Overcoming Barriers to Bringing ADU Development to Scale

Thursday, October 8, 2020
HOUSEKEEPING NOTES

- All webinar attendees are muted

- Please use the Q&A feature to submit questions to the panelists

- This webinar is being recorded and a recording of this virtual event will be posted on the Enterprise website after the session

- Attendees can claim one Certification Maintenance (CM) credit through the American Planning Association (APA). Webinar attendees who wish to claim credit may do so in their CM log on the APA website. Participants must attend the entire session and complete the evaluation to claim CM credits for this webinar.
WELCOME

Priscilla Almodovar, Chief Executive Officer, Enterprise Community Partners
AGENDA

- **Overcoming Barriers to Bringing ADU Development to Scale**
  Ahmad Abu-Khalaf, Enterprise Community Partners

- **California’s recent regulatory changes in support of ADU development**
  Jose Ayala and Shawn Danino, California Department of Housing & Community Development

- **LA Más Backyard Homes Project**
  Helen Leung, LA Más

- **Q&A Session**
  Moderated by Andrew Jakabovics, Enterprise Community Partners
BRINGING ADU DEVELOPMENT TO SCALE

Presented By: Ahmad Abu-Khalaf, Senior Research Analyst, Enterprise Community Partners
BACKGROUND

This research was made possible through the generous support of JPMorgan Chase & Co.
Accessory dwelling unit (ADU) is a broad term that refers to a smaller, self-contained residential dwelling that is located on the same parcel as a primary, larger residential dwelling, typically a single-family home.

ADU development is the low end of the gentle density (missing middle housing) spectrum. Permitting ADU development in single-family zoned areas is the first step toward supporting gentle density.
POLICY GOALS

- Allowing for ADU development typically requires a low regulatory lift that does not induce heavy local opposition.

- Permitting rental ADUs can boost the diversity of housing types in single-family zoned areas.

- ADU development can support aging in place and multigenerational housing strategies.

- Rental ADUs can be utilized to generate additional income and build wealth for low- and moderate-income homeowners.
At a minimum, municipal governments must permit ADU development in some/all single-family zones to support ADU development.

In many jurisdictions where ADU development is permitted, there are zoning provisions that can create regulatory barriers to ADU development.

These regulatory barriers can result in complex, lengthy permitting processes; reduce the feasibility of creating ADUs; and discourage homeowners from pursuing ADU development.
REGULATORY BARRIERS TO ADU DEVELOPMENT

- Discretionary review processes
- Owner-occupancy requirements
- Off-street parking requirements
- Minimum lot size requirements and large setbacks
REGULATORY BARRIERS TO ADU DEVELOPMENT

- Restrictive size and height caps
- Prescriptive design standards
- Impact fees and utility connections cost burdens
BARRIERS TO FINANCING ADU DEVELOPMENT

There are persisting barriers to financing ADU development, especially for lower- and moderate-income homeowners.

The scarcity of lending products tailored for ADU financing has made tapping into homeowners’ cash savings or home equity the most common path for financing ADU development.

Lower- and moderate-income homeowners are less likely to be able to use these financing mechanisms. In addition, there are challenges in using these lending products to finance ADU development.
OVERCOMING BARRIERS TO FINANCING ADU DEVELOPMENT

Federal agencies that back mortgages and private lenders can explore creating lending products tailored for ADU development. These products would:

- Enable low- and moderate-income homeowners to finance and develop ADUs on their lots
- Offer favorable loan terms and interest rates
- Include the projected rental income from the ADU in calculating the Debt-To-Income ratio and appraised value
- Provide for a loan underwriting process tailored for the population in need of ADU financing

Federal, state and local agencies, as well as private and philanthropic partners can also support ADU development through offering financial support to low- and moderate-income homeowners.
For additional information:

Website: bit.ly/PDR_Reports

Email: aabukhalaf@enterprisecommunity.org
CALIFORNIA’S REGULATORY CHANGES IN SUPPORT OF ADU DEVELOPMENT

Presented By:

Jose Ayala, Housing Policy Analyst, California Department of Housing & Community Development
Shawn Danino, Senior Housing Policy Analyst, California Department of Housing & Community Development
Today’s Agenda

• Summary of Changes
• Development Standards
• Unit Size and Exemptions
• Parking
• Subdivision (e)
• ADU Permitting Data
• Successful strategies for affordable ADU production and Best Practices
Summary of Changes

**Required State Standards (Examples, cont.)**

- The total area of floor space for a new detached accessory dwelling unit is not to exceed 1,200 square feet, unless allowed to be larger, through a local agency’s adopted ADU ordinance.
- No limitations to size of the ADU if created within the space of an existing structure.
- Complete ADU applications must be processed within 60 days
  - Ministerial approval.
- No impact fees if under 750 square feet, proportional beyond that.
Development Standards

• Jurisdictions are expressly allowed to regulate parking, height, setback, landscape, architectural review, maximum unit size, and can require standards that prevent adverse impacts on any real property that is listed in California Register of Historic Resources
  – Prohibited from enforcing minimum lot size
  – Lot coverage requirements still allowed, but cannot prohibit creation of at least an 800 square foot ADU

• ADUs created under subdivision (e) cannot be required to conform to the above development standards, unless listed in Gov. Code 65852.2 (e)

• Setbacks
  – No more than 4’ side and rear-yard setbacks (this includes street, corner, alley, etc.)
  – No zoning setback for conversions of existing structures
  – No more than 4’ for ADUs above garage
Minimum and Maximum Sizes

• Jurisdictions with an ordinance are required, at a minimum, to allow for:
  – Minimum size of an efficiency unit
  – 850 square feet (0-1 bedrooms)
  – 1,000 square feet (more than 1 bedroom)
    • Cannot limit the number of bedrooms (Fair Housing)

• Certain development standards must be waived to permit up to and at least an 800 square foot ADU, 16 feet in height, with 4’ side and rear-yard setbacks

• No maximum size can be required for existing space in single-family residence or accessory structure converted to ADU
Parking

• Maximum of 1 space per bedroom or per ADU, whichever is less

• Must allow tandem parking

• If existing parking structure/area is converted to an ADU, no on-site replacement parking can be required

• Jurisdictions cannot require parking for the following:
  – ADU within ½ mile walking distance to public transit
  – ADU within architecturally and historically significant district
  – Part of proposed primary residence, or existing primary residence or accessory structure
  – When on-street parking permits are required but not offered to occupant of ADU
  – Car share located within one block of ADU
Subdivision (e)

Regardless of development standards in (a) through (d), local agencies **must** approve building permits in any residential or mixed used zone for:

- Conversion of existing space into ADU (or JADU if in single-family residence)
- One detached, new construction ADU, of up to and at least 800 square feet, 16 feet in height
- Conversion of non-livable space within multifamily dwelling structures to ADUs
  - 25% of units, but at least one ADU
- Not more than 2 detached ADUs on a lot with an existing multifamily dwelling, subject to 16’ height and 4’ setbacks
ADU Permits by Year: Impacts of Law

2009: First Second Unit Permit Reported to HCD
Policy Matters!

2017 ADU State Law Change

After law change, the City of LA permitted thirty times more ADUs than two years prior.

Source: Sightline Institute & LA City Planning Department. 2017-2020.
How Many ADUs are Completed?

**The Development Pipeline**

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<tbody>
<tr>
<td>23,581</td>
<td>9,241</td>
<td>39.2%</td>
</tr>
</tbody>
</table>

*Figures have not been finalized or fully deduplicated. This is likely an underestimate.*
Strategies to Reduce ADU Production Costs

- **Density Bonuses for affordable units.** Allowing two ADUs on a single-family lot if one is deed-restricted. (City of San Diego)

- Removing Minimum Parking Requirements (City of Encinitas)

- **Pre-approved ADU plans** and partnerships with *modular prefabricated* home developers.

- Single Point of Contact and dedicated ‘adually’ Inbox for Permitting within Jurisdiction (City of Los Angeles)
For Additional Information and ADU/JADU Updates:

California Department of Housing and Community Development
Housing Policy Development Division

Website:
http://www.hcd.ca.gov/housing-policy-development/accessorydwellingunits.shtml

Email:
adu@hcd.ca.gov
Jose.Ayala@hcd.ca.gov
Shawn.Danino@hcd.ca.gov
LA Más Backyard Homes Project

Presented By: Helen Leung, Co-Executive Director, LA Más
The Backyard Homes Project:
An Affordable Housing Initiative

LA-MÁS
LA Más designs and builds initiatives that promote neighborhood resilience and elevate the agency of working class communities of color.

We envision a Northeast Los Angeles where communities of color have equitable access to the power and resources needed to shape their futures.
Los Angeles has 500,000+ single-family lots.
50% of all developable land in Los Angeles is zoned for single-family homes.
• 3% of applicants receive a voucher.
• 76% of voucher holders get rejected by a landlord.
• 40% of vouchers get returned.
Accessory Dwelling Unit (ADU) Permit Applications*

January 2017 - June 2020

Plan Area

<table>
<thead>
<tr>
<th>Plan Area</th>
<th>Submitted Applications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Canoga Park - Winnetka - Woodland Hills - West Hills</td>
<td>1,280</td>
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<tr>
<td>Reseda - West Van Nuys</td>
<td>1,164</td>
</tr>
<tr>
<td>Sun Valley - La Tuna Canyon</td>
<td>1,107</td>
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<td>Northeast Los Angeles</td>
<td>1,073</td>
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<tr>
<td>Van Nuys - North Sherman Oaks</td>
<td>1,066</td>
</tr>
<tr>
<td>North Hollywood - Valley Village</td>
<td>969</td>
</tr>
<tr>
<td>South Los Angeles</td>
<td>966</td>
</tr>
<tr>
<td>Arleta - Pacoima</td>
<td>947</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>18,239</strong></td>
</tr>
</tbody>
</table>

Total Submitted ADU Applications 18,239

Distribution of ADUs by Plan Area

ADUs by Permit Type

- Addition 6,412 (35%)
- Alteration 8,033 (44%)
- New Build 3,794 (21%)

Since State law changed in January 2017, a total of **18,239** ADU applications have been submitted, **13,086** have been issued, and **6,443** have been granted Certificates of Occupancy.

Permit Type

ADUs can be created through additions or alterations to existing structures, such as garages, or through brand-new construction.

Project Stage

Building an ADU requires three steps:

1. Submission of a permit application
2. Issuance of a permit allowing construction to proceed
3. Issuance of a Certificate of Occupancy for habitation

ADUs by Permit Type & Year

<table>
<thead>
<tr>
<th>Year</th>
<th>Addition</th>
<th>Alteration</th>
<th>New Build</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>1,384</td>
<td>622</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>2,618</td>
<td>1,039</td>
<td>793</td>
</tr>
<tr>
<td>2019</td>
<td>2,363</td>
<td>1,185</td>
<td>1,172</td>
</tr>
<tr>
<td>2020</td>
<td>1,172</td>
<td></td>
<td>516</td>
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</table>

*Data provided by Los Angeles Department of Building and Safety
City of LA
ADU Pilot Project
County of LA
ADU Pilot Program

Free Money + Technical Help

New Home for Formerly Homeless
The Backyard Homes Project

Incentive Program

Homeowner & Landlord

Housing

Low Income Tenant

HUD
5
focus groups

100+
homeowners
INCENTIVES

- Program Management
- Design
- Permitting
- Construction Management
- Financing
- Landlord Training
- Tenant Support

NEW ADU: Increased equity and more affordable housing for LA

HOMEOWNERS who want an ADU, but need help
<table>
<thead>
<tr>
<th>Total Cost</th>
<th>NEW CONSTRUCTION:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Studio: $115K</td>
</tr>
<tr>
<td></td>
<td>• One Bedroom: $150–$165K</td>
</tr>
<tr>
<td></td>
<td>• Two Bedroom: $180–$220K</td>
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</table>

<table>
<thead>
<tr>
<th></th>
<th>GARAGE CONVERSION:</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Studio: $100K</td>
</tr>
<tr>
<td></td>
<td>• One Bedroom: $120K</td>
</tr>
<tr>
<td></td>
<td>• Two Bedroom: $150K</td>
</tr>
</tbody>
</table>
Garage Conversion (1BR)

**Garage Conversion (1BR)**

- **Starting at:** $120,000
- **381 SF**
- **1 Bed, 1 Bath**

**About the Home**

The Garage Conversion creates a charming 1BR out of your existing garage. The unit shown here is based on a standard garage, with a compact addition added onto the front, but it can be adapted to work with the dimensions of your specific garage. The 1-bedroom version includes a kitchen, dining area with a built-in table, living area, and a separate bedroom and bathroom.

**Exterior Styles**

- **Craftsman:** This style is inspired by the Craftsman homes found throughout L.A., typically characterized by pitched roofs and wood detailing.
- **Modern:** This style is characterized by minimal, clean lines and simple forms.
- **Spanish:** This style is inspired by traditional Spanish architecture. It often features arched windows and doorways.

*Note that for Garage Conversions, the roof will be dependent upon your existing structure.*

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Studio (Conversion or New)

**Studio (Conversion or New)**

- **Starting at:** $100,000 for Garage Conversion
- **$110,000 for New Build**
- **374 SF**
- **1 Bed, 1 Bath**

**About the Home**

The Studio creates a charming, compact ADU on a new build or out of your existing garage. The unit shown here is based on a standard garage, working only with the existing footprint, but it can be adapted to work with the dimensions of your specific site and/or garage. The studio includes a combination living/sleeping area, connected to a kitchen/dining area, along with a separate bathroom.

**Exterior Styles**

- **Craftsman:** This style is inspired by the Craftsman homes found throughout L.A., typically characterized by pitched roofs and wood detailing.
- **Modern:** This style is characterized by minimal, clean lines and simple forms.
- **Spanish:** This style is inspired by traditional Spanish architecture. It typically features a curved outdoor area with columns, along with archway openings.

*Note that for Garage Conversions, spaces are open and the roof will be dependent upon your existing structure.*
Included Features

- Addition to the appliances and features that are included in all units, there is also a group of special features that come at no extra cost. These included features include your choice of floor and wall treatments.

INCLUDED FEATURES

LIVING ROOM DESK
- Unit: Micro Unit

BEDROOM DESK
- Unit: Neapolitan

BEDROOM DESK
- Unit: L-Shape

WINDOW TABLE
- Unit: Micro Unit

WINDOW SEAT
- Unit: L-Shape

KITCHEN ISLAND TABLE
- Unit: L-Shape

KITCHEN ISLAND TABLE
- Unit: Garage Conversion

Upgrade Features

- Addition to the appliances, fixtures, and features that are included in all units, there are also upgrade design features you can choose to add to your new ADU. These upgrade features will incur additional costs. Prices will be noted on a case-by-case basis.

UPGRADE FEATURES

CABINETS
- UUILT-FURNITURE

IKEA STORAGE WALL

CUSTOM STORAGE WALL

WALL TREATMENTS

WALLPAPER

FABRIC WALL PANELS

CORRIDOR STAINED CONCRETE

OUTDOOR

PRIVACY SCREEN

PLANTER

SITE LANDSCAPING
Program Partners

LA-MÁS

RNLA

Self-Help Federal Credit Union

ADU Permanent Mortgage Product Terms

- Fully underwritten first mortgage that includes ADU costs
- Fixed rate, no PMI, 10/15/20/30 yr terms available
- Interest rate based on loan-to-value & credit score
- Mortgage used to repay existing mortgage & fund ADU
<table>
<thead>
<tr>
<th>HACLA’s Role</th>
<th>• To monitor homeowner participation for 5 years</th>
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<tbody>
<tr>
<td></td>
<td>• To streamline property approval process with one point of contact</td>
</tr>
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</table>
Reach

2 Co-hosted 2 Open Houses

15 Shared Info with all 15 Council Districts

18 Spoke at 18 Neighb. Council Meetings

25 Presented at 25 Organizations

1000 Engaged ~1000 People in LA

170 170+ Applications
Homeowner Spotlight:
Meet La Juana

“There were so many things I was going to have to do on my own. Your program solved the housing problem and my problem of not having to find all of these people. Just having all of that taken care of with one point person to deal with – to me, it’s extremely valuable.”
<table>
<thead>
<tr>
<th>Challenges</th>
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<tbody>
<tr>
<td></td>
<td>• Vetting takes A LOT of time</td>
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<tr>
<td></td>
<td>• A new mortgage product is COMPLEX</td>
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<tr>
<td></td>
<td>• Predatory competitors set FALSE expectations</td>
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<td></td>
<td>• Homeowner decision-making is SLOW</td>
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Lessons Learned

- Perfection is not always necessary
- Evaluate processes constantly
- Cash is king
What’s Next

• Growing the program in partnership with LA County

• Reducing development costs for homeowners

• Expanding the tent of affordable ADU advocates

• Focusing on a place-based strategy
Program Expansion

- Program expands to unincorporated Los Angeles County
- $1.5M
- Homeowner cash incentives
- Partnership with LA County Development Authority
Impact

• Homeowners build equity!

• 10+ low income families have a home in 2020

• New participants in Section 8 program

• Piloting a program not reliant on public subsidy

• Pathway for homeowner to provide affordable housing
Q&A SESSION

Moderated By: Andrew Jakabovics, Vice President of Policy Development, Enterprise Community Partners
LINKS TO RESOURCES

The Enterprise Policy Development & Research team’s research resources: bit.ly/PDR_Reports

California Department of Housing and Community Development - ADU resource page: bit.ly/CAHCDADUS

LA Más website: www.mas.la

A recording of this webinar will be available on the Enterprise website: www.enterprisecommunity.org/resources