

What's Behind The Influx Of Accessory Dwelling Units?

MAY 1, 2017 | BY LISA BROWN

SAN FRANCISCO—Some policy reforms expanding the production of these units, along with financial incentives, outreach programs and the acceleration of the housing crisis, have spurred more construction.



From left, Ben Metcalf, California Dept of Housing, Karen Chapple, UC Berkeley, Veritas' Au and Berg attend recent ULI event.

SAN FRANCISCO—A report sponsored by the Urban Land Institute and conducted by UC **Berkeley** and **University of Texas** researchers cited significant success from the creation of thousands of new Accessory Dwelling Units in Seattle, Portland and Vancouver. But the study also found major impediments in the lack of financing options and regulatory hurdles that are holding back ADU housing there, in the Bay Area where several cities have enacted ADU

ordinances and in other parts of the country, GlobeSt.com learns.

ADUs are typically “granny flats,” or garage apartments and free-standing second units built by single-family home owners. In San Francisco, recent legislation is also sparking ADU development in apartment buildings by converting under-utilized laundry space, parking and storage areas.

“

“The process really needs to be further streamlined, and regulations changed to fit this innovative housing solution. **People are living in cities much differently than years ago and we need to redesign the city to better use our limited urban spaces.**

- Yat-Pang Au, CEO & Founder of Veritas Investments

The study, *Jumpstarting the Market for Accessory Dwelling Units*, uncovered new findings that could accelerate production of housing within existing communities, in a way that could blend in thousands of new homes without burdening existing transit, amenities and city infrastructure.

“We also found that ADU housing doesn’t overburden neighborhoods, but actually brings back a portion of the density that’s been disappearing,” **Michelle Frey**, executive director for ULI-San Francisco said in dispelling a notion often raised by ADU opponents. “In most single-family communities, the number of residents per home or per square mile has dropped significantly in recent years because homes are owned longer by parents who age in place and also average family size is much smaller, too. Easing the way for more ADU development is a smart land-use innovation that can add income for homeowners struggling to afford to live in places like the Bay Area, or anywhere that the housing supply isn’t keeping up with demand.”

The survey results showed the new ADU housing is not expensive luxury housing, *GlobeSt.com* learns. A representative sample of owners who built ADUs in the Pacific Northwest reported more than half of the housing sites were offered at below-market rents.

“We have about 60 ADU apartments underway but could create hundreds more,” **Yat-Pang Au**, CEO and founder of **Veritas Investments**, tells *GlobeSt.com*. “The process really needs to be further streamlined, and regulations changed to fit this innovative housing solution. People are living in cities much differently than years ago and we need to redesign the city to better use our limited urban spaces. For example, so many residents are using Zipcar, Scoot and UBER that it frees up parking spaces that can be turned into housing, close to transit, where added housing really makes sense. We’re excited to be able to add supply in a diffused manner in our existing buildings, because it adds new homes spread out across the city. You hear neighbor concerns about large, new developments which can add hundreds of homes, but also can change the character of a community.”

Key findings from the study of ADUs in the Pacific Northwest include:

Regulatory reform, financing and education spur owners to build. Leading respondents to build were in descending order, easing of real estate regulation (42%), obtaining enough money to begin (19%) and learning about ADUs through an educational website, event, or tour (15%).

Whether renting to family, friends or unrelated tenants, the majority of ADUs rent for below market rent. The average ADU in the survey that was rented to a tenant garnered \$1,298 in monthly rent. In a plurality of cases (46%), the ADU is rented by a person with an arms-length relationship to the homeowner. The remainder were either friends or family members staying for free (17%) or friends or family members paying rent (12%). Overall, 58% of homeowners report renting below the market rate, with only about 40% of these ADUs occupied by family or friends.

ADUs can be relatively inexpensive to build. The average ADU in the sample cost owners approximately \$156,000 to build. For 83% of homeowners, the entire process from design to conception took 18 months or less.

Homeowners use a variety of development-team types. A design-build contractor was used in 25% of cases, while a traditional architect-contractor structure was more common (40%). In 16% of cases, only a contractor (not performing design work) was involved in the project.

Most use the ADU for housing not short-term rental. The majority (60%) of ADUs are or will be used for the purposes of permanent housing, as compared to 12% for short term rentals. ADUs are used for income or extra living space. ADUs are extra income from a long-term rental (38%) and living space for a household member or helper (28%). Short-term rentals are tied to a desire for flexible future use (11% apiece).

The biggest challenge is lack of financing. To finance an ADU project, 30% of respondents were self-funded and an additional 15% drew entirely on other personal resources such as credit cards. Among the remainder, 40% of respondents reported borrowing against the existing equity in properties. Just 4% reported borrowing against the future expected value of the unbuilt ADU to help finance its construction. Owners used a variety of sources including traditional banks and credit unions.

“Santa Cruz shows that ADUs can work,” said **Carol Berg**, housing and community development manager, city of Santa Cruz. “Cities can add a great deal of housing, if the city and local groups want to address the barriers such as changing regulations to make garage conversion easier and relaxing parking restrictions--but each city must tailor things to respect neighborhood concerns and local tastes. We are in the middle of a culture shift, a shift is how we create and use housing. We need more patience from people, and more flexibility from cities, lenders and others.”