



ADUs and Public Benefit Programs

Information Sheet for Funders and Decisionmakers

What's an ADU?

An Accessory Dwelling Unit (ADU), sometimes called an “in-law unit,” “granny flat” or “backyard cottage,” is an additional housing unit added to a parcel of land that already has a primary dwelling. These second units can be attached to the main home by converting a garage or basement, or built as an addition, or they can be completely detached if there is enough space on the lot. A junior accessory dwelling unit (JADU) can be created by converting existing living space within the primary home into a separate unit.

What are the benefits of ADUs for homeowners?

- Flexible living spaces that meet the needs of families that are branching, blending and aging. Safety and security for senior family members to age in place or developmentally disabled adults to live independently with family support. A place to land for young adults experiencing displacement or job loss. A separate living space for home health workers and other professional caregivers.
- Supplemental income and enhanced home equity for homeowners seeking financial stability.
- Being a meaningful part of the solution to our region’s affordable housing crisis.

What are the benefits of ADUs for renters?

- New units of naturally-affordable rental housing¹ in neighborhoods that otherwise have limited rental options, including “high-opportunity” neighborhoods with greater access to public transportation, quality schools and community amenities.
- More diversity in available types of rental housing.

Why support ADUs instead of directing resources toward traditional housing projects?

- More bang for the public buck because ADUs leverage private resources of homeowners (land, borrowing power, cash) and existing public infrastructure to create new rental housing units.
- We need more rental housing as quickly as possible. Each ADU is a new home created in less time, for lower cost to the public, and with less public resistance than a traditional affordable multi-family housing unit.
- New, more affordable homes for smaller households within the fabric of existing neighborhoods, including high-opportunity neighborhoods that seldom add new units and communities with limited buildable vacant land.

¹ 21 Elements, study titled “Affordability of Secondary Dwelling Units,” April 9, 2014. See also D. Garcia, “ADU Update: Early Lessons and Impacts of California’s State and Local Policy Changes,” UC Berkeley Turner Center for Housing Innovation, December 2017.

- ADUs can be scattered across communities, unlike large multi-family housing that concentrates construction impacts and new units in one location.
- Flexible living spaces that meet the needs of families adjusting to changing circumstances.
- ADUs can provide housing that's ideal for specific populations, including seniors, home healthcare workers, developmentally-disabled adults, and critical workforce such as teachers.
- Professional opportunities for minority-owned, women-owned and small local businesses in an industry dominated by larger players and major projects.
- ADUs are a stabilization tool in gentrifying neighborhoods. ADUs help low- and moderate-income homeowners build home equity and supplement household income. ADUs allow renters more options to find and maintain housing in their own communities.

What are ADU Public Benefit Incentives?

Public benefit incentives make ADUs more affordable to build for lower-income homeowners and/or more affordable to rent for lower-income tenants. While ADUs are already lower-cost to build and naturally more affordable to rent than traditional multi-family units, we can increase access to this housing type by offering homeowners “right-sized” incentives that drive a particular community benefit. For example, a below-market rate loan with flexible underwriting criteria would bridge the financing gap for lower-income homeowners who can’t qualify for traditional construction loans based on current household income. A forgivable loan would induce homeowners who want to build an ADU to commit to renting the completed unit to a low-income tenant at an affordable price. The purpose of an incentive is to close a financing gap in exchange for a community benefit that advances a public policy goal. Some high-level examples:

Policy goals	Incentive	Public benefit
Support low-income homeowners through asset-building and supplemental household income; increase affordable rental housing stock	Below-market rate predevelopment and construction loan for income-qualified homeowners	More equitable access to financing; mitigate displacement pressure on low-income homeowner households; new rental units for smaller households in more neighborhoods
Prevent displacement of Housing Choice Voucher (“HCV”) tenants, engage more landlords in HCV program; increase affordable rental housing stock	Forgivable loan covering permit fees and construction costs in exchange for renting to HCV tenant	Increase utilization of Housing Choice Vouchers; stem displacement of HCV tenants from community; increase diversity of HCV housing options
Increase rental housing stock; achieve deeper affordability of new units	Below-market rate construction loan in exchange for renting at a restricted price	More affordable rental units; keep families together; reduce displacement of lower income tenants from community; reduce overcrowding and housing insecurity

How could ADUs help address your community’s housing needs?

- Leverages the home equity of individual homeowners to develop new housing. In San Mateo County, homeowners have substantial equity in their homes (54% of homeowners bought >20 years ago, 28% of homeowners have no mortgage, and >75% have >\$1 million in home equity).²

² The Concord Group. "Market Analysis for Accessory Dwelling Units in Selected Jurisdictions in San Mateo County" commissioned by Hello Housing, Sept. 2019.

- Record low interest rates make it an attractive time for owners to do a cash-out refinance.
- Rental income from ADUs can increase a household's income by 10-20% after expenses. At a time with incomes are at best stagnant, and at worst declining, due to COVID-19, this kind of income growth is remarkable. And, the income boost gets bigger if an empty nester moves into the ADU and rents out the larger home. This makes it possible for long-time residents to age in place in their community.
- New loan products, such as San Mateo Credit Union's new ADU loan product, are emerging that unlock access to capital for more homeowners. SMCU's loan allows lower-income owners with sufficient equity to borrow against future ADU rents and leverage the as-completed value of their property. Until now, banks have only been willing to lend against a homeowner's current income, which prevents lower-income borrowers from qualifying for financing. SMCU requires third-party construction project management to support the successful completion of the project, and other lenders are likely to follow suit.³
- 69% of owner-occupied homes in San Mateo County have fewer than 0.5 people per bedroom⁴, making Junior ADUs (built within the footprint of the home) a compelling and cost-effective option.
- It can cost up to \$900k to build a single new multi-family unit⁵, compared to ~\$250k for an ADU⁶. It can require \$150k in city subsidy to make that multi-family unit affordable, while our model can deliver 7-8 units for the same price. A relative bargain. ADUs can also be developed far more quickly than multi-family properties.
- The construction of permitted ADUs will count towards state RHNA (Regional Housing Needs Allocation) goals for low-and moderate-income units, an area where most Bay Area cities (and most cities in California) are struggling. Deed restrictions are not required for ADUs to count due to studies that show most ADUs are affordable by design. ([See 21 Elements study "Affordability of Secondary Units."](#))

How do ADUs address COVID impacts?

- COVID-19 and its impacts have increased displacement pressures on families of all kinds:
 - Homeowners spending significant time at home are more motivated than ever to pursue home renovations that allow their family to live more comfortably, which may relieve displacement pressures like high rents and overcrowding.
 - Allows families to comfortably house older relatives, combining support with independence and a viable alternative to skilled nursing facilities.
 - Young adult students and workers in COVID-impacted industries are returning to live with their families, but seek separate living spaces to maintain independence.
- Leverages the motivation of homeowners who want to be part of the solution in the midst of our COVID-heightened affordable housing crisis.

³ See www.smcu.org/Loans/Home-Loans/ADU-Loan.

⁴ The Concord Group, based on American Community Survey 2019 data.

⁵ L. Dillon, B. Poston & J. Barajas, "Affordable Housing can cost \$1 million in California. Coronavirus could make it worse." Los Angeles Times, published April 9, 2020, updated April 21, 2020. See also Bay Area Council Economic Institute, "How Much Does It Cost to Construct One Unit of Below Market Housing in the Bay Area?" utilizing 2019 CA Tax Credit Allocation Committee data, www.bayareaeconomy.org. See also C. Reid, "The Costs of Affordable Housing Production: Insights from California's 9% Low-Income Housing Tax Credit Program." UC Berkeley Turner Center for Housing Innovation, March 2020.

⁶ K. Chapple, D. Garcia, E. Valchuis & J. Tucker, "Reaching California's ADU Potential: Progress to Date and the Need for ADU Finance." UC Berkeley Turner Center for Housing Innovation and Center for Community Innovation, August 2020.

- Historic low interest rates coupled with still-high property values are allowing more homeowners to access cash-out refinances to support construction costs.

How do ADUs help low- and moderate-income communities?

- Housing that is affordable and accessible to teachers, including those with smaller households, helps stem teacher attrition from local schools, which benefits families with school-age children and the community as a whole.
 - High teacher turnover erodes educational quality for students while also costing the school district precious resources to hire and train new teachers.
 - Teachers, like other local workers, need housing to be affordable but want a choice in the type and location of housing options. ADUs present a more immediate tool offering more housing options to meet diverse educator needs.
- No single approach will comprehensively address each community’s need for affordable rental units. An ADU strategy allows new units to come online faster and with less public investment while larger affordable housing projects move forward on a longer timeline.
- New state law prevents local jurisdictions from requiring additional onsite parking if the ADU is within ½ mile of transit or within one block of a car-share. Increased pressure on street parking may be a concern for some residents, however research from Portland (the most ADU-rich city in the U.S.) shows that ADUs are too rare to contribute to neighborhood parking problems and that ADU-dwelling households have significantly fewer cars than other newly constructed rentals, beating only TOD (Transit-Oriented Development) units in cars per unit.⁷
- ADUs are a flexible tool that can be wielded to support low-income homeowners or low-income tenants facing potential displacement. In order to lift all boats, local government and philanthropy should support various strategies that advance housing security for low-income homeowners and tenants alike.
- People are going to build ADUs – the demand is there. Without support from local government and philanthropy, permitted ADUs will primarily benefit well-resourced homeowners and higher-income tenants, while low-income homeowners with less capital may pursue unpermitted, potentially unsafe units. Affordable, experienced project management ensures that low- and moderate-income households – both renters and homeowners – are able to benefit from ADUs that are safe and legal.

More info on ADUs:

- CA Department of Housing and Community Development ADU Information Page
www.hcd.ca.gov/policy-research/accessorydwellingunits.shtml
- Reaching California’s ADU Potential: Progress to Date and the Need for ADU Finance – UC Berkeley
<https://turnercenter.berkeley.edu/research-and-policy/reaching-californias-adu-potential-progress-to-date-and-the-need-for-adu-finance/>
- Second Unit Resources Center - San Mateo County Home for All: www.secondunitcentersmc.org/

⁷ Martin John Brown, “Do ADUs Cause Neighborhood Parking Problems,” July 16, 2014 at www.accessorydwellings.org, citing Martin John Brown “Accessory Dwelling Units in Portland, Oregon: Evaluation and Interpretation of a Survey of ADU Owners,” commissioned by State of Oregon Department of Environmental Quality.

Attachment A

ADU Program Design Menu

Program Goal	Program Requirement/Feature to Advance Goal	Considerations (pros/cons, costs and complexities, approaches to implementation)	Relative add'l program costs
Create of new, safe, and legal infill housing units in hard-to-develop neighborhoods.	<ul style="list-style-type: none"> Some kind of incentive to homeowners to build permitted ADUs (e.g., free project management, permit fee waivers). 	<ul style="list-style-type: none"> ADUs are already “naturally affordable” based on typical unit size. Even a program with no homeowner or tenant restrictions promotes the development of new housing units and ensures those new units are built to code. 	BASELINE
Support multi-generational living.	<ul style="list-style-type: none"> Allow family members to be eligible tenants Do not require tenant income qualification. 	<ul style="list-style-type: none"> Evidence shows that the majority of households that move forward with an ADU are motivated by a desire to house family members (as opposed to generating rental income or other factors). Income-qualifying a relative can be awkward and the burden may fall on the homeowner themselves, especially if the intended tenant is an elderly or LEP (limited English proficiency) relative or adult dependent. A relative moving into an ADU is unlikely to be high-income, and the homeowner is unlikely to price gouge their relative. If income qualification is not required for relatives, it may be perceived as unfair or even a disincentive to require income qualification for non-relative tenants. 	None
Leverage private financing to expand access for a broader group of homeowners	<ul style="list-style-type: none"> Program administrator is able to connect interested applicants to loan products on the market that utilize flexible underwriting criteria (e.g., allowing borrowers to qualify for financing based on monthly income that includes projected future rental income from the completed unit). 	<ul style="list-style-type: none"> San Mateo Credit Union has launched a first-of-its-kind ADU loan product that allows homeowners to qualify for financing based on a portion of projected rents (helps homeowners with lower monthly income) and the “as-completed” value of the property (helps homeowners with limited equity). This loan requires third party project management from a licensed GC to mitigate lender risk. Coupling free project management with SMCU’s ADU loan reduces costs and expands access for eligible borrowers. Housing Trust Silicon Valley has also launched a loan program for a limited number of homeowners that considers the “as-completed” value in CLTV and requires construction project management: eligibility is limited to Santa Clara County and East Palo Alto. Because this area of direct-to-consumer lending is rapidly evolving, it’s important for the Program administrator to have strong connections with the lending community. 	None

Program Goal	Program Requirement/Feature to Advance Goal	Considerations (pros/cons, costs and complexities, approaches to implementation)	Relative add'l program costs
<p>Focus public resources to assist only owner-occupants to support sustainable homeownership rather than non-resident investor-owners.</p>	<ul style="list-style-type: none"> Eligible property owners must demonstrate during application process that the subject property is their principal residence. 	<ul style="list-style-type: none"> This approach supports the principle that public funds should support homeowners who live in and contribute to the vitality of the neighborhood and community rather than supporting the business enterprise of non-resident landlords, including absentee owners. Another benefit to this approach is that owner-occupants have day-to-day site control, which avoids concerns about inconveniencing or even displacing current tenants during construction. However, in some communities where a significant portion of single-family housing is used as rental housing, an owner-occupancy requirement could limit the community's ability to scale up production of ADUs. 	<p>Very Low</p>
<p>Promote the development of as many ADUs as possible without providing additional financial assistance.</p>	<ul style="list-style-type: none"> Expand eligibility to include rental property owners as well as owner-occupants and small multifamily properties as well as single-family homes. 	<ul style="list-style-type: none"> Non-occupant owners are important partners in housing supply solutions, especially where much of the single-family stock is rental housing. Opening the program to non-occupant owners can significantly expand the pool of eligible properties while also engaging property owners who already have a track record of providing rental housing. However, in some communities, the concept of using public funds to support asset-building for investors may conflict with public policy goals. A hybrid approach might open the program to non-resident landlords but include eligibility criteria that aligns with local goals (e.g., only landlords who own one or two residential properties or who meet income/asset restrictions, etc.). Eligibility criteria, landlord training content, and monitoring approach should consider whether rental housing laws (e.g., just cause, rent stabilization/control and tenant relocation) apply differently to investor-owned and multi-family properties. 	<p>Low</p>
<p>Promote training, compliance and best practices for new landlords.</p>	<ul style="list-style-type: none"> Mandatory fair housing and landlord training provided or referred by program administrator. Commitment to fulfill requirement included in homeowner's program agreement. Proof of completion of training required prior to lease-up. 	<ul style="list-style-type: none"> Many owner-occupants have never been a landlord before, and many will also be neighbors with their tenant. An understanding of applicable fair housing and landlord-tenant laws is fundamental to being a responsible landlord and having a good L-T relationship. Allowing experienced landlords to opt-out or test out could be an option, but applicable laws change periodically, and many landlords have never received formal training, so mandating training for all participants is advisable. 	<p>Low</p>

Program Goal	Program Requirement/Feature to Advance Goal	Considerations (pros/cons, costs and complexities, approaches to implementation)	Relative add'l program costs
<p>Advance the goals of transit-oriented development: less traffic congestion, shorter commutes, fewer emissions and less parking needed.</p>	<ul style="list-style-type: none"> • Include preference or requirement that the subject property be located in a defined transit-rich geographic area. 	<ul style="list-style-type: none"> • Concentrating the geographic distribution of projects may result in some program efficiencies (less travel for project manager, ability to bundle smaller projects for a builder). • Proximity to transit eliminates parking requirements under state law, which makes more projects feasible. • A possible con is that geographic targeting does not advance the goal of sprinkling new units throughout the City. 	<p>Low</p>
<p>Ensure that the applicant pool is diverse and that as many homeowners as possible hear about the program, especially those facing disparate barriers to affordable homeownership.</p>	<ul style="list-style-type: none"> • Equity-Centered Marketing Plan that considers language access, targeted outreach to hard-to-reach communities, and coordination with trusted community leaders and organizations. • Application should include demographic info, such as race/ethnicity and languages spoken. Periodic review of applicant demographics helps assess whether outreach is effective at reaching a diverse applicant pool or must be modified to achieve more equitable outcomes. 	<ul style="list-style-type: none"> • Equity-centered outreach is important to reach eligible property owners who are least likely to hear about or apply for housing programs, who face disproportionate barriers to affordable homeownership, and/or who experience disproportionate displacement pressures. • The Plan should be paired with adequate marketing resources, which can be achieved by either allocating additional resources to reach underserved households or prioritizing marketing funds for equity-centered strategies. Translation and interpretation to fully realize language access goals may require significant resources, depending on the number of languages desired to be covered. 	<p>Low</p>
<p>New units used as long-term housing.</p>	<ul style="list-style-type: none"> • Must be tenant's primary residence during performance period. • Homeowner must provide initial lease with possible annual monitoring to ensure unit continues to be occupied by a tenant. 	<ul style="list-style-type: none"> • If the program is not providing financial assistance, consider limiting the period of this requirement due to monitoring/enforcement burden and the deterrent effect of long-term restrictions on homeowner participation. 	<p>Low to Medium (depending on term)</p>

Program Goal	Program Requirement/Feature to Advance Goal	Considerations (pros/cons, costs and complexities, approaches to implementation)	Relative add'l program costs
<p>Create new housing units affordable to lower-income tenants.</p>	<ul style="list-style-type: none"> Rent restrictions for a designated period of time. Owner should submit initial leases and any renewals or amendments during the performance period. New tenants should be notified of their right to a capped rent. 	<ul style="list-style-type: none"> Rent restrictions (e.g., a rent cap tied to AMI or annual increases limited by % or CPI) are relatively easy to implement but require homeowner buy-in and monitoring. The homeowner agrees to the restriction when they sign their participation agreement and provides the lease to demonstrate compliance. The tenant receives notice of the restriction and their right to a capped rent. Limiting rent restrictions to a discrete period of time is important for homeowner engagement and should be commensurate with the incentive provided by the program (the higher the value of the incentive, the longer the restriction period). 	<p>Medium</p>
<p>Support homeowners from groups that face disproportionate barriers to homeownership and asset-building.</p>	<ul style="list-style-type: none"> Fair housing law prohibits preference or selection based on protected class status. Preferences based on LMI census tracts and/or individual household income can expand access for underrepresented groups but should be coupled with additional financial assistance to significantly expand access. 	<ul style="list-style-type: none"> Without additional financial assistance, the program serves homeowners who have access to financing to design and build an ADU. Restricting income eligibility without offering financial assistance likely results in an infeasibly small applicant pool. Geographic preferences or limitations add little administrative burden (and may result in project coordination efficiencies!) but income-qualifying homeowners adds program costs and increases timelines. 	<p>Medium to Very High (depending on whether companion financing required)</p>
<p>Support existing public programs or critical workforce by increasing housing options for targeted groups (e.g., Housing Choice Voucher tenants, Regional Center clients, educators, city employees, first responders).</p>	<ul style="list-style-type: none"> Limit eligibility to targeted group of tenants. Establish partnerships to ensure large enough eligible tenant pool (e.g., with Housing Authority, School District, Regional Center, etc.). Compliance with occupancy restrictions evidenced by documentation at lease-up. 	<ul style="list-style-type: none"> Any occupancy restrictions will trigger concerns from homeowners who want to freely select their tenant. Some concerns can be addressed through homeowner education (e.g., about the Housing Choice Voucher program) or by ensuring a robust pool of eligible tenants to choose from (e.g., a partnership with a school district for educator housing). HUD “fair market rents” are well below actual market rents in many markets. An ADU program for Housing Choice Voucher tenants may also need to provide companion financial assistance to ensure that homeowners have the financial means to service their debt. 	<p>Medium to Very High (depending on term and whether companion financing required)</p>

Program Goal	Program Requirement/Feature to Advance Goal	Considerations (pros/cons, costs and complexities, approaches to implementation)	Relative add'l program costs
<p>Create new housing units affordable and limited to lower-income tenants.</p>	<ul style="list-style-type: none"> • Add occupancy restrictions requiring tenant income qualification in addition to rental restrictions. • Income-qualify each new tenant prior to the start of their tenancy. 	<ul style="list-style-type: none"> • Occupancy restrictions are significantly more complicated to implement than rent caps. Income qualifying a tenant – or multiple tenants over the course of the performance period – increases program costs and lease-up timelines, decreases the eligible tenant pool, and deters homeowners who are concerned about not being able to freely select their tenant. • Depending on the depth of affordability, a companion financial assistance program may be needed to close the gap between affordable rent and the homeowner’s debt service needs. 	<p>High to Very High (depending on term and whether companion financing required)</p>
<p>Stabilize homeownership and support asset-building for low- and moderate-income homeowners.</p>	<ul style="list-style-type: none"> • Owner-occupancy and homeowner income qualification required. • financial assistance in the form of a grant or below-market-rate loan. • Income qualification is underwritten as part of application process; if applicable, the application process would incorporate the loan underwriting process as well. 	<ul style="list-style-type: none"> • Proactively supporting sustainable homeownership for households that have faced – and continue to face – disparate barriers to homeownership is a critical strategy to promote racial equity. • Income qualification increases program costs and application timelines. An ADU program offering free services or BMR financing through an application and lottery process already attracts primarily low- and moderate-income households. • A program designed to support low-income homeowners should include a financing component to effectively serve the targeted homeowner population. A revolving loan fund or shared equity feature may support program sustainability. 	<p>Very High (requires companion financing)</p>
<p>Support multi-generational living and relieve overcrowding for lower-income families.</p>	<ul style="list-style-type: none"> • Companion financial assistance program offering grants or BMR loans with payment terms that reflect limited or no rental income (such as deferment or shared equity). • Income and loan qualification are underwritten as part of application process 	<ul style="list-style-type: none"> • Homeowners who use their ADU to house low-income family members may not be able to service traditional loans with rental income from the unit, so financial assistance should have generous repayment terms to assist these homeowners. • Studies show that most homeowners who pursue building an ADU are motivated by family needs rather than economic drivers, so these homeowners may be the most emotionally ready to build an ADU but need financing to do so. 	<p>Very High (requires companion financing)</p>