

Where does the infill housing go? Addition versus division

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Abstract

Jurisdictions across Canada and the U.S. have recently allowed “missing middle” infill housing such as accessory dwelling units and multiplexes in residential zones formerly restricted to single-family use. Some studies have documented that infill housing is less prevalent in more expensive neighbourhoods. This is puzzling in that the right to add density should be more valuable in neighbourhoods where prices are higher. To resolve this seeming contradiction, we develop a parsimonious model emphasizing that different implementations of missing middle zoning feature different mixes of “addition” (adding to allowable square footage) and “division” (subdividing a fixed amount of square footage into multiple units). Addition is more valuable where price per square foot of built space is greatest. Division is more valuable where the elasticity of price in square footage is less positive. Infill housing will thus be less prevalent in pricier neighbourhoods when the upzoning features relatively little addition and more division if (wealthier) households with greater willingness to pay for space are concentrated in expensive price-per-square-foot neighbourhoods. When that sorting is stronger, the prevalence of infill will be more negatively associated with price growth.

Housing transactions and permitting data in upzoned neighbourhoods of Vancouver, Portland, and Minneapolis generally support these conclusions from our simple model of optimal infill choice. In Vancouver, where there is a very high degree of sorting, the correlation between neighbourhood price-per-square-foot levels and the missing middle share of permits has been particularly negative. In Minneapolis, the relationship between infill propensity and price is negative in modestly upzoned areas, but positive where permitted intensity was more strongly increased for multiplexes.

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