



# **WORK** ENTREPRENEUR FROM HOME

How Home-Based Businesses Provide Flexibility and Opportunity—  
and How Cities Can Get Out of Their Way



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## EXECUTIVE SUMMARY

America is a nation of entrepreneurs, and many of those entrepreneurs run their businesses from home. Home-based businesses are not only a low-cost, low-risk way to start new ventures, but they also permit flexible work-life arrangements—critical benefits during tough times, such as the COVID-19 pandemic. Thanks to technological innovations and economic shifts that have made working from home easier than ever—and with interest in home-based work soaring—it is likely more entrepreneurs will build their businesses at home, even after the pandemic subsides.

To better understand how and why entrepreneurs start at home, the Institute for Justice surveyed 1,902 home-based business owners across the country. IJ fielded the survey from November 2020 to March 2021, a time when the pandemic caused job losses, shuttered businesses and kept many people at home.

And, in fact, the survey revealed sizable portions of respondents started businesses after pandemic-related job losses (1 in 3 respondents) or business closures (1 in 4 respondents). For these and other entrepreneurs, home-based businesses provide essential income and much-needed flexibility. And for many, they may be the first step toward bigger things. Other key findings include:

- The home-based business sector is incredibly diverse.
  - Compared to traditional small business owners, home-based business owners are more likely to be female, minorities, single and renters.
  - Home-based businesses operate in every sector of the economy, from baking to cattle ranching to financial services—and everything in between.
  - Home ventures range from hobbies and side gigs to households' main source of income.
- While most home-based businesses are modest in size, they are also inexpensive to start—and many owners plan to expand.
  - Half of home-based businesses generate less than \$15,000 in revenue each year. Revenues vary widely by business type: On average, IT businesses generate \$45,000 annually, while crafts businesses generate just \$3,000 each year.
  - Owners' median start-up cost was just \$1,200.
  - Nearly half of home-based entrepreneurs plan to expand their business.
- Owners derive important financial and personal benefits from their home ventures.
  - More than two-thirds of respondents said their home-based businesses are important or very important to their households' financial security.

- Nine out of 10 respondents started their ventures to be their own boss and do something they enjoy. Eight out of 10 did so to have better work-life balance.
- Other common benefits include saving money on an office or overhead, earning money as a stay-at-home parent, “testing the waters” before expanding, and working from home due to disability.
- Home-based businesses face high regulatory hurdles.
  - Most respondents reported it took more than two months to jump through all the regulatory hoops necessary to operate their business out of their home.
  - Respondents tend to view home-based business regulations as burdensome, rating requirements for starting a business—paying high permit fees and navigating complex local rules to get started—as the most onerous.
  - A review of 20 large cities found the regulatory environment for home-based businesses can be complex and confusing, often varying by neighborhood and business type. Common regulations include limits on client visits, non-resident employees and in-home sales, as well as special permission slips called “conditional use permits” that can require extensive paperwork, fees and public hearings to start a new business.

Home-based businesses have proven themselves an important avenue to entrepreneurship for a diverse group of people, particularly in the wake of the economic devastation wreaked by the COVID-19 pandemic. To help people help themselves, cities can and should ease outdated regulatory burdens that get in the way of home-based entrepreneurs.

## INTRODUCTION

Lij Shaw is a record industry professional who has recorded nationally renowned, Grammy-winning performers including John Oates, Jack White, Wilco, Adele and the Zac Brown Band. Pat Raynor is a senior citizen who has been working as a hairstylist for more than 50 years. Though their businesses could not be more different, Lij and Pat both run them out of their homes in Nashville, Tennessee.<sup>1</sup> They are part of a burgeoning entrepreneurial sector of the American economy: home-based businesses.

Nationwide, more than 15 million businesses operate out of people's homes according to the U.S. Small Business Administration.<sup>2</sup> Home-based ventures have consistently represented about half of all U.S. small businesses for at least the past 30 years.<sup>3</sup> Already in the early 1990s, home-based ventures contributed \$325 billion to the wider economy.<sup>4</sup> And fueled by the COVID-19 pandemic and a greater-than-ever interest in working from home, this sector is likely to grow.

Unfortunately, in Nashville and many other cities nationwide, home-based business owners find barriers standing in their way. Across the country, local governments impose needlessly burdensome regulations, including outright prohibitions, on home-based businesses that make entrepreneurs' lives more difficult, force them underground or shut them down altogether.<sup>5</sup> For instance, Nashville shut down Lij's and Pat's businesses because of its out-of-touch zoning code, which forbade most—but not all—types of home-based businesses from serving clients in the home.<sup>6</sup> Neither Lij's music studio nor Pat's hair salon was causing a nuisance, but that did not matter.<sup>7</sup>

To save their businesses and vindicate their right to use their homes to earn an honest living, Lij and Pat teamed up with the Institute for Justice to challenge Nashville's prohibition on client visits to home-based businesses.<sup>8</sup> Some relief came for Lij and Pat, and doubtless many other Nashvillians, in July 2020 when the Metropolitan Council eased the prohibition on client visits, as well as some other restrictions on home-based businesses, in response to the economic devastation wrought by the pandemic.<sup>9</sup> However, the ordinance continues to treat some home-based businesses—including Lij's and Pat's—worse than others.<sup>10</sup> The ordinance is also slated to expire in January 2023 unless the Metro Council specifically renews it, meaning Lij's and Pat's client visits could again become illegal.<sup>11</sup> And so the lawsuit continues.<sup>12</sup>

That Nashville's pandemic response included regulatory relief for home-based businesses suggests the city understands these ventures' value—particularly during a crisis. Yet there is little, if any, empirical research on home-based businesses and the pandemic. And most survey research on home-based businesses took place before COVID-19 supercharged interest in working from home. To help bring the research up to date, the Institute for Justice conducted a nationwide survey of more than 1,900 home-based business owners during the pandemic. The survey asked these entrepreneurs about their businesses, what their businesses mean to them, why they started their businesses from home and how they perceive local regulations.



The results paint a vivid portrait of today's home-based entrepreneurs and their businesses and suggest the home-based business sector is here to stay. Many entrepreneurs surveyed reported their businesses, though mostly modest, provide them with important income and flexibility, and about half have plans to expand. Not only that, but large proportions said the pandemic was a factor in their decision to start a home-based venture. Where other opportunities were lacking, many did what Americans have always done and made their own. Yet the story was not all positive: Respondents also reported finding local regulations burdensome.

Taken together, these results suggest many home-based business regulations are behind the times. To help more people create their own opportunities and to foster economic growth, cities should welcome home-based businesses and rethink local regulations that unreasonably hamper this sector of the economy.

## **BIGGER MARKETS FOR SMALLER BUSINESSES**

Over the past few decades, home-based businesses have become a large and growing part of the American economy. In the early 1990s, the United States was home to about 8.5 million home-based businesses.<sup>13</sup> Today, that figure stands at more than 15 million, with home-based businesses representing about a quarter of small businesses with employees and about half of small businesses overall.<sup>14</sup>

Historically, home-based businesses have been relatively small in scale. In the early 1990s, 90% of home-based businesses operated as sole proprietorships, and 57% generated less than \$10,000 in annual profits.<sup>15</sup> Yet, as a group, these “micro-enterprises” make important contributions to the economy: Home-based businesses accounted for \$325 million in annual receipts according to 1997 data.<sup>16</sup> A 1999 study found that while home-based businesses accounted for only 1.7% of the country's business output, they also made combined direct and indirect contributions to the economy that worked out to 3.5% of total gross sales, 4.6% of total earnings and 6.7% of total employment.<sup>17</sup> And as the number of home-based businesses has grown, so, too, in all likelihood, have the industry's contributions to the economy.

Likely driving home-based business growth are several related trends surrounding shifts in the U.S. economy and how Americans approach work. First, the share of U.S. workers who operate from home—including those who run businesses from home—has steadily increased since the 1980s, when deregulation put an end to industrial regulations that had restricted much home-based labor.<sup>18</sup> Most recently, in response to the COVID-19 pandemic, 2020 saw a steep rise in the percentage of people working from home—it nearly doubled in just a year to 42%.<sup>19</sup> According to LinkedIn, approximately 1 in 67 paid U.S. jobs on the site were remote before the pandemic began. Now that number stands at nearly 1 in 6.<sup>20</sup> And following the end of stay-at-home orders, interest in working from home remains high.<sup>21</sup>

Second, it has become easier and more practical to work and to run a business from home thanks to the U.S. economy's shift from manufacturing to services and to technological

innovations, namely computing and internet technology.<sup>22</sup> Both developments, which have gone hand in hand, have resulted in the creation and growth of many new jobs. And modern technology means many jobs—both old and new—can now be done from home.<sup>23</sup> To illustrate the point, in 1991, 70% of Americans working from home were in service occupations compared to just 35% of all U.S. workers.<sup>24</sup> More recent research similarly finds service occupations—particularly management, business and financial occupations—predominate among home-based workers.<sup>25</sup> Home-based work in computer, engineering and science occupations is also common and increased by 69% from 2000 to 2010.<sup>26</sup>

Third, entrepreneurship has grown tremendously in recent years—particularly among women. Between 1980 and 2005, as 5 million jobs disappeared from Fortune 500 companies, small businesses created 34 million new jobs.<sup>27</sup> And studies show that people responded to the Great Recession by turning to entrepreneurialism in large numbers.<sup>28</sup> More recently, the COVID-19 pandemic may also have contributed to greater entrepreneurial growth. In 2020, Americans created 2.8 million more online microbusinesses than they did in 2019.<sup>29</sup> Given the low startup costs of home-based businesses and the flexibility and autonomy they provide,<sup>30</sup> it is natural they would be part of that entrepreneurial growth.

Flexibility and autonomy may make running a business at home especially attractive to women, who have increasingly turned to entrepreneurship in recent years. Between 1997 and 2002, the number of female-owned firms increased by 19.8% compared to only 10.3% for the number of firms overall.<sup>31</sup> And, historically, home-based ventures have been particularly attractive to female entrepreneurs in rural areas: A 1992 study found nearly 60% of rural home-based businesses were solely owned by women, while just 19% were solely owned by men.<sup>32</sup> Meanwhile, women have long been more likely than men to work from home, with most female home-based workers being self-employed.<sup>33</sup> In various surveys over the years, female home-based businesses have reported that running a business from home allowed them to maintain a healthy work-life balance and to care for young children while earning important supplemental income for their households.<sup>34</sup>

Although home-based businesses have become an increasingly important part of the American economy over the past few decades, there is reason to believe government regulations are preventing some from being as successful as they could be. As early as 20 years ago, some scholars were suggesting outdated zoning laws might be holding home-based businesses back—if not effectively making some illegal.<sup>35</sup> The author of a 2002 study, for instance, argued that one-size-fits-all zoning regulations, such as limits on the number of in-home employees or hours of operation, were outdated and unnecessarily and unfairly hamstringing some home-based businesses.<sup>36</sup> And previous IJ research suggests restrictive regulations constrain the growth of some home-based businesses. Specifically, the study in question found restrictive state cottage food (also known as homemade food) laws hinder home-based food businesses.<sup>37</sup> When laws restrict the types of foods that producers can sell, they are less likely to plan to expand their businesses, suggesting regulations can have a meaningful impact on entrepreneurship. And,

unfortunately, there is little evidence to suggest the regulatory landscape for home-based businesses has improved over the past two decades (see “Common Legal Barriers for Home-Based Businesses” on p. 28).

## METHODS

To find out what home-based businesses and their owners look like today, and how the COVID-19 pandemic has affected them, IJ engaged the market research firm Technometrica to conduct an online survey of home-based business owners nationwide. Technometrica fielded the survey between November 2020 and March 2021, collecting a final sample of 1,902 respondents.<sup>38</sup>

Survey respondents were selected at random from a large national sample. IJ over-sampled home-based business owners in 20 mid- to large-sized cities. This was done to take advantage of research conducted by IJ city policy experts on the 20 cities’ regulations for starting a business generally and operating a home-based business specifically.<sup>39</sup> This over-sampling means the final sample is not perfectly representative at the national level.

I counted a person as a home-based business owner if they answered “yes” to the question “Do you operate a business from your home?” This definition captures both businesses that operate fully from the home (such as in-home day care providers or freelance writers) and those that are administered from the home but operate elsewhere (such as construction contractors or rideshare drivers). This provides a broad view of the diversity of home-based businesses and their owners. It does mean, however, the two types of home-based businesses cannot be systematically distinguished, and they likely differ in both operations and how regulations affect their operations.

Three main research questions guided this study:

1. What do home-based business owners and their businesses look like today?
2. How have the COVID-19 pandemic and the associated economic crisis affected home-based businesses? Has the option to run a business from home helped people survive layoffs and brick-and-mortar closures?
3. Which regulations do home-based business owners find most burdensome?

I answered research questions 1 and 2 using descriptive analyses of the survey data. This enabled me to look at the data from many different angles, disaggregating survey responses by various owner, business and regulatory characteristics. To answer question 3, I used a statistical analysis technique called “pairwise comparisons” that enabled me to determine which regulations respondents viewed as significantly more burdensome than others. See Appendix A on p. 35 for full details.

## RESULTS

### *Home-based businesses put business ownership in reach for a wide variety of people.*

Today's home-based business owners come from all walks of life. And the opportunity to run a home-based business opens avenues to entrepreneurship to groups who are less well represented in the wider business community. Compared to traditional small-business owners, respondents to IJ's survey are more likely to be female, racial or ethnic minorities, unmarried or renters (see Figure 1). Because the home is a low-cost venue from which to embark on a new venture, home-based businesses may be especially attractive to these groups because they may earn lower incomes and have less access to capital than their counterparts on average.

Women and minorities may turn to home-based businesses as a way to start the business of their dreams absent external financing. Prior research has found the majority of female-owned businesses and nearly half of minority-owned businesses are operated from home.<sup>40</sup> Women, compared to men, tend to start and operate their businesses with substantially less capital and are less likely to use banks and other outside sources to finance their ventures.<sup>41</sup> The same is true for African Americans and Latinos, compared to whites.<sup>42</sup> In addition, research suggests that female- and minority-owned businesses find it more difficult to secure loans and that when minority-owned businesses do secure loans, they typically pay higher interest rates.<sup>43</sup>

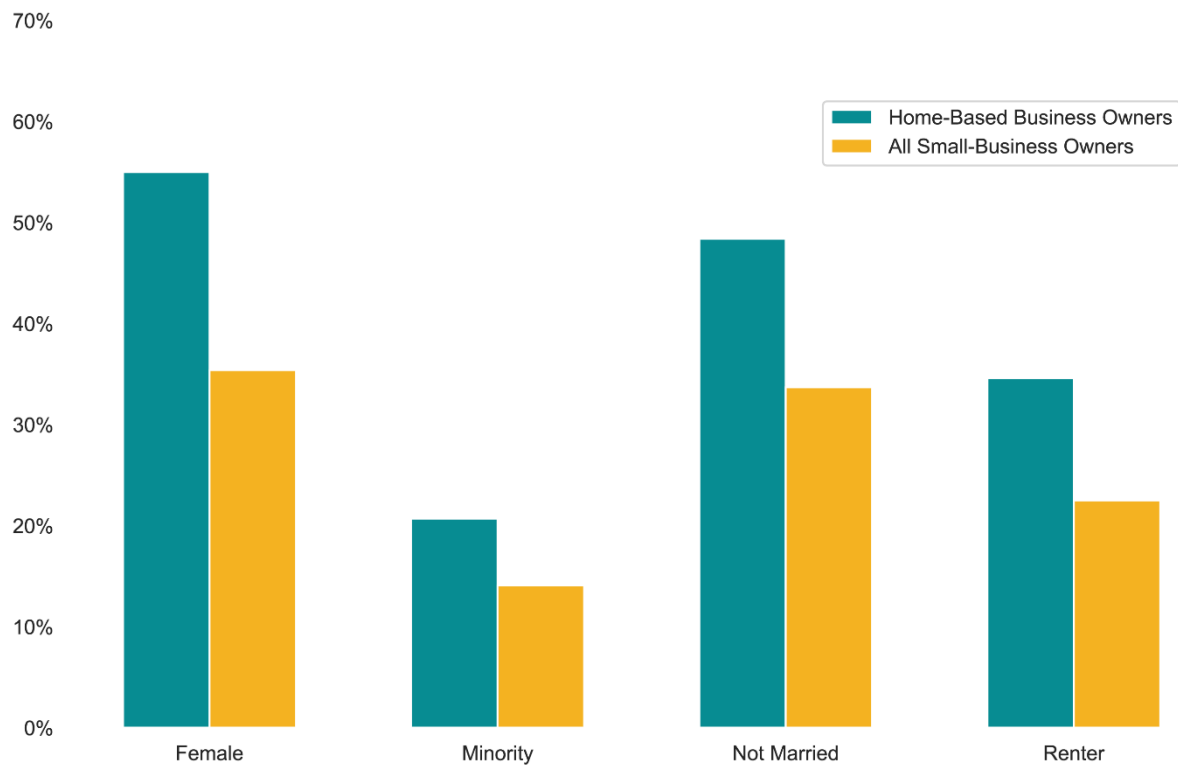
Unmarried people and renters may opt to start their ventures at home for similar reasons. Single people typically have lower earnings than those in double-income households, while renters lack the savings many entrepreneurs use to finance their businesses.<sup>44</sup>

Together, these findings suggest home-based businesses present important pathways to entrepreneurship for people who might otherwise be less likely to go into business for themselves.



Figure 1

### Demographic Differences: Home-Based vs. All Small-Business Owners



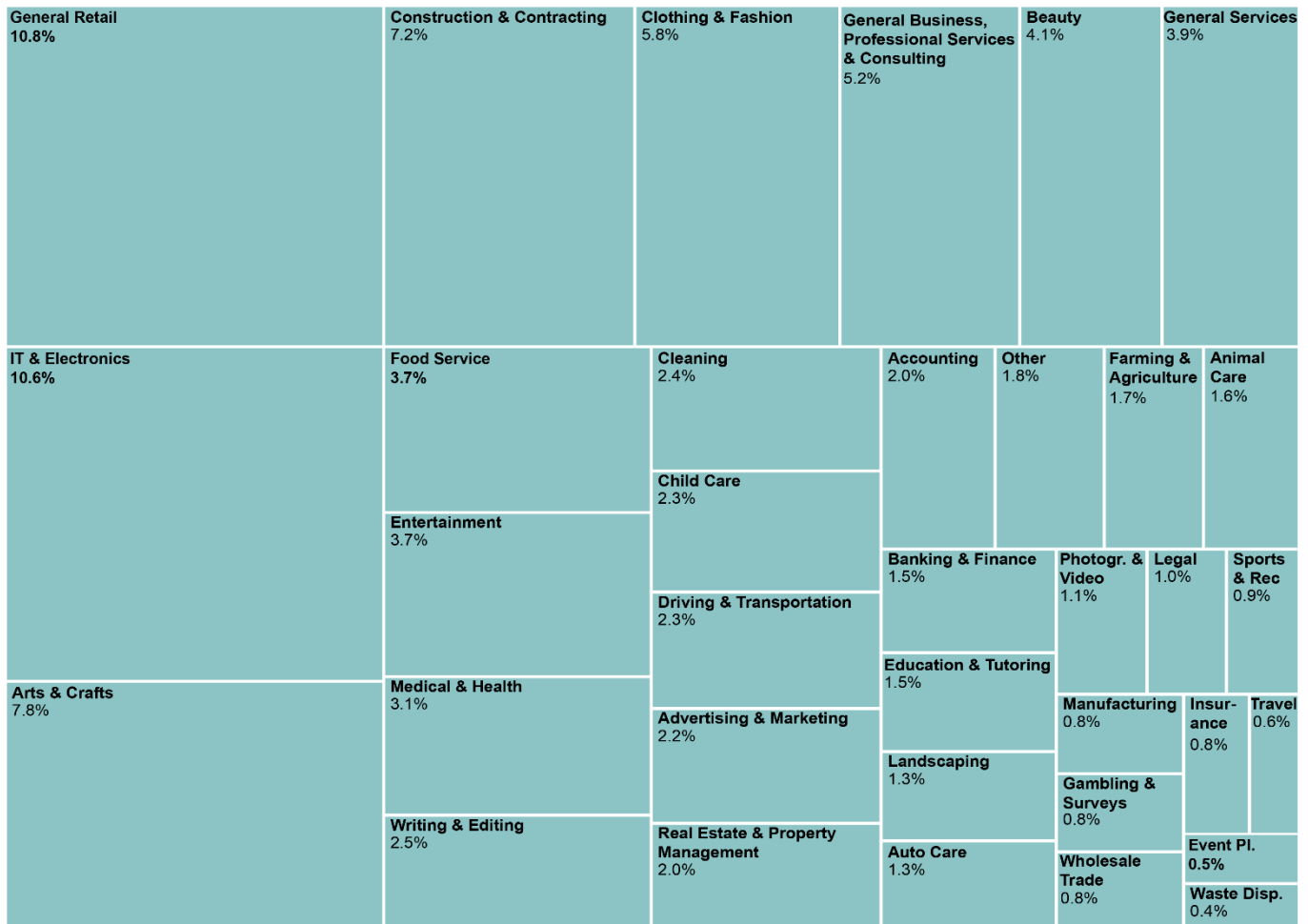
Source: Small Business Administration Office of Advocacy. Demographic characteristics of business owners and employees: 2013. Issue brief number 6. [https://cdn.advocacy.sba.gov/wp-content/uploads/2015/04/07145715/Issue\\_Brief\\_6\\_Demographic\\_Characteristics\\_2013.pdf](https://cdn.advocacy.sba.gov/wp-content/uploads/2015/04/07145715/Issue_Brief_6_Demographic_Characteristics_2013.pdf)

### *Home-based businesses operate in every sector of the economy.*

Like their owners, home-based businesses are diverse, operating in industries ranging from fashion design to auto repair, carpentry to human resources, 3D printing to music lessons, cattle ranching to cake decorating, personal training to trucking. General retail businesses were most common among respondents, followed by information technology and electronics, arts and crafts, and construction and contracting (see Figure 2).

Figure 2

## Home-Based Businesses Operate in Diverse Fields



The wide diversity of home-based businesses is largely a product of technological innovations. As described above, technology has made it possible to run more kinds of businesses from home than ever before.<sup>45</sup> Indeed, while some types of home-based businesses, like farming and agriculture, arts and crafts, child care and food service, have existed for millennia, many other types were less common or did not exist at all before the rise of computing and internet technology. Even home-based businesses that have always been common—like retail—have been helped by modern telecommunications technology, which allows entrepreneurs to connect with customers around the globe.<sup>46</sup>

Now that it is possible to run almost any type of business from home, people who live in communities with few other economic opportunities have many more options to make their own opportunities at home. Given prior research suggesting Americans have historically turned to entrepreneurship to weather tough economic times,<sup>47</sup> the ability to run a business from home may be particularly important during recessions or, as I will discuss below, pandemics.

*Home-based businesses can be anything from a hobby to a side hustle to a main occupation.*

Running a business from home enables people to start ventures on whatever terms they like: an enjoyable hobby that pays for itself, a side hustle that helps meet financial goals, or a main occupation supplying some or all household income. The ability to operate from home also makes possible many businesses that might not otherwise exist, particularly those that do not need—or whose owners cannot afford or access—commercial space.

This is especially likely for businesses that are not owners' main occupation—a substantial portion of home-based businesses. Indeed, while most respondents (59%) reported their home-based business was their main occupation,<sup>48</sup> many others said theirs provided supplemental income or was a hobby (see Figure 3). In general, it is not going to make financial sense for a person to obtain commercial space for such businesses. And even when the business is the main occupation, owners may have financial or other reasons for starting from home.

Figure 3

Most Home-Based Businesses Are Their Owners' Primary Occupation, but Many Are Side Jobs or Hobbies



The opportunity home-based businesses provide to own and operate a business on one's own terms may be especially important for people whose life circumstances make running a traditional business more difficult or less desirable. Students, retirees and people with other jobs, for instance, may not be able to—or want to—run a brick-and-mortar business. Operating from home can help them earn money on top of other income, which may be modest or fixed.

As might be expected, home-based businesses are also particularly attractive to caretakers, especially mothers, who need or choose to be at home with their children. Indeed, 45% of respondents reported having children at home, and among respondents who reported working at their home-based business part time, women were more likely than men to stay at home (14% vs. 2%). These trends are nothing new: As discussed above, prior research has shown women have long been more likely than men to work from home,<sup>49</sup> likely because women have historically valued the flexibility of home-based work to contribute to household income while also caring for children and doing other domestic work.<sup>50</sup>

Of course, just because a home-based business starts as a hobby or side project, does not mean it has to stay that way. Some may grow into an owner's main occupation or primary source of income.<sup>51</sup> As I will discuss below, many home-based business owners have big plans.

## THE SCOPE OF HOME-BASED BUSINESSES VARIES BY INDUSTRY

How owners see their businesses differs depending on their fields. For example, owners of home-based financial services and accounting businesses were highly likely to describe their business as their main occupation, while owners of arts and crafts and food services home-based businesses were much more likely to say their business provided supplemental income or was a hobby (see Figure 4).

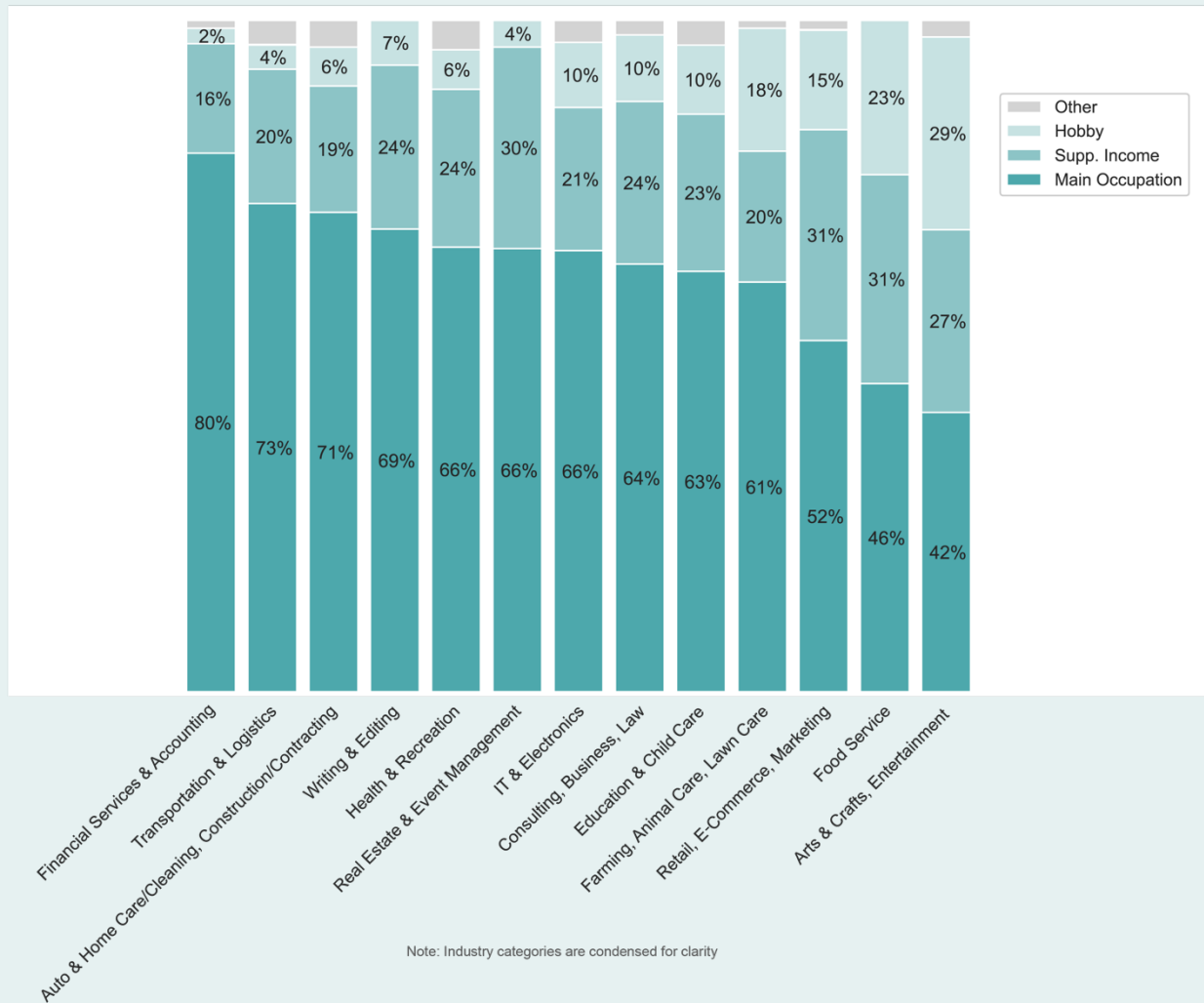
This makes sense: It is easy to see how someone might choose to run an arts and crafts business on the side for fun and to make a little extra cash. Prior research has found craft hobby businesses are particularly popular with female home-based business owners in the rural Midwest, for instance.<sup>52</sup> On the other hand, it is more difficult to picture a person running an accounting or tax attorney business as a hobby. And, in fact, respondents to this survey who run those types of businesses tend to earn higher incomes, providing further evidence that these types of ventures are more likely to be significant, if not sole, sources of income for their owners' households.

The way home-based businesses' scope varies by industry is yet another example of how home-based businesses meet people where they are, serving whatever role their owner needs. Some people are looking for a side hustle to earn a little extra money, others for a way to earn the majority of their family's income, and still others for a self-funding hobby. Home-based businesses can be all of these—and more.



Figure 4

### How Home-Based Entrepreneurs Describe Their Businesses Varies by Industry



*Most home-based businesses are very small, but almost half plan to expand.*

Not surprisingly, most home-based businesses are very small, qualifying as micro-enterprises because they employ only the owner or at most a few people, and they typically started on a shoestring budget and generate modest revenues.<sup>53</sup> They also tend to be fairly young businesses. However, almost half of survey respondents plan to expand their businesses in the near future.

The typical home-based business employs only its owner, but some do employ others (see Figure 5). IT and electronics businesses employ a median of one person on a part-time basis, while food services businesses have a median of 1.5 full-time employees. Note, however, that not all of these employees actually work in business owners' homes. No respondent reported having more than two full- or part-time employees in the home. Instead, most employees of home-based businesses likely work either out in the field (such as with construction and cleaning businesses) or remotely from their own homes (such as with IT and financial services businesses).

Home-based businesses mostly generate modest incomes, but gross revenues vary widely by business type. IT and other computer-based businesses generate a median of \$45,000 in annual revenue; farming, lawn care, auto care, home cleaning and construction businesses generate a median of \$25,000; and art, cosmetics and crafts businesses generate a median of just \$3,000. Overall, half of respondents reported their businesses produced \$15,000 or less in revenue and \$12,000 or less in profits in 2020 (see Figure 6). Yet even seemingly small amounts of revenue can make a big difference in people's lives. For instance, an IJ survey of Wisconsin home-baking entrepreneurs found they turned a median monthly profit of just \$200—but that income enabled them to afford health care, cover expenses when jobs were lost or hours were cut, make car payments, and meet many other essential needs.<sup>54</sup> And as noted above, together, these small businesses have an important impact on the broader economy.<sup>55</sup>

Figure 5

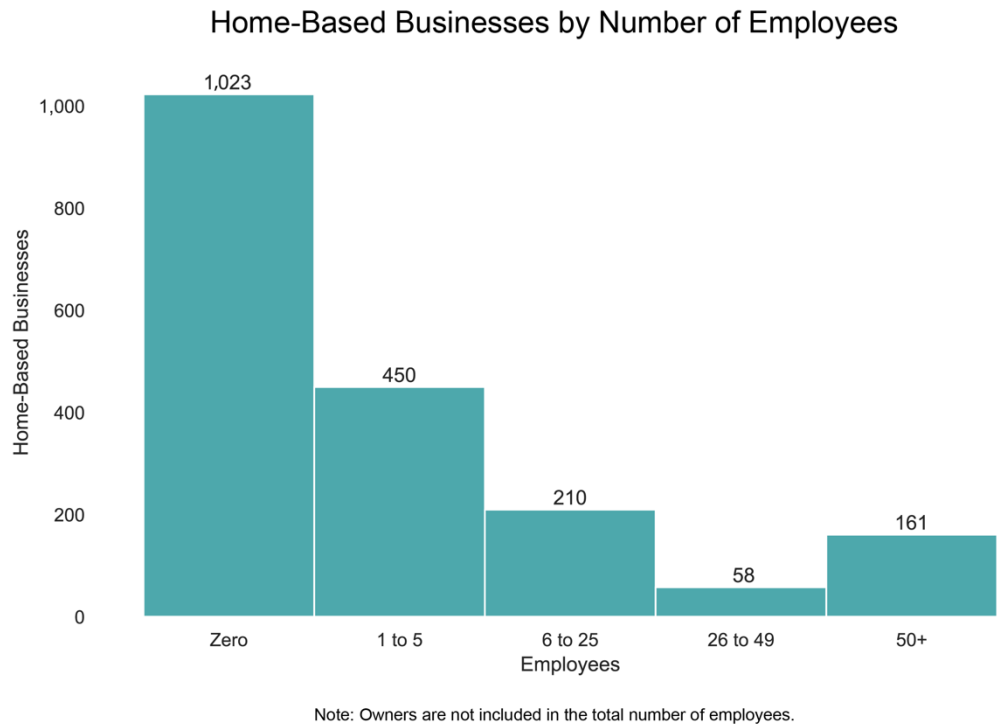
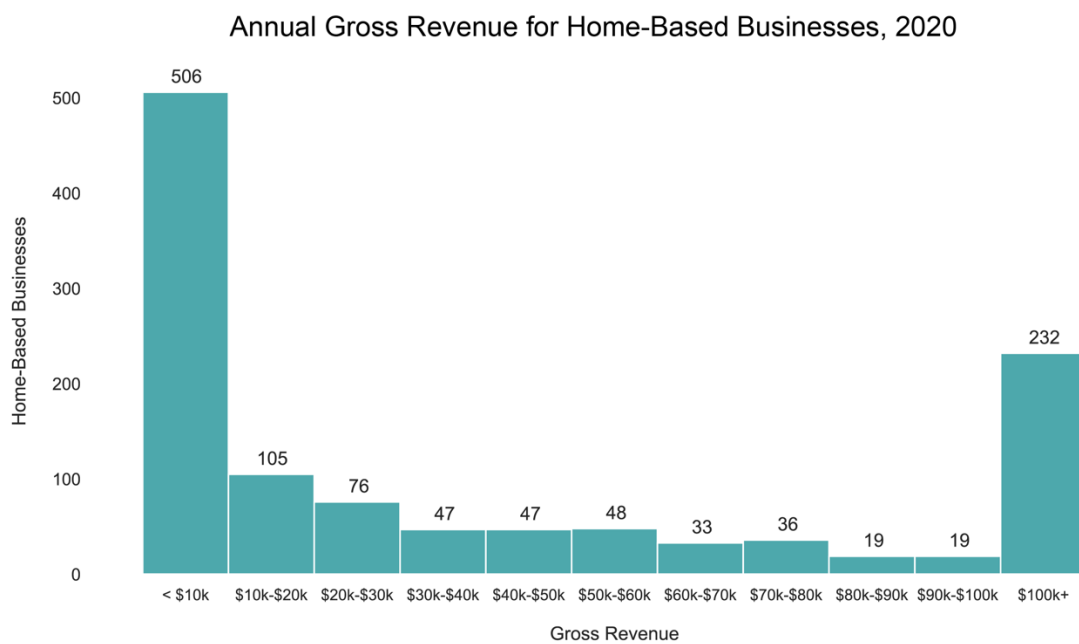


Figure 6



Home-based business revenues may be modest, but so too are their startup costs. This is because starting a business at home means not having to invest in expensive commercial space or the building approvals that go with it. And, in fact, half of respondents started their businesses with \$1,200 or less. On average, women reported starting their home-based businesses with even less seed capital: a median of just \$1,000 compared to \$2,500 for men. Given that female entrepreneurs have, regardless of business type, historically tended to use much lower amounts of startup capital than male entrepreneurs,<sup>56</sup> these findings provide additional evidence that women in particular benefit from the home-based businesses' low startup costs.

To cover their startup costs, most respondents to the survey used their own money rather than obtaining external financing. More than half (54%) used their savings as seed capital, with smaller numbers asking friends and family for contributions (24%), putting the costs on their credit card (20%), or borrowing money from a bank (18%). This is not much changed over the past few decades: For example, a 1992 study found only 25% or less of Canadian home-based businesses received financing from external credit sources such as traditional banks and credit unions.<sup>57</sup> Another 1992 study found 83% of Iowa home-based business owners used personal savings to fund their ventures.<sup>58</sup> Additional, more recent studies indicate home-based businesses continue to have difficulty accessing bank loans and other sources of formal financing, such as government grant programs.<sup>59</sup>

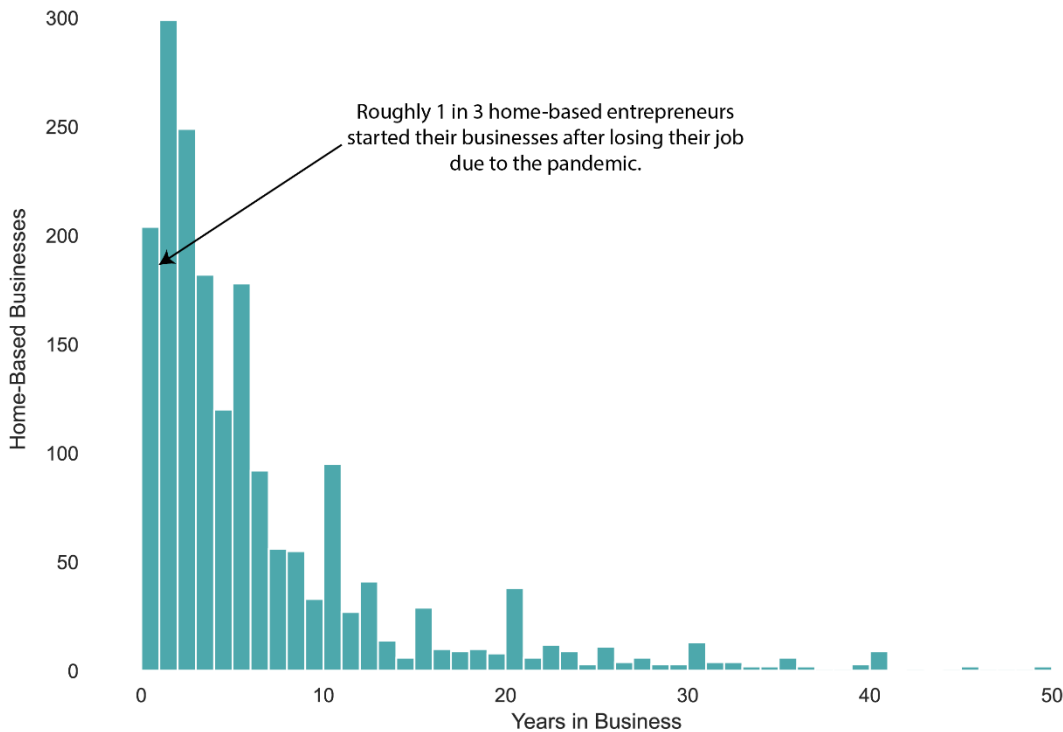
The survey does not capture respondents' reasons for financing their businesses as they did, but there are a few possible explanations. First, the low amounts of seed capital combined with the fact that home-based businesses require comparatively little cash to get started may mean most respondents simply did not need more money than they could supply from their own bank accounts or credit cards. Second, home-based businesses may have greater difficulty accessing formal sources of credit.<sup>60</sup> Finally, there could be a gender dynamic at play: Women, who make up a majority of home-based business owners, were less likely to get a bank loan to start their businesses (14% compared to 24% of men). It is possible women have a more difficult time obtaining financing from formal sources than men, as some scholars have suggested,<sup>61</sup> but it is also possible women simply prefer more informal sources of financing when starting their ventures.<sup>62</sup> Regardless of the reasons, taken together, these findings highlight how starting a business at home puts business ownership in reach for aspiring entrepreneurs of modest means or who want to keep their initial investment small while they determine if their business is viable.

In addition to starting on a shoestring budget, most home-based businesses are fairly new ventures, with half of respondents reporting being in business for four years or less (see Figure 7). A contributing factor to the youth of home-based businesses could be that—like small businesses in general—about a third fail within just a few years.<sup>63</sup> However, their youth could equally be a sign that people are increasingly seeing these ventures as a viable avenue for entrepreneurship and supporting their families financially, particularly as pandemic-related shutdowns have forced people to stay home. The steady growth in home-based work and home-based businesses in recent decades appears to support this explanation.<sup>64</sup> Furthermore, small

businesses are less likely to operate out of the home as they age: 32% of employer firms that are less than two years old operate from home, compared to 17% of employer firms that are 16 and older,<sup>65</sup> suggesting home-based businesses may move into commercial space as they grow over time.

Figure 7

### Roughly 60% of Home-Based Businesses Were Started in the Past Five Years

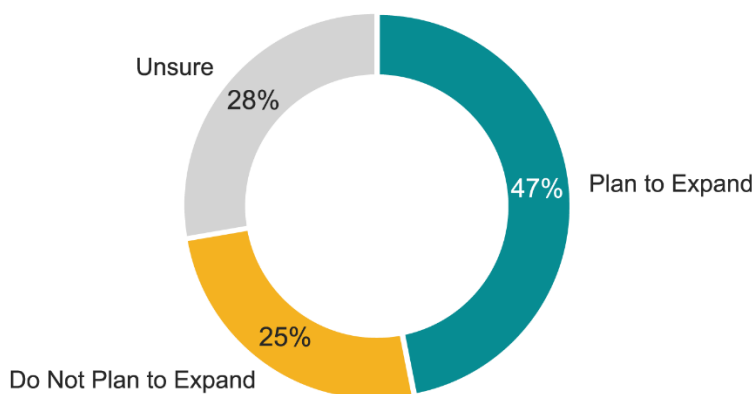


While most home-based businesses are tiny and relatively young, many owners have big plans. Nearly half of respondents plan to expand their businesses in the near future (see Figure 8). This is especially true for men, higher earners and people with more education—that is, people who look more like traditional business owners and who are more likely to have the resources necessary to meaningfully expand. More than half of male respondents—55%—said they plan to expand compared to 41% of female ones. Nearly two-thirds of respondents who earned more than \$200,000 per year said they plan to expand compared to just one-third of those earning less than \$20,000. And 62% of respondents with graduate degrees reported having expansion plans compared to 42% of those with only some high school education.



Figure 8

## Nearly Half of Home-Based Entrepreneurs Plan to Expand Their Businesses



Many factors may influence both the size of a home-based business and an owner's plans to expand. For instance, some types of businesses are simply more scalable, such as those in manufacturing, retail, and digital products and services. But a business that relies on custom, hand-made products or on the owner's personal time—as with editing or music lessons—has naturally lower limits. Survey results broadly align with this understanding: Owners of event management, education and writing businesses were least likely to have plans to expand their businesses, with just over a quarter indicating they had such plans. But 68% of food service businesses, 64% of IT and other digital businesses, and 55% of retail and e-commerce businesses reported plans to expand.

An owner's personal goals are another possible factor in expansion plans. Some owners, even of businesses with greater growth potential, may prefer to keep their operations small. Perhaps they want it to remain a hobby, they do not wish to move to commercial space, or other demands on their time (such as a day job, caretaking responsibilities or a disability) make expansion impossible. Whatever the reason, home-based business owners' plans to expand—or not to expand—are not necessarily an indicator of an enterprise's success. Rather, those plans may show entrepreneurs taking advantage of the flexibility inherent in running a home-based business and their ability to make the business whatever they need it to be.

### *Home-based businesses provide important economic benefits to their owners*

Home-based businesses meaningfully contribute to the financial security of their owners' households. For many respondents, home-based business income is essential—particularly for those with few other economic opportunities. Forty-two percent of respondents reported getting most or all their income from their business, and 69% said their home-based business income is

either important or very important to their household's financial security (see Figure 9). The overwhelming majority also said their home-based business helps them enjoy financial independence (83%), support their families (81%) and save for the future (81%) (see Figure 10). In short, home-based business income is important even if a business is not an owner's main occupation.

The opportunity to make money at home is particularly important for those who cannot easily work outside the home, such as stay-at-home parents and other caregivers or people with disabilities. More than half (53%) of respondents reported they started their business to make money as a stay-at-home parent. And nearly a third (31%) of respondents started their business because they have a disability that makes it difficult for them to work in a traditional office or other commercial environment. Thus, not only can home-based businesses be an economic lifeline for people who might have few other ways of earning a living, but they can also provide people with the flexibility they need to manage their disability.

Figure 9

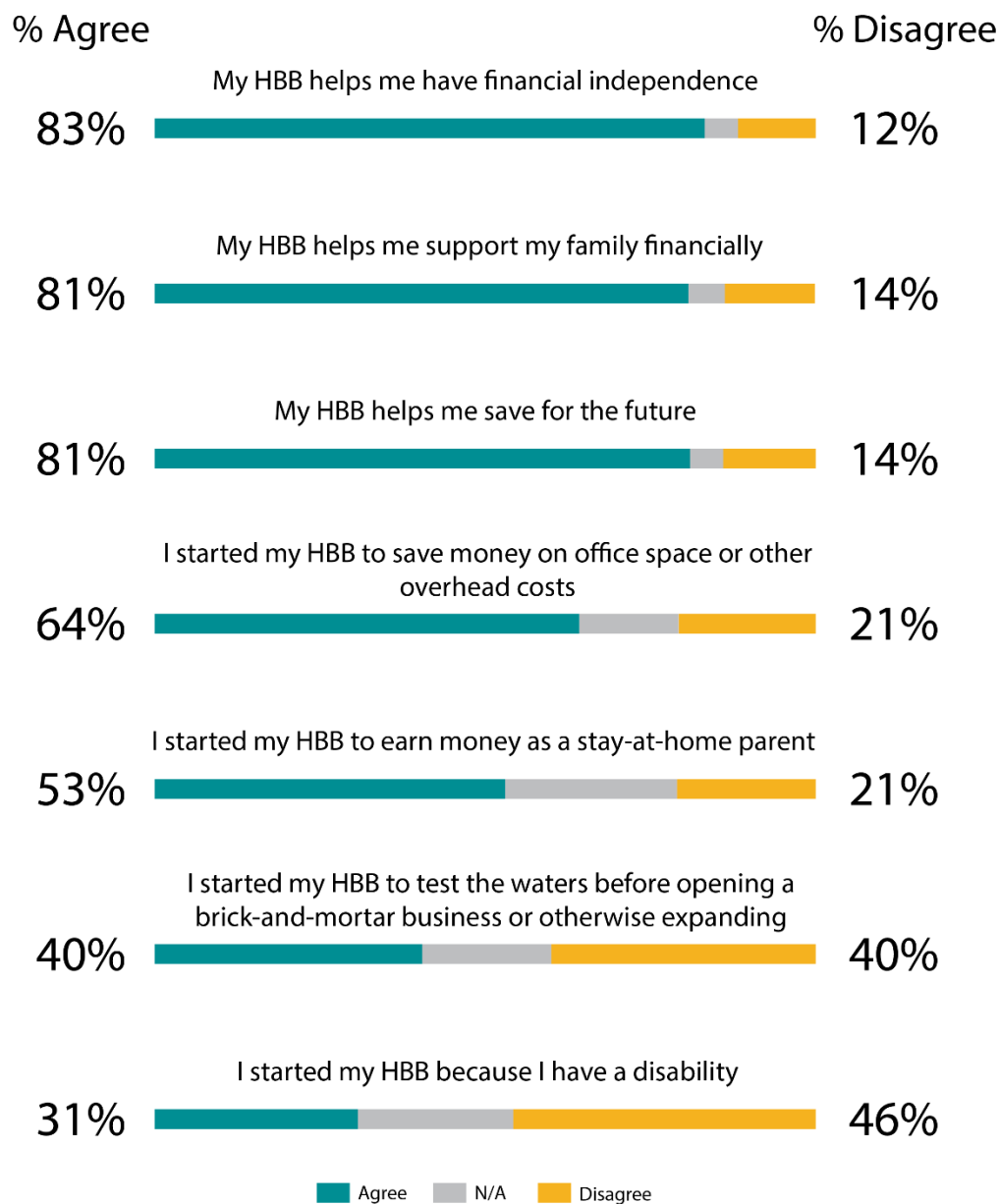
### Home-Based Businesses Are Important to Their Owners' Financial Security



How Important Is Your Home-Based Business to Your Financial Security?

Figure 10

## Home-Based Businesses Offer Owners Important Economic Benefits



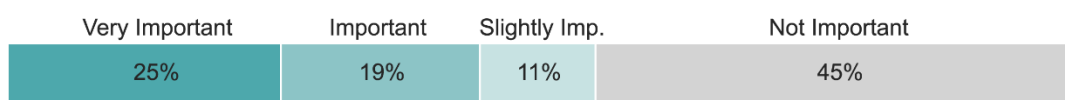
In addition to helping owners support themselves and meet other financial goals, home-based businesses allow owners to mitigate some of the financial risks inherent to starting a business. Operating out of their home allows aspiring entrepreneurs to test the waters before diving into a more traditional business venture. Without the need to invest in expensive commercial space, it can be a relatively low-cost and low-risk way to test demand for a product

or service. And the relatively low median startup costs of \$1,200 indicate this is precisely how many home-based entrepreneurs approach their ventures—whether because they do not have the money for commercial space or because they prefer to invest in other aspects of their business first. And, as I found, many owners plan to expand their businesses later. In a similar vein, an earlier IJ study found many cottage food producers nationwide planned to ramp up their operations and open brick-and-mortar businesses.<sup>66</sup>

Another important benefit to starting a business from home is that entrepreneurs need not worry about shelling out thousands of dollars for commercial space.<sup>67</sup> Overall, 40% of respondents reported starting their business to test the waters before opening a brick-and-mortar store and 64% to save on office space or other overhead costs (see Figure 10). In addition, 55% said the cost of renting commercial space was at least slightly important to their decision to operate their business from home, with a quarter saying it was very important (see Figure 11). If these entrepreneurs had not been able to start their businesses at home, they may never have been able to get them off the ground. Home-based businesses therefore allow many businesses to exist—and flourish—that might not otherwise.

Figure 11

#### Commercial Rents Were at Least Slightly Important to Most Owners' Decision to Start a Home-Based Business



How Important Was the Cost of Renting Commercial Space to Your Decision to Operate Your Business in Your Home?

#### *Home-based businesses also improve their owners' quality of life*

The benefits of home-based businesses extend far beyond the financial. The survey results indicate quality-of-life considerations, including the desire for greater flexibility and control, were major factors in many respondents' decision to start a home-based business. Moreover, many respondents also reported actually deriving those same benefits from their businesses.

Ninety percent of respondents said the desire to be their own boss was one of their reasons for starting a business in the home, and 92% agreed their business helps them in this regard (see Figure 12). Eighty-nine percent said the desire for better control over their schedule was a factor in why they started a home-based business, and 92% agreed their business give them such flexibility. Work-life balance was another major motivator for starting a home-based business, with 92% of respondents saying it factored into their decision making. And 83% of respondents reported they started their business to do something they enjoy, with 92% saying their business helps them to do just that.

It is easy to see why a home-based business would be attractive to people who value flexibility. Business ownership in and of itself allows people to be their own boss and have greater control over their schedule and work-life balance. Businesses based in the home supercharge that flexibility because they cut out the commute and allow people to balance work and domestic responsibilities. And given that most respondents started their business with the goal of earning income as a stay-at-home parent, it makes sense that such flexibility would be so highly valued. Indeed, prior research has found this flexibility has been particularly important to women, who primarily bear child care responsibilities, for decades.<sup>68</sup>

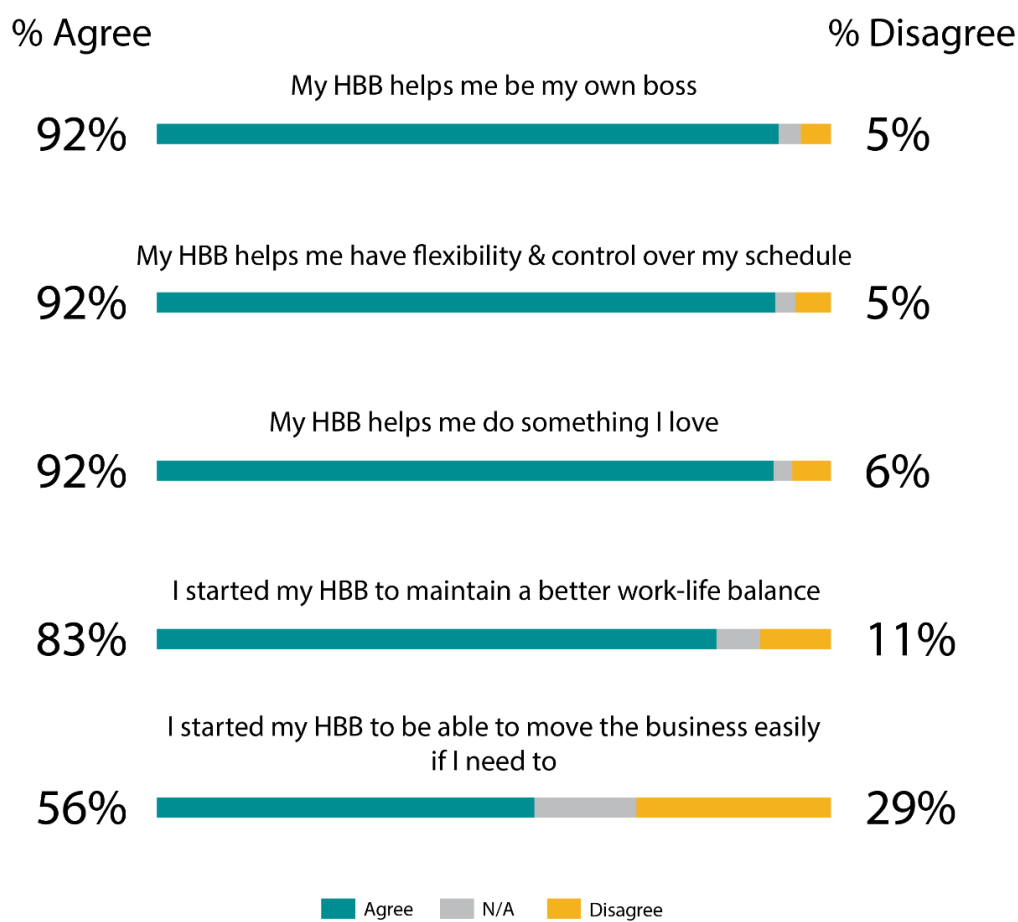
A home-based business is also much more easily moved than a traditional business. In fact, 56% of respondents reported starting their business in the home in order to be able to easily move it if they needed to. This feature of home-based businesses is likely to be of particular benefit to military spouses and others who move frequently and may help explain why more than half—57%—of veteran-owned businesses are based in the home.<sup>69</sup> A February 2020 survey of military families found the unemployment rate for military spouses was 24%—31% for those who had recently relocated—compared to 3.5% for the civilian population.<sup>70</sup> Respondents to that survey cited remote work and increased flexibility as two things that would help mitigate military spouse unemployment—two things that home-based businesses offer in spades.<sup>71</sup>

The personal benefits home-based businesses offer their owners should not be underestimated. A January 2020 survey of over 1,000 workers found nearly a third would be willing to take a pay cut in exchange for a better work-life balance. And the parents in that sample said they would be willing to give up over twice as much pay as their non-parent counterparts.<sup>72</sup> It is easy to see why people seeking better balance might start businesses from home.



Figure 12

## Home-Based Businesses Improve Their Owners' Quality of Life



### *Home-based businesses have been particularly important during the COVID-19 pandemic*

For many, home-based businesses have been essential during the COVID-19 pandemic, when the evolving nature of the crisis, including shutdowns and stay-at-home orders, led to layoffs, furloughs and business closures. Roughly 1 in 3 respondents said they started their home-based business to earn money after they lost their job during the pandemic, and just over 1 in 4 said they did so because the pandemic forced them to close their brick-and-mortar businesses (see Figure 13). These results illustrate how home-based businesses can be a lifeline during times of crisis—in this case, a public health and economic crisis. And they are in line with historical trends that have seen Americans turn to entrepreneurship to compensate for job losses during economic downturns for decades.<sup>73</sup> They also reflect how shifts in the U.S. economy and technological innovations have made running a business from home an option for more people than ever before.<sup>74</sup>

Figure 13

### HBBs Helped Their Owners Mitigate the Financial Impacts of COVID



Roughly **1 in 3** owners started their HBBs after losing their job due to COVID.



Roughly **1 in 4** owners started their HBBs after closing their brick-and-mortar business due to COVID.

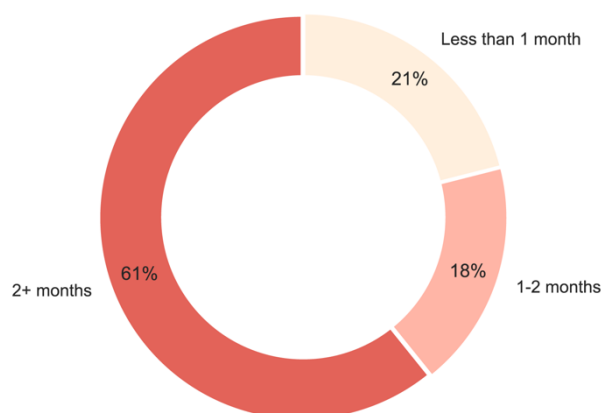
#### *Home-based businesses face high regulatory hurdles.*

Starting a home-based business is generally less expensive and complicated than starting a traditional brick-and-mortar business. Yet this does not mean it is cheap or easy. Often, home-based entrepreneurs must comply with a host of local rules and regulations both to get their businesses off the ground and to keep them up and running (see “Common Legal Barriers for Home-Based Businesses” on p. 28). On the front end, respondents reported that long delays, high fees and complex local rules made starting their home-based businesses a struggle.

Specifically, respondents reported it took a median of 76 days—more than two months—to get all the necessary government approvals to start their businesses at home (see Figure 14). That is a long time to wait, especially given that home-based businesses often do not require all the same types of permissions, such as inspections and building approvals, that brick-and-mortar businesses do. And in cities that require some types of home-based businesses to obtain a special permission slip typically called a “conditional use permit” before they can operate, obtaining all the necessary approvals took more than three months—90 days—indicating such schemes create considerable delays.

Figure 14

### Regulatory Approval Takes Two Months or More for Most Home-Based Businesses



In addition to being time-consuming, regulatory compliance can come with a steep price tag for home-based entrepreneurs. To illustrate potential costs, IJ’s city policy experts calculated, across the 20 cities they studied, the total fees entrepreneurs must pay to start a home-based tutoring business that serves clients in the home. The median regulatory cost was \$154, but costs reached as high as \$1,588 in Jacksonville, Florida. Jacksonville’s high cost owes, in large part, to the city’s conditional use permitting process.<sup>75</sup> In another example of how costs can mount—prohibitively so—before IJ filed suit in Nashville, our attorneys spent about one year and \$19,000 in fees and attorney costs trying (unsuccessfully) to have Lij’s and Pat’s homes re-zoned to allow their businesses to legally operate. Few home-based startups could afford such costs without pro bono legal help.

While many fees for home-based businesses are no doubt lower than those required to start a traditional business needing commercial space,<sup>76</sup> they can still burden many aspiring entrepreneurs. The \$154 median regulatory cost represents a substantial share of the \$1,200 median initial investment respondents reported making in their businesses, while the \$1,588 maximum exceeds the median initial investment. Moreover, as I found, home-based entrepreneurs are more likely to be women and racial or ethnic minorities—groups that research has found are less able to access external sources of business financing.<sup>77</sup> Thus even relatively small fees erect hurdles that make it more difficult for people to realize their entrepreneurial dreams. And, of course, fees alone understate the true cost of regulatory compliance: Every day an entrepreneur spends waiting on government approvals and navigating local rules before they can start their business is a day of lost productivity and revenue. And the longer the wait, the more inclined an entrepreneur may become to throw in the towel.

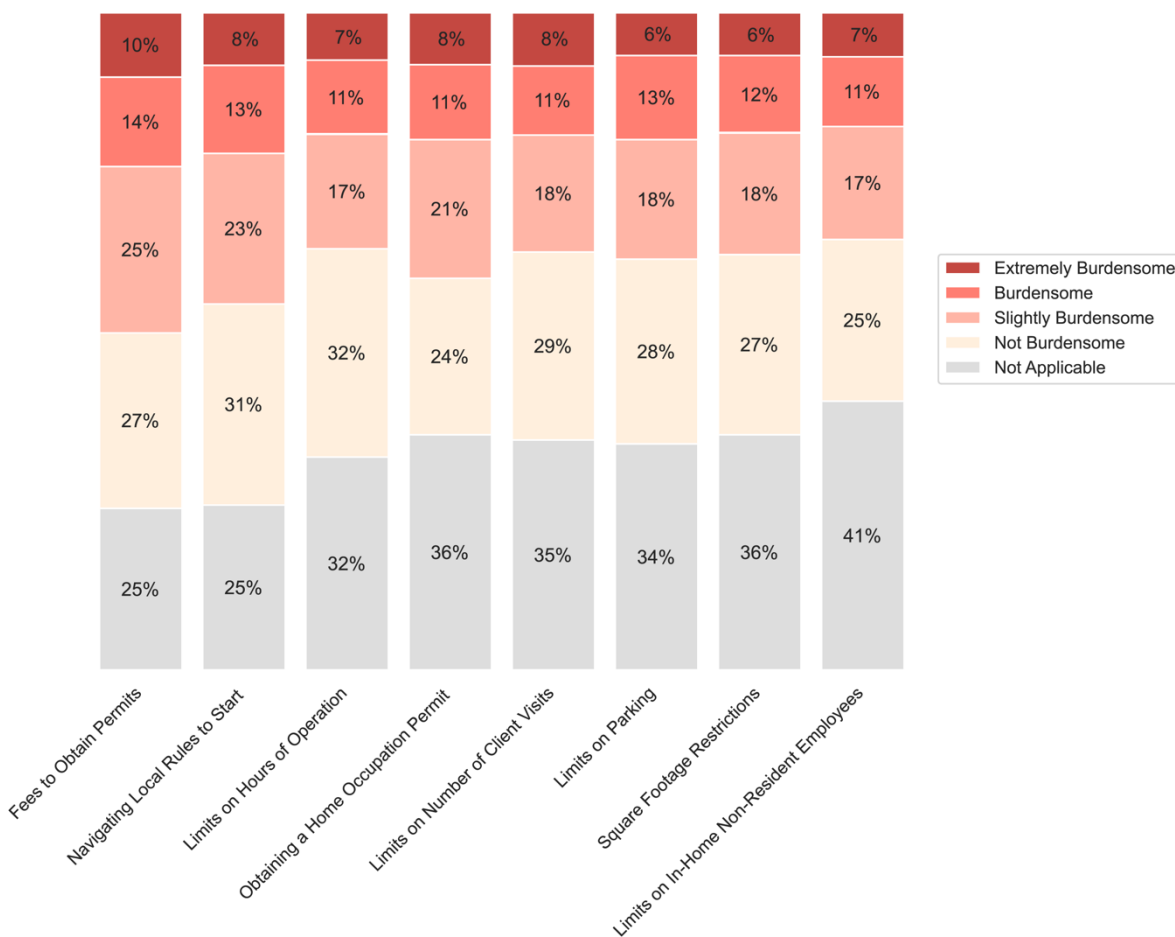
All of these delays and fees are just to get a home-based business going. Once a home-based business is up and running, owners continue to face a wide variety of local regulations,

including ones with the potential to severely hamstring a business’s ability to function, such as limits on client visits, like the Nashville rule that shut down Lij’s studio and Pat’s salon, and restrictions on the home square footage an entrepreneur can use for their business.

To find out which regulations present the greatest difficulties for home-based entrepreneurs, IJ asked survey respondents to rate various types of burdens on a scale ranging from “not burdensome” to “extremely burdensome.” Home-based business owners consistently rated paying fees for required permits and navigating local rules required to start working in their homes as the most burdensome regulations they face (see Figure 15).

Figure 15

### Entrepreneurs Rate Paying Permit Fees and Navigating Local Rules to Start a Home-Based Business as the Most Burdensome Regulations They Face



Note: Due to rounding, percentages may not sum to 100%.

These results suggest the biggest local regulatory hurdles facing entrepreneurs are those necessary to first open a business, while regulations that entrepreneurs continue to face once their business is up and running may be less challenging. Respondents may also have rated startup regulations as most burdensome because they are the most universal: Many, if not most, cities charge at least some sort of permit fee and require entrepreneurs to navigate confusing local rules in order to open a business. Other regulations that apply to a business's continuing operations, such as limits on client visits or employees, likely apply to a smaller subset of businesses and therefore impose less of a burden.<sup>78</sup>

For example, owners of businesses with no employees were less likely to rate restrictions on non-resident employees burdensome. As I found, most home-based businesses employ only their owners. And even among those that do have employees, in many cases, those employees may be family members or others who live in the home. As such, restrictions on non-resident employees would not apply. Similarly, owners of businesses that do not serve clients in the home were less likely to rate restrictions on client visits burdensome. As more than half (56%) of home-based businesses do not serve clients in person, it makes sense that smaller proportions of owners consider client visit restrictions burdensome.<sup>79</sup>

That said, when respondents said a given regulation did apply to their home business, they were more likely than not to rate it as at least slightly burdensome. For example, among the 64% of respondents who said limits on non-resident employees applied to them, nearly two-thirds (63%) said those regulations were burdensome. And among the 65% of respondents who said restrictions on client visits applied to them, more than half (56%) characterized those regulations as burdensome.

To control for the fact that not all regulations apply to all types of businesses in all cities, I compared regulations' burden rankings to one another using a statistical analysis method called pairwise comparisons. The pairwise comparison analysis allowed me to identify any statistically significant differences in how burdensome respondents perceived various regulations to be. This analysis confirmed paying permit fees and navigating complex local rules for starting a home-based business as the most burdensome regulations home-based business owners face. Respondents consistently and significantly rated those regulations as more burdensome than any others. (See Appendix A on p. 35 for statistical analysis methods and Appendix B on p. 39 for full regression results.)



## COMMON LEGAL BARRIERS FOR HOME-BASED BUSINESSES

Home-based businesses must comply with a patchwork of federal, state and local regulations. Many of these regulations apply to other businesses as well, but some are specific to businesses based in the home. For a forthcoming study, IJ's city policy experts examined common regulations affecting entrepreneurs—including home-based business owners—in 20 mid- to large-sized cities.<sup>80</sup> (See Table 1.) Common home-based business regulations include:

- *Conditional use permits*

While many cities allow entrepreneurs to run businesses out of their homes “by right,” provided they comply with regulations, many others require people wishing to open at least some types of home-based businesses to obtain a conditional use permit from their local planning or zoning department. A conditional use permit essentially gives a person permission to use their home for a purpose that requires extra oversight from zoning officials under a city's zoning code. In some locales, the permitting process is relatively straightforward, but in others the process can be long and complex, often requiring a public notice and comment period along with a public hearing. And in all cities that require them, city officials can, at their discretion, deny a conditional use permit if they believe a home-based business would create a disturbance in a neighborhood, no matter how baseless that belief may be. Moreover, other home-based business regulations often apply differently depending on whether a business is allowed by right or requires a conditional use permit. Overall, 11 of the 20 cities studied require a conditional use permit in at least some cases. For instance, some cities require entrepreneurs to seek a permit if they want to serve clients in the home, while others require permits for some businesses but not others.

- *Public hearings*

When a city's conditional use permitting process requires a public hearing, any member of the public can attend to speak for or against the approval of a prospective home-based business. This potentially means additional delays and costs for the applicant, with no guarantee the city will ultimately grant the permit. Of 11 cities with conditional use permitting processes, only one—Boise—does not require a public hearing for at least some types of home-based businesses.

- *Home occupation permits*

Cities often require entrepreneurs to obtain home occupation permits, another type of government permission slip to operate a business from home. This is essentially a business license for a home-based business and is typically obtained from a city's business licensing or tax agency. While a conditional use permit can be denied at the discretion of a city's planning or zoning department, a home occupation permit is not discretionary: If an applicant successfully complies with all requirements, the permit is granted. Nevertheless, applying for,

and waiting for, a home occupation permit still presents a hurdle entrepreneurs must clear. Eight cities require home occupation permits for home-based businesses.

- *Limits on client visits*

Some cities allow businesses to operate from the home but limit or even prohibit client visits to the home, often out of purported concern for noise or traffic and parking congestion in a neighborhood.<sup>81</sup> Fifteen of the cities studied allow only some types of home-based businesses to receive clients or restrict the number of clients they can receive; another, Seattle, allows home-based businesses to welcome clients by appointment only. Birmingham and Boston prohibit all client visits—no exceptions. Bans on client visits effectively render entire categories of home-based businesses illegal. Indeed, without client visits, neither Lij’s studio nor Pat’s salon would be viable. Only Detroit and New Orleans allow client visits without restriction.

- *Limits on in-home non-resident employees*

Many cities limit the number of non-resident employees a home-based business can have on site. As with limits on client visits, cities often cite noise or traffic and parking concerns as a reason for these restrictions.<sup>82</sup> None of the 20 cities allows in-home non-resident employees without restriction. Six cities prohibit all non-resident employees, and the rest impose various limits on them.

- *Square-footage limits*

Fifteen of the cities studied limit how much of a home an owner can use for business activities. New Orleans has one of the most stringent such restrictions of the cities studied, prohibiting a home-based business from occupying more than 15% of a home’s floor space. And Jacksonville’s limit for businesses without a conditional use permit is the lesser of 250 square feet or 10% of a home’s floor space. Not only are such restrictions difficult to enforce, but they are often very confusing for business owners. For example, a business owner who uses their kitchen table to pack orders once a week may be unsure of whether that space counts toward a city’s square footage limit.

- *Restrictions on in-home sales*

Many of the 20 cities restrict in-home sales, with six prohibiting most or all types of home-based businesses from selling their products on site. Another five allow in-home sales only if a business has a conditional use permit. If a business cannot sell on site, this means, for example, that home bakers must take time out from baking to deliver orders instead of having clients come to their homes to pay for and pick up their orders. In some cities, restrictions on in-home sales flow directly from bans on client visits and apply across the board. In others, such as Atlanta and Detroit, clients can come to homes for services like music lessons or doctor’s appointments but not to purchase goods (except, in Detroit’s case, for arts and crafts). Only three cities allow unrestricted in-home sales.

- *Limits on hours of operation*

Eight of the cities studied limit home-based businesses' hours of operation. Like restrictions on client visits, in-home non-resident employees and on-site sales, these restrictions are purportedly intended to minimize neighborhood disturbances. However, they often end up being needlessly restrictive, detracting from the flexibility that home-based business owners so highly value.

The results of the survey suggest these regulations, many of them one-size-fits-all, are burdensome and out of touch. Too often, they end up unfairly stopping entrepreneurs from realizing their full potential.

Table 1: Legal Barriers for Home-Based Businesses in 20 Cities

City	Conditional Use Permit (CUP)	Public Hearing for CUP	Home Occupation Permit	Client Visits	In-Home Non-Resident Employees	Square-Footage Limit	In-Home Sales	Time Limits
Atlanta	No	N/A	No	Yes, but no group instruction	1	Lesser of 25% or 500 sq. ft.	No	No
Birmingham	No	N/A	Yes	No	No	No	No	No
Boise	Yes, for some businesses	No	No	CUP: Up to five for group instruction, with a daily max. of 8 No CUP: 1 at a time with a daily max. of 8	No	500 sq. ft.	Yes, if items are produced on site	Yes, for deliveries
Boston	Yes, if the area is zoned for single-family housing	Yes	No	No	Up to 3 in some zones; prohibited in others	25%	No	No
Des Moines	Yes, for some businesses	Yes, for some businesses	No	CUP: Up to 2 at a time for some businesses; others require special approval No CUP: No	CUP: 1 for some businesses, and 1 for each 250 sq. ft. for others. Still others require special approval No CUP: No	50%	CUP: Yes, for some businesses No CUP: No	CUP: Yes No CUP: No
Detroit	No	N/A	No	Yes	Up to 2 in some zones; prohibited in others	Lesser of 25% or 500 sq. ft.	Yes, for arts and crafts only	No
Indianapolis	No	N/A	No	Up to 4 at a time	Up to 2 if in a primary dwelling unit (max 45 hours each per week); none if in a secondary dwelling unit	Lesser of 30% or 600 sq. ft.	Yes	Yes
Jacksonville	Yes, if clients will visit the home	Yes	Yes	CUP: Yes No CUP: No	No	CUP: 25% No CUP: Lesser of 10% or 250 sq. ft.	No	No
Minneapolis	No	N/A	No	Up to 5 per day	1	No	Yes, if goods are produced as an accessory to a service	Yes
New Orleans	No	N/A	Yes	Yes	No	15%	No	No

City	Conditional Use Permit (CUP)	Public Hearing for CUP	Home Occupation Permit	Client Visits	In-Home Non-Resident Employees	Square-Footage Limit	In-Home Sales	Time Limits
<b>New York</b>	No	N/A	No	Up to 4 at a time for group instruction	Yes, in residential districts; up to 3 in others	25%, but no more than 500 sq. ft. in residential districts; 49% in others	Yes, if items are produced on site	No
<b>Newark</b>	Yes, for some businesses	Yes	Yes	CUP: Up to 3 at a time No CUP: No	CUP: Up to 2 No CUP: No	CUP: Lesser of 25% or 1,200 sq. ft. No CUP: No	CUP: Yes No CUP: No	CUP: Yes No CUP: No
<b>Philadelphia</b>	Yes, for some businesses	Yes	Yes	CUP: Up to 3 at a time No CUP: No	CUP: 1 No CUP: 1 for some businesses; otherwise none	No	CUP: Yes No CUP: No	Yes, for deliveries and pickups
<b>Phoenix</b>	Yes, if clients will visit the home	Yes	No	CUP: Yes No CUP: No	No	25%	CUP: Yes No CUP: No	Yes
<b>Pittsburgh</b>	Yes, for some businesses	Yes	Yes	Up to 6 one-way vehicle trips per day	CUP: Yes No CUP: No	No	Yes	No
<b>Raleigh</b>	Yes, for some businesses	Yes	Yes, unless the business has a conditional use permit	CUP: Up to 5 at a time No CUP: No	CUP: Up to 2 No CUP: No	CUP: No No CUP: 25%	CUP: Yes, for some businesses No CUP: No	No
<b>San Antonio</b>	Yes, for beauty and barber shops only	Yes	No	CUP: Yes No CUP: Up to 2 for group instruction	No	25% for most businesses	Yes, for produce or cottage foods only	No
<b>San Francisco</b>	No	N/A	No	Yes, for produce or cottage foods only	1 for cottage food operators; otherwise none	One-third	Yes, for produce or cottage foods only	No
<b>Seattle</b>	No	N/A	No	Yes, by appointment only	Up to 2	500 sq. ft. if home is single-family or duplex; otherwise no	Yes	Yes, for deliveries and pickups
<b>St. Louis</b>	Yes, for some businesses	Yes	Yes	CUP: Yes No CUP: No	CUP: No, unless exempted No CUP: No	No	CUP: No, unless exempted No CUP: No	No

## CONCLUSION & RECOMMENDATIONS

This survey, conducted during the COVID-19 pandemic, provides an up-to-date look at home-based entrepreneurs and their businesses. The results show that the option to start a business at home allows people, including those for whom business ownership might otherwise be out of reach, to create economic opportunities for themselves and sometimes others. It provides owners with important income and the flexibility to run a business on terms that make sense for their lives, which may be particularly important for those who must balance work with child care or manage a disability. The ability to start a business at home appears to have been a lifeline for many during the pandemic, when shutdowns and stay-at-home orders left many people out of work and many brick-and-mortar businesses shuttered.

And this burgeoning sector of the economy is likely here to stay based on what survey respondents said about how highly they value the income, flexibility and other benefits their home-based businesses provide, as well as their plans to expand their businesses. This outcome also seems likely based on historical trends. Even before the pandemic led to an increase in home-based work and entrepreneurship, home-based businesses had taken off in recent decades thanks to shifts in the U.S. economy and technological innovations. Given the survey results, and with interest in home-based work at an all-time high in the pandemic's wake, it seems likely the home-based business sector will only grow in the years to come.

As it does, out-of-touch local regulations may hold back some particularly entrepreneurial home-based business owners, limiting their ability to expand their business by adding employees, seeing more clients or engaging in other business activities. Complex regulations likely discourage many entrepreneurs from trying to expand their businesses at all for fear of violating any of a city's myriad rules. To help more people create their own opportunities and to foster economic growth, cities should update their codes to eliminate rules that unreasonably hamper home-based businesses. Specifically, cities should adopt the following commonsense reforms:

- Allow home-based businesses by right, rather than requiring them to obtain a conditional use or home occupation permit that ends up costing entrepreneurs time and money.
- Allow home-based businesses to serve clients in the home.
- Allow home-based businesses to have non-resident employees in the home.
- Place no limits on the square footage a business can take up in an owner's home.
- Allow home-based businesses to conduct on-site sales from their homes.
- Allow home-based businesses to operate at whatever time of day best suits their owners.<sup>83</sup>

To the extent home-based businesses may negatively affect neighbors' health, safety or quality of life, cities should focus regulations on addressing those externalities—not micromanage businesses' activities. Often, existing rules that apply to everyone in a neighborhood, not just home-based businesses, may be enough to deal with potential issues. For instance, parking and traffic congestion or noise may prompt complaints from neighbors of home-based businesses. But cities generally already have ordinances to address such issues. Thus, there is no need to prohibit client visits or non-resident employees in case they lead to congestion or noise. Similarly, cities generally already have ordinances to protect public health and safety, such as those requiring sufficient sanitation measures, protected fire lanes or safe building codes.

Such generally applicable rules make additional regulations on home-based businesses redundant—and counterproductive. Because a remedy already exists, such regulations serve as solutions in search of problems and only hinder hardworking entrepreneurs. Moreover, because most cities enforce home-based business regulations on a complaint basis, owners have every incentive to ensure their businesses do not disturb neighbors.<sup>84</sup> These incentives, paired with existing regulations that apply to everyone, should be enough to protect neighborhoods from serious disruption from home-based businesses. For example, Minneapolis imposes relatively light regulatory burdens on home-based businesses: It requires no conditional use or home occupation permits, has no square-footage limits, and allows client visits and on-site sales. This regime appears to be working just fine, suggesting other cities can follow Minneapolis' example without opening up their neighborhoods to nuisances or threats to public health and safety.

Home-based businesses have proven themselves an important avenue to entrepreneurship for Americans from all walks of life. They provide people with income, flexibility and a greater measure of control over their lives. They are also a source of resilience, allowing people to weather economic shocks—and even, we now know, pandemics—and create opportunities for themselves and others. To help people help themselves, cities can and should ease the regulatory burdens they place on home-based entrepreneurs.

## APPENDIX A: METHODS

The Institute for Justice engaged the market research firm Technometrica to field the survey online using a national random sample while also over-sampling in a select group of 20 mid- to large-sized cities identified by IJ’s city policy experts for additional study.<sup>85</sup> Table A1 disaggregates respondents by city. Home-based business owners were identified as those who responded affirmatively to the following screener question: “Do you operate a business from your home?” Technometrica collected a final sample of 1,902 respondents.

Table A1: Sample by location

Location	# of respondents	% of respondents
Atlanta	80	4.2
Birmingham, AL	22	1.2
Boise, ID	14	0.7
Boston	73	3.8
Cleveland*	85	4.5
Detroit	78	4.1
Indianapolis	80	4.2
Jacksonville, FL	65	3.4
Minneapolis	72	3.8
New Orleans	19	1.0
New York	103	5.4
Newark, NJ	15	0.8
Philadelphia	87	4.6
Phoenix	79	4.2
Pittsburgh	28	1.5
Raleigh, NC	30	1.6
St. Louis	36	1.9
San Antonio	72	3.8
San Francisco	74	3.9
Seattle	70	3.7
Other City	386	20.3
Suburbs/Rural Area	334	17.6
<b>Total</b>	<b>1,902</b>	<b>100</b>



\* As one of the 20 cities originally selected for study by IJ's city policy experts, Cleveland was over-sampled for this survey. However, because of problems analyzing the city's regulations, the city policy experts replaced Cleveland with Des Moines, Iowa, in their regulatory research. In line with this change, I have included Des Moines, and not Cleveland, in my discussion of common legal barriers for home-based businesses (see p. 28). Because this change was made after the survey was fielded, Des Moines was not over-sampled.

Three main research questions guided this study:

1. What do home-based business owners and their businesses look like?
2. How have the COVID-19 pandemic and the associated economic crisis affected home-based businesses? Has the option to run a business from home helped people survive layoffs and brick-and-mortar closures?
3. Which regulations do home-based business owners find most burdensome?

I answered research questions 1 and 2 using descriptive analysis of the survey data. To answer question 3, I used a generalized estimating equation (GEE) repeated measures analysis to conduct pairwise comparisons to compare which regulations respondents significantly viewed as more burdensome than others. I ran a separate regression for each regulation variable, in which that regulation served as the "base" against which all other regulations were compared. The model is as follows:

$g(u_{ij}) = \ln[u_{ij}/(1-u_{ij})] = \beta_0 + \beta_1\Omega + \beta_2\Theta$ , where:

$g(u_{ij}) = \ln[u_{ij}/(1-u_{ij})]$  = burden, which = 1 if respondent reported a given regulation to be slightly burdensome, burdensome, or extremely burdensome; 0 if respondent reported a given regulation to be not burdensome at all.

$\Omega$  = a matrix representing the following HBB regulations:

- Fees to obtain necessary permits.
- Navigating local rules required to start a business in the home.
- Limits on hours of operation.
- Obtaining a home occupation permit from local zoning department.
- Limits on number of client visits.
- Limits on parking.
- Square-footage limits.
- Limits on in-home non-resident employees.
- Government inspections.\*<sup>86</sup>
- Required remodeling or other changes to the home.\*
- Restrictions on storing business inventory or equipment.\*

$\Theta$  = a vector of predictor variables, including:

- Main\_occupation = 1 if the respondent reported their business was their main occupation, 0 if they reported it as either a supplemental occupation or a hobby.
- Total\_months = the number of months the firm had been in business.
- Weekly\_hours\_worked = the number of hours respondents reported spending working on their business.
- Weekly\_client\_visits = the number of clients visiting the home each week.
- Weekly\_hours\_clients = the number of hours spent interacting with clients each week.
- FTE = the business's number of full-time employees.
- Seed\_capital = the natural log of the total amount of seed capital used to start the business.
- Gross\_revenue = total revenue earned by the business in 2020.
- Local\_permission = 1 if the respondent reported having official permission from their local government to operate their business at home, 0 otherwise.
- Biz\_license = 1 if the respondent reported having a business license for their firm, 0 otherwise.
- Approval\_days = the number of days it took the respondent to obtain all necessary approvals from their local government to operate their business.
- Birth\_year = year the respondent was born.
- Bachelor\_degree = 1 if the respondent reported holding a bachelor's degree or higher, 0 otherwise.
- HH\_income = the respondent's reported household income for 2020.
- Own\_home = 1 if the respondent reported owning their home, 0 otherwise.

Several variables were missing enough data to warrant conducting multiple imputation before beginning the analysis:

- Weekly\_hours\_worked.
- Weekly\_client\_visits.
- Weekly\_hours\_clients.
- Gross\_revenue.
- Approval\_days.

- HH\_Income.

I used predictive mean matching to impute the variables, all of which are continuous. All models used 20 imputations.

## APPENDIX B: REGRESSION RESULTS

The following tables display the results from the pairwise comparisons regression analysis in which the 11 different regulations measured are compared against one other to determine which are statistically significantly the most burdensome. Each table leaves one regulation out of the model to serve as the “base” against which all the other regulations are measured. Table names display the base regulation.

Table B1: Fees to Obtain Necessary Permits

Variable	Coef.	Std. Err.	t	p	[95% Conf. Interval]	
burden_clients	0.503	0.039	-8.810	0.000	0.432	0.586
burden_hours	0.506	0.040	-8.710	0.000	0.434	0.589
burden_inspection	0.608	0.044	-6.830	0.000	0.527	0.701
burden_localrules	0.822	0.059	-2.720	0.007	0.714	0.947
burden_nonremployee	0.466	0.036	-9.960	0.000	0.401	0.541
burden_parking	0.548	0.043	-7.680	0.000	0.470	0.639
burden_permit	0.651	0.046	-6.110	0.000	0.567	0.747
burden_remodel	0.570	0.044	-7.340	0.000	0.491	0.663
burden_sqfoot	0.513	0.039	-8.740	0.000	0.442	0.596
burden_storage	0.680	0.052	-5.030	0.000	0.585	0.790
main_occup	1.125	0.134	0.990	0.322	0.891	1.422
total_months	1.000	0.001	-0.550	0.581	0.998	1.001
weekly_hours_worked	1.001	0.004	0.240	0.813	0.994	1.008
weekly_client_visits	1.003	0.002	2.050	0.041	1.000	1.007
weekly_hours_clients	0.997	0.005	-0.640	0.522	0.986	1.007
FTE	1.018	0.005	3.530	0.000	1.008	1.027
gross_revenue	1.000	0.000	-0.180	0.858	1.000	1.000
seed_capital	1.093	0.019	5.200	0.000	1.057	1.130
local_permission	0.647	0.033	-8.520	0.000	0.585	0.715
biz_license	1.309	0.151	2.340	0.019	1.045	1.641
approval_days	1.001	0.001	1.350	0.177	1.000	1.002
birth_year	0.965	0.005	-7.350	0.000	0.955	0.974
bachelor_degree	1.400	0.168	2.810	0.005	1.107	1.771
HH_income	1.004	0.031	0.140	0.885	0.945	1.067
own_home	1.253	0.154	1.840	0.065	0.986	1.594
Constant	1.198	0.315	0.690	0.492	0.715	2.006

Table B2: Navigating Local Rules Required to Start a Business in the Home

Variable	Coef.	Std. Err.	t	p	[95% Conf. Interval]	
burden_clients	0.612	0.046	-6.520	0.000	0.527	0.709
burden_fees	1.216	0.088	2.720	0.007	1.056	1.400
burden_hours	0.615	0.047	-6.420	0.000	0.530	0.713
burden_inspection	0.739	0.054	-4.160	0.000	0.641	0.853
burden_nonremployee	0.566	0.043	-7.490	0.000	0.488	0.657
burden_parking	0.666	0.052	-5.210	0.000	0.572	0.776
burden_permit	0.792	0.055	-3.380	0.001	0.691	0.907
burden remodel	0.694	0.053	-4.810	0.000	0.597	0.805
burden_sqfoot	0.624	0.048	-6.180	0.000	0.537	0.725
burden_storage	0.827	0.060	-2.610	0.009	0.717	0.954
main_occupation	1.125	0.134	0.990	0.322	0.891	1.422
total_months	1.000	0.001	-0.550	0.581	0.998	1.001
weekly_hours_worked	1.001	0.004	0.240	0.813	0.994	1.008
weekly_client_visits	1.003	0.002	2.050	0.041	1.000	1.007
weekly_hours_clients	0.997	0.005	-0.640	0.522	0.986	1.007
FTE	1.018	0.005	3.530	0.000	1.008	1.027
gross_revenue	1.000	0.000	-0.180	0.858	1.000	1.000
seed_capital	1.093	0.019	5.200	0.000	1.057	1.130
local_permission	0.647	0.033	-8.520	0.000	0.585	0.715
biz_license	1.309	0.151	2.340	0.019	1.045	1.641
approval_days	1.001	0.001	1.350	0.177	1.000	1.002
birth_year	0.965	0.005	-7.350	0.000	0.955	0.974
bachelor_degree	1.400	0.168	2.810	0.005	1.107	1.771
HH_income	1.004	0.031	0.140	0.885	0.945	1.067
own_home	1.253	0.154	1.840	0.065	0.986	1.594
Constant	0.985	0.260	-0.060	0.955	0.588	1.651

Table B3: Limits on Hours of Operation

Variable	Coef.	Std. Err.	t	p	[95% Conf. Interval]	
burden_clients	0.995	0.070	-0.070	0.942	0.867	1.142
burden_fees	1.978	0.155	8.710	0.000	1.697	2.306
burden_inspection	1.203	0.090	2.480	0.013	1.039	1.393
burden_localrules	1.627	0.123	6.420	0.000	1.402	1.888
burden_nonremployee	0.921	0.066	-1.150	0.252	0.800	1.060
burden_parking	1.084	0.075	1.160	0.245	0.946	1.242
burden_permit	1.288	0.095	3.440	0.001	1.115	1.488
burden_remodel	1.128	0.084	1.620	0.106	0.975	1.306
burden_sqfoot	1.015	0.071	0.220	0.828	0.885	1.165
burden_storage	1.345	0.094	4.250	0.000	1.173	1.542
main_occupation	1.125	0.134	0.990	0.322	0.891	1.422
total_months	1.000	0.001	-0.550	0.581	0.998	1.001
weekly_hours_worked	1.001	0.004	0.240	0.813	0.994	1.008
weekly_client_visits	1.003	0.002	2.050	0.041	1.000	1.007
weekly_hours_clients	0.997	0.005	-0.640	0.522	0.986	1.007
FTE	1.018	0.005	3.530	0.000	1.008	1.027
gross_revenue	1.000	0.000	-0.180	0.858	1.000	1.000
seed_capital	1.093	0.019	5.200	0.000	1.057	1.130
local_permission	0.647	0.033	-8.520	0.000	0.585	0.715
biz_license	1.309	0.151	2.340	0.019	1.045	1.641
approval_days	1.001	0.001	1.350	0.177	1.000	1.002
birth_year	0.965	0.005	-7.350	0.000	0.955	0.974
bachelor_degree	1.400	0.168	2.810	0.005	1.107	1.771
HH_income	1.004	0.031	0.140	0.885	0.945	1.067
own_home	1.253	0.154	1.840	0.065	0.986	1.594
Constant	0.606	0.160	-1.900	0.058	0.361	1.017

Table B4: Obtaining a Home Occupation Permit from Local Zoning Department

Variable	Coef.	Std. Err.	t	p	[95% Conf. Interval]	
burden_clients	0.772	0.053	-3.780	0.000	0.676	0.883
burden_fees	1.536	0.108	6.110	0.000	1.338	1.763
burden_hours	0.776	0.057	-3.440	0.001	0.672	0.897
burden_inspection	0.934	0.062	-1.020	0.306	0.820	1.064
burden_localrules	1.263	0.087	3.380	0.001	1.103	1.446
burden_nonremployee	0.715	0.051	-4.690	0.000	0.621	0.823
burden_parking	0.842	0.061	-2.370	0.018	0.730	0.971
burden remodel	0.876	0.063	-1.850	0.065	0.761	1.008
burden_sqfoot	0.788	0.055	-3.380	0.001	0.687	0.905
burden_storage	1.044	0.072	0.630	0.531	0.912	1.196
main_occupation	1.125	0.134	0.990	0.322	0.891	1.422
total_months	1.000	0.001	-0.550	0.581	0.998	1.001
weekly_hours_worked	1.001	0.004	0.240	0.813	0.994	1.008
weekly_client_visits	1.003	0.002	2.050	0.041	1.000	1.007
weekly_hours_clients	0.997	0.005	-0.640	0.522	0.986	1.007
FTE	1.018	0.005	3.530	0.000	1.008	1.027
gross_revenue	1.000	0.000	-0.180	0.858	1.000	1.000
seed_capital	1.093	0.019	5.200	0.000	1.057	1.130
local_permission	0.647	0.033	-8.520	0.000	0.585	0.715
biz_license	1.309	0.151	2.340	0.019	1.045	1.641
approval_days	1.001	0.001	1.350	0.177	1.000	1.002
birth_year	0.965	0.005	-7.350	0.000	0.955	0.974
bachelor_degree	1.400	0.168	2.810	0.005	1.107	1.771
HH_income	1.004	0.031	0.140	0.885	0.945	1.067
own_home	1.253	0.154	1.840	0.065	0.986	1.594
Constant	0.780	0.204	-0.950	0.341	0.468	1.301

Table B5: Limits on Number of Client Visits

Variable	Coef.	Std. Err.	t	p	[95% Conf. Interval]	
burden_fees	1.988	0.155	8.810	0.000	1.706	2.317
burden_hours	1.005	0.071	0.070	0.942	0.876	1.154
burden_inspection	1.209	0.087	2.630	0.008	1.050	1.393
burden_localrules	1.635	0.123	6.520	0.000	1.410	1.896
burden_nonremployee	0.926	0.062	-1.150	0.250	0.812	1.056
burden_parking	1.090	0.077	1.210	0.225	0.949	1.252
burden_permit	1.295	0.088	3.780	0.000	1.132	1.480
burden_remodel	1.134	0.081	1.770	0.077	0.987	1.304
burden_sqfoot	1.021	0.070	0.300	0.765	0.893	1.166
burden_storage	1.352	0.092	4.420	0.000	1.183	1.546
main_occupation	1.125	0.134	0.990	0.322	0.891	1.422
total_months	1.000	0.001	-0.550	0.581	0.998	1.001
weekly_hours_worked	1.001	0.004	0.240	0.813	0.994	1.008
weekly_client_visits	1.003	0.002	2.050	0.041	1.000	1.007
weekly_hours_clients	0.997	0.005	-0.640	0.522	0.986	1.007
FTE	1.018	0.005	3.530	0.000	1.008	1.027
gross_revenue	1.000	0.000	-0.180	0.858	1.000	1.000
seed_capital	1.093	0.019	5.200	0.000	1.057	1.130
local_permission	0.647	0.033	-8.520	0.000	0.585	0.715
biz_license	1.309	0.151	2.340	0.019	1.045	1.641
approval_days	1.001	0.001	1.350	0.177	1.000	1.002
birth_year	0.965	0.005	-7.350	0.000	0.955	0.974
bachelor_degree	1.400	0.168	2.810	0.005	1.107	1.771
HH_income	1.004	0.031	0.140	0.885	0.945	1.067
own_home	1.253	0.154	1.840	0.065	0.986	1.594
Constant	0.603	0.159	-1.920	0.054	0.360	1.010



Table B6: Limits on Parking

Variable	Coef.	Std. Err.	t	p	[95% Conf. Interval]	
burden_clients	0.918	0.065	-1.210	0.225	0.799	1.054
burden_fees	1.825	0.143	7.680	0.000	1.565	2.127
burden_hours	0.922	0.064	-1.160	0.245	0.805	1.057
burden_inspection	1.110	0.084	1.370	0.171	0.956	1.288
burden_localrules	1.501	0.117	5.210	0.000	1.288	1.748
burden_nonremployee	0.849	0.060	-2.290	0.022	0.739	0.977
burden_permit	1.188	0.086	2.370	0.018	1.030	1.370
burden remodel	1.041	0.077	0.540	0.589	0.901	1.203
burden_sqfoot	0.937	0.064	-0.960	0.338	0.819	1.071
burden_storage	1.241	0.087	3.070	0.002	1.081	1.424
main_occupation	1.125	0.134	0.990	0.322	0.891	1.422
total_months	1.000	0.001	-0.550	0.581	0.998	1.001
weekly_hours_worked	1.001	0.004	0.240	0.813	0.994	1.008
weekly_client_visits	1.003	0.002	2.050	0.041	1.000	1.007
weekly_hours_clients	0.997	0.005	-0.640	0.522	0.986	1.007
FTE	1.018	0.005	3.530	0.000	1.008	1.027
gross_revenue	1.000	0.000	-0.180	0.858	1.000	1.000
seed_capital	1.093	0.019	5.200	0.000	1.057	1.130
local_permission	0.647	0.033	-8.520	0.000	0.585	0.715
biz_license	1.309	0.151	2.340	0.019	1.045	1.641
approval_days	1.001	0.001	1.350	0.177	1.000	1.002
birth_year	0.965	0.005	-7.350	0.000	0.955	0.974
bachelor_degree	1.400	0.168	2.810	0.005	1.107	1.771
HH_income	1.004	0.031	0.140	0.885	0.945	1.067
own_home	1.253	0.154	1.840	0.065	0.986	1.594
Constant	0.657	0.174	-1.590	0.112	0.391	1.102

Table B7: Square-Footage Limits

Variable	Coef.	Std. Err.	T	p	[95% Conf. Interval]	
burden_clients	0.980	0.067	-0.300	0.765	0.857	1.120
burden_fees	1.948	0.149	8.740	0.000	1.677	2.263
burden_hours	0.985	0.069	-0.220	0.828	0.858	1.130
burden_inspection	1.185	0.087	2.310	0.021	1.026	1.368
burden_localrules	1.602	0.122	6.180	0.000	1.380	1.861
burden_nonremployee	0.907	0.063	-1.400	0.161	0.791	1.040
burden_parking	1.068	0.073	0.960	0.338	0.934	1.221
burden_permit	1.269	0.089	3.380	0.001	1.105	1.456
burden_remodel	1.111	0.076	1.550	0.121	0.972	1.270
burden_storage	1.325	0.088	4.220	0.000	1.163	1.510
main_occupation	1.125	0.134	0.990	0.322	0.891	1.422
total_months	1.000	0.001	-0.550	0.581	0.998	1.001
weekly_hours_worked	1.001	0.004	0.240	0.813	0.994	1.008
weekly_client_visits	1.003	0.002	2.050	0.041	1.000	1.007
weekly_hours_clients	0.997	0.005	-0.640	0.522	0.986	1.007
FTE	1.018	0.005	3.530	0.000	1.008	1.027
gross_revenue	1.000	0.000	-0.180	0.858	1.000	1.000
seed_capital	1.093	0.019	5.200	0.000	1.057	1.130
local_permission	0.647	0.033	-8.520	0.000	0.585	0.715
biz_license	1.309	0.151	2.340	0.019	1.045	1.641
approval_days	1.001	0.001	1.350	0.177	1.000	1.002
birth_year	0.965	0.005	-7.350	0.000	0.955	0.974
bachelor_degree	1.400	0.168	2.810	0.005	1.107	1.771
HH_income	1.004	0.031	0.140	0.885	0.945	1.067
own_home	1.253	0.154	1.840	0.065	0.986	1.594
Constant	0.615	0.163	-1.830	0.067	0.366	1.034

Table B8: Limits on In-Home Non-Resident Employees

Variable	Coef.	Std. Err.	t	p	[95% Conf. Interval]	
burden_clients	1.080	0.073	1.150	0.250	0.947	1.232
burden_fees	2.148	0.165	9.960	0.000	1.848	2.496
burden_hours	1.086	0.078	1.150	0.252	0.943	1.250
burden_inspection	1.306	0.094	3.710	0.000	1.134	1.504
burden_localrules	1.766	0.134	7.490	0.000	1.522	2.050
burden_parking	1.177	0.084	2.290	0.022	1.024	1.353
burden_permit	1.399	0.100	4.690	0.000	1.215	1.609
burden_remodel	1.225	0.087	2.850	0.004	1.065	1.409
burden_sqfoot	1.103	0.077	1.400	0.161	0.962	1.264
burden_storage	1.461	0.105	5.260	0.000	1.268	1.682
main_occupation	1.125	0.134	0.990	0.322	0.891	1.422
total_months	1.000	0.001	-0.550	0.581	0.998	1.001
weekly_hours_worked	1.001	0.004	0.240	0.813	0.994	1.008
weekly_client_visits	1.003	0.002	2.050	0.041	1.000	1.007
weekly_hours_clients	0.997	0.005	-0.640	0.522	0.986	1.007
FTE	1.018	0.005	3.530	0.000	1.008	1.027
gross_revenue	1.000	0.000	-0.180	0.858	1.000	1.000
seed_capital	1.093	0.019	5.200	0.000	1.057	1.130
local_permission	0.647	0.033	-8.520	0.000	0.585	0.715
biz_license	1.309	0.151	2.340	0.019	1.045	1.641
approval_days	1.001	0.001	1.350	0.177	1.000	1.002
birth_year	0.965	0.005	-7.350	0.000	0.955	0.974
bachelor_degree	1.400	0.168	2.810	0.005	1.107	1.771
HH_income	1.004	0.031	0.140	0.885	0.945	1.067
own_home	1.253	0.154	1.840	0.065	0.986	1.594
Constant	0.558	0.147	-2.210	0.027	0.332	0.936

Table B9: Government Inspections

Variable	Coef.	Std. Err.	t	p	[95% Conf. Interval]	
burden_clients	0.827	0.060	-2.630	0.008	0.718	0.953
burden_fees	1.644	0.120	6.830	0.000	1.426	1.897
burden_hours	0.831	0.062	-2.480	0.013	0.718	0.962
burden_localrules	1.352	0.098	4.160	0.000	1.173	1.559
burden_nonremployee	0.766	0.055	-3.710	0.000	0.665	0.882
burden_parking	0.901	0.069	-1.370	0.171	0.776	1.046
burden_permit	1.071	0.071	1.020	0.306	0.940	1.220
burden_remodel	0.938	0.067	-0.900	0.370	0.815	1.079
burden_sqfoot	0.844	0.062	-2.310	0.021	0.731	0.975
burden_storage	1.118	0.081	1.550	0.121	0.971	1.288
main_occupation	1.125	0.134	0.990	0.322	0.891	1.422
total_months	1.000	0.001	-0.550	0.581	0.998	1.001
weekly_hours_worked	1.001	0.004	0.240	0.813	0.994	1.008
weekly_client_visits	1.003	0.002	2.050	0.041	1.000	1.007
weekly_hours_clients	0.997	0.005	-0.640	0.522	0.986	1.007
FTE	1.018	0.005	3.530	0.000	1.008	1.027
gross_revenue	1.000	0.000	-0.180	0.858	1.000	1.000
seed_capital	1.093	0.019	5.200	0.000	1.057	1.130
local_permission	0.647	0.033	-8.520	0.000	0.585	0.715
biz_license	1.309	0.151	2.340	0.019	1.045	1.641
approval_days	1.001	0.001	1.350	0.177	1.000	1.002
birth_year	0.965	0.005	-7.350	0.000	0.955	0.974
bachelor_degree	1.400	0.168	2.810	0.005	1.107	1.771
HH_income	1.004	0.031	0.140	0.885	0.945	1.067
own_home	1.253	0.154	1.840	0.065	0.986	1.594
Constant	0.729	0.191	-1.210	0.228	0.435	1.220

Table B10: Required Remodeling or Other Changes to the Home

Variable	Coef.	Std. Err.	T	p	[95% Conf. Interval]	
burden_clients	0.882	0.063	-1.770	0.077	0.767	1.014
burden_fees	1.753	0.134	7.340	0.000	1.509	2.037
burden_hours	0.886	0.066	-1.620	0.106	0.766	1.026
burden_inspection	1.066	0.076	0.900	0.370	0.927	1.227
burden_localrules	1.442	0.110	4.810	0.000	1.242	1.674
burden_nonremployee	0.816	0.058	-2.850	0.004	0.710	0.939
burden_parking	0.961	0.071	-0.540	0.589	0.832	1.110
burden_permit	1.142	0.082	1.850	0.065	0.992	1.314
burden_sqfoot	0.900	0.061	-1.550	0.121	0.788	1.028
burden_storage	1.192	0.088	2.390	0.017	1.032	1.377
main_occupation	1.125	0.134	0.990	0.322	0.891	1.422
total_months	1.000	0.001	-0.550	0.581	0.998	1.001
weekly_hours_worked	1.001	0.004	0.240	0.813	0.994	1.008
weekly_client_visits	1.003	0.002	2.050	0.041	1.000	1.007
weekly_hours_clients	0.997	0.005	-0.640	0.522	0.986	1.007
FTE	1.018	0.005	3.530	0.000	1.008	1.027
gross_revenue	1.000	0.000	-0.180	0.858	1.000	1.000
seed_capital	1.093	0.019	5.200	0.000	1.057	1.130
local_permission	0.647	0.033	-8.520	0.000	0.585	0.715
biz_license	1.309	0.151	2.340	0.019	1.045	1.641
approval_days	1.001	0.001	1.350	0.177	1.000	1.002
birth_year	0.965	0.005	-7.350	0.000	0.955	0.974
bachelor_degree	1.400	0.168	2.810	0.005	1.107	1.771
HH_income	1.004	0.031	0.140	0.885	0.945	1.067
own_home	1.253	0.154	1.840	0.065	0.986	1.594
Constant	0.683	0.180	-1.450	0.148	0.408	1.145

Table B11: Restrictions on Storing Business Inventory or Equipment

Variable	Coef.	Std. Err.	T	p	[95% Conf. Interval]	
burden_clients	0.740	0.050	-4.420	0.000	0.647	0.845
burden_fees	1.470	0.113	5.030	0.000	1.265	1.709
burden_hours	0.743	0.052	-4.250	0.000	0.648	0.852
burden_inspection	0.894	0.064	-1.550	0.121	0.777	1.030
burden_localrules	1.209	0.088	2.610	0.009	1.048	1.395
burden_nonremployee	0.685	0.049	-5.260	0.000	0.594	0.789
burden_parking	0.806	0.057	-3.070	0.002	0.702	0.925
burden_permit	0.957	0.066	-0.630	0.531	0.836	1.097
burden_remodel	0.839	0.062	-2.390	0.017	0.726	0.969
burden_sqfoot	0.755	0.050	-4.220	0.000	0.662	0.860
main_occupation	1.125	0.134	0.990	0.322	0.891	1.422
total_months	1.000	0.001	-0.550	0.581	0.998	1.001
weekly_hours_worked	1.001	0.004	0.240	0.813	0.994	1.008
weekly_client_visits	1.003	0.002	2.050	0.041	1.000	1.007
weekly_hours_clients	0.997	0.005	-0.640	0.522	0.986	1.007
FTE	1.018	0.005	3.530	0.000	1.008	1.027
gross_revenue	1.000	0.000	-0.180	0.858	1.000	1.000
seed_capital	1.093	0.019	5.200	0.000	1.057	1.130
local_permission	0.647	0.033	-8.520	0.000	0.585	0.715
biz_license	1.309	0.151	2.340	0.019	1.045	1.641
approval_days	1.001	0.001	1.350	0.177	1.000	1.002
birth_year	0.965	0.005	-7.350	0.000	0.955	0.974
bachelor_degree	1.400	0.168	2.810	0.005	1.107	1.771
HH_income	1.004	0.031	0.140	0.885	0.945	1.067
own_home	1.253	0.154	1.840	0.065	0.986	1.594
Constant	0.815	0.214	-0.780	0.435	0.487	1.363

## ENDNOTES

- <sup>1</sup> Complaint, *Shaw v. Metro. Gov't of Nashville & Davidson Cnty.*, No. 17-1299-II (Tenn. Ch. Ct. Dec. 5, 2017), <https://ij.org/wp-content/uploads/2017/12/Nashville-Home-Business-Legal-Complaint.pdf> (hereinafter “Shaw Complaint”).
- <sup>2</sup> U.S. Small Business Administration Office of Advocacy. (2020). *Frequently asked questions*. <https://cdn.advocacy.sba.gov/wp-content/uploads/2020/11/05122043/Small-Business-FAQ-2020.pdf>; U.S. Census Bureau. (2012). *2012 survey of business owners*. <https://www.census.gov/data/developers/data-sets/business-owners.html>
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- <sup>5</sup> Nicole Stelle Garnett, *On Castles and Commerce: Zoning Law and the Home-business Dilemma*, 42 Wm. & Mary L. Rev. 1191 (2001). For more information on how regulations may negatively impact entrepreneurs, see Meleta, A., & Montgomery, A. (forthcoming). *Barriers to business: How cities can pave a cheaper, faster, and simpler path to entrepreneurship*. Arlington, VA: Institute for Justice.
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- <sup>7</sup> *Shaw Complaint*, *supra* note 1.
- <sup>8</sup> *Id.*
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- <sup>10</sup> The ordinance allows most home-based businesses “six [customer] visits per day” (Nashville, Tenn., Metro. Code § 17.16.250(D)(3)(b) (2020)). However, the types of home-based businesses that Nashville always permitted to have client visits can have more. For example, Nashville, Tenn., Metro. Code § 6.28.030(A)(5)(f) allows short-term rentals up to 12 overnight guests per day. See also Beck, C. (2021, July 14). *Nashville home-based business owners take their case to the Tennessee Supreme Court*. [Press release]. Arlington, VA: Institute for Justice. <https://ij.org/press-release/nashville-home-based-business-owners-take-their-case-to-the-tennessee-supreme-court/>
- <sup>11</sup> Nashville, Tenn., Metro. Code § 17.16.250 (2020); Beck, C. (2020, July 9). *Nashville repeals prohibition on home-business clients* [Press release]. Arlington, VA: Institute for Justice. <https://ij.org/press-release/nashville-repeals-prohibition-on-home-business-clients/>
- <sup>12</sup> Beck, 2021.
- <sup>13</sup> Frauenfelder, 1996; U.S. Census Bureau, 1997.
- <sup>14</sup> U.S. Small Business Administration Office of Advocacy, 2020; U.S. Census Bureau, 2012.
- <sup>15</sup> Phillips, 2002.
- <sup>16</sup> Phillips, 2002. Micro-enterprises are generally defined as businesses with fewer than five employees, including the owner. Association for Enterprise Opportunity. (n.d.). *Bigger than you think: The economic impact of microbusiness in the United States*. Washington, DC: [https://aeoworks.org/wp-content/uploads/2019/03/Bigger-than-You-Think-Report\\_FINAL\\_AEO\\_11.10.13.pdf](https://aeoworks.org/wp-content/uploads/2019/03/Bigger-than-You-Think-Report_FINAL_AEO_11.10.13.pdf); McKay, K. L. (2014). *Achieving financial security through entrepreneurship: Policies to support financially vulnerable microbusiness owners* (Federal Policy Proposal). CFED. [https://prosperitynow.org/files/PDFs/financial\\_capability\\_planning\\_guide/Entrepreneurship\\_policy\\_proposal.pdf](https://prosperitynow.org/files/PDFs/financial_capability_planning_guide/Entrepreneurship_policy_proposal.pdf)
- <sup>17</sup> Rowe, B. R., Haynes, G. W., & Stafford, K. (1999). The contribution of home-based business income to rural and urban economies. *Economic Development Quarterly*, 13(1), 66–77. A recent study of 15 California counties suggests home-based business employment is growing faster than overall employment (37% vs. 24%). Kane, K., &

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- <sup>24</sup> Edwards and Field-Hendrey, 1996.
- <sup>25</sup> Mateyka, Rapino and Landivar, 2012.
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<sup>36</sup> Phillips, 2002.

<sup>37</sup> McDonald, 2019, 2017.

<sup>38</sup> See <https://ij.org/report/entrepreneur-from-home-how-home-based-businesses-provide-flexibility-and-opportunity-and-how-cities-can-get-out-of-their-way/> for survey instrument.

<sup>39</sup> Meleta and Montgomery, forthcoming. The 20 oversampled cities are Atlanta; Birmingham, Alabama; Boise, Idaho; Boston; Cleveland; Detroit; Indianapolis; Jacksonville, Florida; Minneapolis; New Orleans; New York City; Newark, New Jersey; Philadelphia; Phoenix; Pittsburgh; Raleigh, North Carolina; San Antonio; San Francisco; Seattle; and St. Louis. IJ's city policy experts selected these cities based on several factors, including population and geographic diversity, feasibility of researching city rules and regulations, and opportunities to achieve tangible reform. However, after the survey was fielded, they eliminated Cleveland from their research because of difficulties analyzing the city's regulations. They replaced Cleveland with Des Moines, Iowa. Cleveland is therefore over-represented in IJ's survey. I have not, however, included it in my discussion of common legal barriers for home-based businesses (see p. 28). Instead, Des Moines is included in that analysis, though the city is not over-represented in the survey data.

<sup>40</sup> McDonald and Menjou, 2017; U.S. Census Bureau, 2012.

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<sup>42</sup> Robb, 2013.

<sup>43</sup> Coleman and Robb, 2009; Constantinidis, Cornet and Asandei, 2006; Fairlie, R. W., & Robb, A. M. (2010). *Disparities in capital access between minority and non-minority-owned businesses: The troubling reality of capital limitations faced by MBEs*. Washington, DC: U.S. Department of Commerce Minority Business Development Agency. <https://www.mbda.gov/sites/default/files/migrated/files-attachments/DisparitiesinCapitalAccessReport.pdf>

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<sup>46</sup> Pratt, 1993; Mateyka, Rapino and Landivar, 2012.

<sup>47</sup> Fairlie, 2013; Fairlie and Fossen, 2018; Figueroa-Armijos, Dabson and Johnson, 2012; Tice, 2007

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- <sup>48</sup> “Main occupation” here does not necessarily mean a full-time job. Of those owners who said their home-based business was their main occupation, 88% said they worked at it full time, representing 52% of the total sample. On the other hand, some owners who described their business as providing supplemental income or serving as a hobby nevertheless reported working at it full time. Overall, two-thirds of respondents reported working at their business full time; the other third said they worked at it part time.
- <sup>49</sup> Edwards and Field-Hendrey, 1996, 2002.
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- <sup>55</sup> Phillips, 2002; Rowe, Haynes and Stafford, 1999.
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- <sup>61</sup> Coleman and Robb, 2009; Constantinidis, Cornet and Asandei, 2006.
- <sup>62</sup> It is also possible female entrepreneurs are less willing to take risks than male ones. However, the literature on that subject is mixed. See, e.g., Schubert, R., Brown, M., Gysler, M., & Brachinger, H. W. (1999). Financial decision-making: Are women really more risk-averse? *American Economic Review*, 89(2), 381–385; Kepler, E., & Shane, S. (2007). *Are male and female entrepreneurs really that different?* (Small Business Research Summary No. 309). U.S. Small Business Administration Office of Advocacy.
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- <sup>65</sup> U.S. Small Business Administration Office of Advocacy, 2020.
- <sup>66</sup> McDonald, 2019, 2017.
- <sup>67</sup> Mason and Reuschke, 2015; Breen, 2010; Pratt, 1993.
- <sup>68</sup> McDonald, 2019, 2017, 2018; Loscocco, and Smith-Hunter, 2004; Breen, 2010; Osnowitz, 2005.
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- <sup>71</sup> Blue Star Families, 2020.
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<sup>74</sup> Wilson, 2014; U.S. Bureau of Labor Statistics, 2014; Short, 2011; Urquhart, 1984; Pratt, 1993; Mateyka, Rapino and Landivar, 2012; Edwards and Field-Hendrey, 1996, 2002.

<sup>75</sup> Meleta and Montgomery, forthcoming.

<sup>76</sup> IJ's city policy experts found the average cost to start a restaurant in the 20 cities was more than \$5,300 due to steep price tags for zoning and permit applications and business licenses. Meleta and Montgomery, forthcoming.

<sup>77</sup> Coleman and Robb, 2009; Constantinidis, Cornet and Asandei, 2006; Fairlie and Robb, 2010.

<sup>78</sup> Meleta and Montgomery, forthcoming.

<sup>79</sup> Here, and elsewhere, there appears to be a discrepancy between the rate at which respondents reported they engaged in some sort of regulated activity and the rate at which they reported a related regulation applied to them. With regard to client visits specifically, 56% of respondents said they did not see clients in the home, but only 35% said limits on client visits did not apply to them. This could be evidence of some confirmation bias: When asked about the burdensomeness of a given regulation, respondents assumed the regulation applied simply because they were asked about it. It could also be that some respondents who said limits on client visits were not burdensome at all answered that way because they do not serve clients in the home and therefore are not burdened by such limits. Also, it should be noted that I am unable to determine whether respondents do not serve clients in person by choice or because their city restricts in-home client visits.

<sup>80</sup> Meleta and Montgomery, forthcoming. See also Garnett, *supra* note 5; Phillips, 2002; Rowe, Haynes and Stafford, 1999.

<sup>81</sup> For example, Nashville has cited parking as a reason to deny Lij and Pat permission to operate their businesses, even though both have their clients park in their homes' driveways rather than on the street and even though Pat receives only one client at a time and never more than 12 per day, all by appointment only. See Memorandum and Order at 13, *Shaw v. Metro. Gov't of Nashville & Davidson Cnty.*, No. 17-1299-II (Tenn. Ch. Ct. Oct. 1, 2019), <https://ij.org/wp-content/uploads/2017/12/Nashville-MTD.pdf>. Some cities even impose restrictions on how much street parking a home-based business can consume, which can, in effect, serve as a curb on client visits.

<sup>82</sup> Restrictions on how much parking a home-based business can consume can, in practice, amount to restrictions on non-resident employees.

<sup>83</sup> See also IJ's model legislation for states that want to modernize their zoning enabling acts. The legislation clarifies that home occupations, so long as they do not disturb owners, are presumptively a homeowner's own business. Institute for Justice. (2020, August 16). *Home-based business and occupation act*. <https://ij.org/legislation/home-based-business-and-occupation-act/>

<sup>84</sup> It should be noted that complaint-based systems can be easily abused. Often, no evidence of harm is required. The simple fact that a business owner does not have permission to operate or to have clients visit the home or engage in some other activity is sufficient to trigger enforcement. This effectively allows people to use a city's code enforcement system to harass their neighbors. Indeed, in a deposition in IJ's lawsuit on behalf of Lij and Pat, a retired Nashville code inspector said neighbors often use the system in just that manner. "Usually when I see a complaint, it's an indication that one neighbor's mad at another," he said. "They're using [code enforcement] to hammer another neighbor." Pls.' Statement of Undisputed Material Facts, *Shaw v. Metro. Gov't of Nashville & Davidson Cnty.*, No. 17-1299-II (Tenn. Ch. Ct. June 14, 2019), <https://ij.org/wp-content/uploads/2017/12/PLAINTIFFS%E2%80%99-STATEMENT-OF-UNDISPUTED-MATERIAL-FACTS.pdf>

<sup>85</sup> Meleta and Montgomery, forthcoming.

<sup>86</sup> I included regulations marked with an asterisk (\*) in the statistical analysis but not in the broader descriptive analysis. Although IJ's survey asked about them, IJ's city policy experts did not systematically study them. I am therefore unable to discuss them qualitatively.