

Jumpstarting the Market for Accessory Dwelling Units: Lessons Learned from Portland, Seattle, and Vancouver

Karen Chapple, Jake Wegmann, Farzad Mashhood and Rebecca Coleman

Why Accessory Dwelling Units?

Across the United States, communities are experiencing challenges in building the housing they need to maintain affordability and accommodate future growth. Accessory dwelling units (ADUs), or separate small dwellings embedded within single family properties, are an effective solution due to their low cost and immediate feasibility, with homeowners building in their own backyards.



ADUs provide great flexibility for homeowners; Photo courtesy of Portland Photos, accessorydwellings.org.

Many cities and states have recently passed legislation easing zoning and permitting regulations for ADUs, most notably Senate Bill 1069/Assembly Bill 2299 in California, signed into law on January 1, 2017. Yet, a widespread surge of ADU construction has not materialized. To find out why, this study looks at three cities in the Pacific Northwest of the United States and Canada that have seen a spike in construction in recent years: Portland, Seattle, and Vancouver. Each city has adopted a set of zoning reforms, sometimes in combination with financial incentives and outreach programs, to spur ADU construction. Due to these changes as well as the acceleration of the housing crisis in each city, ADUs have begun blossoming.

Based on a homeowner survey and key informant interviews, this report shows that homeowners in these cities have embraced ADUs because of the flexibility these units provide, with the ability to use the space as housing or office, for rental income or a friend in need, depending on the circumstances. Because construction costs are relatively low, the housing produced is generally affordable: the majority of new ADUs are leased for below-market rents. Many homeowners experienced barriers in terms of zoning, permitting, or finance, but solutions emerged, often due to city actions.

Findings

ADUs are relatively inexpensive to build. The average ADU in our sample cost its owner approximately \$156,000 to build, albeit with almost double the cost per square foot in Vancouver as in Portland. For 83% of homeowners, the entire process from design to conception took just 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 doing design work) was involved in the project.

Most use the ADU for housing. Sixty percent of ADUs are or will be used for the purposes of permanent housing, as compared to 12% for short term rentals.

Whether renting to family, friends, or unrelated tenants, the majority of ADUs rent for below market rent. The average ADU in our survey that was rented to a tenant garnered \$1,298 in monthly rent. In a plurality of cases (46%) the ADU is rented by someone 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.

Most build ADUs for income or extra living space. By far the two most common reasons respondents cited for deciding to build ADUs are extra income from a long-term rental (38%) and creating living space for a household member or helper (28%). Short-term rentals are tied to a desire for flexible future use (11% apiece).

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

The biggest challenge faced by homeowners is lack of financing. To finance their ADU project, 30% of respondents used only their own cash 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 their property. Just 4% reported borrowing against the future expected value of the unbuilt ADU to help finance its construction.



Examples of ADUs include stand-alone cottages and converted garages; Photos courtesy of Radworld, Rebecca Coleman, Susan Moray.

Conclusion and policy implications

Three factors are key to the success of ADU implementation. First, in cities that have reformed their zoning regulations, particularly minimum lot size and floor area, production has jumped. Also important are minimizing design review and easing owner occupancy requirements. Second, waiving fees, such as permit or utility connection fees, can spur homeowners to build. Finally, cities that take steps to educate homeowners (for instance, via ADU manuals and prototype plans), as well as providing technical assistance, will likely see a payoff for relatively minimal cost and effort.

To date, no city has developed a comprehensive and truly effective approach to assisting homeowners with financing ADUs. As a result, only the most affluent homeowners, who can tap into savings, are building ADUs. However, locally focused lenders, such as credit unions, are a valuable source of funding, and show potential for jumpstarting the ADU market.