


ADU Work Group Session 4

Affordable ADUs



January 22, 2025

  ASSOCIATION OF BAY AREA GOVERNMENTS
METROPOLITAN TRANSPORTATION COMMISSION

 Technical Assistance
for Local Planning
HOUSING

 COMMUNITY
PLANNING
COLLABORATIVE

Introductions

- Josh Abrams, Principal
- Francesc Marti, ADU Financing
- Sam Dolgoff, Project Manager
- Abbie Tuning, Associate



Work Group Overview

ADU Landscape 101: Where are we now?

Zoning, Streamlining, Preapproving:
Steps to Promote ADUs

Hot Topics: Amnesty & Condoization

Affordable ADUs: Fee Waivers, Loan
Programs, Incentives & Financing

Helping Homeowners Build ADUs:
Putting it all Together

Agenda

- ADU Financing
- ADU Affordability Programs and Incentives



ADU Financing Landscape

- ADU Financing Costs
- Financing Tools Currently Available
- Challenges and Friction Points
- Recommendations for Improving Financing Accessibility

ADU Cost Quiz



On average, how much does it cost to build an 800 square foot detached ADU in your jurisdiction?

How Much does it Cost to Build an ADU?



**Rule of thumb:
\$400 to \$550 per
square feet**



**Conversions are
less expensive
than new
construction**



**Design +
Permitting = 15%
of costs**

ADU Type	Typical Cost Range	Price/Sq Ft.
New Construction 500 sq ft <i>Studio</i>	\$270,000 - \$340,000	\$550-670
New Construction 800 sq ft <i>1-Bedroom</i>	\$390,000 - \$490,000	\$500-600
New Construction 12,000 sq ft <i>2-Bedroom</i>	\$560,000 - \$670,000	\$470-570
Garage Conversion	\$236,000 - \$290,000	\$390-480
Conversion Unfinished Space	\$150,000 - \$190,000	\$250-300

ADU Calculators

Existing County Calculators:

- Alameda
- Marin
- Napa
- San Mateo
- Santa Clara
- Sonoma

Talk to Sam Dolgoff you have questions

San Mateo County ADU Calculator

Save My ADU Profile

English

Accessory Dwelling Unit Calculator

My ADU Detailed Profile Report

My ADU Features

Structure Construction Rents Finances

Use Default Construction Costs

The construction assumptions have been pre-populated below based on city/county averages. Uncheck to enter your own construction costs.

Site Condition / Construction Difficulty

Typical
Leveled site without geologic, water, or vehicle access issues

Some Challenges
Minor slopes or geologic issues that require excavation or grading before construction.

Difficult
Steep slopes or geologic features that require excavation or grading before construction or issues with water or vehicle access

Quality Construction

Low Cost
Budget-friendly, including entry level appliances, cabinets, countertops, and carpet.

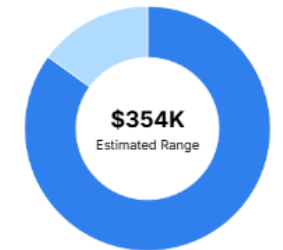
Standard
Higher quality than low cost, including stainless steel appliances, solid countertops, and a mix of carpet and hardwood or tile.

My ADU Results

Costs Value Projections

Development Costs

\$318K - \$389K



- Hard Costs cover constructing your ADU, like labor and materials. **\$300,475**
- Soft Costs cover professional services, like hiring architects. **\$53,025**

*Planning Preliminary Ministerial Review: \$648 (2023-24 fee schedule) Please consult with the Building Division (building@cityofepa.org) for estimated ADU building permit fees

No fee data is available at this time.

Monthly Rent

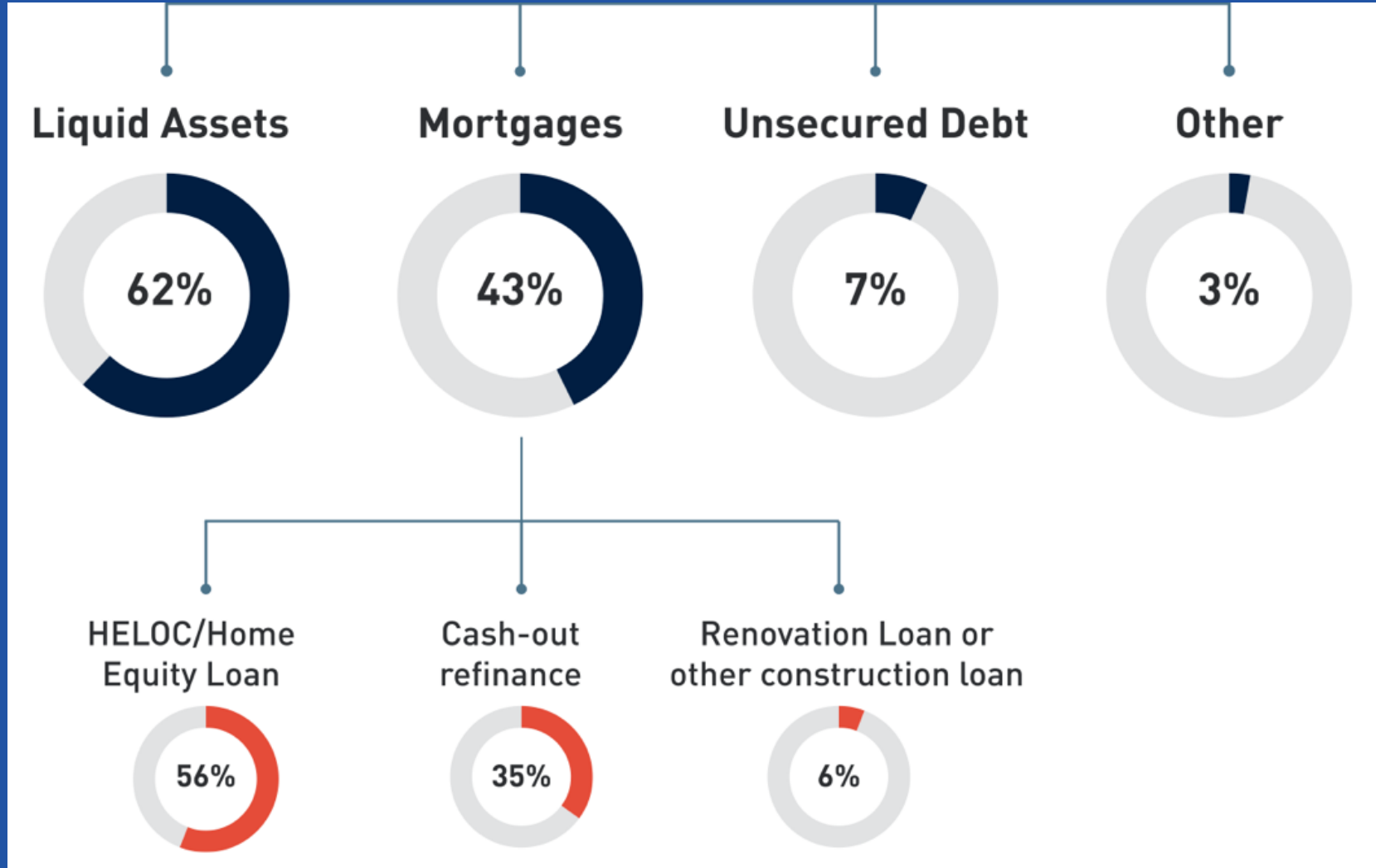
\$1,700

Estimated Range \$1,600 - \$1,900

Monthly Expenses

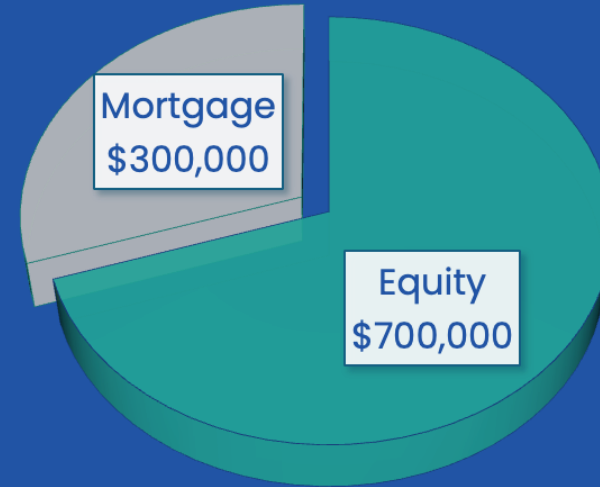
\$1,600 - \$1,900

How Homeowners Pay for ADUs



Source: Turner Center Report: *ADU Construction Financing: Opportunities to Expand Access for Homeowners*, July 2022

How a Home Equity Loan Works



$\$800,000$ (Max Debt) - $\$300,000$ (Mortgage) =



$\$500,000$ Home Equity Loan

Valued at \$1 million

Maximum Debt Supported:
80% = $\$800,000$

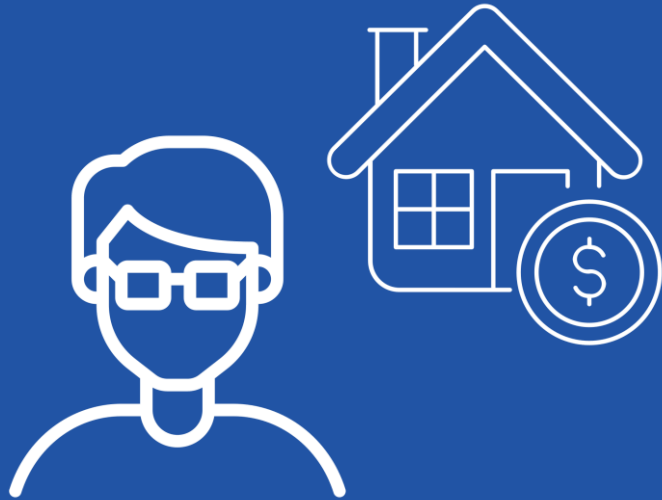
Requires repayment and income!

Who Can Access ADU Financing?



People often piece together financing through a mix of savings, support from family, and loans.

Common Question: How do I pay for my ADU?



Josh wants to build an ADU. He bought his house a couple years ago with 15% down. Has a comfortable income but not sure if he has enough equity to cover the project cost.

- It can be hard because banks want both equity and income
- People are often creative (Savings, borrow from family, Co-signers, loan from 401k)
- One thing is you might need to do a two-step process (construction loan then, maybe home equity loan, or cash-out refinance)
- Pep talk about mortgage broker or bank



Local and Alternative Financing

- Local Credit Union Products
 - Monterra (formerly San Mateo Credit Union)
 - ADU Bridge Loan
 - Interest-only loan, advanced monthly
 - Maximum term of 12 months
 - Considers up to 75% of rental income
 - Redwood Credit Union
 - ADU Construction Loan
 - 20 year fixed rate second mortgage loan
 - Initial draw period of one year with interest only payments
 - Loan amount can be up to \$300,000.
 - Takes into account rental income from your ADU
- Alternative Financing Products

Common Question: Taxes



Homeowner:
“How much will
my taxes go up?”

Tax Considerations



Property Taxes

- **ADU will be assessed based on construction costs**, not the main home

Bottom Line for Homeowners: Your main house will not be reassessed at current market value, but your property taxes may go up slightly due to the ADU.

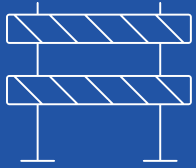


Rental Income

- **Rental Income** is taxable
- **Deductions allowed** for maintenance, utilities, loan interest, and depreciation

Bottom Line for Homeowners: Although rental income may impact your taxes, there are many avenues to reduce or offset the tax liability.

Challenges and Friction Points For Homeowners



Access Barriers

- Lack of Awareness
- Equity reliance
- Income limits



Appraisal and Valuation Challenges

- Undervaluation due to lack of comparisons
- Not recognizing future rental income



Process Barriers

- Loan denials
- Documentation requirements
- Long approval timelines



Construction Barriers

- Cost overruns
- Contractor Availability and Pricing

Recommended Strategies



Workshops

- Equity strategies, eligibility, program benefits



Resource Guides

- Localized guides, simplified processes



Streamline Permitting

- Pre-approved designs, fee waivers



Foster Financing Connections

- Credit unions, ADU support organizations

Financing Resources for Homeowners

Existing Resources

- ADU Calculators
- Casita Coalition Homeowner Guides

Potential Resources

- Financing Overview for Homeowner (PPT)
- Financing One-Pager for Homeowners

- What resources would be helpful for your jurisdiction or residents?

ADU Affordability

- Why (Why Not)
- Incentives and Requirements – Finding the Right Balance
- Tips and Tricks
- Speakers
- Resources

Scenario One

You 85-year-old mother-in-law, Edith Marie, needs to move. Your partner wants to tear up your beloved garden and build an ADU for her. You are, um, less than excited about having her so close, the loss of privacy and loss of your yard. The ADU would cost \$300,000.

Your partner discovers your city has a no-strings-attached grant program.

Which of these would help agree to build the ADU right away?

\$2K, \$5K, 10K, \$20K, nope just nope



Scenario Two

You are 55 and are desperate to retire before the planning for RHNA 7 Housing Elements starts. You want to build an ADU for rental income and to have someone around the property when you move to Portugal for the winters. Or maybe you will live in the ADU. Or maybe your kids will live in it. The ADU costs \$300,000.

The city has a program where they will give you a grant if you add a deed restriction to your ADU agreeing to rent to a low-income tenant for 20 years (\$1500 a month rent instead of \$2000).

How much money would you need to agree to deed restriction?

\$2K, \$5K, 10K, \$20K, nope just nope



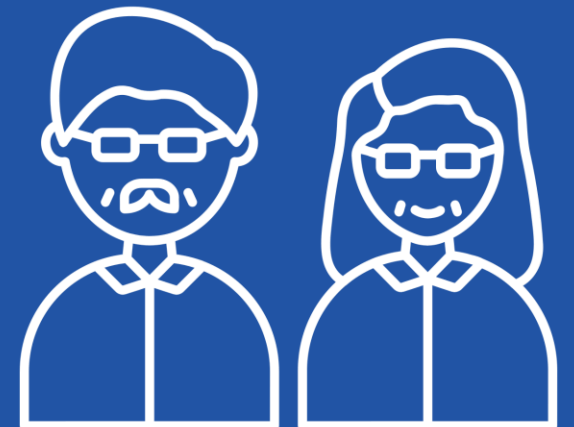
Scenario Three

You are 55 and are desperate to retire before the planning for RHNA 7 Housing Elements starts. You want to/plan to build an ADU for rental income and to have someone around the property when you move Portugal for the winters. Or maybe you will live in the ADU. Or maybe your kids will live in it. The ADU costs \$300,000 and you just have not had the time to get the process started, so it has not moved.

The city has a program where they waive all permit fees (worth \$4000) if you can get your building permit in the next year.

Does this help you get off your duff and get moving?

For sure, Probably, Maybe, Probably not, Nope



Affordability Agenda

1. Why (Why Not)
2. Incentives and Requirements – Finding the Right Balance
3. Tips and Tricks
4. Speakers
5. Resources



Why are ADU Affordability Programs Good



Homeowner

- Builds wealth and stability
- Expensive and complicated -
Might not be possible without government funding



Jurisdiction

- RHNA
- AFFH
- PACD
 - (Popular among constituents/decisionmakers)



Renter

- Quality, affordable housing
- High resource neighborhood

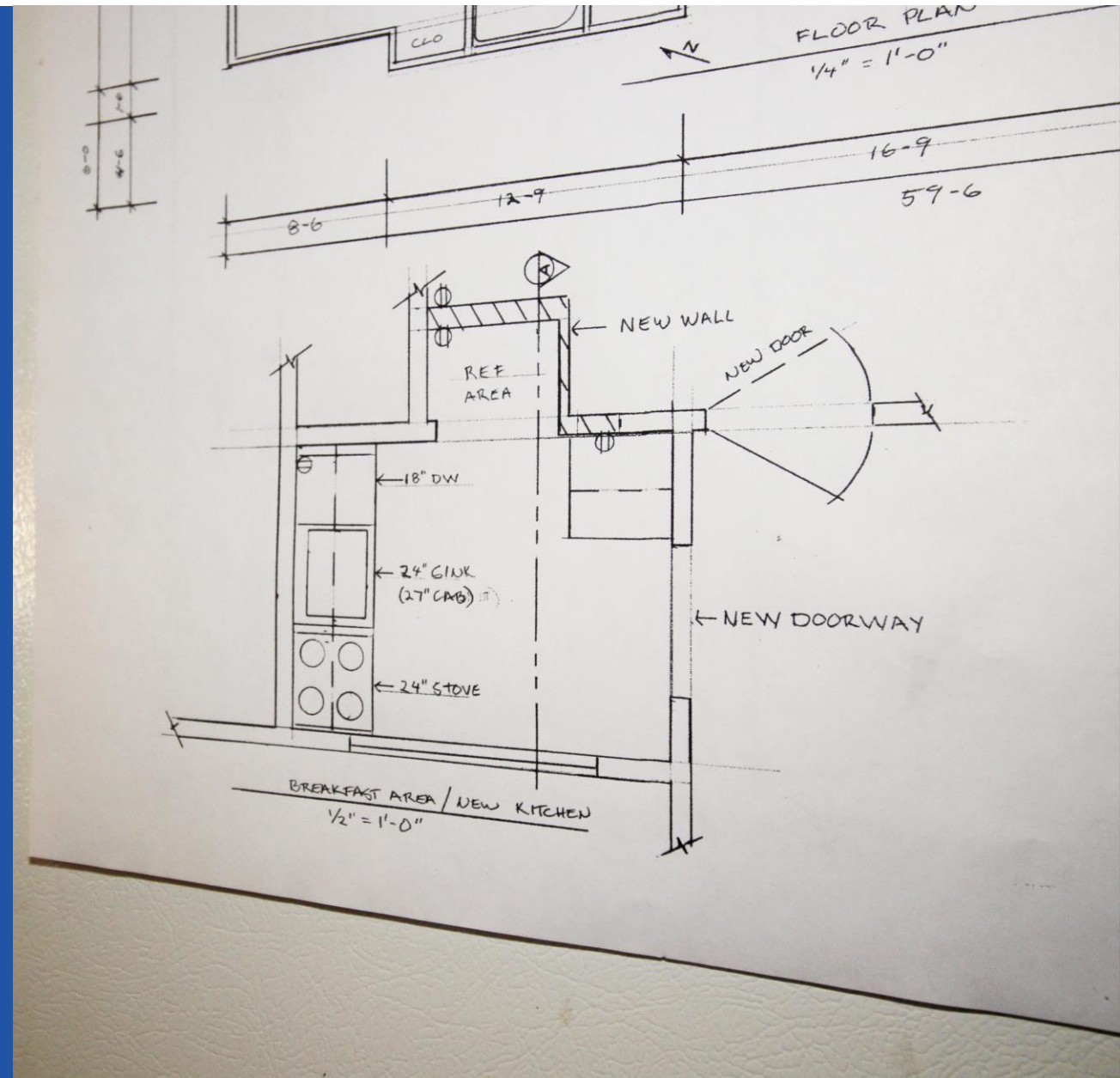


Society

- More homes are needed
- Often remains affordable after the restriction/ ADUs are naturally affordable

Why Not

1. Difficult to administer
2. Hard to get incentives/requirements balance right
3. Hard to attract outside subsidy
4. Often short term
5. Often small
6. High cost/better use of money



Fundamental Balancing Act

Incentives

Requirements



Incentives and Requirements

Not generous enough
No takers

Just Right

Too Generous
*Immediately
oversubscribed*



Remember: I am
not a rational actor
(and I don't play
one on TV)

Fundamental Choice

Tenants
(Affordable rents)

Homeowners
(Low/mod income
homeowners)

Financial Incentives

- Grants
- Forgivable Loans
- Low Interest Loans
- Deferred Loans
- Permit Waivers/Reimbursements

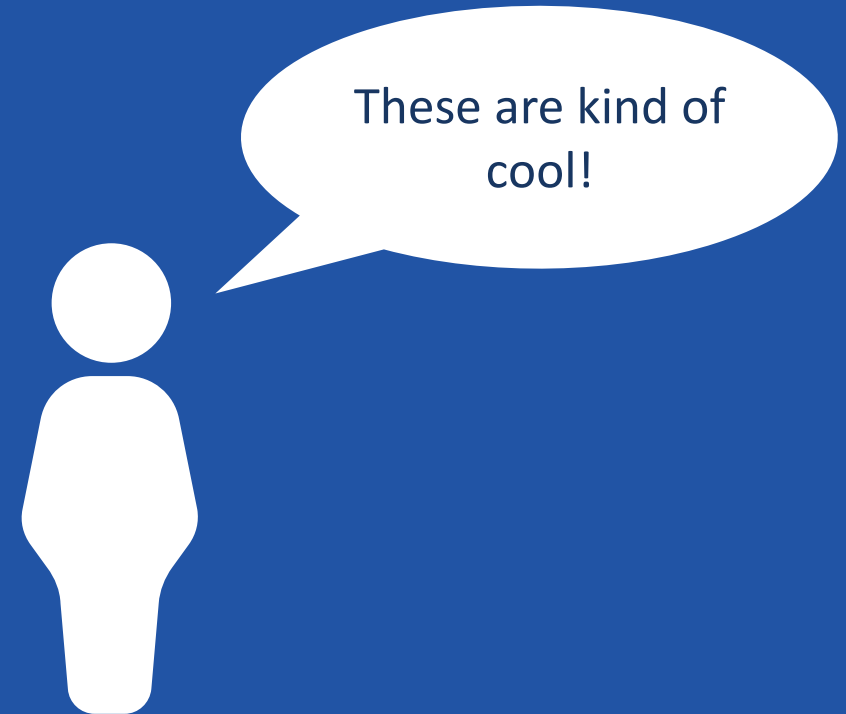


Nonfinancial incentives

- Zoning incentives (bonus ADU or loosening restrictions)
- Contractor management support
- Landlord training
- Help finding a tenant
- Backyard ADU model

Much lower cost to implement

Proven highly effective in some jurisdictions



Requirements

- Rent affordably for X years
- Rent to income-qualified tenants
- Rent to section 8 voucher holders
- Rent as work force housing* (i.e. to public school district staff

- Or be lower income



I'm afraid of
commitment (and
deed restrictions)

Common Challenges

- Incentives/Requirements off
 - Low enrollment
 - Too high enrollment
- Hard to run
 - Difficult to verify income of tenants
 - Difficult to monitor ongoing compliance with requirements



Tips and Tricks

- Easy in
 - Good marketing
 - Easy application
 - Simple to understand requirements
 - Balanced incentives and requirements
- Easy out
 - No long-term requirements
 - No deed restrictions
- Easy on administrator
 - Budget for admin
 - Use existing monitoring programs



Sample Program 1

Incentive: \$40,000 grant for predevelopment

Requirement:

- Homeowner 80% of AMI

Results:

- Immediately over subscribed

Questions:

- Do the incentives and requirements seem in balance?
- In what ways does it feel like a good use of funds?
- In what ways are there better uses of funds?



Sample Program 2

Incentive: \$25,000 (studio) - \$85,000 (2 bedroom) grant; training

Requirement:

- Homeowner 80% of AMI,
- Rents set at 80% AMI (or family member) for 5 years

Results:

- Lots of uptake

Questions:

- Do the incentives and requirements seem in balance?
- In what ways does it feel like a good use of funds?
- In what ways are there better uses of funds?



Sample Program 3

Goals:

- 1) Get more housing generally (which tends to be moderately affordable)
- 2) Support school district employees

Requirement:

- Rent to school district employee for 5 years
- Rents capped at HUD Fair Market values
- Opt out any time and pay back subsidy proportional

Incentive:

- Fee waivers
- Yearly reimbursement for property tax increase

Questions:

- Do the incentives and requirements seem in balance?
- What are your thoughts on this program?



Sample Program 4

Incentive: \$225,000 loan, 1% interest, deferred payment

Requirement:

- Rent to a Section 8 voucher holder for 7 years
- Opt out by paying money back

Questions:

- Do the incentives and requirements seem in balance?
- What do you think of this program?



Sample Programs 5

Incentive:

- \$50,000 for JADU
- \$75,000 for conversion
- ADA and engineering grants
- Construction management assistance

Requirement:

- Rent to low-income resident
- 5% of loan forgiven per year

Results

- Low uptake

Questions:

- Do the incentives and requirements seem in balance?
- In what ways does it feel like a good use of funds?
- In what ways are there better uses of funds?
- What could you do to increase uptake?



Sample Program 6

Incentive:

- One extra market rate ADU

Requirement:

- One affordable ADU
- Low-income rents for 10 years or
- Moderate income at 15 years

Notes:

- Repeat as many times as you want
- Only near transit



Appendix

- Financing Products

Financing For High Income, High Equity



High Income
High Equity

- ✓ Cash savings
- ✓ HELOC/ Home Equity Loan
- ✓ Cash Out Refinance
- ✓ Construction Loan
- ✓ Bridge Loan
- ✓ Renovation Loan

Access to lots of financing options

Financing for High Income, Low Equity



- ✓ Cash savings
- ✓ Construction Loan
- ✓ Bridge Loan
- ✓ Renovation Loan
- ✓ 401(k) loan

Less access but still may be able to find financing.

Financing For Low Income, High Equity



- ✓ Reverse Mortgages
- ✓ 401(k) loan
- ✓ *Renovation Loan **
- ✓ *HELOC/ Home Equity Loan**
- ✓ *Cash Out Refinance**

*These are more difficult. May be inaccessible due to Debt-to-Income(DTI) and credit requirements.

Financing For Low Income, Low Equity



- ✓ Loans from friends
- ✓ or family
- ✓ Public Subsidy
- ✓ 401(k) loan

Few to no options for financing