

ADU Update: Early Lessons and Impacts of California's State and Local Policy Changes

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Introduction

As California's housing crisis deepens, innovative strategies for creating new housing units for all income levels are needed. One such strategy is building Accessory Dwelling Units (ADUs) by private homeowners. While large scale construction of new market rate and affordable homes is needed to alleviate demand-driven rent increases and displacement pressures, ADUs present a unique opportunity for individual homeowners to create more housing as well. In particular, ADUs can increase the supply of housing in areas where there are fewer opportunities for larger-scale developments, such as neighborhoods that are predominantly zoned for and occupied by single-family homes.

In two of California's major metropolitan areas -- Los Angeles and San Francisco -- well over three quarters of the total land area is comprised of neighborhoods where single-family homes make up at least 60 percent of the community's housing stock.ⁱ Across the state, single-family detached units make up 56.4 percent of the overall housing stock.ⁱⁱ Given their prevalence in the state's residential land use patterns, increasing the number of single-family homes that have an ADU could contribute meaningfully to California's housing shortage.

To that end, California leaders have shown strong interest in removing barriers to ADU development. Specifically, the adoption of SB 1069 and AB 2299 in 2016, as well as follow up legislation in 2017 (SB 229 and AB 494) have laid the foundation for a proliferation of ADUs statewide. And at the local level, cities of various sizes have also taken it upon themselves to create policies that encourage the creation of this housing type. In the wake of these changes, cities are experiencing a rapid rise in ADU interest, with many jurisdictions seeing a doubling, tripling, and even quadrupling of the number of ADU applications received in 2017 (to be discussed further in this brief). Given the apparent immediate impact of recent legislation and local action, innovative policies that enable ADU production appear to be an effective strategy for increasing housing supply.

However, several remaining barriers continue to limit the full potential of ADUs in California, as homeowners must navigate a complex and costly permitting and construction process. Given the critical need for more housing, consideration should be given to the further removal of various constraints, such as burdensome development fees and restrictive building codes that continue to impede many homeowners from building ADUs.

ADUs as a Housing Solution for California

The expansion of ADUs in California represents a particularly promising strategy for easing the state's housing shortage. ADUs are generally more affordable than other forms of housing and can be built relatively quickly and inexpensively, if the proper regulatory framework is in place. Moreover, ADUs have the potential to serve as a neighborhood stabilization strategy, providing additional equity and income for homeowners in neighborhoods facing displacement pressures.

ADUs as Quick, Low-Cost Permanent Housing

The Turner Center's April 2017 report discusses policies in three Pacific Northwest cities -- Portland, Seattle, and Vancouver -- that encourage the development of ADUs; these cities have seen robust growth in this product type.ⁱⁱⁱ The report's survey of ADU owners indicates the benefits that ADUs could have in California. Specifically, ADUs are generally fairly inexpensive to construct, with survey respondents reporting an average cost of \$156,000. For context, the average cost per unit of affordable housing statewide is \$332,000, and even higher in the major metropolitan areas: \$591,000 per unit in San Francisco and \$372,000 in Los Angeles.^{iv} Moreover, ADUs can be built quickly; 83 percent of ADU owners in Turner Center's survey reported that from design to completion of their ADUs took 18 months or less.

ADUs are also overwhelmingly used for permanent housing, contrary to some perceptions that they serve only as short term rentals with little benefit to overall housing supply. A 2013 survey of Oregon ADU owners found that 81 percent of ADUs are used as someone's primary residence, versus only four percent who reported using their ADU for short term housing.^v Similarly, Turner Center's 2017 report found that 60 percent of ADUs in Portland, Seattle, and Vancouver are used as permanent housing, while just 12 percent are used for short term rentals. These findings are consistent with a 2012 study of the East Bay region of the Bay Area, which found that 85 percent of secondary units were occupied by individuals using the unit for permanent housing.^{vi}

ADUs as Naturally Affordable Housing

ADUs appear to provide "naturally affordable" housing and feature unique renter characteristics. Turner Center's 2017 report found that 58 percent of ADU owners rented their units at below market rates. Additionally, 29 percent of ADU residents were family or friends of the homeowner. The 2012 study of the East Bay had similar findings: the average ADU was advertised at a rental rate that made it affordable to a household earning 62 percent of the area's median income. Moreover, in 51 percent of cases, ADU occupants were either staying for free or were friends or family who were likely receiving reduced rent. This suggests homeowners who build ADUs are filling important affordability gap in many cases by opening their ADU to those who would otherwise have to find housing in the broader market.

Beyond their "natural affordability", there are also opportunities to target ADUs for particular under-housed populations and help lower income homeowners build wealth. In Los Angeles, the organization LA Más is establishing an ADU Section 8 program that incentivizes homeowners to

build ADUs specifically to house Section 8 voucher holders. The same organization also received grant funding to provide the knowledge and resources to low and moderate income homeowners to adopt ADUs as a tool to build equity and cash flow. Los Angeles County is also piloting a program that will incentivize the construction of ADUs through subsidies to homeowners willing to rent their unit to homeless individuals or Section 8 voucher recipients.

Recent ADU Policy Changes at the State and Local Level

Since 2015, there has been significant progress in clearing the way for more ADUs in California in the state legislature. SB 1069/AB 2299 -- which went into effect on January 1, 2017 -- has been touted as a key policy facilitating new ADU development across the state. The law provided wide ranging changes, such as requiring cities to approve ADUs ministerially, rather than using the (oftentimes much more cumbersome) discretionary process. The policy also limits parking requirements, eliminates some utility connection fees, and makes other key changes. Cities are now required to adopt ADU ordinances that adhere to these state-level guidelines. More clarity and easing of ADU development was adopted in 2017 as well with SB 229/AB 494.^{vii}

In addition to these changes at the state level, many cities have taken it upon themselves to adopt ADU policies that in some cases go beyond what has been mandated by the state. For example, since 2013 San Francisco has incrementally adjusted their ADU policies and now features one of the most progressive ADU ordinances in the state. After allowing for ADUs in only the Castro neighborhood in 2013, San Francisco began allowing ADUs in structures undergoing mandatory soft story retrofitting in 2015. In 2016, ADUs were legalized citywide, as well as in multifamily buildings.^{viii}

Some smaller communities have been ahead of the reforms in SB 1069/AB 2299 as well. For example, the city of Santa Cruz began waiving water and sewer connection fees and fire sprinkler requirements in ADUs that are attached to the home in 2014. Santa Cruz County also implemented a two-year program in 2014 to incentivize owners of existing unpermitted ADUs to obtain the building permits and inspections necessary to legalize these units.

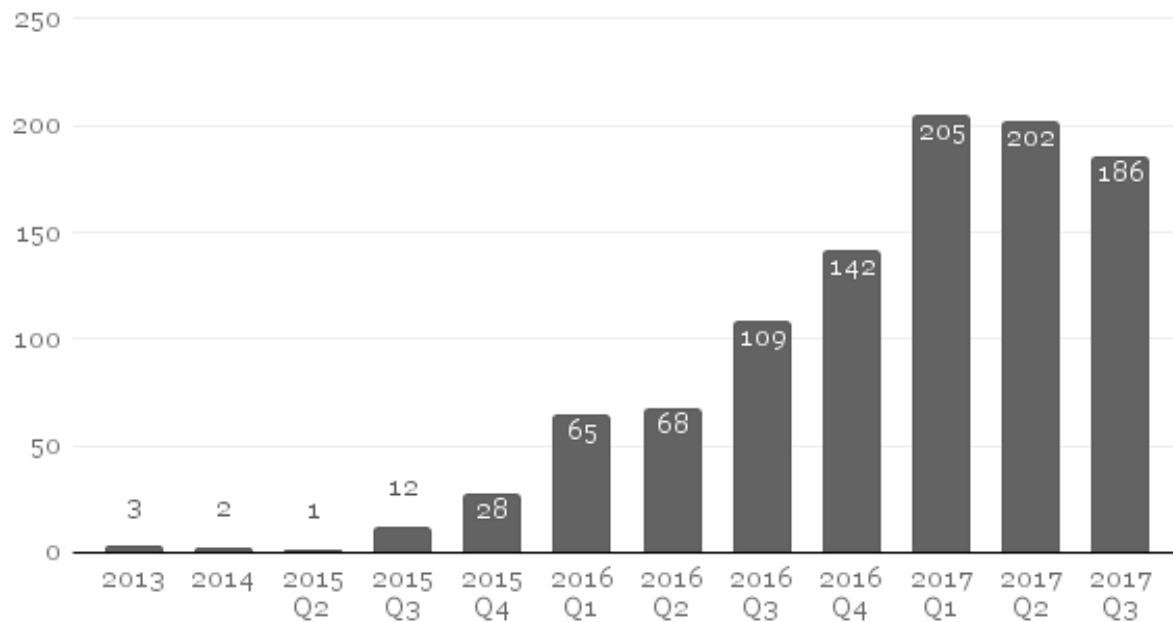
In addition to ADUs, some communities have also taken additional steps to legalize Junior ADUs (JADU), including Sonoma, Corte Madera, and Marin County. JADUs are units located within a primary residence and include an exterior entry and efficiency kitchen, but also maintain interior access to the rest of the home. Current state law allows cities to adopt JADU ordinances, but does not require it as with ADUs.

The positive results from San Francisco's legalization of ADUs in multifamily buildings, Santa Cruz's ADU amnesty policies, and the proactive legalization of JADUs in the North Bay indicate that innovative and progressive policy implementation is key for localities eager to spur more ADU development. These case studies hold lessons for other communities working to accelerate ADU development, and for policymakers across the country looking to advance such efforts statewide.

California's Progress on ADUs to Date

Following these various ADU reforms, many California cities are seeing substantial increases in ADU applications. In San Francisco, for example, incremental policy changes in 2015 and 2016 led to significant jumps in ADU production (see figure below), a trend which continued after the adoption of SB 1069/AB 2299.

ADUs in Pipeline in San Francisco 2013-2017



Source: San Francisco Planning Department

In Santa Cruz, planners also saw an increase in ADU production in recent years (21 units in 2015, 31 in 2016, and 38 as of November 1, 2017), and legalization of existing unpermitted units (at least 29 from 2014-2016) both of which they felt was due to their local reforms.

Across the state, cities have seen a marked increase in ADU applications and issued permits in 2017. For example, in 2015 the city of Oakland received just 33 permit applications. By November 1, 2017, the city had received 247 applications in that year alone - more than seven times the volume from just two years prior. Of all the large California cities, Los Angeles has seen the most dramatic jump, increasing their 2017 ADU permits by nearly 25 times the amount issued in 2016. A full picture of these increases, which are notable across the board, can be seen in the figure on the following page.

ADU Applications Received 2015-2017

California City	2015	2016	2017*
Los Angeles**	90	80	1,980
Long Beach	0	1	42
Oakland	33	99	247
Sacramento	17	28	34
San Diego	16	17	64
San Francisco***	41	384	593
San Jose	28	45	166

*Through November 1, 2017.

**2015/2016 Los Angeles data are for ADU construction permits; staff did not collect data on ADU applications prior to 2017. Data are through November 8th, 2017.

***San Francisco data is only through Q3 2017.

Planners from most of these cities indicated in interviews that the state-level laws enacted in 2017 have been a significant factor in the rise of interest in ADUs. Not only did these laws remove specific barriers, but they also raised the profile of ADUs in general, sparking interest amongst a broader group of property owners.

While there is a clear rise in ADU interest in the larger California cities, smaller cities are also seeing increased activity. For example, Pasadena saw no applications in 2015 or 2016, but as of November 1, 2017 had received 12 applications for the year. In Mountain View, 14 applications were received in 2017, whereas only five were received in 2016, and four in 2015. And notably, some cities such as Newport Beach prohibited ADUs entirely prior to the passage of SB 1069/AB 2299, and are now accepting and receiving applications.

Remaining Barriers

Despite the clear and rapid rise of ADU interest across the state, homeowners still face several challenges that limit the full potential of ADUs in California. As revealed in past surveys, the primary deterrent to a homeowner moving forward with constructing an ADU is cost, and there are several areas where further regulatory changes could have an immediate and positive impact. These changes are described below.

Development Fees

The impacts of ADUs on a neighborhood's infrastructure and services are inherently different from those created by larger scale developments such as single family homes or multifamily buildings. However, individuals interested in building an ADU on their property are oftentimes subject to the same fees that large scale developers are faced with. This adds a tremendous

amount of cost and complexity for the property owner and can be the deciding factor in whether or not that owner moves forward with the construction of an ADU.

The 2013 Oregon survey reported that development fees were frequently (29 percent) cited as the primary challenge of building an ADU, along with overall construction costs (32 percent) and design challenges (33 percent). Moreover, the Turner Center report found that fee reductions and waivers are an effective means of spurring ADU development. While 2017 legislation has helped address this challenge to an extent -- particularly with regards to utilities and special districts-- there are opportunities to further revise guidelines for the amount and type of fees that should be levied on ADUs.

School Fees

Development impact fees should be levied with sensitivity and in proportion to their occupancy and use. For example, school fees -- levied on new development by the local school district for the construction of school facilities-- are generally charged on new ADUs despite the fact that ADUs are overwhelmingly occupied by individuals who do not have school-age children. The East Bay study found that the average occupied secondary unit contained just 0.2 children. Meanwhile, the Oregon survey yielded similar results, finding that 89.8 percent of ADU survey respondents reported having no children under the age of 18 (an additional three percent of respondents did not answer the question).

While generally not the largest fee levied on ADUs, school fees do add cost to the overall amount needed to build an ADU. Given that ADU tenants overwhelmingly do not include school age children, a reduction of or exemption from school fees for ADUs should be considered.

Other types of impact fees currently levied on ADUs may merit closer examination as well. Affordable housing and transportation fees, for example, may not be levied in proportion to an ADU's impact, and reduction or elimination of these and other fees should be weighed as localities hope to further catalyze ADU development.

Code Requirements

From the perspective of both land use and environmental impact, ADUs are a demonstrably low-impact, efficient housing typology. A 2010 study in Oregon^{ix} found that reducing home size is among the best options for reducing waste generation while simultaneously achieving a large environmental benefit across many categories of impact. Moreover, ADUs are helpful in meeting climate change goals as they are built on already developed land, rather than in greenfield areas.

Given the inherent environmental advantages of ADU development, state building codes should encourage more housing of this type. Unfortunately, current codes do the opposite, oftentimes deterring the development of smaller forms of housing such as ADUs. Specifically, the new 2016 Title 24 requirements -- intended to raise standards of energy efficiency in new construction and rehabilitation -- actually inhibit the ability of builders to deliver affordable and attractive ADUs.

The 2016 Title 24 requirements pose several specific barriers. When applied to typically-sized new homes (2,500sf), the new allowable glass area standards in Title 24 are easier to meet as the homes' glass can be spread across a relatively large square footage. However, for ADU-sized structures (which average just over 600sf), Title 24 requires builders to compensate for a standard number of windows by incorporating other energy efficiency features that can substantially raise the overall cost of the ADU. In many instances, these features include greater wall thickness or insulation. Given the need to maximize the usable space of these smaller ADU units -- particularly as they may be located in an existing detached structure with a limited footprint -- these insulation requirements pose dilemmas for builders, as well as added cost for the owner. In some instances, the required additional insulation or wall thickness forces builders to compensate for the added wall thickness by moving the unit to maintain setbacks, or reduce the already limited interior living space. This is just one example of many instances where 2016 Title 24 requirements do not scale well to small structures, causing added costs and complications to homeowners considering an ADU.

ADUs are an efficient use of land and have minimal environmental impact relative to other housing typologies. For this reason, state leaders should consider an alternative code or classification for ADUs that facilitates energy efficient structures *without* hindering their construction and proliferation in communities that could benefit from them most.

Other Barriers

While two significant barriers have been discussed, there are a number of other challenges facing homeowners interested in adopting ADUs that go beyond the scope of this brief. These include: securing financing, minimum lot sizes, limitations on the number of allowable floors, homeowner association restrictions, owner-occupancy requirements, unclear application of rent control and "just cause" eviction policies, and the effect of an ADU on a property's assessed value. State and local leaders should take these challenges into account as well when considering future ADU-relevant policies.

Conclusion

ADUs are poised to play a significant role in alleviating California's housing crisis and state, regional, and local leaders should continue to examine ways in which barriers to this type of development can be removed. While recent legislation has played a key role in increasing interest in and production of ADUs, several challenges still face homeowners who are considering this option. ADUs are inherently a unique development type as they are driven by individual homeowners who have numerous reasons for exploring an additional unit, from housing relatives to providing rental income to help with their own expenses. Given their unique nature, ADUs should be treated as an entirely separate form of housing, and as such, several existing policies should be revisited to ensure that they make sense for ADUs. In this brief, we have identified two specific areas-- school fees and building code -- that should be examined for further regulatory changes that could further ease the path to widespread ADU adoption. Other

revisions should be considered as well to ensure that the momentum California has seen in ADU interest is sustained and even increased.

Acknowledgements: Thank you to Steve Vallejos of Valley Home Development, Rachel Ginnis of Lilypad Homes, Jordan Palmeri of the Oregon Department of Environmental Quality, Robert Liberty of Portland State, Karen Chapple, Professor of City and Regional Planning at UC Berkeley, Rachele Trigueros of the Bay Area Council, Denise Pinkston, and the planning staff of San Francisco, San Jose, Los Angeles, San Diego, Long Beach, Sacramento, Oakland, Santa Cruz, Pasadena, Newport Beach, and Mountain View for their assistance with the data collection and content of this report. Thank you also to Elizabeth Kneebone and Sara Draper-Zivetz for their assistance in the report production.

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ⁱ Correspondence with Issi Romem, Chief Economist at BuildZoom. Source: 2011-2015 5-year ACS and 2014 California TIGER shapefile; calculation by BuildZoom

ⁱⁱ Historical Census of Housing Tables. October 31, 2011.
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ⁱⁱⁱ “Jumpstarting the Market for ADUs: Lessons Learned from Portland, Seattle, and Vancouver,” Chapple, Karen, et al. UC Berkeley Turner Center for Housing Innovation. April 2017.

^{iv} State of California, Governor’s Budget Summary, 2017-2018.

^v “Accessory Dwelling Unit Survey for Portland, Eugene, and Ashland, Oregon,” Palmeri, Jordan, et al. State of Oregon, Department of Environmental Quality. September 2014.

^{vi} “Yes in My Backyard: Mobilizing the Market for Secondary Units,” Chapple, et al. UC Berkeley Center for Community Innovation. June 2012.

^{vii} These changes include the restriction of the ability of special districts and utilities to impose utility and capacity charges, and eliminating a city’s ability to prohibit tandem parking, among others.

^{viii} ADUs in multifamily buildings include the conversion of previously uninhabited spaces, such as basements and parking areas.

^{ix} “A Life Cycle Approach to Prioritizing Methods of Preventing Waste from the Residential Construction Sector in the State of Oregon,” Palmeri, Jordan, State of Oregon, Department of Environmental Quality. September 2010.