



Restricting Use, Reducing Supply: The Consequences of STR Bans for ADU Production

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Florida's housing affordability crisis is no longer theoretical. Population growth continues to outpace homebuilding in Florida, while higher interest rates and construction costs have pushed both ownership and rental housing further out of reach for working families across the state. In response, policymakers have begun to focus on housing strategies that can add supply without fundamentally reshaping existing neighborhoods. Accessory dwelling units (ADUs) are frequently cited as a relatively low-cost, incremental supply strategy to achieve that balance.¹

Over the past decade, Florida local governments, "encouraged" by state-level housing discussions, have moved to legalize or expand ADU construction. These reforms are generally intended to make it easier for homeowners to add small, self-contained units on existing residential lots. However, many of these reforms often include regulatory requirements that substantially reduce the economic feasi-



bility of ADUs and, in practice, suppress their production. Among the most consequential of these are off-street parking mandates, discretionary review and approval processes, owner-occupancy requirements, and restrictions on short-term rentals (STRs).²

This analysis examines how restrictions on ADUs for short-term rentals interact with other common regulatory constraints, possibly undermining the stated goal of ADU reform: increasing housing supply. Drawing on Florida-specific data, national empirical research, and recent analysis of ADUs and STR activity, this evaluation examines whether STR restrictions meaningfully advance housing policy goals or inadvertently suppress the very housing production ADU reform is intended to encourage. The analysis provides conclusive answers that lead to policy recommendations for Florida lawmakers and local governments seeking to implement ADU reforms without weakening their impact.

Overview of Accessory Dwelling Units

Accessory dwelling units are smaller, independent residential units located on the same lot as a primary single-family home. They may be detached structures, garage apartments, basement units, or additions above existing garages. The American Planning Association defines ADUs as self-contained dwellings with their own kitchen, bathroom, and sleeping facilities that remain subordinate to the primary structure.³

ADUs are frequently described as a form of incremental or “gentle” density. They allow housing to be added within existing

neighborhoods while typically relying on existing infrastructure. Urban Institute analyses show that ADU production is highly sensitive to regulatory barriers and financing constraints, given that most projects are initiated by individual homeowners rather than professional developers.⁴

ADUs in Florida's Housing Context

Florida's housing shortage is well-documented. The state continues to experience population growth that outpaces housing production, particularly at lower and moderate price points.⁵ While ADUs alone cannot close this gap, they offer a scalable and politically viable method for adding smaller units in established communities.

Recent parcel-level analysis in multiple Florida counties demonstrates that ADUs represent only a small share of the overall housing stock. Parcel-level analysis across six Florida counties shows that only 3–13 percent of permitted ADUs in six Florida counties have ever been active on Airbnb, with only about 3 percent active at any given time. Notably, approximately 73 percent of ADU listings are inactive, and the majority of stayed ADU listings are not available year-round exclusively as vacation rentals. These findings undermine the assumption that ADUs are primarily built as de facto hotel units rather than housing.⁶

This pattern is consistent with national ADU studies, which find that most STR activity is small-scale and supplemental, rather than large-scale in nature.⁷ Recent national research further underscores the importance of regulatory design in determining whether ADU reforms translate into meaningful supply gains. A

comprehensive taxonomy of state ADU laws compiled by the Mercatus Center documents wide variation in how states structure legalization, including differences in by-right approval, parking mandates, owner-occupancy requirements, and local preemption. That research finds reforms are most effective when they reduce procedural barriers and limit local discretion, whereas nominal legalization paired with restrictive conditions produces far weaker outcomes.⁸ In other words, the details of implementation, particularly provisions that constrain financing and revenue flexibility, essentially determine whether ADU reform expands supply or merely signals intent.

Complementing this regulatory analysis is research finding that restricting short-term rental activity is associated with measurable reductions in new residential development, particularly for housing types well-suited to flexible rental use.⁹ The study identifies a statistically significant decline in development activity following the imposition of STR restrictions, suggesting that revenue optionality plays a material role in investment decisions. Applied to ADUs, small-scale projects typically financed by homeowners rather than institutional developers, this dynamic is especially significant. When jurisdictions restrict STR use as part of ADU reform, they risk dampening the very residential investment that reform is intended to catalyze.

Short-Term Rentals: An Investment Consideration

For homeowners, constructing an ADU is a significant financial commitment. National cost surveys routinely place detached ADU construction well above \$100,000, depending on size and location.¹⁰ Financing options are limited and highly sensitive to interest rates and property values.

The ability to generate rental income—whether long-term or short-term—can materially affect feasibility as the “option-value” of potential rental income generates higher value for the ADU. Additionally, STR flexibility can function as income stabilization, allowing homeowners to offset vacancy risk or respond to temporary financial pressures.

Jurisdictional boundary studies link STR flexibility to higher levels of residential investment, finding that prohibitions on short-term rentals were associated with a statistically significant decline in residential investment, with ADU permits declining by approximately 16.5 percent relative to comparable jurisdictions without such restrictions.¹¹ The authors conclude that STR flexibility can serve as an incentive for marginal housing investment, particularly for units well suited to short-term rental use. Although this is true whether or not the homeowner chooses to rent the ADU out short- or long-term, as the “option-value” of potential rental income generates a higher value for the ADU.

Regulatory Constraints and Their Combined Effects

Short-Term Rental Restrictions

Data continues to show that restrictive regulatory environments are associated with lower formal ADU permitting and greater informal construction, indicating that regulatory constraints suppress permitted production.¹² While STRs account for a relatively small share of ADUs overall, the restriction appears to influence forward-looking investment decisions rather than the reallocation of existing units. Again, flexibilities providing the “option-value” better justify the investment.

Parking Requirements

Off-street parking mandates are widely cited as a binding constraint on ADU feasibility. Requiring an additional parking space for an ADU increases construction costs, reduces usable lot area, and can make ADUs infeasible on smaller parcels common in Florida’s older neighborhoods. Research suggests municipal reforms that remove parking requirements are associated with measurable increases in ADU permitting activity.¹³

Discretionary Review Processes

Discretionary review and approval requirements, such as special exceptions, conditional use approvals, or neighborhood hearings tend to introduce uncertainty and delay that disproportionately affect small-scale homeowners. They also allow for a level of arbitrariness and disparate treatment from one applicant to another. Unlike large developers, individual homeowners are poorly positioned to absorb delays or hire specialized legal and planning expertise. Evaluations of by-right ADU reforms show that streamlined ministerial approval processes significantly increase permit issuance compared to jurisdictions requiring conditional approvals or public hearings.¹⁴

Owner-Occupancy Requirements

Owner-occupancy mandates are often justified as a way to prevent speculative investment. In practice, they restrict financing options and reduce the resale value of properties with ADUs. Data continues to confirm that owner-occupancy mandates narrow the pool of eligible builders and reduce financing options, which in turn limits ADU development.¹⁵



Why STR Restrictions Merit Careful Scrutiny

Short-term rental restrictions differ from other ADU regulations because they directly constrain revenue potential. For homeowners weighing whether to invest six figures into a backyard unit, revenue flexibility may be a decisive factor.

Florida data indicate that most ADU-related STR activity occurs on owner-occupied properties rather than absentee investor holdings.¹⁶ In this context, broad STR prohibitions may reduce ADU production more than they preserve long-term housing supply. As housing economists increasingly note, restrictions on use can alter construction incentives in ways that suppress overall investment.¹⁷

Policy Implications for Florida

The evidence suggests that policymakers cannot evaluate ADU reforms in isolation. Legalizing ADUs while layering on multiple restrictive conditions produces substantially weaker outcomes than headline reforms imply. In particular, STR restrictions appear to have an outsized negative effect relative to their stated benefits.

Florida's housing crisis requires policies that expand supply at scale. Incremental supply strategies like ADUs are especially sensitive to regulatory design. When reforms include multiple poison pills, they risk becoming symbolic rather than substantive.

Recommendations

1. Preserve Short-Term Rental Flexibility for ADUs

Florida legislators should discourage blanket prohibitions on short-term rental use of ADUs, particularly for owner-occupied properties. Allowing limited STR use provides income flexibility without materially reducing long-term housing supply.

2. Adopt Objective, Ministerial Approval Processes

ADU permitting should be by-right and ministerial, eliminating discretionary review that introduces uncertainty and delays for homeowners.

3. Eliminate or Minimize Parking Mandates

Given Florida's transportation diversity and existing on-street capacity in many neighborhoods, parking requirements should not be imposed on ADUs, especially those near transit or in established urban areas.

4. Reconsider Owner-Occupancy Requirements

Where imposed, owner-occupancy rules should be narrowly tailored and time-limited to avoid suppressing financing and resale markets.

5. Evaluate ADU Reforms Holistically

Policymakers should assess the cumulative effect of ADU regulations rather than considering each requirement in isolation. Evidence suggests that combined restrictions significantly reduce ADU production.

Conclusion: Avoid Symbolic Reform and Deliver Real Housing Supply Solutions

Florida's housing affordability crisis demands policies that deliver measurable increases in housing supply—not reforms that appear ambitious on paper but fail in practice.¹⁸ Accessory dwelling units are particularly well suited to Florida's needs: they can be built incrementally, financed by homeowners rather than public subsidy, and integrated into existing neighborhoods without the displacement or infrastructure expansion often associated with large-scale redevelopment.¹⁹ When properly enabled, ADUs represent one of the most cost-effective and politically viable tools available to state and local policymakers.²⁰

However, evidence increasingly shows that many ADU reforms are weakened by regulatory provisions that materially suppress production. Parking mandates, discretionary review processes, owner-occupancy requirements, and restrictions on short-term rental use each reduce the probability that a homeowner will proceed with construction.²¹ These constraints do not operate in a vacuum. Cumulative regulatory costs raise project uncertainty and push many ADUs out of feasibility by increasing both direct costs and uncertainty, shifting projects from feasible to marginal.²²

Among these constraints, restrictions on short-term rental use appear to have a disproportionate impact relative to their scope. While STR activity represents a small share of total ADUs, revenue flexibility plays an important role in homeowner decision-making. Empirical research examining regulatory boundaries finds that prohibiting short-term rentals is associated with a statistically significant decline in residential investment, with ADU permits declining by approximately 16.5 percent relative to comparable jurisdictions without such restrictions.²³

Short-term rental income can help households finance construction, manage vacancy risk, and respond to life-cycle changes.²⁴ Removing this flexibility does not necessarily increase long-term housing supply; instead, it may deter new unit creation altogether. When allowable uses are restricted, essentially capping expected returns, the practical result is fewer ADUs built and fewer incremental housing options in constrained markets.²⁵

For policymakers, the broader lesson is straightforward: how housing may be used affects whether housing is built at all. ADU reforms that prohibit short-term rentals may limit a narrow form of activity, but they do so at the expense of broader supply objectives. In a state experiencing persistent housing shortages and sustained population growth, that tradeoff deserves careful scrutiny.²⁶

Florida has an opportunity to lead with evidence-based ADU reform that aligns regulatory design with economic reality. Research from California and other reform states shows that ADU production increases most meaningfully when approvals are ministerial, parking mandates are reduced, and financing barriers are minimized.²⁷ Narrowly tailored rules that preserve owner-occupied flexibility while preventing clear abuses are more consistent with both housing supply goals and neighborhood stability.

In a state where housing demand continues to outpace supply, the design of ADU policy will determine whether reform produces units or headlines. Regulatory frameworks weighed down by layered restrictions produce limited results, increase uncertainty, and undermine reasonable income flexibilities that are more likely to unlock sustained incremental supply. In the context of Florida's housing shortage, the difference in approaches will meaningfully shape affordability and opportunity in the years ahead.

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