additional dwelling unit.¹⁷

More broadly, the units are an example of an approach to housing called "light-touch density."¹⁸ Light-touch density increases housing density in modest ways that maintain a neighborhood's existing character, something that's understandably important for current residents. American Enterprise Institute research has shown pursuing light-touch density is the "low-hanging fruit" of housing reform.¹⁹ These dwelling units offer a way for residents to power this kind of light-touch development themselves, contributing to the housing solution and reaping some of the benefits.

But Chicago has nearly regulated this kind of development out of existence. A pilot program launched at the end of 2020 by the city council severely limits where these properties can be developed, institutes unfair regional requirements and fails to address high permitting costs and wait times. Chicago has seen limited development of additional dwelling units since the ordinance's inception. Compared to cities such as Los Angeles, Portland and Seattle, where growth has been unleashed, Chicago is performing far below its potential. All this despite survey data reporting 71% of Chicagoans are in favor of these dwelling units, which is higher than the national average.²⁰

Chicago's 2020 Additional Dwelling Unit Ordinance should be expanded to allow for by-right unit development in all residential zones across the city. In this report, we examine the impact the restrictions in the current ordinance have had on permits to date and the inequitable outcomes across the five pilot areas. We consider Chicago's approach in comparison to other cities and provide actionable recommendations. Through a more effective and equitable ordinance, Chicago can unlock its additional dwelling unit potential, allowing more residents to access a better quality of life, age in place, boost intergenerational wealth and help increase housing affordability.

Additional dwelling unit policy in Chicago

In 1917, the U.S. Supreme Court decided in *Buchanan v. Warley* that racial restrictions in residential areas violated the 14th Amendment. In a highly segregated city such as Chicago, this meant a switch from explicitly racial zoning – such as restrictive covenants that were pioneered in Chicago²¹ – to more subtle forms of discrimination.²² Things like “urban renewal” and a desire to de-densify the city led to a push for suburbanization, and many areas were zoned for only single-family homes.²³

By increasing regulation and substantially decreasing density, those laws have made it harder for developers to build and, therefore, harder for many people to find housing that's affordable. It's 70 years later, and the laws have created a housing affordability crisis. Many cities are reconsidering these harmful zoning laws, especially the laws prohibiting additional dwelling units.

Sometimes referred to as in-law suites, granny flats, English basements or cottage houses, these housing units are added to a primary residence and have their own kitchen, living area and entrance.²⁴ Because some people saw these as a form of overcrowding, they were effectively banned in 1957 as a part of the changes the city council made to its zoning regulations.²⁵ The affordability issues Chicago has seen in the past decade, however, have pressured the city to open up some opportunities for allowing more of the units in the city.

THE 2020 ADU ORDINANCE

In December 2020, the Chicago City Council passed an ordinance allowing for the construction of additional dwelling units in select parts of the city. The ordinance sought to create “new units for homeowners needing extra income or those who wish to create separate spaces for multi-generational families” and “a path for legalization of units that were previously built without zoning approval and building permits.”²⁶ Within these five “pilot areas” (North, Northwest, West, South and Southeast), the ordinance allowed for the creation of two kinds of additional dwelling units.

Conversion units: Housing units added within or attached to an existing home. They make use of underutilized space without changing the external appearance of the property. Examples include English basements and granny flats.

Coach houses: Housing units separate from the primary structure and stationed in a side or backyard. While visible, they typically blend into the existing neighborhood fabric.

The first step in this process is an online, self-reported form that checks whether someone is qualified to build an additional dwelling unit on their property. It requires basic information such as their address, the number of units they intend to build, and proof that they have notified their neighbors and alderman of their plans. If they are approved through this

system, they can begin the second step of applying to Chicago's Department of Buildings for building permits.²⁷

The path from pre-approval to permit is not as smooth as it should be. While some have tried to attribute these shortcomings to additional dwelling unit development itself, closer inspection shows the real problem is the ordinance's restrictions.

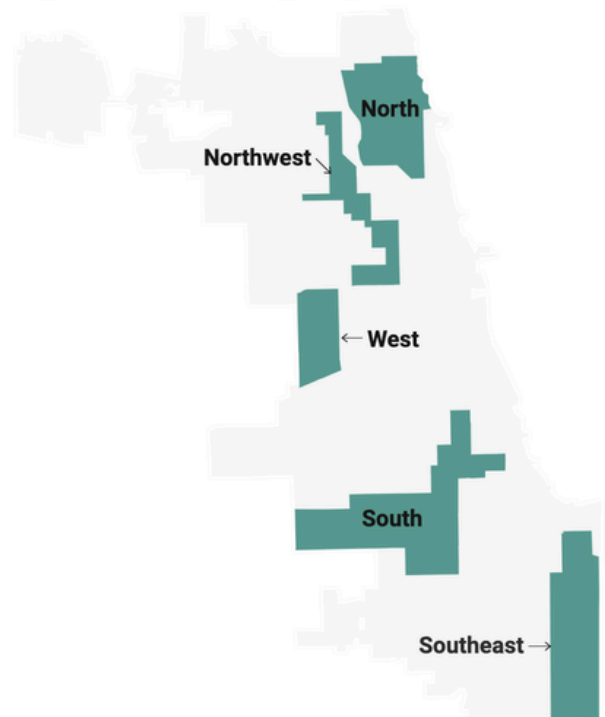
While the expansion of additional dwelling units into some parts of the city sounds promising, the ordinance placed notable constraints on what kinds of properties could build these structures and how much they could charge to rent them out. The property must be at least 20 years old. If there are one to four existing units, the owners can add one coach house or conversion unit. If there are five or more existing units, the owners aren't allowed to build coach houses but can add conversion units of up to 33% of the existing volume.

The ordinance also established "affordability" requirements for these units in alignment with the city's Affordable Requirements Ordinance. Properties with two or more conversion units must ensure that every other unit after the first is "legally restricted affordable at 60 percent Area Median Income (AMI) for 30 years after its construction. Properties with two or three conversion units must have one affordable unit, properties with four or five conversion units must have two affordable units, and so on."²⁸

What further complicates matters is not every home in these pilot areas is eligible to build these kinds of dwellings. The units can only be built in residential areas not strictly preserved for single-family housing (RS-1). Additionally, the owner trying to construct the unit must notify both immediate neighbors and their local alderman before proceeding with permitting.

More restrictions place an inequitable burden on potential development on the Southeast, South, and West sides, which we will analyze in the rest of this report. By the end, it should be clear a less-restrictive ordinance is needed for Chicago to realize its potential for this kind of development across the entire city.

Chicago's additional dwelling unit pilot areas



Map: @illinoispolicy · Source: Chicago Data Portal · Created with Datawrapper

Chicago's unrealized additional dwelling unit potential

The low number of additional dwelling units permitted in Chicago to date is not a story of disinterest or lack of pragmatism, but of restrictive policy holding Chicago back from its true housing potential. An improved ordinance with fewer restrictions can help remedy this.

INTEREST IN THE UNITS IS HIGH AND QUICKLY RISING

In 2022, Zillow surveyed 26 metro areas, asking homeowners about their support of ways to increase housing supply. Nationally, 69% of residents supported allowing accessory dwelling units across those metro areas, with only 23% opposing. In Chicago, 71% were in favor of the units.²⁹

Allowing additional dwelling units is more popular than allowing small apartment buildings. Of those surveyed, 57% would be okay with a small apartment being built in their neighborhood, while 69% of homeowners would be okay with additional housing units (e.g., single-family to duplex, adding a mother-in-law unit, etc.)” That was 16 points higher than its previous measure in 2019, the highest increase out of any of the 26 metropolitan areas measured.³⁰ Additional dwelling units are the most favorable form of light-touch density among Chicago homeowners, with their demand only increasing as pressures from the housing shortage continue to squeeze the nation.

FEW PRE-APPROVALS EARNED; FEWER PERMITS GRANTED

Chicago's additional dwelling unit ordinance established a pre-approval process in which applicants would fill out their information online to ensure they meet the basic requirements to build. While in principle this could have made things go faster, it has not had that effect.

According to the City of Chicago's data portal, the city has issued just 602 unit pre-approvals since the enactment of the ordinance. As of Aug. 28, 2024, an additional 222 applications had not been pre-approved, whether because they had submitted the forms recently, the notification docs were waiting to be sent or they had been denied. Chicago Cityscape has estimated the number of properties eligible to develop these dwelling units under the ordinance to be 92,322.³² This stark difference highlights how development is being stifled.

The city's website clarifies that pre-approval doesn't give a homeowner the authority to begin construction. It only “allows the applicant to proceed with submitting a building permit application to DOB.”³³ Still, in a city of 2.6 million people, these are shockingly low numbers.

Of the tiny number of pre-approved applications, only 44% (262 out of 602) have

received a building permit as of August 2024, according to Cityscape data.³⁴ If we factor in the 222 applications not pre-approved, just under 32% (262 out of 824) of all applications received a permit.

This means 56% of those who desire to build under the ordinance have been stopped by additional red tape, even though they met all surface-level requirements. These restrictions will be elaborated on in the rest of this report.

44% of pre-approved applicants get building permits

From December 2020 through Aug. 28, 2024, 56% of those meeting all surface-level additional dwelling unit requirements were blocked from building by red tape and costs.

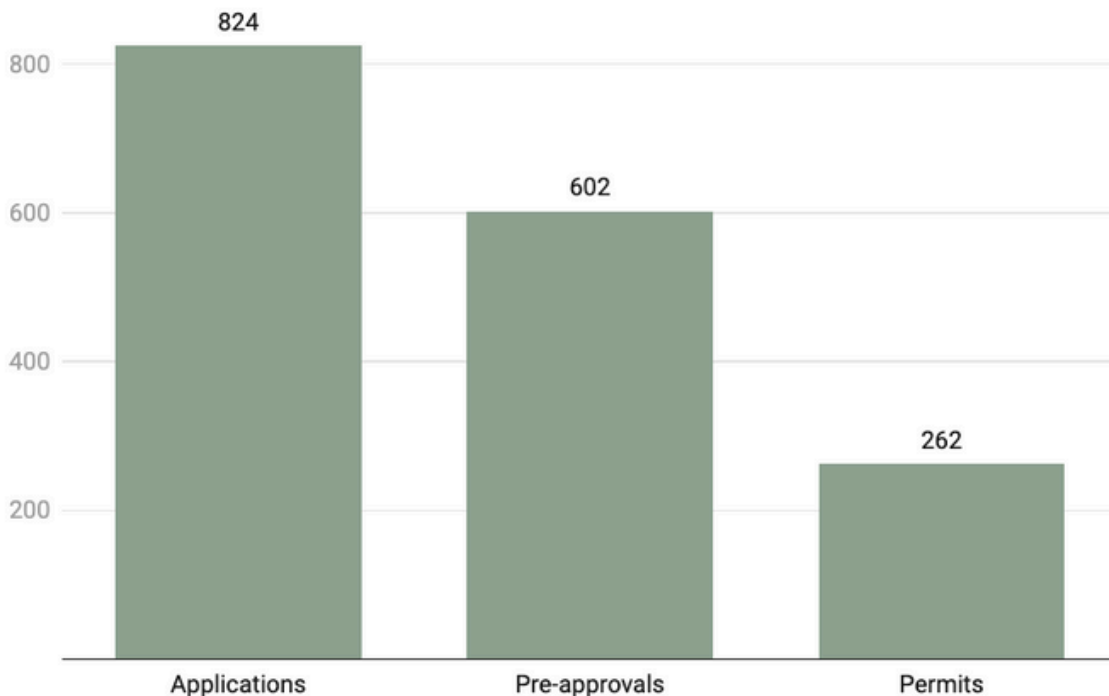


Chart: @illinoispolicy • Source: Chicago Cityscape • Created with Datawrapper

A COMPARISON WITH OTHER CITIES

Other cities where residents expressed interest in additional dwelling units have seen much more success. In fact, Chicago's low numbers are shocking when compared to other major cities that have allowed these dwelling units to be built.

For example, in 2022 alone, the city of Los Angeles permitted over 7,000 additional dwelling units. Chicago? Only 109. Despite having a population four times that of cities such as Portland and Seattle, Chicago is permitting even fewer of these dwelling units.^{37 38}

Chicago is far behind its additional dwelling unit potential

Chicago issued fewer additional dwelling unit permits in 2022 than other major cities

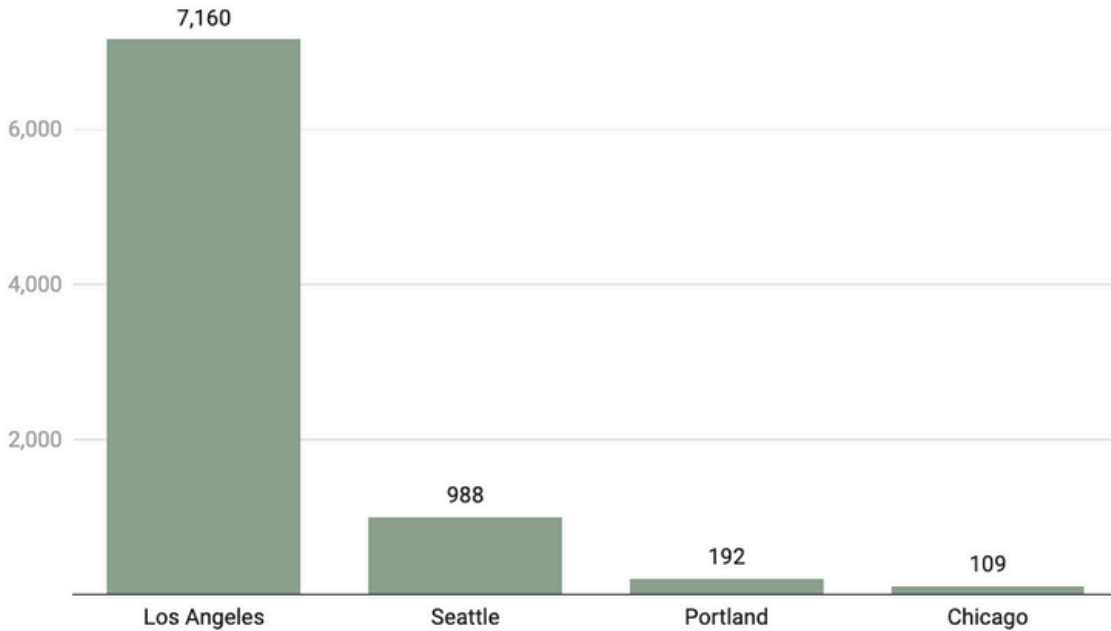


Chart: @illinoispolicy • Source: California YIMBY Education Fund • Created with Datawrapper

In 2023, one in every three Los Angeles housing permits was for an additional dwelling unit. Since the start of its ordinance, the city has issued nearly 27,000 of these permits.³⁹ Chicago could experience similar housing growth if there were fewer restrictions. The American Enterprise Institute estimates if Chicago were to adopt a light-touch density approach to housing, this would create 37,334 new homes annually.⁴⁰ Many of them would be additional dwelling units. But red tape and additional regulations have stifled that potential, particularly in areas that have the most opportunity for growth.

CHICAGO'S CURRENTLY ELIGIBLE PROPERTIES

The vast majority – 61.5% – of the 92,322 properties across the pilot areas eligible for the units under the current ordinance are in the South, Southwest and West zones. They are distributed as follows:

- Southeast: 10,030 (10.9%)
- South: 37,279 (40.4%)
- West: 9,509 (10.3%)
- Northwest: 15,348 (16.6%)
- North: 20,156 (21.8%)

However, only 6.5% of permits across the city have been in the South, Southeast and West regions.

Chicago restrictions hurt alternative housing growth

The percentage of all eligible properties within the current Chicago pilot zones for additional dwelling units compared to the percentage of all permits granted.

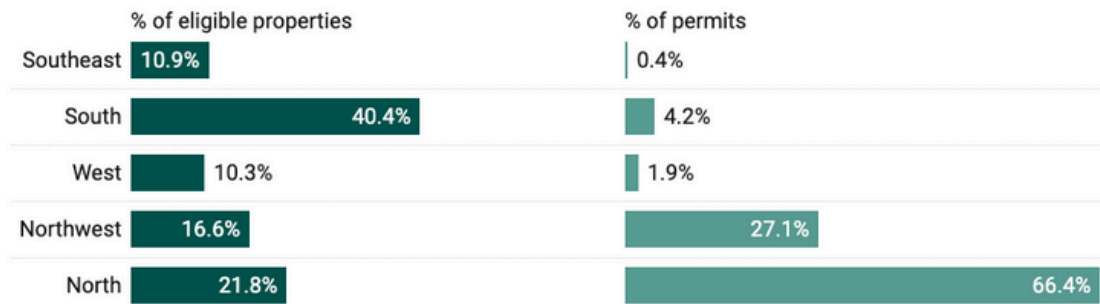


Chart: @illinoispolicy • Source: Chicago Department of Housing • Created with Datawrapper

During the past four years, applications for these units from the Southeast, South and West zones have been pre-approved at a lower rate than in the North and Northwest zones. The same patterns are reflected in the number of permits attained by those pre-approved. This data highlights two huge issues with the current pilot program:

- 1) Inequitable restrictions on the Southeast, South and West sides discourage development applications and restrict permitting.
- 2) Additional red tape, such as permit wait times and fees, prevent areas that could most benefit from these developments from being able to build.

Southeast, South, West zones get far fewer house OKs

Significant differences existed between how many additional dwelling units were pre-approved and how many received permits based on where in Chicago units were going.

	Pre-approvals	Permits	% of pre-approvals permitted
Southeast	4	1	25%
South	62	11	18%
West	30	5	17%
Northwest	261	71	27%
North	245	174	71%

Table: @illinoispolicy • Source: Chicago Department of Housing • Created with Datawrapper

A new additional dwelling unit ordinance that eliminates these restrictions is necessary. In the next section,

we highlight restrictions that have created these inequalities, pointing toward remedies a new ordinance could implement.

The inequality embedded in current restrictions

The additional regional restrictions placed by the city on the West, South and Southeast pilot areas disproportionately hurt predominantly Black communities, low- and moderate-income homeowners, renters in historically disinvested neighborhoods, and small-scale developers and property owners. Instead of creating equity, the current additional dwelling unit restrictions reinforce long-standing citywide divides, perpetuating a cycle of uneven development and missed opportunities for community wealth building. The city needs to remove current restrictions by revising its ordinance.

REGIONAL RESTRICTIONS ADD UNNECESSARY RED TAPE

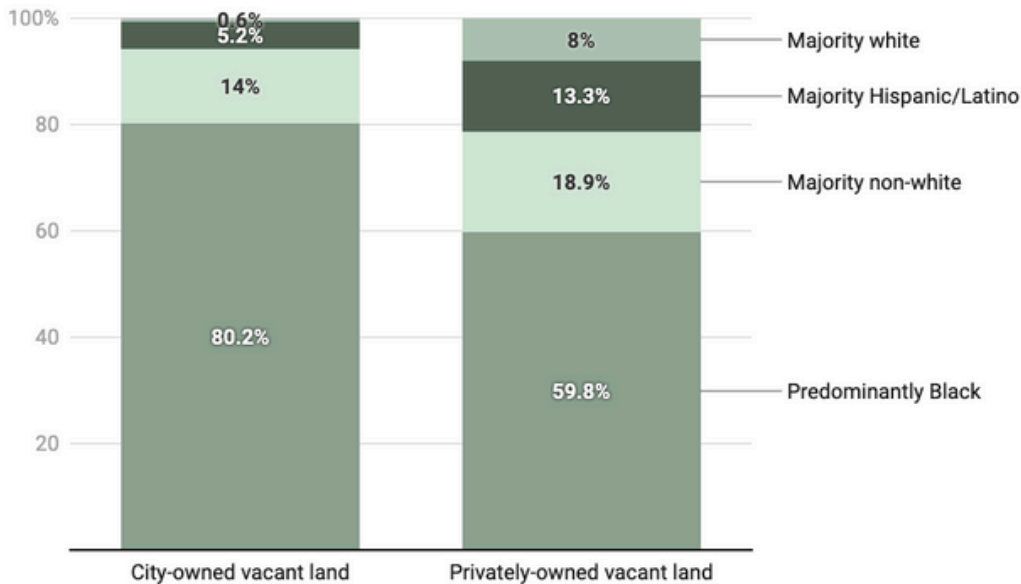
The first regional requirement pertains to vacant lots:

- “In the North and Northwest zones, vacant lots can have coach houses constructed before a principal residence, but this is not permitted elsewhere.”

Phrased another way: Vacant lots in the Southeast, South, and West zones cannot have coach houses constructed initially and then have the principal residence added later.

Most vacant land sits in predominantly Black communities

According to the Institute for Housing Studies at DePaul University, Chicago's vacant land falls overwhelmingly in predominantly Black communities.



A recreation of DePaul University's graphic "Distribution of City-Owned (As of July 2023) and Privately-Owned (Tax Year 2021) Vacant Land by Neighborhood Race/Ethnic Composition in Chicago"

Chart: @illinoispolicy • Source: [Institute for Housing Studies at DePaul University](#) • Created with [Datawrapper](#)

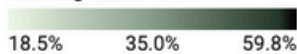
That's an inequitable regulation, considering most vacant lots are on the South and West sides of the city in predominantly Black neighborhoods.

Predominantly Black communities, defined as an area where at least 80% of residents are Black, are the most impacted by this vacant land.

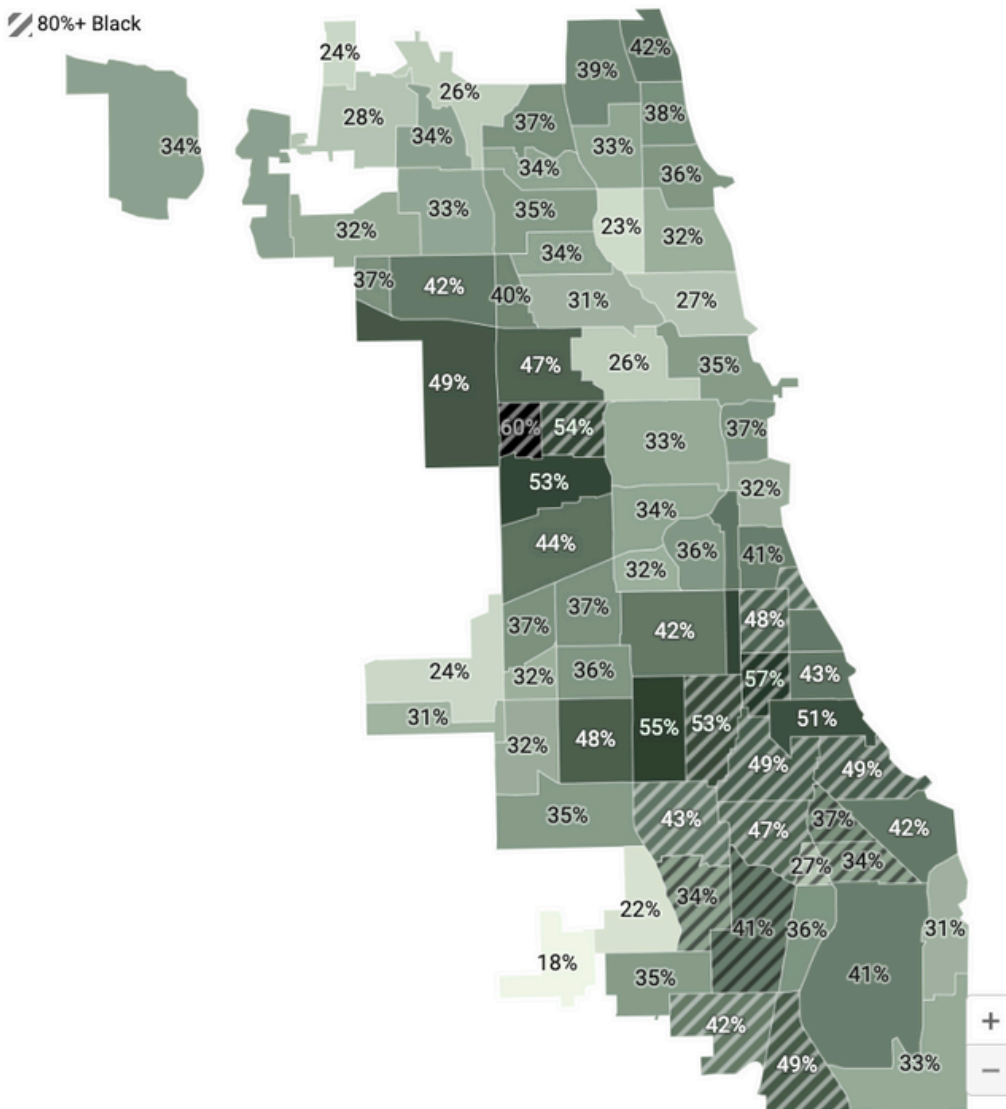
Housing cost burden by community area in Chicago

Housing costs as percentage of household income, by Chicago community area. Over 30% is considered 'burdened' by housing costs. Over 50% is considered 'extremely burdened.' Striped communities are where over 80% of residents are Black.

Housing costs > 30%



80%+ Black



Map: @illinoispolicy • Source: U.S. Census, American Community Survey 5-year average estimate, 2019-2023 • Get the data • Created with Datawrapper

The city owns about 8,800 vacant lots, most zoned for residential use. Estimates from the Cook County Assessor indicate about 32,000 are privately owned vacant lots.⁴¹ Just over 80% of the city's vacant lots and nearly 60% of privately owned vacant lots are in predominantly Black communities. By contrast, majority-white areas contain less than 1% of the city's vacant land and only 8% of privately owned vacant lots.⁴² Predominantly Black community areas fall exclusively on Chicago's West, South, and Southeast sides. They also face the greatest housing affordability challenges.

According to the U.S. Census Bureau, at least 27% of the people in each of these 17 predominantly Black community areas face housing cost burdens. Community areas where around half of households spend more than 30% of their income on housing are concentrated in and around predominantly Black communities. Based on where housing affordability is the biggest issue, we'd expect fewer regulations in these areas. Instead, under the current ordinance, they face the most restrictions. No one in these communities is eligible to initially build a coach house on a vacant lot and later build a primary residence, preventing a naturally affordable solution to both the housing and vacancy crisis.

Additional regional requirements force buildings to be owner-occupied for development of these additional units

- "In the West, South, and Southeast zones, buildings with one to three units must be owner-occupied in order to add a conversion unit."
- "In the West, South, and Southeast zones, buildings must be owner-occupied in order to add a coach house."

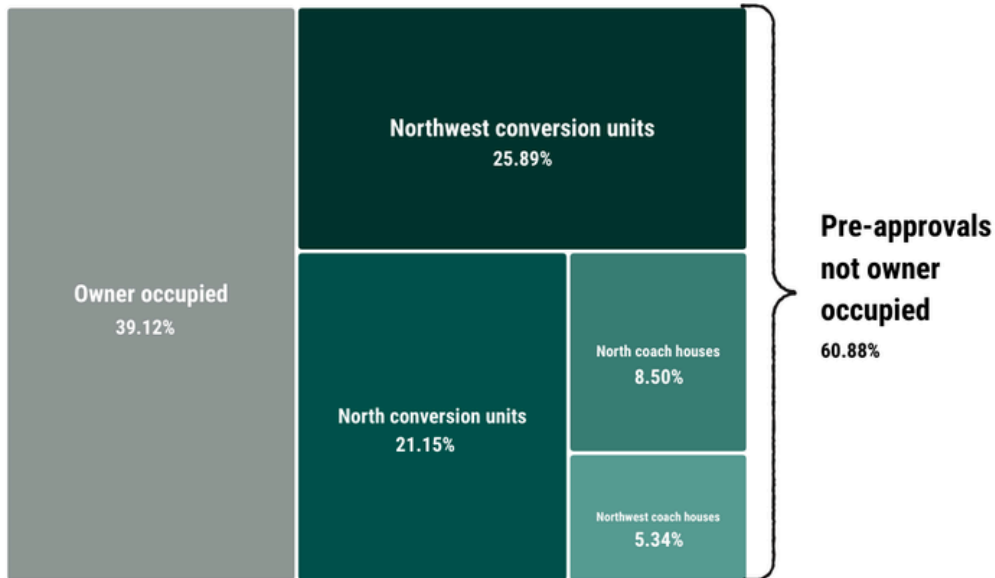
These requirements do not apply to the North or Northwest zones.

A closer examination of pre-approval data highlights the consequences of this disparity. Over 61% (308) of the 506 pre-approvals on the North and Northwest sides are for properties that aren't owner-occupied. This high percentage suggests developers and investors likely are capitalizing on the more lenient rules in these areas.

The American Enterprise Institute provides further evidence for this, pointing to owner-occupancy requirements as one of the primary barriers to this kind of development. They explain that "owner occupancy requirements make it more difficult for homeowners who want to build an ADU at their primary residence to qualify for financing to do so. Further, owner-occupancy requirements significantly reduce the appraised value that an ADU will contribute to a property, making them a riskier financial decision for homeowners to make."⁴³ The inconsistent application of owner-occupancy requirements has led to a significant imbalance in this kind of development across Chicago.

Over 60% of preapprovals in North, Northwest Chicago pilot areas are not owner occupied

This kind of development is off-limits in the West, South and Southeast Chicago pilot areas, unfairly restricting development.



Another regional requirement that limits additional dwelling unit development pertains to how many permits can be issued:

- “In the West, South, and Southeast zones, only two ADU permits will be issued per block per year”

The West, South and Southeast zones most need more housing that’s affordable. Instead, the current ordinance favors development in already-advantaged areas. While the North and Northwest sides have seen an increase in pre-approvals and permits, additional dwelling unit development in the Southeast, South and West Sides remains severely stunted. This imbalance reinforces existing patterns of uneven development across the city,

potentially exacerbating longstanding economic disparities.

EXTRA EXPENSE, TIME FOR CHICAGO’S PERMIT PROCESS KILLS DEVELOPMENT

Extra fees create an unfair barrier for many people who would otherwise want to build an additional dwelling unit. In addition to the lower share of initial approvals on the Southeast, South and West sides (only 15.9%), those areas have an even smaller share of permits (6.5%). This gap highlights the harms of Chicago’s permitting requirements, particularly in communities with fewer resources.

The \$302 minimum price for a permit in Chicago hides the much higher costs people typically pay to build units.⁴⁴ In reality, it can be up to about \$16,000 in permits and other fees. Cityscape breaks down the fees for the units specifically:⁴⁵

- \$375 deposit before building permit application review, which is applied to the total fee.
- \$1,575 overall for a single interior additional dwelling unit.
- \$2,075 overall for a new backyard house.
- Other fees that vary by project: open space impact fee per unit, \$313 to \$1,253;⁴⁶ water service permit fee, up to \$12,000;⁴⁷ sewer work permit fee, up to \$300;⁴⁸ public way permit fee if construction impacts a street or parkway, \$50 for the application and \$336.72 to \$672.53, depending on impact⁴⁹

Evidence from other cities confirms extra fees can deter development. The American Enterprise Institute reports that in 2010, when Portland introduced a pilot program to reduce impact fees and size requirements on additional dwelling units, permits went from less than 50 to more than 300 each year. When the impact fees returned in 2019, so did the low permit numbers.⁵⁰

The impact of these fees also ripples through the housing market. When homeowners or small-scale developers face high upfront costs, many are deterred from building these dwelling units altogether, reducing potential housing supply. Those who do proceed with construction often need to charge higher rents or sale prices to recoup their expenses. This creates a cycle in which fees intended to support city services end up contributing to housing scarcity and affordability issues.

The permitting process is time intensive as well as costly. Chicago Cityscape reports as of Oct. 18, 2024, "Of 249 ADU permits with a recorded processing time, the average number of days from application to permit issuance was 121.6 days."⁵¹ That's even longer than the average 87-day processing time for plan-based permits.⁵²

These regional restrictions and red tape complications are holding Chicago back from unlocking its full housing potential. Implementing a revised additional dwelling unit ordinance is worth it because everyone deserves a fair shot at development, regardless of where in the city they live. Additionally, these dwelling units come with many benefits the city is currently missing out on because of these holdups.

Additional dwelling units provide broad benefits

Righting the previous ordinance's inequitable restrictions should be enough of a reason for change, but there are four additional ways additional dwelling units could help everyone in the city if there were fewer restrictions: lower housing costs, a higher quality of life for aging populations, more wealth-building opportunities for historically disinvested communities, and less compromise when it comes to other social equity and environmental goals.

Evidence from other cities suggests the units positively impact housing affordability because they are much cheaper to build. In Chicago, the estimated cost to construct an additional dwelling unit is about \$150,000,⁵³ which is about half the cost of constructing or buying a house in Chicago.⁵⁴ A brief by Habitat for Humanity and AARP highlights how this affordability is observed in several cities. In California, the average cost to construct one of the units is \$166,500 in 2023 dollars, which is approximately one-third the \$494,859 cost of building a house. This translates to about \$463 per month or \$278 per square foot. The costs vary depending on factors such as the type of unit (e.g., garage conversion, detached, or attached) and financing options.

Similar construction costs were reported in Portland, Seattle and Vancouver. These lower construction costs often result in below-market rental rates. A survey of additional dwelling unit owners in Portland, Seattle and Vancouver found almost 60% were renting their units below market rates.⁵⁵

These dwelling units provide affordable and accessible housing for aging members of a community. This is where colloquial names such as "granny flat" or "mother-in-law suite" come from. They allow aging family members to live near or with their family when they otherwise wouldn't be able to. They also offer an affordable option for older people on a fixed budget who can't afford other types of housing. Because of their versatility in construction and smaller size, they can also be made for older adults and family members with more accessibility concerns.

Additional dwelling units also provide a better quality of life for aging community members. Habitat for Humanity's Evidence Brief explains, "AARP has repeatedly found that older adults prefer to live in their homes and communities as they age as opposed to a nursing home or other living facility."⁵⁶ The Brookings Institution, a left-of-center think tank, further confirms this finding, noting that older adults housed in the units rather than larger structures in Los Angeles report higher life satisfaction.⁵⁷

Many families encounter a problem when trying to keep an aging loved one close to home: accessibility. Additional dwelling units can be designed to support mobility in a way that a primary residence might not be able to. For example, a house with a lot of stairs could build a coach house that doesn't have this limitation. This allows aging family members to maintain their own space and a greater degree of independence while still living close to their caring families. Another concern can

be finding a caregiver. These kinds of dwelling units can provide on-site accommodations for a caregiver or the family of an aging homeowner.

Additional dwelling units with in-home care are also a quarter of the cost of nursing homes. While the median annual cost of living in a nursing home is over \$100,000, and assisted living facilities are over \$50,000, in-home care within these dwelling units can cost as little as \$28,000.⁵⁸

These dwellings are widely popular among older adults: “An AARP survey found that among adults 50 or older, 69% would consider living in an ADU to be close to someone but still have their own space, and 68% would build an ADU to house a caregiver to help with daily activities.”⁵⁹

For community areas where aging populations are present and financial resources are a concern, providing a high quality of life for aging populations necessitates fewer limitations on constructing these dwelling units.

Additional dwelling unit policy also helps minority communities build wealth. Historical lack of access to homeownership and other barriers to building wealth have profoundly impacted many Black families on the Southeast, South and West sides of Chicago. These areas have long suffered from disinvestment, redlining, and systemic discrimination, resulting in lower property values and fewer economic opportunities for residents. Fewer restrictions on the

construction of these units could offer these families a vital opportunity to build wealth and improve their financial stability through either an additional income stream or increased property values.

According to the U.S. Department of the Treasury, owning a home continues to be the largest source of wealth for most Americans. However, there continue to be large gaps in household wealth, particularly between white and Black households.⁶⁰ The average white family has \$261,000 in home equity, while the average Black family has only \$92,700.⁶¹ The National Community Reinvestment Coalition reports home equity is where the largest potential to increase household wealth for Black families has been in recent years.⁶² Providing more opportunities for Black families to increase their property values, such as through additional dwelling units, will help reduce this gap.

In Chicago, homes with an additional dwelling unit are valued about 64% higher than homes without one, which is much higher than the average of 35% higher home values across America’s major cities.⁶³ A unit that’s rented at \$1,000 a month might add about \$100,000 to the value of the home.⁶⁴

High upfront costs, such as the \$16,000 for permits and inspections, however, are insurmountable for low- and middle-income families without significant savings or access to credit. Right now, only the North and Northwest pilot areas get access to these benefits. Everyone not in those two pilot areas and the entire Southeast, South and

West sides are locked out from participating in the development of these units because of excessive restrictions, perpetuating cycles of disinvestment and missed opportunities for wealth building.

Finally, additional dwelling units are a great way to generate more housing opportunities while maintaining neighborhood character, protecting the environment and achieving more socioeconomic diversity.

These units address concerns about altering a neighborhood's character by adding density in a light-touch manner. For conversion units, there's often no visible change to the neighborhood, and for coach houses, only one or two units per house in a side or backyard has a muted effect.

They also support environmental and infrastructure concerns by promoting efficient use of urban land. It provides people with more of what they need within a walkable distance by reducing urban sprawl, something the American Enterprise Institute refers to as

building "live local urban villages."⁶⁵ Building in areas closer to the city's urban core as opposed to farther away minimizes the reliance on personal vehicles, easing traffic congestion and reducing emissions. It often also utilizes existing infrastructure, minimizing the need for new construction. Smaller units have the potential to reduce per-capita energy consumption.

Additional dwelling units can increase socioeconomic diversity in areas that might otherwise be exclusionary. These units are, on average, much more affordable than a standard house but can blend in with more affluent neighborhoods. This can help create more balanced communities and reduce social segregation, enabling some families to access better schools that would otherwise be too far away. By increasing the variety of housing types available in a neighborhood, additional dwelling units can accommodate a wider range of household sizes and lifestyles, from single individuals to small families, contributing to a more diverse and vibrant community fabric.

Policy recommendations

While the 2020 Additional Dwelling Unit Ordinance was a positive move for Chicago, inequitable regional restrictions and general development challenges have prevented these units from fulfilling their potential. Chicago needs a revised additional dwelling unit ordinance that removes these restrictions and expands opportunity.

Chicago Ald. Bennett Lawson, 44th Ward, proposed an ordinance last year that would provide several beneficial expansions. These include:

- **Expansion 1:** Remove the pilot area limitations so accessory dwelling units can be built in residential areas across the city.
- **Expansion 2:** Remove the extra requirements on the West, South and Southeast sides that limit the number of units approved and that mandate owner occupancy.
- **Expansion 3:** Allow the units in some business and commercial zoning districts when the building is 100% residential.
- **Expansion 4:** Remove the limitation on the West, South and Southeast sides so they can develop vacant lots with a coach house and later add a primary residence.
- **Expansion 5:** Eliminate the 700-square-foot cap on the area of a coach house floor.
- **Expansion 6:** Allow property owners who want to build a coach house to ask the zoning administrator to waive the parking requirements for the principal building.

- **Expansion 7:** Eliminate the need for the property owner to notify their two adjacent neighbors.

These expansions are crucial to begin addressing housing inequality. By removing the pilot areas, they eliminate the extra restrictions that impact the West, South and Southeast sides, including the limit on the number of units that can be built on one block in a year, owner-occupancy requirements and vacant lot restrictions. Further expansions such as eliminating minimum lot size, parking and neighbor notification requirements also make building easier.

While these expansions are good, more is needed. The Illinois Policy Institute also recommends:

- **Expansion 8:** Allow homeowners to build units on their property without needing special permission, no matter what type of residential neighborhood they live in. Right now, this is only allowed up to R-2 zones. This right should be extended into R-1 zones as well.
- **Expansion 9:** Remove affordability requirements because they disincentivize building.
- **Expansion 10:** Reduce the permit fees for new additional dwelling unit construction.
- **Expansion 11:** Allow unit owners to rent on a short-term basis.
- **Expansion 12:** Allow a property to have both a conversion unit (interior apartment) and a coach house

By allowing all residential zones to develop additional dwelling units without discretionary review if they meet codes, more residents will create more of the units when there are fewer hurdles. Given 71% of homeowners favor allowing development of these units, such an expansion makes sense. Affordability impediments deter construction, further reducing the housing supply. Reducing government barriers and lowering fees will help Chicago boost its permitting rate to the level enjoyed by comparable cities.

In principle, homeowners should have the freedom to use their property as they think is best. So, additional dwelling unit owners

should be allowed to rent out their units on a short-term basis as well as long-term. That is also why a property should be allowed to contain both a conversion unit and a coach house. Owners know best how to build on their parcel, and the decision should be left to them.

A model ordinance in alignment with these objectives [is available here for download](#). Reducing restrictions and boosting equality will not only support Chicago's housing future, repair historically disadvantaged communities and assist aging populations, but also empower all those seeking to contribute to the city's housing supply, right in their own backyards.

Conclusion

Better housing policies are critical for Chicago's future. A city that maintains restrictive housing policies perpetuates rising costs, limited options and historic inequities that have plagued communities for too long. Chicago is on that path, but it doesn't have to be.

The city could start adopting policies to eliminate red tape restricting housing supply. A more flexible and fairer additional dwelling unit ordinance would be a simple first step. The reforms outlined in this report provide an opportunity for new housing to rise. This housing will support aging in place, build

intergenerational wealth and promote more equitable urban development – all while preserving neighborhood character through light-touch density.

With a majority of people supporting these dwelling units and successful examples from cities such as Los Angeles showing what's possible, Chicago's leaders have a decision to make. They can pick a future in which housing remains a barrier to opportunity or one in which housing serves as a bridge to prosperity.

It hardly seems like a choice at all.

Endnotes

- 1) Garcia, Manny. 2022. "Across 26 Metro Areas, Residents Largely Support Allowing Missing Middle Homes in Residential Neighborhoods." Zillow. April 11, 2022. <https://www.zillow.com/research/modest-densification-zhar-30934/>.
- 2) Estabine, LyLena. "Chicago Neighborhoods See Unequal Housing Restrictions." Illinois Policy, Oct. 2, 2024, www.illinoispolicy.org/chicago-neighborhoods-see-unequal-housing-restrictions/.
- 3) Additional Dwelling Units (ADU) Ordinance. n.d. City of Chicago. Accessed Sept. 20, 2024. <https://www.chicago.gov/city/en/sites/additional-dwelling-units-ordinance/home.html>.
- 4) "Accessory Dwelling Units (ADU) Data." 2024. Chicagocityscape.com. Chicago Cityscape. 2024. <https://www.chicagocityscape.com/adu/data.php>.
- 5) Vance, Steven. 2020. "Chicago Will Allow ADUs Starting in May – Read Our FAQ." Medium. Chicago Cityscape's Blog. Dec. 15, 2020. <https://blog.chicagocityscape.com/revised-adu-ordinance-passes-committee-city-council-will-approve-on-wednesday-73125fe631de#:~:text=%24375%20deposit%20before%20building%20permit>.
- 6) "Accessory Dwelling Units (ADU) Data." 2024. Chicagocityscape.com. Chicago Cityscape. 2024. <https://www.chicagocityscape.com/adu/data.php>.
- 7) Devens, Eve, and Jenny Schuetz. 2024. "Can Income-Restricted ADUs Expand the Affordable Housing Stock in Los Angeles?" Brookings. March 4, 2024. <https://www.brookings.edu/articles/can-income-restricted-adus-expand-the-affordable-housing-stock-in-los-angeles/>.
- 8) "How Much Does it Cost to Build a House in Chicago?" Accessed Jan. 9, 2025. Home Builder Digest <https://www.homebuilderdigest.com/cost-guides/how-much-does-it-cost-to-build-a-house-in-chicago/>
- 9) "Chicago, IL 2023 Housing Market | Realtor.com®." n.d. www.realtor.com. https://www.realtor.com/realestateandhomes-search/Chicago_IL/overview.
- 10) <https://www.housingstudies.org/blog/some-chicago-neighborhoods-losing-children/>
- 11) <https://data.census.gov/table/ACSST1Y2023.S1701?q=chicago%20poverty>

12) "Housing Unaffordability on the Rise: One-Third of Illinoisans Pay over 30% of Their Income on Housing." 2024. Illinois Policy. July 11, 2024.

<https://www.illinoispolicy.org/press-releases/housing-unaffordability-on-the-rise-one-third-of-illinoisans-pay-over-30-of-their-income-on-housing/>.

13) Pinto, Edward, and Tobias Peter. 2024. Review of Determining the Price Impact of Harris' down Payment Assistance Proposal. Edited by Sissi Li. American Enterprise Institute.

<https://www.aei.org/research-products/report/determining-the-price-impact-of-harris-down-payment-assistance-proposal/?>

[mkt_tok=NDc1LVBCUS05NzEAAAGWFRF_VnDA6nmTleT4wkHKb3iaThKWzHC9b1y7NhGol67yXfixQFiUftHbrllrsdL5UfMSgvtQEeYazF8qUs4TZr2-LYQCUSQOWrxtgLCkSezTPzdt](https://www.aei.org/research-products/report/determining-the-price-impact-of-harris-down-payment-assistance-proposal/?mkt_tok=NDc1LVBCUS05NzEAAAGWFRF_VnDA6nmTleT4wkHKb3iaThKWzHC9b1y7NhGol67yXfixQFiUftHbrllrsdL5UfMSgvtQEeYazF8qUs4TZr2-LYQCUSQOWrxtgLCkSezTPzdt)

14) Ibid.

15) Bandoch, Joshua, and Joe Tabor. 2024. "Regulatory Reform Can Make Housing More Affordable for Illinois Families." Illinois Policy Institute.

<https://www.illinoispolicy.org/reports/regulatory-reform-can-make-housing-more-affordable-for-illinois-families/>.

16) Pinto et al., "Light Touch Density."

17) Gray, M. Nolan. 2024. "California ADU Reform: A Retrospective." YIMBY Education Fund.

Bandoch, Joshua, and Joe Tabor. n.d. "Regulatory Reform Can Make Housing More Affordable for Illinois Families." Illinois Policy Institute.

<https://www.illinoispolicy.org/reports/regulatory-reform-can-make-housing-more-affordable-for-illinois-families/>.

18) Often these are referred to as "Accessory Dwelling Units" or "Auxiliary Dwelling Units," however, because of the city's ordinance, which titles them "Additional Dwelling Units," the city's title will be used throughout the report to avoid confusion.

19) Pinto, Edward, Tobias Peter, and Emily Hamilton. 2022. Review of Light Touch Density: A Series of Policy Briefs on Zoning, Land Use, and a Solution to Help Alleviate the Nation's Housing Shortage. American Enterprise Institute.

<https://www.aei.org/wp-content/uploads/2022/01/Light-Touch-Density-Compiled-FINAL-1.12.2022.pdf?x85095>.

20) Garcia, "Across 26 Metro Areas, Residents Largely Support Allowing Missing Middle Homes in Residential Neighborhoods."

- 21) Moser, Whet. 2017. "Chicago Isn't Just Segregated, It Basically Invented Modern Segregation." Chicago Magazine. March 31, 2017. <https://www.chicagomag.com/city-life/March-2017/Why-Is-Chicago-So-Segregated/>.
- 22) "1917: Buchanan v. Warley." n.d. Boston Fair Housing. <https://www.bostonfairhousing.org/timeline/1917-Buchanan-v.Warley.html>.
- 23) Rossi, Marco Rosaire. 2020. "CHICAGO'S HISTORY of ZONING against AFFORDABLE HOUSING." Progressivecity. July 7, 2020. <https://www.progressivecity.net/single-post/2020/07/07/CHICAGOS-HISTORY-OF-ZONING-AGAINST-AFFORDABLE-HOUSING>.
- 24) Pinto et al., "Light Touch Density."
- 25) Ibid.
- 26) Additional Dwelling Units (ADU) Ordinance. n.d. City of Chicago. Accessed Sept. 20, 2024. <https://www.chicago.gov/city/en/sites/additional-dwelling-units-ordinance/home.html>.
- 27) "Additional Dwelling Unit Application" 2024. Chicago.gov. 2024. <https://webapps4.chicago.gov/eforms/aduapplication>.
- 28) "Additional Dwelling Units (ADU) Ordinance," City of Chicago.
- 29) Garcia, "Across 26 Metro Areas, Residents Largely Support Allowing Missing Middle Homes in Residential Neighborhoods."
- 30) Garcia, "Across 26 Metro Areas, Residents Largely Support Allowing Missing Middle Homes in Residential Neighborhoods."
- 31) Estabine, "Chicago Neighborhoods See Unequal Housing Restrictions."
- 32) <https://www.chicagocityscape.com/adu/data.php>. Cityscape's analysis calculates this number in the following way: "For our analysis, we included only these property classes (defined by the Cook County Assessor) that have a residential component: 2-11, 2-12, 2-13, 2-25, 3-13, 3-14, 3-15, 3-18, 3-91, 3-96, 4-18, 9-00, 9-13, 9-14, 9-15, 9-18, 9-91, 9-96, 9-97, 2-02, 2-03, 2-04, 2-05, 2-06, 2-07, 2-08, 2-09, 2-34, 2-78. We also excluded condo buildings. Condo associations are allowed to participate, but the legalities and likelihood of doing so is up to each association and their rules. Vacant lots were excluded, too; a backyard house is allowed to be built first on a vacant lot in only the North (203 vacant lots) and Northwest (593 vacant lots) pilot areas. A plurality of these properties (49.2%) are in RS-3 zoning districts; 31.1% are in RS-2, and 15.1% are in RT-4. The remaining ~4.6% are in the 7 other "R" zoning districts.

- 33) "Additional Dwelling Units (ADU) Ordinance," City of Chicago.
- 34) Estabine, "Chicago Neighborhoods See Unequal Housing Restrictions."
- 35) Devens, Eve, and Jenny Schuetz. 2024. "Can Income-Restricted ADUs Expand the Affordable Housing Stock in Los Angeles?" Brookings. March 4, 2024.
<https://www.brookings.edu/articles/can-income-restricted-adus-expand-the-affordable-housing-stock-in-los-angeles/>.
- 36) "Building Permits Browser for Chicago." 2024. Chicagocityscape.com. Chicago Cityscape. 2024. <https://www.chicagocityscape.com/permits.php#/?metadata=adu>.
- 37) Calder, Vanessa Brown, and Jordan Gygi. 2023. Review of The Promising Results of Accessory Dwelling Unit Reform. Cato Institute. June 28, 2023.
<https://www.cato.org/blog/results-accessory-dwelling-unit-reform-so-far>.
- 38) Accessory Dwelling Units 2022 Annual Report. 2023. City of Seattle.
<https://www.seattle.gov/documents/Departments/OPCD/OngoingInitiatives/EncouragingBackyardCottages/OPCD-ADUAnnualReport2022.pdf>.
- 39) Gray, M. Nolan. 2024. "California ADU Reform: A Retrospective." YIMBY Education Fund. Bandoch, Joshua, and Joe Tabor. n.d. "Regulatory Reform Can Make Housing More Affordable for Illinois Families." Illinois Policy Institute.
<https://www.illinoispolicy.org/reports/regulatory-reform-can-make-housing-more-affordable-for-illinois-families/>.
- 40) "Boost Middle- & Low-Income Homes in Washington City, DC with Naturally Affordable Light-Touch Density (LTD)," AEI Housing Center, 2022, <https://heat.aeihousingcenter.org/>.
- 41) University, Institute for Housing Studies-DePaul. n.d. "Data Highlighting the ETOD Implications of Vacant Land near Transit." Institute for Housing Studies – DePaul University.
<https://housingstudies.org/releases/Data-Highlighting-ETOD-Implications-Vacant-Land/>.
- 42) University, Institute for Housing Studies-DePaul. n.d. "Data Highlighting the ETOD Implications of Vacant Land near Transit." Institute for Housing Studies – DePaul University.
<https://housingstudies.org/releases/Data-Highlighting-ETOD-Implications-Vacant-Land/>.
- 43) Pinto et al., "Light Touch Density."

- 44) Bandoch, Joshua, and Joe Tabor. 2024. "Regulatory Reform Can Make Housing More Affordable for Illinois Families." Illinois Policy Institute.
<https://www.illinoispolicy.org/reports/regulatory-reform-can-make-housing-more-affordable-for-illinois-families/>.
- 45) Vance, Steven. 2020. "Chicago Will Allow ADUs Starting in May – Read Our FAQ." Medium. Chicago Cityscape's Blog. December 15, 2020.
<https://blog.chicagocityscape.com/revised-adu-ordinance-passes-committee-city-council-will-approve-on-wednesday-73125fe631de#:~:text=%24375%20deposit%20before%20building%20permit.>
- 46) "Open Space Impact Fee." 2020. Chicago.gov. Jan. 2, 2020.
https://www.chicago.gov/city/en/depts/dcd/supp_info/open_space_impactfee.html.
- 47) "City-Wide 2024 Water Service Price Schedule." 2024. Department of Water Management.
https://www.chicago.gov/content/dam/city/depts/water/supp_info/2024_WaterServiceFeeSchedule.pdf.pdf.
- 48) "2005 Sewer Permit Requirements and Fees." 2005. Department of Water Management.
<https://www.chicago.gov/dam/city/depts/bldgs/general/Sewers/2005SewerPermitFees.pdf>.
- 49) "2023 Permit Fee Schedule." 2023. Chicago Department of Transportation. Jan. 1, 2023.
<https://www.chicago.gov/content/dam/city/depts/cdot/permit/2022/CDOT%202023%20Permit%20Fee%20Schedule.pdf>.
- 50) Pinto et al., "Light Touch Density."
- 51) "Accessory Dwelling Units (ADU) Data." 2024. Chicagocityscape.com. Chicago Cityscape. 2024. <https://www.chicagocityscape.com/adu/data.php>.
- 52) "Building Permits Browser for Chicago." 2024. Chicagocityscape.com. Chicago Cityscape. 2024. <https://www.chicagocityscape.com/permits.php#/?metadata=adu>.
- 53) Nitkin, Alex. 2023. "A Popular Affordable Housing Initiative Is Ripe for Expansion in Chicago – but When?" Illinois Answers Project. June 7, 2023.
<https://illinoisanswers.org/2023/06/07/chicago-affordable-housing-program-expansion/>.
- 54) "How Much Does it Cost to Build a House in Chicago?" Accessed Jan. 9, 2025. Home Builder Digest <https://www.homebuilderdigest.com/cost-guides/how-much-does-it-cost-to-build-a-house-in-chicago/>

- 55) Affordable Accessory Dwelling Units: Innovative Housing Solutions for Households with Low Incomes and Older Adults. 2023. Habitat for Humanity.
https://www.habitat.org/sites/default/files/documents/ADU-Evidence-Brief_Habitat-AARP.pdf.
- 56) Affordable Accessory Dwelling Units, Habitat for Humanity.
- 57) Schuetz, Jenny , and Eve Devens. 2024. "ADUs Could Expand the Affordable Housing Toolkit—If Local Governments Can Work through Some Growing Pains." Brookings. April 29, 2024. <https://www.brookings.edu/articles/adus-could-expand-the-affordable-housing-toolkit-if-local-governments-can-work-through-some-growing-pains/>.
- 58) Affordable Accessory Dwelling Units, Habitat for Humanity.
- 59) Affordable Accessory Dwelling Units, Habitat for Humanity.
- 60) "Racial Differences in Economic Security: Housing." U.S. Department of the Treasury, Dec. 6, 2022, [home.treasury.gov/news/featured-stories/racial-differences-in-economic-security-housing#:~:text=The%20average%20white%20household%20whose%20head%20is](https://www.treasury.gov/news/featured-stories/racial-differences-in-economic-security-housing#:~:text=The%20average%20white%20household%20whose%20head%20is). Accessed 25 Sept. 2024.
- 61) Dean, Joseph. "The Racial Wealth Divide and Black Homeownership: New Data Show Small Gains, Deep Fragility» NCRC." National Community Reinvestment Coalition, Feb. 28, 2024, [ncrc.org/the-racial-wealth-divide-and-black-homeownership-new-data-show-small-gains-deep-fragility/#:~:text=Black%20household%20wealth%20increased%20from](https://www.ncrc.org/the-racial-wealth-divide-and-black-homeownership-new-data-show-small-gains-deep-fragility/#:~:text=Black%20household%20wealth%20increased%20from).
- 62) Ibid.
- 63) "Study: ADUs Can Add 35% to Home's Value." National Association of Realtors, Nov. 4, 2021, www.nar.realtor/magazine/real-estate-news/study-adus-can-add-35-to-home-s-value.
- 64) "Is Building an ADU Worth the Investment? – How to Find ADU ROI." SnapADU, July 24, 2024, [snapadu.com/blog/roi-adu-good-investment-valuation-appraisals/#:~:text=One%20study%20from%20Porch%20showed](https://www.snapadu.com/blog/roi-adu-good-investment-valuation-appraisals/#:~:text=One%20study%20from%20Porch%20showed). Accessed Sept. 25, 2024.
- 65) Pinto, Edward J. 2024. "The Answer: Urban Villages." Sarasota Observer, Feb, 23, 2024. <https://www.aei.org/op-eds/the-answer-urban-villages/>.