

POLICY BRIEF

# *ADUs: Housing Options for a Growing Region*

## **Accessory Dwelling Units (ADUs)**

are a flexible, neighborhood-scale solution to regional housing needs. Cities can encourage ADUs as part of their overall housing strategy by adopting proven policies.



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## What is an ADU?

ADUs are often known as “carriage houses,” “in-law suites,” and “granny flats.” They are adjacent or attached to a primary home, and have their own entrance, kitchen, living area, and bathroom. ADUs can be located within a home, attached to a home, or as a detached structure in a backyard (sometimes above a garage). ADUs are a unique housing form created by individual homeowners and scattered throughout neighborhoods.



## What makes ADUs good for cities?

*ADUs provide **affordable options in the private market**: Most ADU rents are affordable to a household earning less than \$56,000 annually.<sup>1</sup>*

- ADUs represent **gentle, or “hidden” density** as a form of small-scale infill housing.
- ADUs provide **access for renters** to established, well-connected neighborhoods.
- ADUs are built by homeowners on **existing lots**, providing new housing without expensive land acquisition costs, and add **value** to the property, which can lead to increased property tax revenue for a city.
- ADUs typically serve **one- and two-person households**, a growing demographic segment which comprises the majority of Twin Cities households.<sup>2</sup>
- ADUs support stable homeownership by serving **lifecycle housing** needs. Over time, rental income provided by an ADU can help homeowners pay their mortgages or save up. Homeowners may use their ADU to house family members who need care, or they may move into the ADU themselves to downsize.
- ADUs are **environmentally-friendly** housing options because they are smaller and use less energy than the average home. They help reduce transportation-related environmental impacts when they are located near employment centers and established public transit routes.<sup>3</sup>
- ADUs support the **local economy**, as homeowners typically hire local construction and design firms to build them.
- ADUs help create **vibrant neighborhoods** as new residents increase the customer base for nearby businesses and services.

<sup>1</sup> Rent data from FHFund survey results. See also: Garcia, David. UC Berkeley Turner Center for Housing Innovation. Dec. 2017. ADU Update: Early Lessons and Impacts of California’s State and Local Policy Changes. [turnercenter.berkeley.edu/uploads/ADU\\_Update\\_Brief\\_December\\_2017\\_.pdf](https://turnercenter.berkeley.edu/uploads/ADU_Update_Brief_December_2017_.pdf)

<sup>2</sup> Metropolitan Council. Thrive MSP 2040 Housing Policy Plan. July 2015. p. 9

<sup>3</sup> See Stephan, A., Crawford, R.H., 2016. The relationship between house size and life cycle energy demand: implications for energy efficiency regulations for buildings. *Energy* 116 (Part 1), 1158–1171. [dx.doi.org/10.1016/j.energy.2016.10.038](https://doi.org/10.1016/j.energy.2016.10.038) A 2014 study found that ADU residents in Portland were less likely than the average to own cars (State of Oregon Department of Environmental Quality, 2014. Accessory dwelling units in Portland, Oregon: evaluation and interpretation of a survey of ADU

## Hidden Density

Can you spot the modern, spacious ADU behind this home in Saint Paul?

Eric & Chrissi  
Larsen inside  
their ADU

### Why do we need ADUs as a housing option?

ADUs can help reduce pressures on the regional housing market, including:

- **Increasing demand** for more housing units: To meet the needs of anticipated workforce growth and other population trends, the seven-county Twin Cities region needs to add nearly 13,000 units of housing each year through 2040.<sup>4</sup> ADUs engage private homeowners as a new set of partners addressing this housing need, without public subsidy.
- **Low supply** of rental housing stock: Throughout the Twin Cities metro area, vacancy rates for studio and one-bedroom units are 2.1% and 2.3%, respectively—far below a healthy rate of 5% or more.<sup>5</sup> Adding ADUs in existing neighborhoods helps to address this gap.
- **Cost** pressures for renters: The greatest demand over the next 20 years will be for rental units priced below \$1,875/month (in 2019 dollars), as ADUs typically are.<sup>6</sup>
- **Smaller households:** The type of new housing needed in the coming decades will be affected by changing demographic trends. Nearly half of the region's projected household growth will be individuals living alone, and ADUs are typically designed for these smaller households.<sup>7</sup>
- **Aging population:** Four-fifths of household growth will be in older households headed by individuals aged 65 and older, many seeking options to downsize in their own neighborhoods; ADUs provide this option.<sup>8</sup>



### Where can I find ADUs?

Currently, an estimated 18 cities in the Twin Cities metropolitan area have policies permitting ADUs and approximately 150 permitted ADUs exist in the region. However, ADUs have always existed in the Twin Cities.

### How much housing could ADUs provide?

**ADUs are a cost-effective way to meet a substantial portion of the Twin Cities region's future housing need without public subsidy.** If ADUs in the seven-county metro area became as common as they are in Portland, Oregon (representing about 1.5% of single-family homes), we could create 11,000 new housing units, potentially meeting most of the region's need for new housing for households who earn \$40,000-50,000 per year.<sup>9</sup>

 **11,000**  
NEW HOUSING UNITS

<sup>4</sup> Met Council Housing Policy Plan, p. 9

<sup>5</sup> Marquette Advisors Apartment Trends, 1st Quarter 2018.

<sup>6</sup> FHFund/Lisa Sturtevant & Associates, 2018, forthcoming

<sup>7</sup> Met Council Housing Policy Plan, p. 9

<sup>8</sup> Met Council Housing Policy Plan, p. 9

<sup>9</sup> Met Council Housing Policy Plan, p. 151: The region needs 9,550 new units of housing to meet the needs of households earning between 51-80% of the Area Median Income by 2030. Per Metropolitan Council 2017 estimates, there are approximately 721,035 single-family homes in the Twin Cities region. [stats.metc.state.mn.us/profile/detail.aspx?c=R11000](https://stats.metc.state.mn.us/profile/detail.aspx?c=R11000)

# Encouraging ADUs: Best Practices for Cities

## REMOVE REGULATORY BARRIERS

- Allow different types of ADUs as an accessory to all single-family or small multifamily homes, permitted by right rather than conditionally
- Designate ADU experts within departments to facilitate a clear permitting process
- Remove or reduce parking minimums
- Remove owner-occupancy restrictions
- Make design standards more flexible

## LOWER COSTS AND INCREASE ACCESS TO CAPITAL

- Offer homeowners waivers, discounts, tiered pricing, and payment plans for fees
- Develop an ADU loan program for homeowners
- Work with developers to incentivize building ADUs in new construction

## PROMOTE ADUs AND INCREASE ACCESS TO INFORMATION

- Create a dedicated webpage and resource materials for ADU development
- Host quarterly informational workshops about ADUs
- Sponsor, promote, and participate in ADU tours



*Flexible for  
Multigenerational  
Households*



Fue Lee's parents live in the first-floor

ADU attached to the family's house in North Minneapolis. Fue and his adult siblings live in the main home.

*The Lees' home and its neighbor to the north were developed by the City of Lakes Community Land Trust as the first two homes to be built with an ADU in Minneapolis.*

## How can local policies support ADU development?

The evidence is clear: local government policies and practices that reduce regulatory and cost burdens make a critical difference in whether ADUs can reach their full potential for communities.

- In **Austin, Texas**, allowing larger ADUs (up to 1,100 square feet) and reducing other requirements<sup>10</sup> paved the way for permit requests to rise nearly tenfold.
- In **Portland, Oregon**, annual ADU permit volume increased from just 24 (in 2009) to 615 (in 2016) when it waived development fees for ADUs, saving homeowners \$8,000-12,000 per unit.<sup>11</sup>
- In **Los Angeles, California**, ADU permits jumped from 80-90 per year to 1,980 in 2017, after California's state legislature required cities to adopt ADU policies.<sup>12</sup>



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<sup>10</sup> Austin Development Services Department. Accessory Dwelling Units. [www.austintexas.gov/page/adu](http://www.austintexas.gov/page/adu)

<sup>11</sup> City of Portland, Oregon. City Council Extends the SDC Waiver for ADUs, with Conditions. June 27, 2018. <https://www.portlandoregon.gov/bds/article/689356>

<sup>12</sup> Garcia, David. UC Berkeley Turner Center for Housing Innovation. Dec. 2017. ADU Update: Early Lessons and Impacts of California's State and Local Policy Changes. [turnercenter.berkeley.edu/uploads/ADU\\_Update\\_Brief\\_December\\_2017\\_.pdf](http://turnercenter.berkeley.edu/uploads/ADU_Update_Brief_December_2017_.pdf)

## Encouraging ADUs in Your City

### REMOVE REGULATORY BARRIERS

**Allow ADUs to be permitted by right for all single-family and two-family developments.**

In California, allowing ADUs to be processed ministerially (i.e. administratively/by right) has had a major impact, with a rapid rise in ADU permit applications after the enactment of SB 1069 and AB 2299 in January 2017.<sup>13</sup> The City of Oakland had a sevenfold increase, from 33 permit applications in 2015 to 247 in 2017. The City of Los Angeles had a nearly 25-fold increase in applications, from 80 in 2016 to 1,980 in 2017.

**Remove or reduce parking minimums.**

In Oregon, a survey conducted by the Department of Environmental Quality found that ADUs had a negligible impact on parking congestion.<sup>14</sup> ADU residents had a below-average vehicle ownership rate (less than one per household), and the dispersed nature of ADU development meant any additional on-street parking impact was also dispersed throughout the city.

**Remove owner-occupancy and household size restrictions.**

Most peer cities nationally and three Minnesota cities (Crystal, Stillwater, and Northfield<sup>15</sup>) do not have owner-occupancy requirements. These requirements limit the use of the property over time and may be a disincentive to homeowners considering ADU development or limit their financing options.

**Make design standards more flexible.**

After adjusting its regulations in 2015 to allow larger floor areas, Austin, Texas saw a marked increase in ADU development, from 250 issued permits from 1994 to 2015 to more than 600 in the three years since the change.<sup>16</sup>

**Designate ADU experts in departments to facilitate a clear permitting process.**

To clear its backlog of ADU applications, San Francisco is working with multiple city departments to define a checklist of consistent guidelines to help homeowners successfully navigate city processes.<sup>17</sup>

### LOWER COSTS AND INCREASE ACCESS TO CAPITAL

**Offer waivers, discounts, tiered pricing, and payment plans for fees.**

**WAIVER FOR AFFORDABILITY:** The City of Santa Cruz, California waives permit fees on a sliding scale in exchange for a commitment to renting an ADU to a low-income household. Approximately 39 households have used this waiver since 2016.<sup>18</sup>

**TIERED PRICING:** Most cities already offer tiered pricing in some form, such as for building permits. Offering tiered pricing for other fees, such as sewer access charges, can help reduce what would otherwise be a larger fixed cost for homeowners wishing to build an ADU.

**Develop an ADU loan program.**

The County of Santa Cruz in California,<sup>19</sup> the City of Portland, Oregon,<sup>20</sup> and the West Denver Renaissance Collaborative (WDRC) in Colorado<sup>21</sup> are developing low- or no-interest loan programs for ADU development. Each program has an affordability focus, either creating affordable rental units or building wealth and stability for lower-income homeowners.

Santa Cruz County also has a specialized *My House, My Home ADU* loan program to help low-income senior homeowners build ADUs so that they can afford to age in place.<sup>19</sup>

**Work with developers to incentivize building ADUs in new construction.**

The City of Lakes Community Land Trust (CLCLT) builds and sells multigenerational-living homes with attached ADUs in Minneapolis. The homes are designed for flexibility, with ADUs at the back of the first floor that can open to the inside of the main home or can be accessed through a separate entrance, allowing the home to meet changing housing needs over multiple generations.

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on next page



## APPENDIX BEST PRACTICES FROM PEER CITIES

...continued

### PROMOTE ADUs AND INCREASE ACCESS TO INFORMATION

#### **Create a dedicated webpage and host informational workshops on ADU development.**

City of Santa Cruz, California has become a national model by appointing dedicated staff to the development of its ADU program, creating a guide for homeowners, sharing prototypes of architectural plans, hosting workshops, and creating a webpage with ADU information.<sup>22</sup>

#### **Sponsor, promote, and participate in ADU tours.**

The city of Portland boasts an annual ADU tour, run in partnership between advocates and the City. It has been a successful beginning point for many ADU homeowners, who embarked on their developments after attending the tour.<sup>23</sup> Locally, a few ADUs already have been popular stops on the Minneapolis & Saint Paul Home Tour.<sup>24</sup>

<sup>13</sup> Garcia, David.

<sup>14</sup> Oregon Department of Environmental Quality.

<sup>15</sup> Northfield is noted here but is not counted as part of the 18 cities that have an ADU policy as it is outside the Twin Cities metro area.

<sup>16</sup> City of Austin. Open Data. [data.austintexas.gov](http://data.austintexas.gov)

<sup>17</sup> Sabatini, Joshua. "Just 23 in-Law Units Built after Two Years as SF Seeks to Iron out Approval Process." The San Francisco Examiner. 25 Feb. 2018. [www.sfexaminer.com/just-23-law-units-built-two-years-sf-seeks-iron-approval-process](http://www.sfexaminer.com/just-23-law-units-built-two-years-sf-seeks-iron-approval-process)

<sup>18</sup> City of Santa Cruz 2016 Accessory Dwelling Units Fee Waiver Information and Application [www.cityofsantacruz.com/home/showdocument?id=53802](http://www.cityofsantacruz.com/home/showdocument?id=53802)

<sup>19</sup> Santa Cruz County. Accessory Dwelling Units. Plan Your Financing. [www.sccoplaning.com/ADU/Planyourfinancing.aspx](http://www.sccoplaning.com/ADU/Planyourfinancing.aspx)

<sup>20</sup> Portland Housing Bureau. Accessory Dwelling Unit Pilot Loan Program. [www.portlandoregon.gov/phb/article/661992](http://www.portlandoregon.gov/phb/article/661992) [PDF Slides]

<sup>21</sup> Martinez-Stone, Renee. 28 June 2018.

<sup>22</sup> Peterson, Kol. 2018. Backdoor Revolution: The Definitive Guide to ADU Development. Accessory Dwelling Strategies, LLC. p. 227-228

<sup>23</sup> Eastman, Janet. 29 Aug. 2017. "Get inside 24 Rentable Granny Flats: Portland's Accessory Dwelling Unit Tour (Photos)." OregonLive.com. [www.oregonlive.com/hg/index.ssf/2017/08/granny\\_flat\\_adu\\_tour\\_pdx\\_kol\\_p.html](http://www.oregonlive.com/hg/index.ssf/2017/08/granny_flat_adu_tour_pdx_kol_p.html).

<sup>24</sup> Lee, Chris. 25 Apr. 2018. "Minneapolis & Saint Paul Home Tour Features Homes and Neighborhood Pride." Midwest Home. [midwesthome.com/124463-2](http://midwesthome.com/124463-2)



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310 4th Ave South / Minneapolis, MN 55415  
Suite 9000 / MAIN 612.375.9644

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