ASSOCIATION OF BAY AREA GOVERNMENTS
METROPOLITAN TRANSPORTATION COMMISSION

Technical Assistance
for Local Planning
HOUSING

ADU Affordability from Planning to Implementation

Introduction

ADUs can be a valuable strategy for meeting local housing goals. While ADUs are often less expensive to build and rent than other forms of housing, costs remain high. ADU affordability programs help by providing financial and other incentives for qualified homeowners, which can increase production and housing options, particularly for low- and moderate-income households.

Affordability programs are not one-size fits all. They are flexible and can be designed in a variety of ways to contribute to local housing goals. Potential goals include:

- Increase ADU production and housing options
- Increase affordable rental units
- Provide support to homeowners who might otherwise not be able to afford to build an ADU
- Encourage below-market rental options
- Provide options for multi-generational living
- Reduce displacement for low- and moderate-income residents such as seniors, young families and local workers

This memo provides guidance on the following:

What to Know Before You Start

1. Balancing Incentives and Requirements
2. Types of Incentives
3. Affordability Requirements
4. Supporting Low-Income Homeowners
5. Designing an ADU Affordability Program

Getting Started

1. Checklists for Developing an ADU Affordability Program
2. Affordability in Action: Examples & Case Studies

Balancing Incentives & Requirements

ADU affordability programs generally consist of two parts:

- **Incentive:** A benefit to the homeowner that encourages ADU construction. Common benefits include grants or loans, project management support, and/or zoning changes that expand the size or number of ADUs allowed.
- **Requirement:** An agreement the homeowner makes to rent the new ADU at an affordable rate for a certain period or a requirement that the homeowner be lower income to qualify.

Pairing incentives and requirements can encourage homeowners to construct ADUs, while increasing the availability of affordable ADUs for rent. **The key is to make sure incentives are valuable enough to outweigh affordability requirements.** If program incentives do not provide a large enough benefit to balance the effort of meeting requirements, a program may have low participation. If incentives are too generous without rigorous enough requirements, then the program may become over-subscribed.

Types of Incentives

ADU affordability incentives generally fall into three categories: financial assistance, resources and technical support, or zoning allowances.

Incentives are meant to meaningfully reduce barriers to building an ADU and align with the needs of the target group. While the most common incentives used by jurisdictions are loans and other financial assistance, some of the most promising, and sometimes overlooked incentives involve technical support for homeowners and zoning that allows larger or more ADUs on a property. Non-financial incentives can be low cost and highly effective.

Time-limited Incentives: Additional, time-limited incentives can function like a sale, encouraging property owners to build ADUs immediately and kickstarting a larger program. This can look like additional zoning allowances, fee waivers, project management assistance, or lower interest rates on a short-term loan.

Below is an overview of different types of incentives.

Financial Assistance Incentives

Type	Description
Loans – e.g., Low Interest, Deferred, Forgivable, Revolving	**Forgivable or Deferred Loans:** Forgive or defer loans for ADUs rented affordably for a set period. Loan forgiveness can also be phased in, with a portion of the loan forgiven for every year the unit is rented affordably. These are often very desirable for homeowners. **Low Interest Loans:** Offer interest rates lower than what homeowners could get on the open market. **Revolving Loan Funds:** Allow the program to issue new loans as old ones are paid back.
Grants	Grant funds to help cover general expenses or earmarked for specific project costs such as design or construction. Amounts can be scaled to a jurisdiction's funding capacity. The larger the grant amount the more appealing the program is to property owners.
Fee Reduction	Waived or reimbursed costs associated with permitting such as school impact fees, inspection fees, or plan check fees. Fee waivers are relatively low cost to implement and popular with homeowners.
Cost Reimbursement	Reimburse new costs associated with the ADU, such as annual property tax increase based on post-ADU valuation and increased insurance fees associated with the ADU or rental property.

Resources and Technical Support

Type	Description
Project Management Education & Training	Create educational materials and training events to help homeowners start the ADU development process.
Project Management Services	Provide discounted or free professional project management. Many homeowners are overwhelmed by the prospect of managing a complicated construction project, so this can be a valuable incentive.

Type	Description
Nonprofit Support	Partner with a nonprofit to build and rent ADUs affordably in partnership with homeowners. At the conclusion of the program the homeowner may be given the ADU or allowed to purchase it at a reduced rate. This is a good option for programs serving low-income homeowners and homeowners with limited equity. Partnering with nonprofit service providers can further reduce program costs.
Tenant Search & Management	Offer training to help new landlords learn the law and best practices or assist with the tenant search and rental agreement process. Becoming a landlord is often a key limiting factor for prospective ADU owners.

Zoning Allowances

Granting zoning bonuses in exchange for affordability requirements can be a highly effective tool for encouraging homeowners to build an ADU. Consider zoning allowances for program participants like:

- Increased floor-area ratio or larger ADU size
- Reduced setbacks
- Additional ADUs beyond what is normally allowed
- Allowing ADU condominiums and separate conveyance

Affordability Requirements

Requirements can look very different across jurisdictions depending on local goals and needs. Effective programs combine several of the requirements listed below to fit local capacity and effectively balance incentives.

Requirement	Description
Maintain Affordability	Property owners rent the ADU at an affordable rate to eligible tenants for a set duration.
Charge Fair Rent	Rent amounts can be set by the jurisdiction but usually align with HUD fair market rent and income levels. Rent can also be limited to one-third of the tenant's income.
Rent to Local Workforce	Partner with community organizations to match ADU owners with local teachers, medical staff, or other essential service providers.
Rent to Low-Income Tenants	Rent to income qualified tenants at affordable rates. The jurisdiction decides on income limits and sets up a monitoring system.
Rent to Section 8 Tenants	Most jurisdictions have a long list of community members with Section 8 vouchers that never get used. This option can save staff time because the program can use existing Section 8 monitoring systems for verifying program compliance.
Rent Reporting	Property owners report rental income to the jurisdiction or administrating organization, along with any required proof of ongoing program compliance.

Should affordability programs allow renting to family members? Property owners often want to build ADUs to house a family member. Jurisdictions can decide whether to set program parameters that allow renting to family and friends - one option is to require proof that these tenants meet the same income or household characteristic requirements as other participating tenants.

Supporting Low-Income Homeowners & Preventing Displacement

ADU affordability programs can be structured to center the needs of low-income homeowners, homeowners in low-income census tracts, employees of local businesses, or homeowners who are at risk of displacement. These households often face unique challenges in ADU development. There are notable benefits to supporting these homeowners in building new ADUs, from furthering low-income housing goals to increasing property values in under-resourced neighborhoods. Low-income homeowners are also statistically more likely to rent their ADU to other low-income households and families with children[1].

Jurisdictions can consider structuring a program to address their unique needs, such as:

- **Access and Information:** Homeowners in under-resourced communities may have less experience navigating jurisdiction programs. Improving accessibility with culturally appropriate outreach and resources is critical for effectively serving low-income homeowners.
- **Appraisal and Valuation:** Jurisdictions can offer information and education on how building an ADU may affect property valuation and connect homeowners with resources in their county.
- **Financing:** Low-income homeowners may have difficulty accessing traditional financing options, for instance they may not have enough equity to leverage for a bank loan or limited income to qualify for a loan. Incentives for these households should consider ways to improve financial accessibility and non-traditional financing options.
- **Project Management and Construction:** Low-income homeowners may not be able to afford professional services for project management and construction, or they may have little experience navigating the process of hiring a professional. Free or low-cost management services provided by a nonprofit or third party can significantly reduce this barrier to entry.

Partnerships: Partnering with nonprofit service providers and local financial institutions like credit unions can reduce the administrative and financial burden of delivering culturally appropriate assistance to under-resourced communities, while improving program reach and impact.

[1] 2021 Implementing the Backyard Revolution: Perspectives of California's ADU Owners Study, UC Berkeley Center for Community Innovation.

Designing an ADU Affordability Program

Each jurisdiction's needs and goals for affordability programs will vary. The following table helps identify strategies that may be a good fit based on local context and housing goals.

Situation	Considerations
Goal of increasing the number of affordable rental ADUs	• Loan or grant program (requires ADU be rented affordably) • Zoning allowances (requires ADU be rented affordably) • Project management assistance and landlord education and training (potentially through partnership with a nonprofit service provider)
Low- or moderate-income homeowners would benefit from additional rental income to stay in their homes	• Program eligibility that prioritizes low-income homeowners, or homes in low-income census tracts • Loan/grant program that reduces upfront costs and allows ADUs to be rented at market rates • Fee waiver program for income-qualified households • Reimbursement program for increased costs associated with building and renting an ADU (property taxes, insurance, etc.) • Project management assistance
Jurisdiction has access to funding	• Loan/grant program (requires ADU be rented affordably) • Reimbursement for increased costs of building/renting an ADU
Jurisdiction has limited funding to offer financial incentives	• Zoning changes • Fee waiver program • Project management assistance
Jurisdiction has limited staff capacity to run a new program	• Partnership with nonprofit service providers, grants for technical assistance programs • Monitor for affordability compliance through existing programs (e.g., Section 8) • Zoning allowances • Fee waivers

Situation	Considerations
Strong nonprofit partners already operate in the community	Partnership with nonprofits to provide homeowners with: • Project management assistance for ADU construction • Assistance with finding and screening tenants • Landlord education and training • Accessing financing
AFFH goal to increase affordable housing in high resource areas	• Zoning allowances or bonus ADU (requires ADU be rented affordably) • Loan program (requires ADU be rented affordably) • Landlord education and training

Strategies for an Effective Program

When developing a program, jurisdictions can strive for greater accessibility and impact with strategies that refine how the program functions. Some strategies to consider include:

- **Lower Barriers to Entry:** Make it easy for homeowners to learn about the program and engage with staff. Offer accessible marketing, a clear application process and straightforward requirements. The easier the program is to understand, the less intimidated homeowners will be.
- **Limit Requirements Term:** The duration of requirements should be reasonably short – generally five to 10 years. Programs with longer time frames often face low participation.
- **Allowance to Opt Out:** Allow homeowners to opt out early from the program if they need to. When a homeowner opts out of ongoing participation staff can reduce or remove incentive benefits, such as ending tenant management services or requiring repayment of a prorated portion of financial assistance.
- **Extend Participation:** If incentives are sustainable, consider offering property owners the option to extend participation for as long as they continue renting to a qualified tenant.
- **Be Thoughtful with Deed Restriction:** While deed restrictions are not uncommon, property owners are often wary of that level of upfront long-term commitment, so many programs requiring deed restriction face low participation.
- **Partner with Nonprofits and Community Groups:** Working with established service providers can increase the overall capacity of the program and improve outcomes. Partnerships will reduce the administrative burden, improve marketing reach and allow staff to leverage the experience of local experts.

- **Partner with Financial Services:** Consult with local loan administrators and other financial service providers to right-size financial incentives. Exploring partnership can encourage financial institutions like credit unions to create loan products tailored for ADU development.

- **Partner with Neighboring Jurisdictions:** Teaming up with neighboring cities can improve program reach, increase financial capacity and reduce staff burden.

- **Develop Robust Public Information:** The Association of Bay Area Governments (ABAG) Regional Housing Technical Assistance (RHTA) Guide to Getting ADUs Built: Putting it All Together contains strategies for effective program public communications.

Checklists for Developing an ADU Affordability Program

Checklist: Program Planning

- ☐ **Prioritize early collaboration with building and planning departments and other relevant agencies.** Discuss the housing needs of your jurisdiction, the goals of your program and your internal capacity. Keeping everyone on the same page will reduce confusion and streamline internal communication.
- ☐ **Set initial program goals** (future program expansion is always an option.)
  - Incentives and requirements that are appropriate to local needs and desired outcomes
  - Program administration that is accessible for the target population and simple for staff to oversee
- ☐ **Research the needs, impacts and costs of an affordability program that meets your local goals.** Talk with local service providers, housing advocates and community groups.
- ☐ **Plan for program administration early on, accounting for the resources and budget necessary to maintain the program.** Consider existing jurisdiction programs that the affordability program could partner with. Combining programs can reduce staff burden and implementation challenges.
- ☐ **Consider partnership with community-based organizations or nonprofit service providers** to assist with incentive administration, monitoring systems and outreach.
- ☐ **Customize the program to your jurisdiction's capacity.** Jurisdictions with access to a steady funding source, available staff and robust community partnerships can consider a more complex program. Jurisdictions with fewer resources may consider more streamlined programs that focus on serving priority populations and are simpler to administer. See the section "Designing an ADU Affordability Program" for further guidance.
- ☐ **Design your program to address local context and needs.** Affordability programs should be structured to meet community needs and goals, whether those goals are increasing wealth for low-income homeowners or increasing the number of affordable homes for renters.
- ☐ **Consider tools for low-income homeowners.** Consider which communities and neighborhoods may benefit from extra support, in particular low-income households and historically under-resourced neighborhoods. Work with local community organizations and nonprofit service providers to design resources that meet the needs of these groups.
- ☐ **Budget and plan for ongoing outreach.** Without a strong outreach strategy, even a well-designed program will have few applicants. Ongoing outreach will ensure program longevity and increase accessibility for hard-to-reach communities. Work with public information officers in your jurisdiction

to create web resources and other engagement tools that include program information for both homeowners and renters.

ADU Affordability & Amnesty: ADU affordability programs can be designed to align with unpermitted ADU amnesty programs. This can look like offering a no-fee amnesty permitting process, or renovation support for low-income homeowners. See the ABAG RHTA Amnesty for Unpermitted ADUs memo for guidance.

Checklist: Preparing for Program Administration

- ☐ **Set homeowner eligibility criteria based on program goals and local community context.** Consider your target audience and how applicants will prove program eligibility.
- ☐ **Set renter eligibility criteria if program requirements** include renting the new ADU to a low-income household.
- ☐ **Establish monitoring systems.** To verify rental rates, programs may require a homeowner to annually submit an affidavit or tax records. Many programs also require tenant income verification, but homeowners often struggle to get their tenants to disclose this information. Consider streamlining the tracking process by using existing affordable housing monitoring systems (such as Section 8 programs). If using income verification, consider a program that verifies at time of move in and not annually.
- ☐ **Establish a process for homeowners to provide verification that requirements are met to begin receiving incentives.** Consider a reporting process for the homeowner, service provider, or program staff to track incentives provided throughout the ADU construction and rental process.
- ☐ **Create an application form for homeowners to apply for the program.** Include a checklist and process explanation to help homeowners understand what to expect.
- ☐ **Teach staff and departments about the new process** so they are ready to provide information to potential applicants and accept and review applications.
- ☐ **Post information to the jurisdiction website.** Public information that is easy to access and understand is key to encouraging program participation.

Affordability in Action: Examples & Case Studies

Example Program Design: Sunny City ADU Affordability Program

“Sunny City” is not intended to represent a real jurisdiction; it is only meant to act as a placeholder name for an example program. This example program is not intended as a template but can be considered an example of how jurisdictions can structure a program to meet local needs while fitting local capacity.

Sunny City's ADU Affordability Needs

Sunny City is facing a shortage of housing affordable to middle- and low-income households, making it hard to keep essential workers in the area. The school district is struggling to retain teachers.

Sunny City does not have access to a large enough funding source to provide grants, but they do have enough funding to strategically eliminate fees associated with building an ADU. Sunny City also has several high-resource neighborhoods where homeowners may not need much assistance with construction but could use an extra push to get the process started.

Program Goals

- **Increase the number of homes by incentivizing the construction of ADUs** that will be rented as long-term housing.
- **Provide homes for school district staff and teachers**, which will assist in retaining and recruiting qualified teachers and support staff.
- **Ensure that ADUs are rented affordably to school district staff** for at least five years - ideally longer.

Administrative Needs

- **Develop a program that is simple to administer.**
- **Lay building blocks for future expansion of the program** to other employers and community members, if desired.

Sunny City's ADU Affordability Program Design

Sunny City's ADU Affordability Program is designed to prioritize affordable housing for teachers. Sunny City partnered with their school district to help fund the program and administer incentives. This partnership also helps improve program outreach since the school district can share information with both their employees and their wider community network.

Program Incentives	Program Requirements
• The program saves homeowners who construct an ADU approximately $8,000 through a series of fee waivers • School district covers school impact fees • Sunny City covers building permitting fees • Sunny City provides an annual reimbursement for the homeowner's property tax increase associated with the new ADU for every year that the ADU is rented to a school district staff member	• Homeowner agrees to rent the new ADU to a school district staff member for at least five years, with options to extend the rental agreement • Homeowner charges no more than HUD fair market rents • Homeowners may opt out after one year, after which they must pay back a prorated portion of their initial incentive

Sunny City's ADU Affordability Program improves both overall housing affordability and teacher retention by encouraging the construction of new homes and ensuring that those homes become affordable housing for teachers and other school district staff. Program administration is streamlined by sharing the implementation and outreach burden across both the Sunny City Planning & Housing Department and the Sunny City School District.

Real Affordability Programs in California

Below is a list of affordability programs from across the state. This is not an exhaustive list but rather examples of some of the affordability programs that jurisdictions offer. The examples provided include the program type, incentives and requirements, however effectiveness of the programs is not assessed.

Program	Program Type	Incentives	Requirements
ADU Accelerator Rebate Program Concord Danville Dublin Walnut Creek	Financial Assistance	15 cities in Contra Costa and Alameda Counties offer rebates for ADU construction costs through state funding, with larger rebates for ADUs rented affordably.	Eligibility for the highest rebate amount requires that ADUs must be deed restricted for rental to a low-income household for a minimum of 20 years.
City of Chula Vista ADU Loan Program	Financial Assistance	Deferred, forgivable loan up to $100k to build an ADU.	ADU must be rented to a low-income household for minimum 15 years.
City of Del Mar ADU Incentive Program	Zoning Allowances	For each deed restricted ADU the homeowner may add a bonus 500 sq ft FAR to an ADU, or a bonus JADU to the primary residence.	ADU must be deed restricted for rent to a low-income household for minimum 30 years.
City of East Palo Alto CalHome Loans for ADUs/JADUs	Financial Assistance, Resources & Technical Support	Nonprofit partnership supporting low-income homeowners. Low-interest, deferred-payment loans of up to $100k. Project management support from nonprofit EPACANDO.	For homeowners at or below 80% AMI. ADU must be rented affordably for households at 80% AMI or less for the life of the loan.
City of El Cajon ADU Loan Program	Financial Assistance	Low-interest, deferred loan of up to $100k for ADU construction costs. Deferred loan term is extended based on rental affordability.	Priority given to properties in "Environmental Justice Areas and/or Racially & Ethnically Concentrated Areas of Poverty." ADU must be rented to households at 150% AMI or less for minimum 5 years.
County of Humboldt ADU Loans	Financial Assistance	Deferred loans to build or repair an ADU.	Homeowners must be low-income.

City of Long Beach Backyard Builders Program	Financial Assistance, Resources & Technical Support	Up to $250k loan with 0% interest. City-appointed project manager provides guidance on choosing the architect, builders, planners and contractors as well as with permits needed for ADU design and construction.	ADU must be rented for a minimum of five years to someone with a housing voucher or to households at 80% AMI or less.
County of Marin ADU Fee Waiver Program	Financial Assistance	Fee waivers up to a certain amount for all ADUs, with higher waivers up to $10k for units deed restricted as affordable.	Deed restriction not required for lowest fee waiver amounts. Higher fee waiver amounts require the ADU to be deed restricted for households at 120% AMI or less for minimum five years.
City of Napa Junior Unit Initiative Program	Financial Assistance, Resources & Technical Support	Technical assistance and financing to build a junior ADU or a conversion ADU. Forgivable and deferred interest financing up to $75k, additional grants for ADA accessibility. Homeowners can use the regional home-match program for tenant screen assistance.	ADU must be rented to households at 80% AMI or less for 20 years.
County of Napa Affordable ADU Program	Financial Assistance	Up to $105k loan, forgiven after five years of program participation. Reimbursement for some building and impact fees.	ADU must be rented to households at 80% AMI or less for five years. Allows renting to family members that meet income eligibility.
City of Pasadena Second Unit ADU Program	Financial Assistance, Resources & Technical Support	Three-year construction loans up to $225k at 1% simple interest. Assistance with financing, designing, permitting, and constructing an ADU.	ADU must be rented to Pasadena housing choice voucher holders for seven years.
Town of Ross ADU Exception	Zoning Allowances	Allows ADUs up to 1200 sq ft.	Deed restriction for very low-income affordability.
City of San Diego ADU Bonus Program	Zoning Allowances	Homeowners may build an additional, non-deed restricted ADU.	A deed-restricted ADU must be rented to a very low- to moderate-income household for 10 - 15 years.

Town of Truckee ADU Loan + Mini-Grant Program	Financial Assistance	Forgivable and low-interest loans, grants, and reimbursements for ADU construction.	Some grants and reimbursements do not have renter eligibility criteria, but encourage participation in Truckee's Lease to Locals program. ADU must be deed restricted to households at 120% AMI or less for at least seven– 10 years, with 12-month minimum leases.
City of Vista ADU Fee Waiver Program	Financial Assistance	Fee waivers for qualifying ADUs.	ADUs must be deed restricted for rent to low-income households for 10 years. Homeowners must provide any documentation necessary to include the ADU in the city's RHNA count.
City of West Hollywood ADU Pilot Program	Financial Assistance	Up to $150k loan for ADU construction, three-year loan with 1% simple interest, deferred payments.	ADU rented to a Section 8 voucher holder or household at 50% AMI or less for minimum seven years.

Regional Housing Technical Assistance Program (RHTA): Links & Contact Information

Accessory Dwelling Unit (ADU) Technical Assistance Guidance, Memos & State Law Resources

Accessory Dwelling Unit (ADU) Technical Assistance Public Information Resources

Peer Cohorts & Work Groups: ADU Work Group Materials

AB 1332 Pre-approved ADU Plans Information Sessions & Resources