

ACCESSORY DWELLING UNITS AS AFFORDABLE HOUSING OPTIONS IN LOS ANGELES COUNTY

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TABLE OF CONTENTS

EXECUTIVE SUMMARY	6
INTRODUCTION	8
Housing Trends in the City & County of Los Angeles	12
The Socio Economics of Homeowners & Renters	13
Housing & COVID-19	18
Discussion on ADUs	19
METHODOLOGY	21
Advisory Board	22
Permit Analysis	22
Census Analysis	22
Interviews	22
Surveys	23
ASSESSMENT OF ADU PERMITS	24
ADU Development Timeline	33
Assessment of ADU Permits	35
UNDERSTANDING THE VIEWPOINT OF EXPERTS	32
Five Key Lessons from the Experts	33
Homeowners & Renters	35
Building & Safety Experts	38
Other Jurisdictions with ADU Programs	38
Manufacturers	43
Financier	45
SURVEY REVIEW: CHALLENGES HOMEOWNERS FACE & PERKS OF AN ADU	47
Four Major Takeaways from the Surveys	48
ADU Homeowner Profile Analysis	49
ADU Renter Profile Analysis	54

ADU LAWS & PROGRAMS	56
Regulations in California	57
The County and City of Los Angeles ADU Programs	60
Regulations in Other Major U.S. Metropolitan Areas	66
A Selection of ADU Programs Around the United States	66
Innovative Policies and Programs	69
RECOMMENDATIONS & LESSONS LEARNED	75
Five Lessons Learned Throughout the Research	78
Values for Los Angeles	80
Streamlining Processes & Technical Assistance	80
Financing & Incentives for Renting at Below-Market	84
Areas For Further Research & Innovation	91
CONCLUSION	92
APPENDICES	94
Appendix A - Interview Questions	95
Appendix B - Survey Questions	99

EXECUTIVE SUMMARY

Los Angeles is facing an unprecedented housing crisis. Prior to COVID, over 500,000 affordable units were needed to meet the needs of the renters in LA County. Due to the economic downturn from COVID over the past year, a staggering number of households are projected to fall into homelessness. Affordable housing options in LA County cannot come soon enough.

Over the last decade, there has been increasing interest in Accessory Dwelling Units (ADUs) across California. Sweeping legislation in 2016 and 2019 have made it easier than ever to build an ADU in nearly any jurisdiction. From 2017 through 2019, nearly 6,400 ADUs have been permitted or built anew in the City of Los Angeles and unincorporated LA County. Because LA County has over half of its residential land dedicated to single family zoning, the opportunity for ADU development is ripe. Further, programs such as the Second Dwelling Unit program within LA County - designed to assist homeowners in developing ADUs and then renting them out at an affordable rate - had hundreds of applicants vying for only a handful of spots. This showcases the desire for individual homeowners to do their part in combating the affordable housing crisis.

Homeowners in both LA County and the City of LA make nearly twice the median income as renters in their respective jurisdictions. Because ADUs tend to rent at a more affordable rate than other housing options, they serve as an opportunity to build wealth for homeowners, while also increasing the stock of high quality, affordable housing options. The process for developing these ADUs and incentivizing homeowners to rent out at an affordable rate, must be further thought through.

Through primary analysis of permit information from both LA County and the City of LA, secondary research of information collected by other institutions, interviews with experts in the local housing industry, interviews with cities outside of California, and a survey administered to ADU homeowners and tenants, it became clear that the barriers that homeowners and potential renters face are often difficult to overcome. There are three major categories of barriers pinpointed:

1. Lack of appropriate financing for ADU development;
2. Complex permitting process for homeowners; and,
3. Misinformation and prejudice towards ADU tenants who are placed through programs.

These issues must be mitigated in order to take advantage of ADUs as an affordable housing stock. The best way to incentivize homeowners to rent out their new units at an affordable rate is through accessible and responsible financing options with public money or property tax incentives. The streamlining of processes, however, will not facilitate affordable units, but does have a monetary benefit both for homeowners and for contractors. The faster a project is completed, the more rental income can be collected, and the more projects that a contractor can complete.

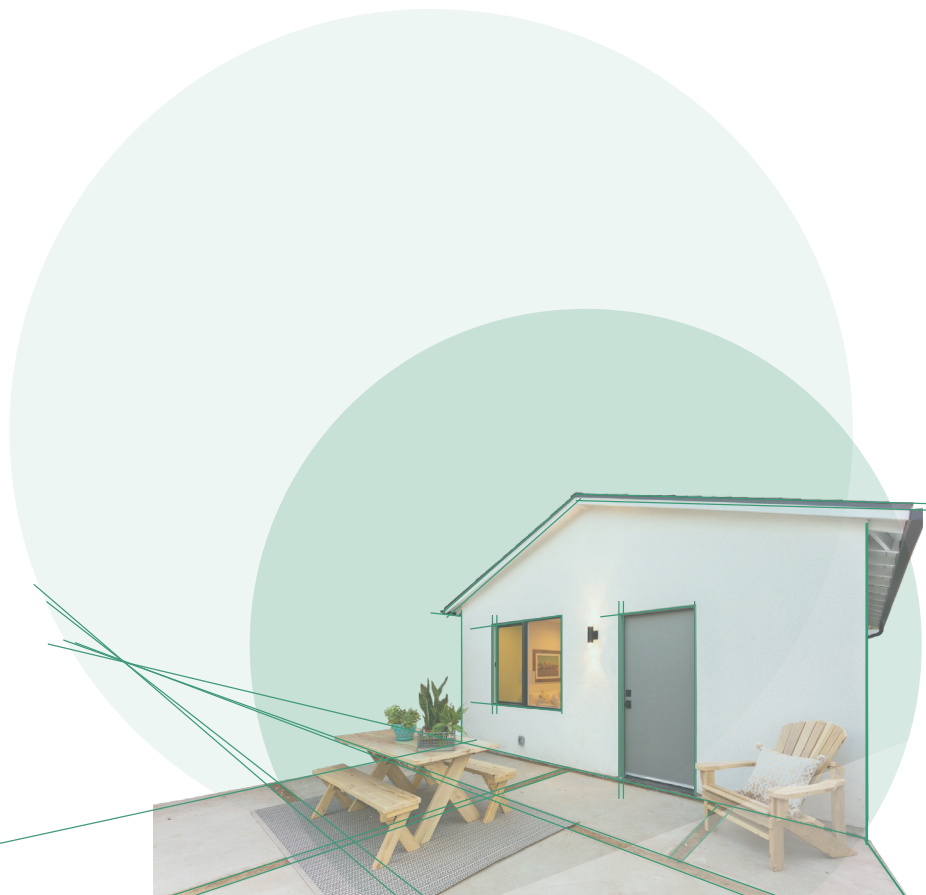
To further facilitate the equitable development of ADUs, LA County must take a racial equity approach to any new programs, incentives, or process development - in conjunction with the newly developed Anti-Racism, Diversity and Inclusion (ARDI) Initiative at the County. Racial equity must be baked into any initiative or program developed by the county, instead of having a pinpointed program for it. This will also assist in discrediting misinformation and prejudice. With racial equity at the forefront of any program, the following recommendations are provided to the County:

1. Streamline processes through the following ways:
 - Conduct an internal assessment of county programs and initiatives.
 - Clarify the pathway for ADU development in a step-by-step guide.
 - Create a list of approved contractors and designers for homeowners to reference.
 - Develop an “ADU Concierge” that helps steward permitting through the process in a timely manner, and provides information to homeowners.
2. Incentivize homeowners to rent their ADUs through financing options including:
 - Property tax rebate for those who rent their unit for no more than 80% AMI.
 - Develop loan products that assist homeowners who would not qualify for traditional financing options such as a refinance or home equity line of credit.
 - Leverage County funds to partner with large banking institutions for scaled ADU development.

The recommendations listed above build from one another, though are not comprehensive. Housing development is a complex industry, and further innovations are needed. However, the County has an opportunity today to continue the trajectory of rapid ADU development, and take advantage of this private housing stock as one of many avenues for alleviating the affordable housing crisis LA is facing post pandemic.

INTRODUCTION

Housing Trends in the City & County of Los Angeles	12
The Socio Economics of Homeowners & Renters	13
Housing & COVID-19	18
Discussion on ADUs	19



Los Angeles County is in the midst of an affordable housing crisis that has worsened over the past year due to COVID-19's economic shutdown. LA County sits among the top three most expensive real estate markets in the country. Since 2011, the median price of homes in Los Angeles County has increased more than 96%, from \$392,000 to 768,046, and rental prices have increased by nearly 65% from \$1,500 to \$2,471.¹ From 2019-2020 home values have risen 8.3%, placing Los Angeles County in the top 10% nationwide for real estate appreciation during that time period. It's estimated that renters in Los Angeles County need to earn more than three times the local minimum wage (\$15 per hour) to afford the median asking rent of \$2,471.² Approximately 31% of moderate income renters pay more than 30% of their income towards housing costs, while nearly 91% of extremely low income renters pay more than 50%.³

The need for affordable housing has sparked interest in alternative forms of housing solutions such as Accessory Dwelling Units. Accessory Dwelling Units (ADUs), commonly referred to as granny flats, second units, and guest houses, are small residential units added to an existing home or built new on the same property.

Junior Accessory Dwelling Units (JADUs), a subtype of Accessory Dwelling Unit, are physically attached to a residential property.⁴ In Los Angeles County, ADUs/JADUs are regulated by [County General Ordinance](#), which dictates ADUs size, height, and compliance requirements. Detached ADUs can be no more than 1200 square feet, 2 stories, and/or 25 ft high. JADUs can be a maximum of 500 square feet but can be no greater than 50% square feet of the size of the existing home. ADUs must be at least 150 square feet and must have one habitable room with a minimum area of 70 square feet.⁵

1: "2020 Los Angeles County - Annual Affordable Housing Outcomes Report." California Housing Partnership, April 30, 2020.

2: "Los Angeles County's Housing Emergency Update." California Housing Partnership, May 2019.

3: Ibid. "Los Angeles County's Housing Emergency Update."

4: Division 7 - STANDARDS FOR SPECIFIC USES | Code of Ordinances, § 22.140.640 - Accessory Dwelling Units and Junior Accessory Dwelling Units (2021).

5: Ibid. "Code of Ordinances, § 22.140.640 - Accessory Dwelling Units and Junior Accessory Dwelling Units (2021)"

ADUs have become increasingly popular in the past decade due in part to the easing of regulations to permit ADU development. In 2016 and 2019, the state of California saw the passage of a series of ADU legislation, such as SB 1609 and AB 68, that removed burdensome permitting and construction requirement barriers, waived small ADU fees, and require local governments to ministerially approve ADU applications in both residential and mixed use zones. In LA County, the ADU permits increased by 180% between 2017 and 2019.

The total development cost of an ADU ranges depending on size, whether its a detached new build, detached garage conversion, attached JADU new build, or JADU renovation in an existing building envelope. According to United Dwelling, a Los Angeles County based ADU developer agency, the average cost to develop a detached new build ADU can range from \$150,000 - \$300,000.⁶ Whereas the average cost to convert an existing garage to an ADU can range from \$30,000 - \$75,000.⁷ The price per square feet (psf) for a detached new build 500 square feet ADU can range from \$300 psf - \$600 psf, and \$125 psf - \$250 psf for a detached new build 1200 square feet ADU. Lastly the price for an existing 500 square feet garage can range from \$60 psf - \$150 psf. In comparison, in California the estimated cost per unit is \$480,000 and \$700 psf for a new construction affordable Low-Income Housing Tax Credit (LIHTC) development.⁸

6: United Dwelling. "United Dwelling - Construction Cost," March 2021.

7: <https://architectsla.com/adu-cost-los-angeles/>

8: Reid, Carolina, Adrian Napolitano, and Beatriz Stambuk-Torres. "The Costs of Affordable Housing Production: Insights from California's 9% Low-Income Housing Tax Credit Program." Turner Center for Housing Innovation, 2020.

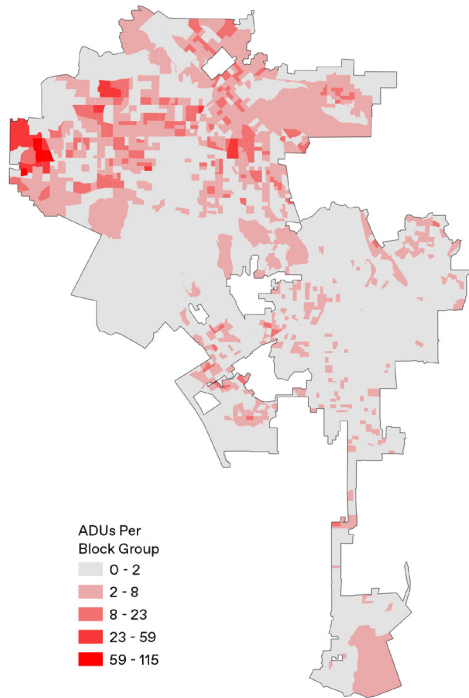


Figure 1: Concentration of ADU in the City of LA by Census Block Group

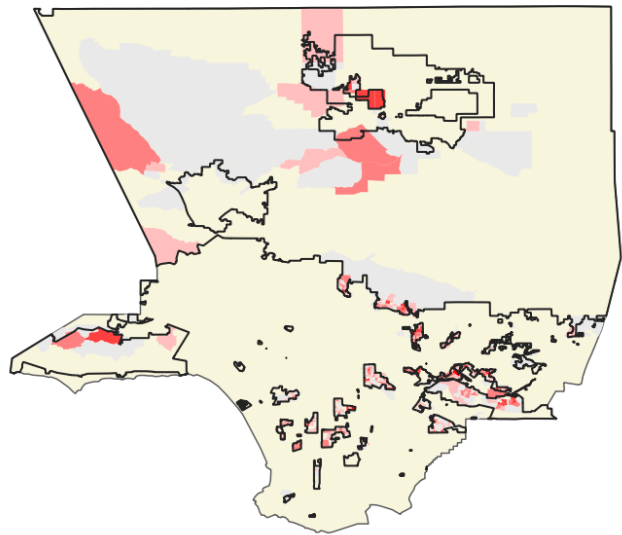


Figure 2: Concentration of ADU in Unincorporated LA County by Census Block Group

Figures 1 and 2 illustrate the concentration of ADUs in the City and County of Los Angeles by census block group. The majority of ADUs tend to be concentrated in the Northern region of the city. Neighborhoods such as West Hills, Northridge, Woodland Hills, and Sun Valley have the densest concentration of ADUs by block group. West LA, Downtown LA, and South Central have the least concentration of ADUs by block group.

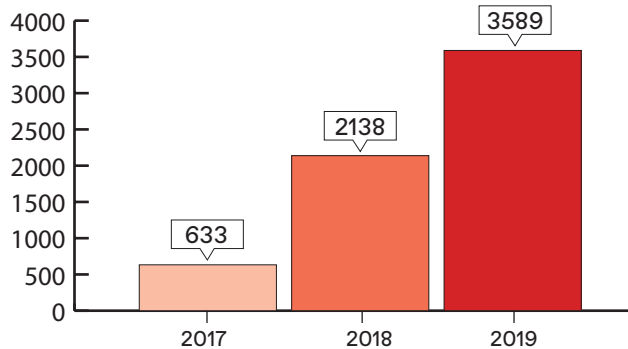


Figure 3: Number of permitted ADUs in Unincorporated LA County & City of LA

Over the course of the last five years, there have been significant changes to the regulations around ADUs. From 2016 onward, there has been deregulation that eased parking requirements and effectively allowed for ADUs to be built by-right. Figure 3 above showcases the significant increase in permitted ADUs from 2017 to 2019 - providing substantial housing stock to each of the two jurisdictions. As these permits continue to trend upward, there is an opportunity to utilize these units as affordable housing stock. Understanding how to best incentivize homeowners to rent at a below market rate will be key in facilitating ADUs as one tool to provide quality affordable housing in LA.

HOUSING TRENDS IN THE COUNTY & CITY OF LOS ANGELES

Los Angeles County is in the midst of both an affordable housing crisis and homelessness crisis, which are both heavily impacted by the lack of affordable housing options. In the 2019 Los Angeles County Housing Assessment,⁹ it was reported LA County is in need of 516,000 affordable units to meet the high need of Angelenos. While the demand for affordable housing has significantly grown, the production and funding for affordable housing units has decreased. From 2016-2018, the rehabilitation and construction of new affordable housing units decreased 31%. Since 2008, cutbacks in federal and state funding have amounted to a reduction of nearly 70%, or approximately \$496 million, in funding for affordable housing production. It's important to note that due to the high demand of households seeking affordable housing units, Los Angeles County Development Authority (LACDA) is no longer accepting affordable housing voucher applications.¹⁰ In 2017, it was reported that current wait time for households seeking affordable housing vouchers is approximately 11 years.¹¹

Homelessness in LA County has grown significantly from 39,414 unhoused residents in 2011 to 66,446 in 2020, a 69% increase. From 2019 to 2020, LA County has seen a 13% rise in homelessness. According to the Los Angeles Homeless Service Authority (LAHSA), the leading causes of homelessness derives from an inadequate stock of affordable housing units, income inequality and systematic racism. In LA County Black/African Americans account for less than 8% of the total population but make up 33.7% of those experiencing homelessness. Similarly, American Indians/Alaskan Natives account for less than 0.2% of the total population but represent 1.2% of the unhoused population. In 2020, it was reported 60% of the unhoused population were experiencing homelessness for the first time and 59% those surveyed cited economic hardship as the leading cause.¹² In contrast, in 2019 it was revealed 23% of the unhoused population were experiencing homelessness for the first time and 53% of those surveyed cited economic hardship.¹³ Despite the 37% increase in first time homelessness from 2019 to 2020, LAHSA's 2020 homeless report attributes dire economic conditions and the legacy of systematic racism prior to COVID-19 as the driving factor for the uptick.¹⁴

9: Ibid. "Los Angeles County's Housing Emergency Update."

10: Los Angeles County Development Authority (LACDA). "Section 8 Program - Applicants," March 2021. <https://wwwwb.lacda.org/section-8/for-section-8-applicants/waiting-list-faqs>.

11: Wick, Julia. "The Waiting List For Section 8 Vouchers In L.A. Is 11 Years Long." LAist, April 2017. https://laist.com/2017/04/04/section_8_waiting_list.php.

12: "2020 Greater Los Angeles Homeless Count Results." Los Angeles Homeless Services Authority (LAHSA), September 2020. <https://www.lahsa.org/news?article=726-2020-greater-los-angeles-homeless-count-results>.

13: "2019 Greater Los Angeles Homeless Count Results." Los Angeles Homeless Services Authority (LAHSA), December 2019. <https://www.lahsa.org/news?article=558-greater-los-angeles-homeless-count-shows-12-rise-in-homelessness>.

14: Ibid. "2020 Greater Los Angeles Homeless Count Results."

To mitigate the growth of the unhoused population and better assist unsheltered residents, in 2016 residents of the County and City of Los Angeles approved Measure H and Proposition HHH.¹⁵ Measure H is a Los Angeles County-wide 1/4 cent sales tax to fund services (homeless prevention, outreach services, case management), subsidies and housing for the next 10 years. Approximately \$355 million is raised and distributed every year through Measure H funds. As part of Measure H, the County also allocated approximately \$550,000 to conduct an ADU design competition, and fund the Second Dwelling Unit Pilot Program which seeks to house unhoused families in ADUs.¹⁶ Proposition HHH is a \$1.2 billion bond that funds the construction of supportive housing in the City of Los Angeles for the next 10 years.¹⁷ Despite the passage of historic measures and propositions to decrease homelessness in Los Angeles, the rising cost of housing, and more recently COVID-19's economic shutdown, is expected to drive more households into homelessness.

THE SOCIO ECONOMICS OF HOMEOWNERS & RENTERS

The median renter income in the City of Los Angeles is \$42,470 (\$20.42 per hour). In the County of Los Angeles the median renter household income is \$46,346 (\$22.28 per hour) in the County of Los Angeles. In the County of Los Angeles the majority of Los Angeles the majority or 45.7% of renter households earn between \$8,264 - \$44,148 a year. In the City of Los Angeles the majority or 53% of renter households earn between \$8,264 - \$44,148 a year.

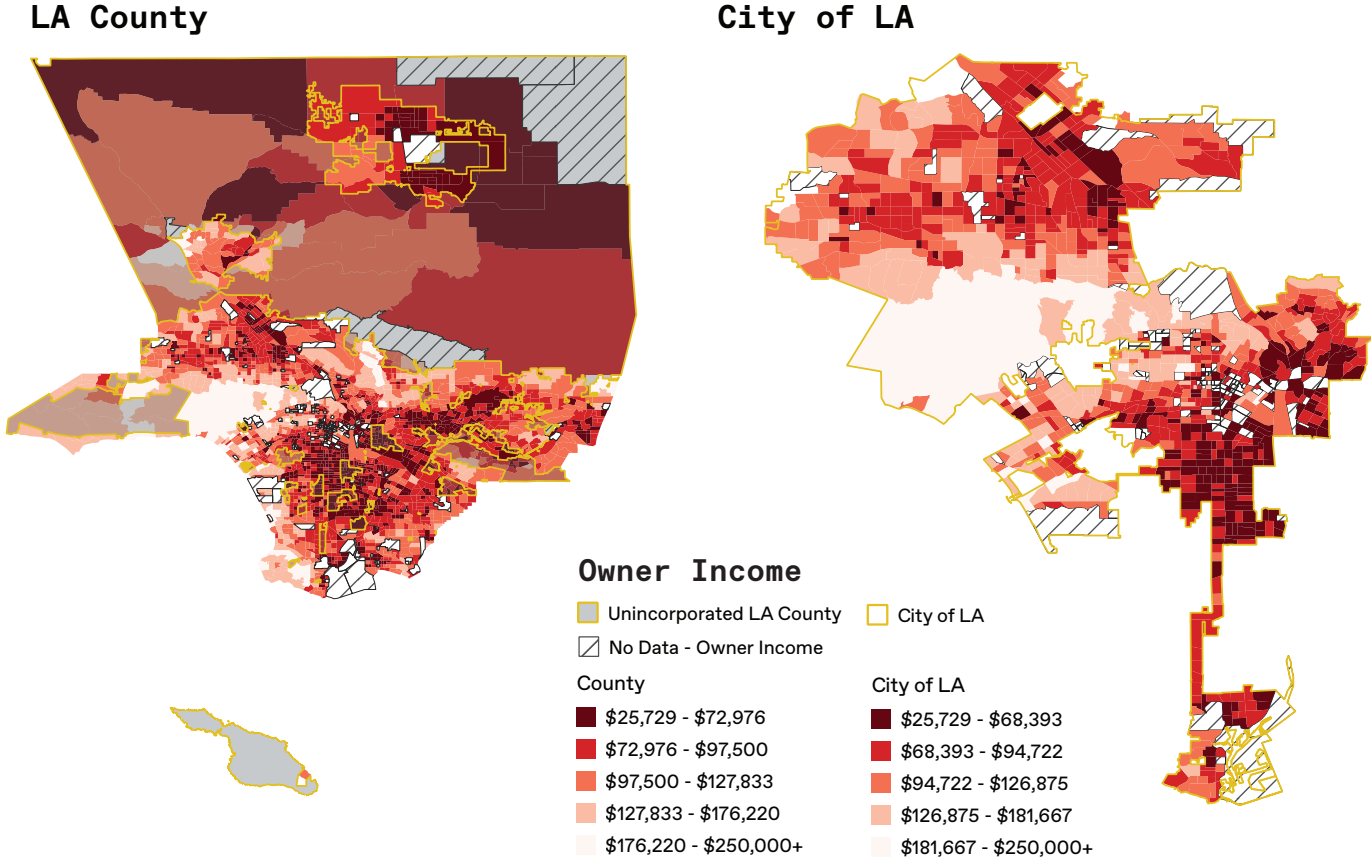
The median homeowner income in the City of Los Angeles is \$88,302 (\$42.45 per hour) In the County of Los Angeles the median homeowner income is \$87,534 (\$42.08 per hour). Within the City of Los Angeles, 34% of homeowner households earn between \$68,393 - \$94,722 annually. In Los Angeles County, 34.4% of homeowner households earn between \$72,976 - \$97,500 annually. Homeowners in both the City and County of Los Angeles earn nearly double the income of renters. In the City of Los Angeles, the gap in income between homeowners and renters tends to vary the least in historically wealthy communities in West Los Angeles. Neighborhoods such as the Pacific Palisades, Bel Air, Sherman Oaks, and Granada Hills have the smallest income gap between homeowners and renters, with homeowners earning less than 20% more than renters. In South-Central Los Angeles, the difference in income gap between homeowners and renters tends to be significantly higher. Homeowners make anywhere from 87% - 129% more than renters, and in more extreme cases, more than eight times as much as renters.

15: Homeless Initiative. "Measure H History - The Los Angeles County Homeless Initiative," March 2021. <https://homeless.lacounty.gov/history/>.

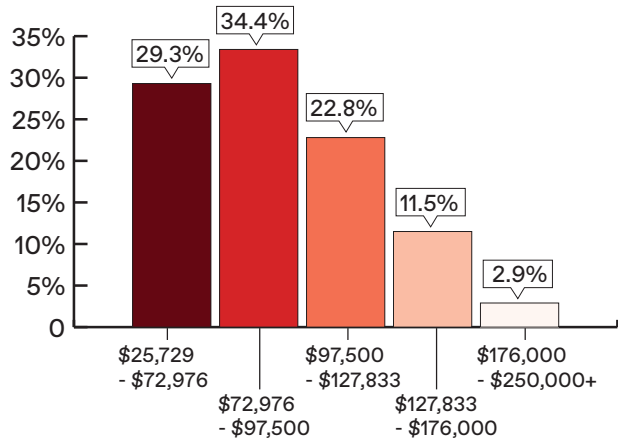
16: Los Angeles Department of Regional Planning. "Second Dwelling Unit Pilot Program | DRP," March 2021. <https://planning.lacounty.gov/secondunitpilot>.

17: HHH, Tracking. "Tracking HHH." Text. Office of Los Angeles Mayor Eric Garcetti. Office of Los Angeles Mayor Eric Garcetti, May 2018. <https://www.lamayor.org/HomelessnessTrackingHHH>.

Figure 4: Homeowner Income in County and City of LA



LA County Owner Household Income



City of LA Owner Household Income

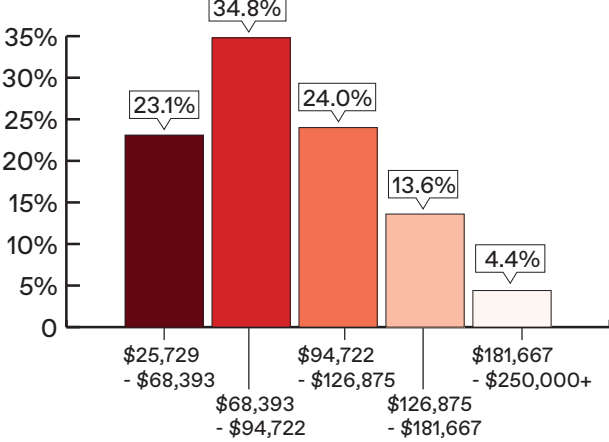
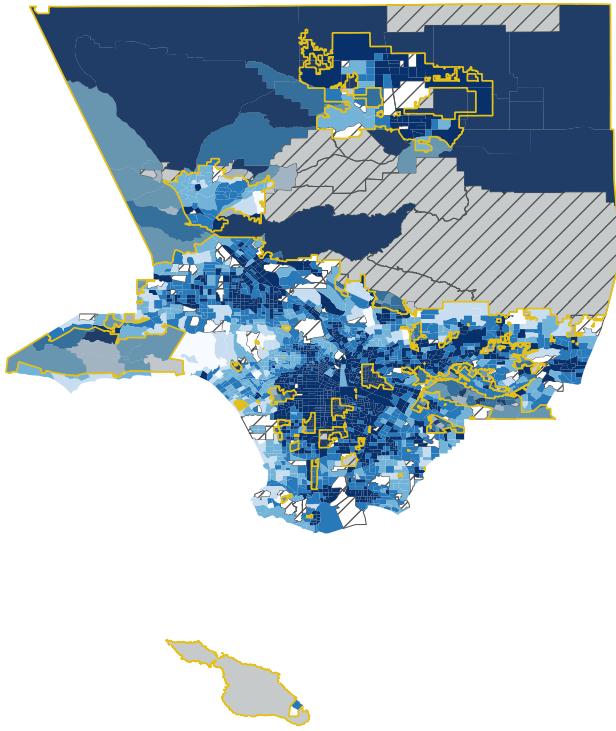
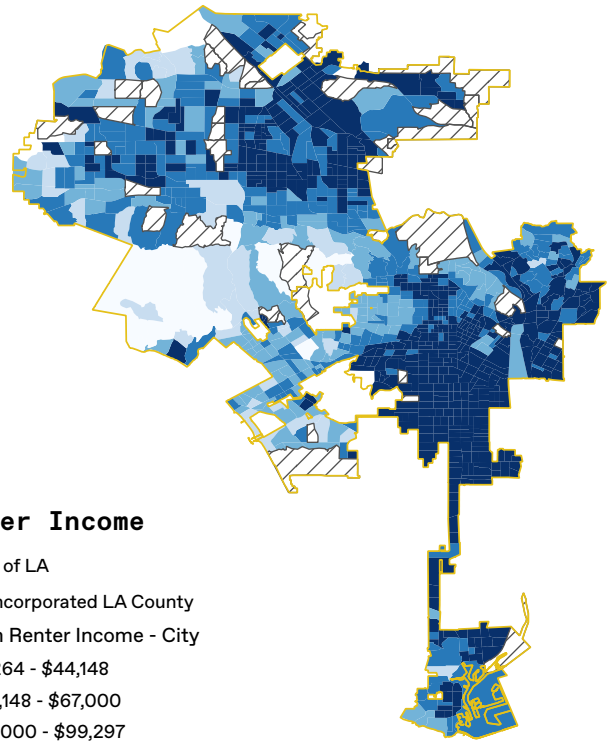


Figure 5: Renter Income in County and City of LA

LA County



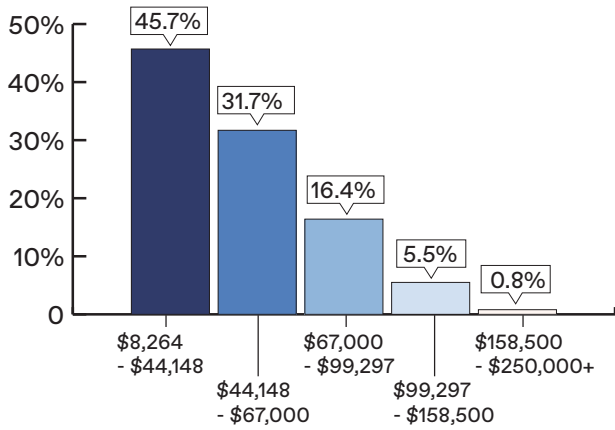
City of LA



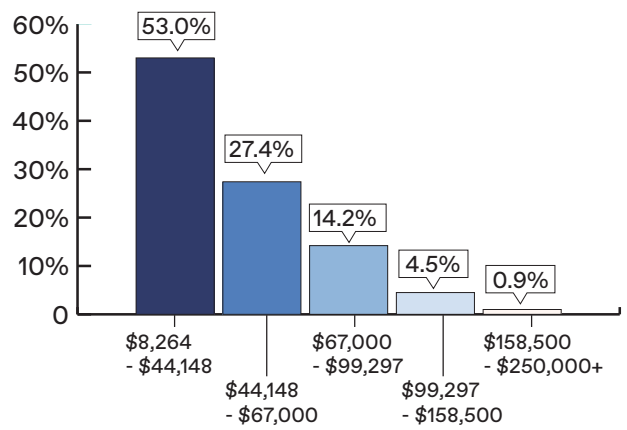
Renter Income

- City of LA
- Unincorporated LA County
- Median Renter Income - City
- \$8,264 - \$44,148
- \$44,148 - \$67,000
- \$67,000 - \$99,297
- \$99,297 - \$158,500
- \$158,500 - \$250,000+
- No Data

LA County Renter Household Income



City of LA Renter Household Income

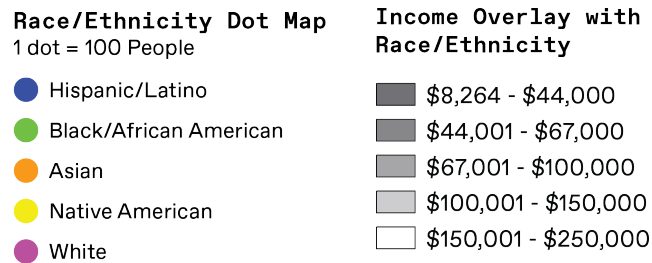


The County of Los Angeles mimics a similar income gap pattern to the City of Los Angeles; historically wealthy areas in West Los Angeles County, such as Calabasas, tend to have smaller gaps in income between homeowners and renters, where homeowners make 20% more than that of renters. Across the County, homeowners tend to make anywhere from 54% to 129% more in income than renters.

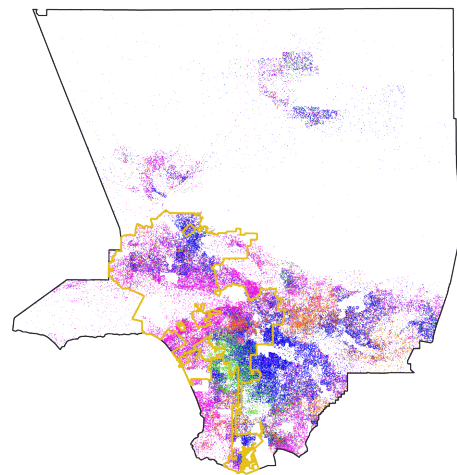
In terms of rental tenure, housing units are more than 63.2% renter occupied in the City of Los Angeles, and 54.2% renter occupied in LA County. In the City of Los Angeles, the majority of renters are concentrated in Downtown LA and South Central. In Downtown LA and South Central some neighborhoods such as Westlake and Koreatown, contain communities where 80% - 100% of residents rent. Within Los Angeles County the majority of renters tend to concentrate within the LA City limits, as well as the Northwest County, and Antelope Valley.

Figure 6 displays the racial geography of LA County, and overlays income information for both homeowners and renters. The lower income areas overlay almost directly with the areas where people of color predominantly reside.

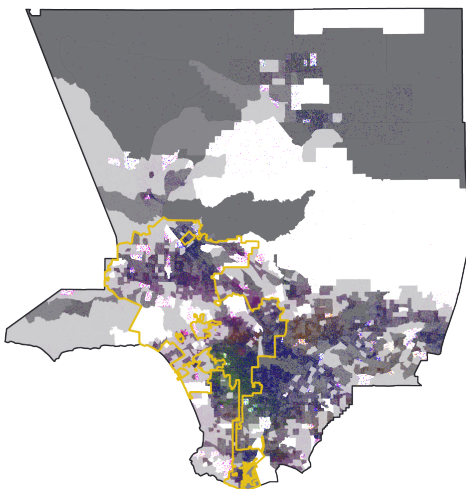
Figure 6: Race/Ethnicity Dot map of LA County with Income Overlay



Race in LA County



Renter Income Overlay in LA County



Owner Income Overlay in LA County

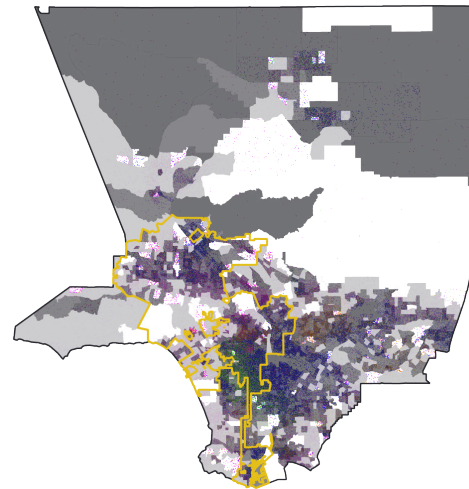


Figure 7: Income Gap Between Homeowners and Renters as Percentage of Renter Income

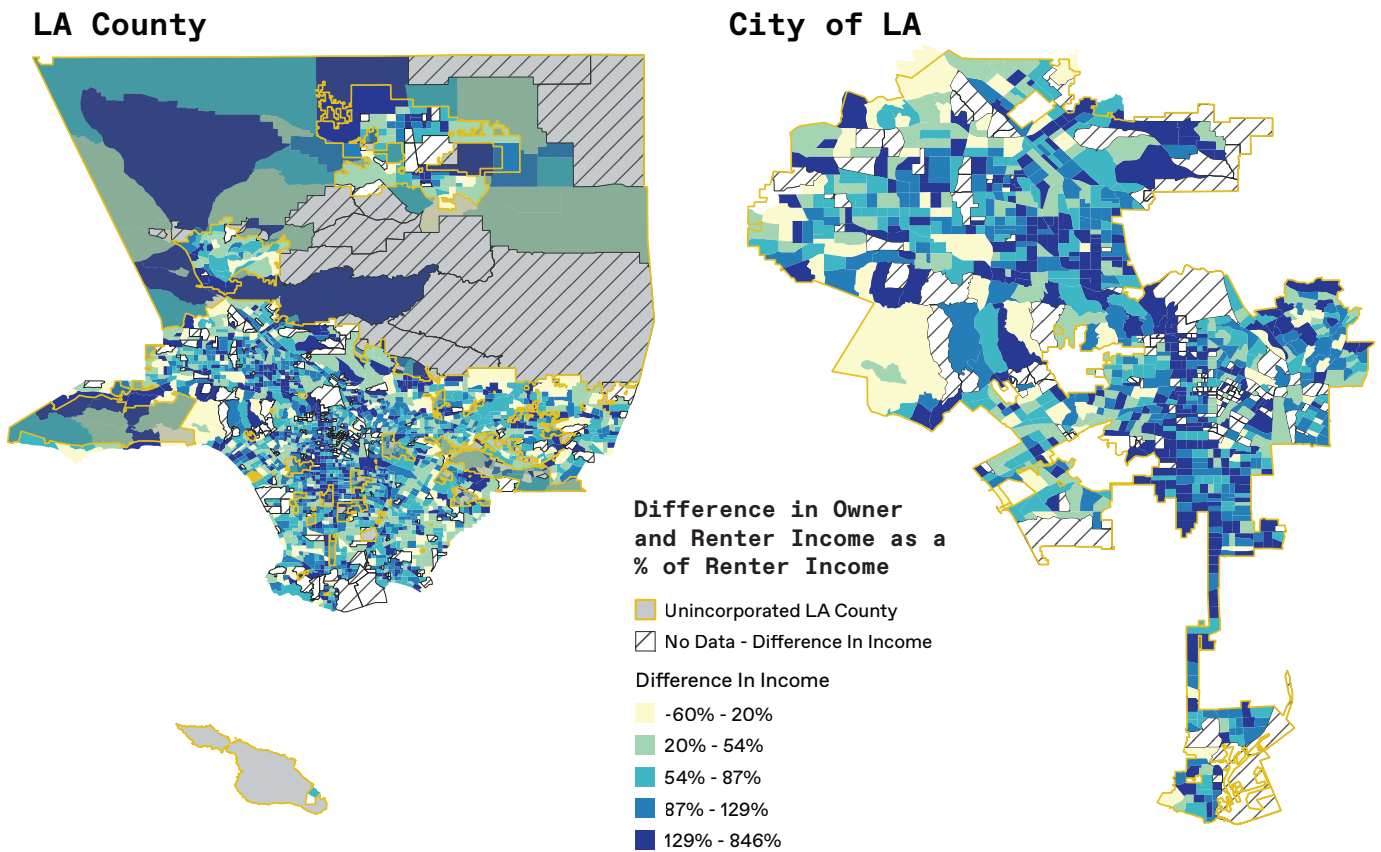
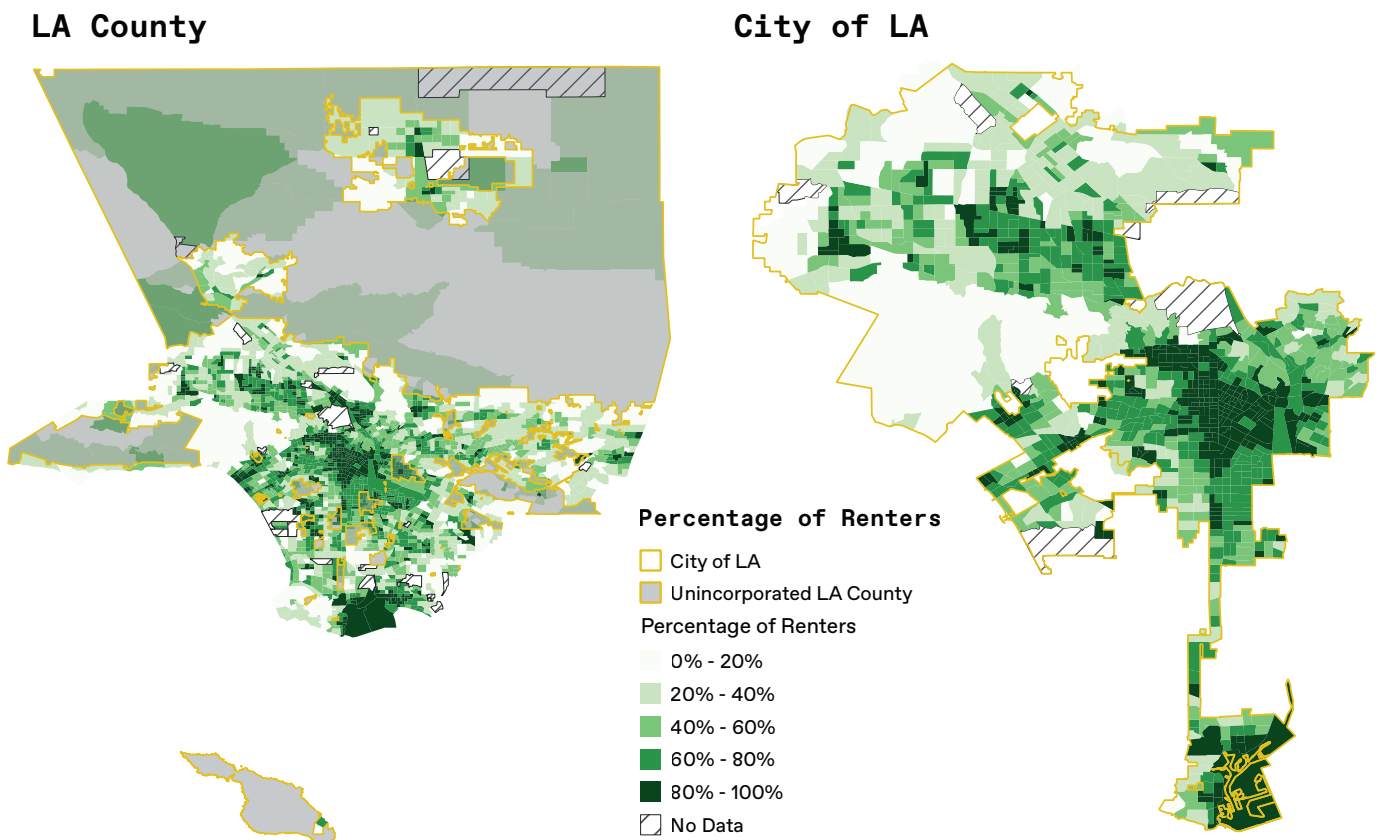


Figure 8: Percentage of renters in LA County by Census Tract



HOUSING & COVID-19

The economic downturn stemming from COVID-19 has significantly impacted all sectors of Los Angeles County's economy and housing market. At the peak of COVID-19's economic shutdown, May 2020, LA County's unemployment reached 21.1% and approximately 716,000 jobs were lost. Nationally, unemployment peaked at 14.7% and 20.5 million jobs were lost.¹⁸ Given the severity of the crisis, the Board of Supervisors approved a Temporary Eviction Rent Moratorium effective from March 4, 2020 and is being re-approved on a monthly basis.¹⁹ Los Angeles County's eviction protections have many facets, but two of the most notable for keeping people housed include the prohibition of rent increases and evictions related to late fees and unpaid rent. Nationally, the Center for Disease Control (CDC) issued a Federal Eviction Moratorium effective from September 4, 2020 to March 31, 2021, as a means to slow the spread of COVID-19 and displacing potentially millions of renters experiencing economic hardships.²⁰ While temporary moratorium efforts provide immediate security to households experiencing economic hardship and who can't afford rent, in Los Angeles County hundreds of thousands may be threatened with eviction once moratoriums expire.²¹

Early in the economic downturn, from March to June 2020, Los Angeles County experienced a historic 50% decline in home sales. However, as of September 2020, the Los Angeles County real estate market has shown signs of rebounding.²² Furthermore despite numerous news media outlets reporting the state of California undergoing a mass exodus of residents to less expensive states or cities, recent studies do not support such evidence.²³ According to the California Policy Lab, with the exception of the Bay Area, which has been experiencing a trend of residents relocating to more affordable surrounding communities prior to COVID-19, overall, the rate of exits from the state are not abnormally high nor have they changed significantly relative to existing trends. In Southern California, areas such as San Bernardino County, saw a 16% increase in the number of homes sold in August 2020 compared to August 2019.²⁴ Although Los Angeles County has lost some of its residents, it has also attracted many. Research hypothesizes that the combination of historically low interest rates at 3% on 30 year fixed mortgages, low housing inventory, and discounted property values has kept the Los Angeles County real estate market a float.²⁵

18: "LAEDC - COVID-19 Economic Implications Briefing - Oct 2020." Los Angeles County Economic Development Corporation (LAEDC), October 2020. https://laedc.org/wp-content/uploads/2020/10/IAE-Webinar_-Monthly-Webinar_2020.10.19-MASTER.pdf.

19: Los Angeles County Department of Consumer & Business Affairs. "About L.A. County's Temporary Eviction Moratorium – Consumer & Business," March 2021. <https://dcba.lacounty.gov/noevictions/>.

20: "Temporary Halt in Residential Evictions to Prevent the Further Spread of COVID-19." Center for Disease Control (CDC), March 2021. <https://www.cdc.gov/coronavirus/2019-ncov/more/pdf/CDC-Eviction-Moratorium-01292021.pdf>.

21: Bustamante, Claudia. "COVID-19 and Renter Distress: Evidence from Los Angeles." UCLA Lewis Center for Regional Policy Studies (blog), August 2020. <https://www.lewis.ucla.edu/research/covid19-and-renter-distress/>.

22: Ibid. "LAEDC - COVID-19 Economic Implications Briefing - Oct 2020."

23: Holmes, Natalie. "CalExodus: Are People Leaving California?" California Policy Lab, March 2021. <https://www.capolicylab.org/wp-content/uploads/2021/03/CalExodus-Are-People-Leaving-California.pdf>.

24: Ibid. "LAEDC - COVID-19 Economic Implications Briefing - Oct 2020."

25: "Southern California's Housing Market Rebounds, but It May Not Last." Los Angeles Times, July 2020. <https://www.latimes.com/homeless-housing/story/2020-07-23/southern-california-home-prices>.

DISCUSSION ON ADUS

Recent studies on ADUs detail three trends in challenges and opportunities with ADU development: interest in ADU development is rapidly growing; lack of accessible and affordable financing options available to homeowners hinder their ability to build ADUs; and, technical support for homeowners is a necessary part of equitable ADU development. A study by UC Berkeley's Turner Center for Housing Innovation found in the past decade there has been a sharp rise by as much as 340% in ADU development in regions that have eased regulations on ADUs.²⁶ States such as California and cities such as Portland and Vancouver who have relaxed ADU regulations have been experiencing rapid growth in ADU production.

A report from the American Association of Retired Persons (AARP) explored the use of ADUs as wealth generators for homeowners seeking to age in place and as affordable housing elderly tenants. The AARP study found ADUs have the potential to improve housing affordability without changing the physical character of a neighborhood and it's a good housing option for people of all ages especially older adults.²⁷ In practice, the City of Los Angeles explored the functionality of ADUs as stable affordable housing options for elderly as part of the LA ADU Accelerator Program.²⁸ Similarly cities such as Boston and Santa Cruz have explored the functionality of ADUs vehicles to permit elderly and lower income residents to age in place.

Studies such as Enterprise Community Partners Overcoming Barriers to Bringing Accessory Dwelling Unit Development to Scale, identify lack of financial tools available to homeowners and the need for technical support for homeowners as key barriers surrounding ADU development. Nationally there is a scarcity of lending products tailored to ADU development. Lower income homeowners, who might also have poor credit, are at a greater disadvantage to obtaining traditional financing. For higher income homeowners who have equity in their property or cash savings, tend to finance their ADU out of pocket.²⁹ According to these same studies, there is general consensus that many lenders in the industry view ADUs as an unconventional investment that is more risky than traditional residential construction, and as a result avoid financing ADUs. In practice in cities around the United States such as Portland, Boston, Los Angeles, Seattle, and more have tried to address the limited financial products available for homeowners seeking by offering low interest loans to homeowners who participate in the ADU programs.

26: "Jumpstarting the Market for Accessory Dwelling Units: Lessons Learned from Portland, Seattle and Vancouver." Turner Center for Housing Innovation, July 2017. https://turnercenter.berkeley.edu/wp-content/uploads/pdfs/Jumpstarting_the_Market_-_ULLI.pdf.

27: Spevak, Eli, and Melissa Stanton. "The ABCs of ADUs: A Guide to Accessory Dwelling Units and How They Expand Housing Options for People of All Ages." AARP Livable Communities, 2019. <https://www.aarp.org/content/dam/aarp/livable-communities/livable-documents/documents-2019/ADU-guide-web-singles-071619.pdf>.

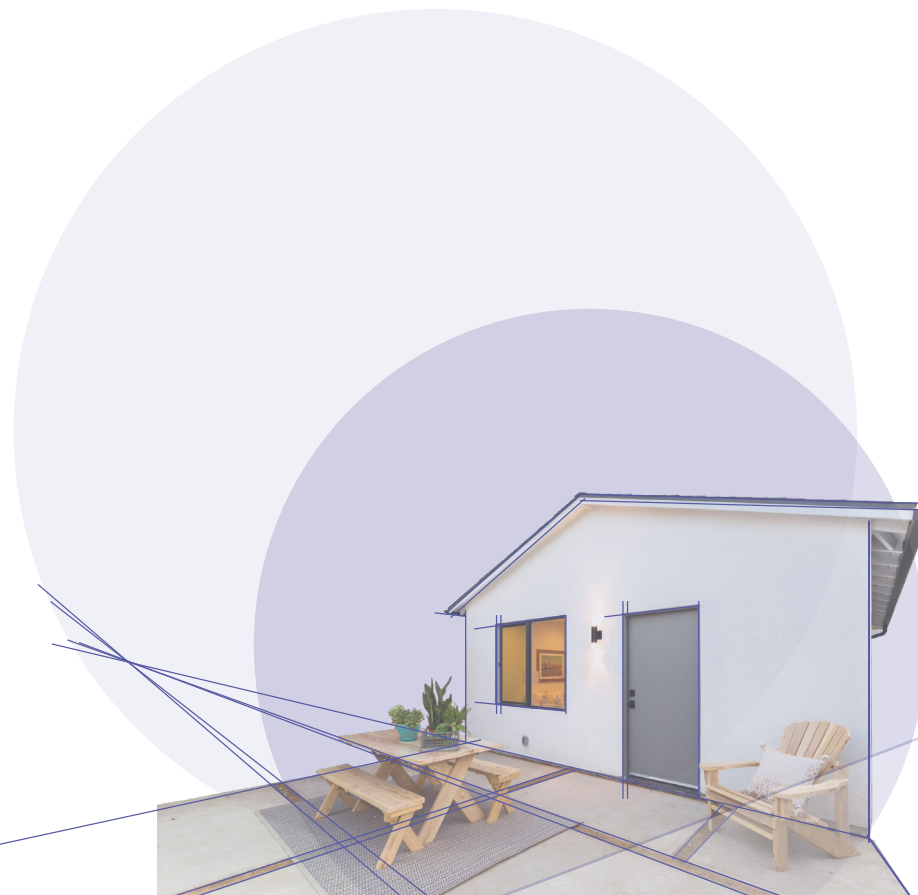
28: City of Los Angeles. "LA ADU Accelerator Program," March 2021. <https://adu.lacity.org/>.

29: Abu-Khalaf, Ahmad. "Overcoming Barriers to Bringing Accessory Dwelling Unit Development to Scale." Enterprise Community Partners, Inc, September 2020. <https://www.enterprisecommunity.org/download?fid=14194&nid=11049>.

Homeowner's lack of industry knowledge for constructing and permitting an ADU acting serves as another major barrier hindering ADU development. Developing an ADU requires homeowners, oftentimes with limited or no experience in property development, to assume the role of a construction project manager. For many homeowners the permitting process and navigating dense zoning regulation is complex, time consuming, and costly if not done correctly. Studies, such as the Turner Center Report and the Enterprise Report, cite a need for technical assistance to be provided to homeowners to walk them along the development process. Across the States, the majority of local government ADU programs provides technical assistance as an added incentive to enrolling in a program. In the City and County of Los Angeles, ADU programs such as the Backyard Homes Pilot Program and Second Dwelling Unit have done just that, and report that technical assistance is necessary in keeping the process of development going smoothly.

METHODOLOGY

Advisory Board	22
Permit Analysis	22
Census Analysis	22
Interviews	22
Surveys	23



This research was conducted by the policy team at Inclusive Action for the City. The original concept was developed by LA County Supervisor District 3 staff in conjunction with Inclusive Action staff. The purpose of this research is to understand how more ADUs can be built and then rented out at an affordable price to increase regional housing stock in LA. There were five major components to the overall process.

ADVISORY BOARD

The Advisory Board is a panel of approximately 20 local experts that work within agencies at the City and County of Los Angeles who regulate ADUs and building permits, architects who have built ADUs, program managers of local ADU programs, advocates, private sector consultants, planners, and financiers. This group met on a monthly basis to get updates on the research, provide feedback and input on the direction of the research, and comment on recommendations that were proposed. Many advisory board members also spoke with the Inclusive Action staff more informally to provide insight to how their individual programs or processes are administered, as well as what could be adjusted to make it easier to develop ADUs. A full list of members can be found in the Acknowledgments section.

PERMIT ANALYSIS

Both the City of Los Angeles and the County of Los Angeles provided Inclusive Action with permit information about all permits that have been submitted to either renovate or newly construct an ADU. Information was provided directly from the Department of Building and Safety for both jurisdictions. The analysis of permits used was done through Excel.

CENSUS ANALYSIS

To understand the general context in which ADUs are being built, an analysis of census data was conducted using ACS 2018 census information at the census block and block group level. 2018 data was used because it was the most recent complete set of data at the time the research began in June 2020. Analysis was conducted using both QGIS and Excel. Stylizing was completed through Adobe Illustrator.

INTERVIEWS

Interviews were conducted to better understand the specific issues that different stakeholders faced, and to figure out what lessons Los Angeles can learn from other jurisdictions. Nine formal interviews took place for this research, many of which led to further email exchanges and questions posed to the Advisory Board. These interviews served the purpose of providing nuance that other forms of research would not be able to provide. Some of these interviews also helped shape the survey that was conducted, and provided further insight as to how to analyze information from the overall research.

SURVEYS

Two online surveys were conducted to understand why homeowners had built their ADU, how they financed it, and the benefits they saw of having it. It also identified the pressure points they faced when building their unit and what could have been helpful in alleviating those pain points. The survey was also open to renters of ADUs to understand how their experience was renting it, why they decided to live there, and what amenities came with the property. Surveys were conducted through SurveyMonkey and accessible online. Survey answers were cleaned to ensure qualification, and then analyzed. Data cleaning and analysis was performed using Excel.

A set of research questions was posed to the Advisory Board to start the research and adjusted as the project went on to ensure that we were working towards understanding how to get ADUs rented out at an affordable rate.

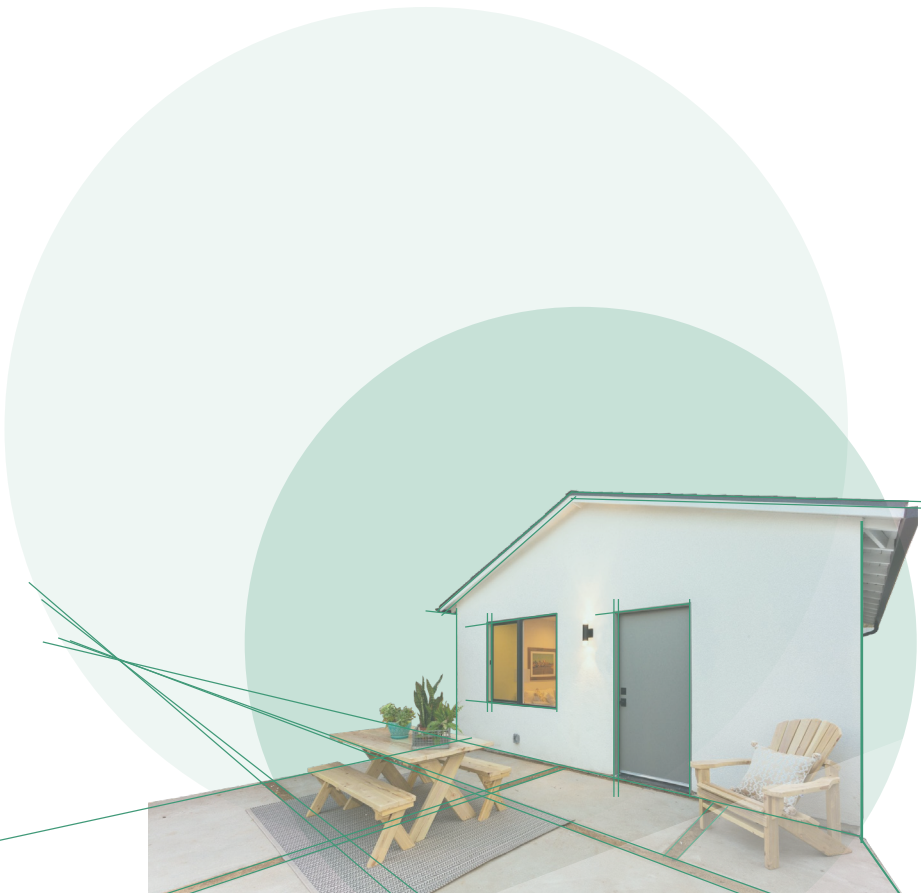
There are certain considerations that should be taken into account when reading this research:

1. Affordable housing developers and providers were not formally interviewed or part of the advisory board. Financing systems for affordable housing must be further explored to understand how those systems of housing can be meaningfully included in ADU development.
2. Inclusive Action for the City is a CDFI and lending institution. The organization's expertise in finance comes from business financing options, and understands and actively advocates against the significant barriers low-income residents face when attempting to access equitable capital.

ANALYSIS OF ADU PERMITS IN LA

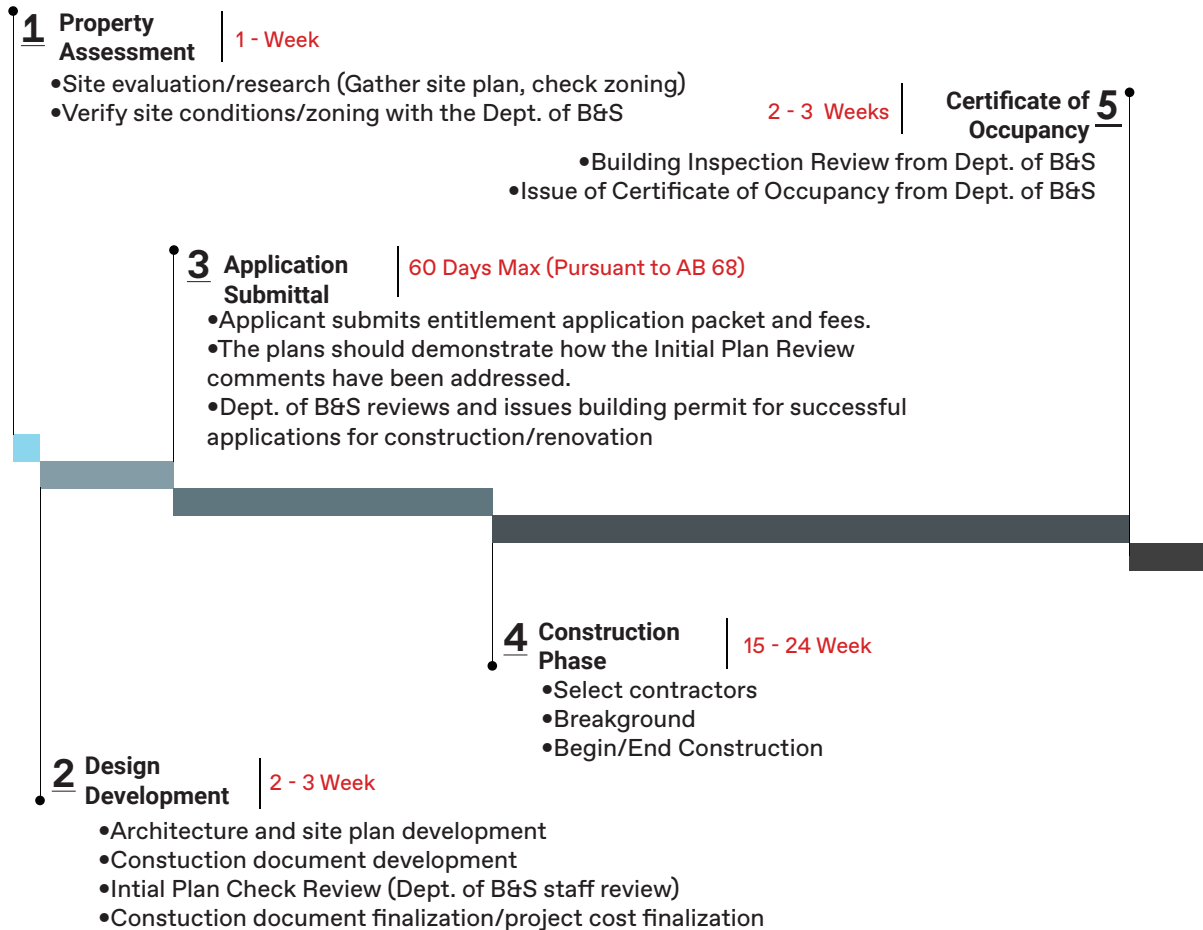
ADU DEVELOPMENT TIMELINE 25

ASSESSMENT OF ADU PERMITS 26



ADU DEVELOPMENT TIMELINE: PERMITTING & CONSTRUCTION

Total Estimated Timeline: 28-39 Weeks or 7-9 Months



Part of understanding the issues that homeowners, developers, and financiers face when building ADUs is knowing the step it takes to get from initial permit completion to certificate of occupancy. The ADU development life cycle starting from initial ADU site planning to obtaining the final certificate of occupancy can range from 6 months to 11 months or more.

There are typically 5 development stages to the ADU development life cycle:

1. Property Assessment
2. Design Development
3. Application submittal
4. Construction Phase
5. Certificate of Occupancy

All five of these stages require the knowledge of multiple experts, agencies, and the homeowners themselves. The process can be arduous and complex, but that has not always been a deterrent for homeowners looking to create housing for others within their own property lines.

ASSESSMENT OF ADU PERMITS

Permit information from the County and City provided deep insight into how long it takes for permits to get through to Certificate of Occupancy, how many of them actually make it through, and where they are located. Building requirements for each jurisdiction is dictated by the local government, meaning that Unincorporated LA County and the City of LA both have their own departments for Building and Safety, and therefore their own processes for the required ADU permits.

With the passing of new ADU-friendly laws at the State Level, there has been a significant increase in permits. Every year, ADUs are being built and permitted by the 1000s and are significant sources of housing in both the City and County.

From 2017 to 2019, information from both jurisdictions overlap. The City of LA has had many more ADUs permitted and developed than the County of LA in unincorporated areas, however, there have been administrative changes in the last two years at the County, making it much easier for residents in unincorporated areas to build, renovate, and bring unpermitted ADUs up to code.

	LA County	Year over Year Increase	City of LA	Year over Year Increase	Totals	Year over Year Increase
2017	331	-	330	-	661	-
2018	699	111%	1428	333%	2127	222%
2019	931	33%	2657	86%	3588	69%
TOTAL	1961	-	4415	-	6376	-

Table 1: 2017 - 2019 Permitted ADUs in the Unincorporated LA County and the City of Los Angeles

Table-1 is a high level overview of the permits that have been granted from 2017 to 2019. Both the City and the County have seen significant increases in permits over the last few years. The City has had thousands more than unincorporated areas, but also takes longer to get through the building permit process. The County has taken actions to streamline these processes and are actively working towards making it better. The City has recently launched the Standard Plan Program to have pre-designed ADUs go through Building and Safety in as little as a day.

The following sections provide an analysis for each of these jurisdictions based on information provided by their respective Building and Safety Departments.

Unincorporated LA County

In addition to the state laws that have significantly eased requirements around developing ADUs, in 2019, the County changed requirements for bringing unpermitted ADUs up to code and getting additions/renovations for a unit built. This change is around the requirement for a Certificate of Compliance (CoC) in order to get ADU permits. This CoC is no longer required for ADU development and upgrading. This has also led to an increase in ADU permits being developed and is expected to assist with having them proliferate even more with easier requirements.

Key Takeaways³⁰

1. Only 17.3% of applications make it through to completion
2. New ADUs cost about 2 times the amount as additions or alterations
3. 210 days on average to go from Issue of Permit to Certificate of Occupancy
4. 128 days on average from application submission to issuing permit
5. 83.4% of ADU permits are in unincorporated 1st, 2nd, and 5th Districts

Subset Data

Information provided in the subset data had details around the estimated cost of construction for each unit, the time it took to go from application submission to Finaled Permit (or Certificate of Occupancy), and where the application is located.

	Application	Issued	Finaled	% Complete
SD 1	423	239	71	16.8%
SD 2	409	216	74	18.1%
SD 3	23	13	5	21.7%
SD 4	279	120	35	12.5%
SD 5	509	240	99	19.4%
TOTAL	1643	828	284	17.3%

Table 2: ADU Permit Applications Submitted, Issued, and Obtained a Final Permit COO in Unincorporated LA County by Supervisorial District from 2017 - 2019

Table 2: above showcases that in each district, the number of submissions that lead to finaled permits or certificates of occupancy is on average 17.3%. Supervisorial District 4 has the lowest success rate with 12.5%, and Supervisorial District 3 the highest with 21.7% complete.

³⁰: Information on permits for LA County were provided in two data sets. The first is a subset of the second. Items 1 through 4 are from the subset - detailing information on 284 of the 1961 permits submitted in the broader set.

	Addition/ Alteration	New Construction	Average Cost
SD 1	\$ 62,124.51	\$ 98,697.50	\$ 69,336.08
SD 2	\$ 59,924.23	\$ 93,101.14	\$ 66,200.95
SD 3	\$ 20,833.33	\$ 61,500.00	\$ 37,100.00
SD 4	\$ 63,903.88	\$ 136,215.55	\$ 86,630.40
SD 5	\$ 55,926.13	\$ 128,497.30	\$ 83,048.69
AVERAGES	\$ 59,224.10	\$ 116,166.05	\$ 74,863.08

Table 3: Estimated Cost of Construction Based on Type of Work Done by Supervisorial District from 2017 - 2019

Table 3 showcases the estimated cost of the construction based on the type of work done - either an alteration or addition to an existing structure or a whole new structure all together. On average, ADUs cost \$74,863.08 to build, but the story is far different based on whether the unit is attached/renovated or if it was built from the ground up. The average valuation of an addition/alteration is \$59,224.10, or 50.1% of the cost of a new unit being built. Units in Supervisorial District 3 seem to be the least expensive, however, with only 5 valued permits in this dataset, they have significantly less permits in their district than any of the others.

For new units, costs for Supervisorial Districts 1 and 2 are similar, while the cost in units 4 and 5 are similar. For additions and alterations, the costs stay within an \$8,000 range in Districts 1, 2, 4 and 5.

Permit Data from 2017 to 2019

From 2017 to 2019, after the significant easing of ADU development regulations, there was a marked uptick in ADU development in Unincorporated LA County. As mentioned earlier, there was also an administrative change in 2019 that led to increased numbers in ADU permits.

	SD 1	SD 2	SD 3	SD 4	SD 5	TOTAL
2017	112	78	2	48	91	331
2018	222	137	8	106	226	699
2019	283	243	18	143	244	931
TOTAL	617	458	28	297	561	1961

Table 4: ADU Permits in Unincorporated LA County by Supervisorial District from 2017 - 2019

District	% Of Permitted ADUs
1	31.5%
2	23.4%
3	1.4%
4	15.1%
5	28.6%

Table 6: Percentage of ADU permits from 2017 to 2019

As noted in Tables 5 and 6, Supervisorial District 1 has had the most ADUs permitted from 2017 to 2019, though Supervisorial District 5 comes in a close second. Supervisorial District 3 has had the most significant increase in permits over the three year period with a 800% increase from 2017 to 2019; however, that district also has had only a fraction of ADUs permitted overall compared to the other Districts. Supervisorial District 4 has the next most significant increase, with 197% more permits issued in 2019 than in 2017.

Across the unincorporated areas of the County, there has been a 181% increase in permitted units from 2017 to 2019.

City of LA Permits

Key Takeaways

1. 65% of known ADUs that have been built in the City are in the San Fernando Valley
2. 31.44% of plans submitted make it all the way to Certificate of Occupancy
3. 335 Days on average from Issue of Permit to Certificate of Occupancy
4. 221 Days on average from submission of permit to issue of permit

The City of LA has had more success over the last five years in galvanizing ADU development. In 2019 alone, they had 2,657 ADUs permitted. Most of the ADUs that are being built are in the San Fernando Valley, particularly in the North East area and the West Valley.

Council District	Avg. Sq. Ft. Of ADU	Submit to C of O (in Days)	Permit Issue date to C of O (in Days)
1	582	468	345
2	703	419	334
3	701	377	305
4	698	430	342
5	632	478	377
6	736	401	324
7	651	445	358
8	751	424	325
9	741	426	328
10	678	422	330
11	635	486	378
12	801	388	314
13	704	440	338
14	567	433	347
15	828	473	367
TOTAL	704	421	335

Table 7: Time Duration Between the Submission of an ADU Permit and Obtaining a Final Certificate of Occupancy, in the City of Los Angeles by Council District from November 2013 - July 2020

In Table 7 above, this data compiles information from November 2013 through July 2020. As showcased in Table 7, Council Districts 2, 3, 6, 7 and 12 - all in the San Fernando Valley, make up nearly two thirds of all permits that have been issued. This could be due to the larger parcels in the Valley, allowing for more room for ADUs to be built. The average size of an ADU permitted is 704 square feet. Council District 14, with neighborhoods such as Boyle Heights, parts of Highland Park, most of downtown LA, and El Sereno, has the smallest average size of an ADU at 567 square feet. Council District 15 - representing neighborhoods such as San Pedro, Watts and parts of Wilmington, has the largest average size of ADU at 828 square feet.

Overall, Table 7 shows that it takes, on average, over a year to get permits from submission to Certificate of Occupancy. This, however, has not seemed to slow down the development of ADUs within City limits.

Council District	2013	2014	2015	2016	2017	2018	2019	2020	TOTAL
1	-	-	-	1	3	23	45	16	88
2	-	6	13	12	39	248	295	189	802
3	1	5	15	18	41	180	383	223	866
4	-	3	4	6	22	86	171	71	363
5	-	2	2	3	12	63	123	74	279
6	-	5	4	15	50	179	327	164	744
7	1	12	16	16	48	196	340	193	822
8	1	-	6	7	18	48	118	73	271
9	-	2	4	2	7	25	54	25	119
10	-	3	2	3	17	70	113	47	255
11	-	4	4	2	21	93	146	115	385
12	-	7	12	18	35	136	368	208	784
13	-	1	1	2	5	33	51	27	120
14	-	2	0	6	6	33	74	23	144
15	-	1	4	6	6	15	49	30	111
TOTAL	3	53	87	117	330	1428	2657	1478	6153

Table 8: Total ADU Permits Finaled in the City of Los Angeles by Council District from 2013 to 2020

Table 8 details how many ADU permits were finalized in each year, starting in 2013. From 2013 to 2016, a total of 260 permits were finalized in the City - only 78.9% of all permits issued in 2017 alone. This further showcases a correlation between the relaxing of ADU requirements at the State level in 2016 with a significant uptick in development in the years following. From 2017 to 2019, there was a 705% increase in ADUs permitted across those years. Information for 2020 only went through July, though data shows that even with COVID-19 shutdowns and economic turmoil, there were still over 1,400 units that were being permitted.

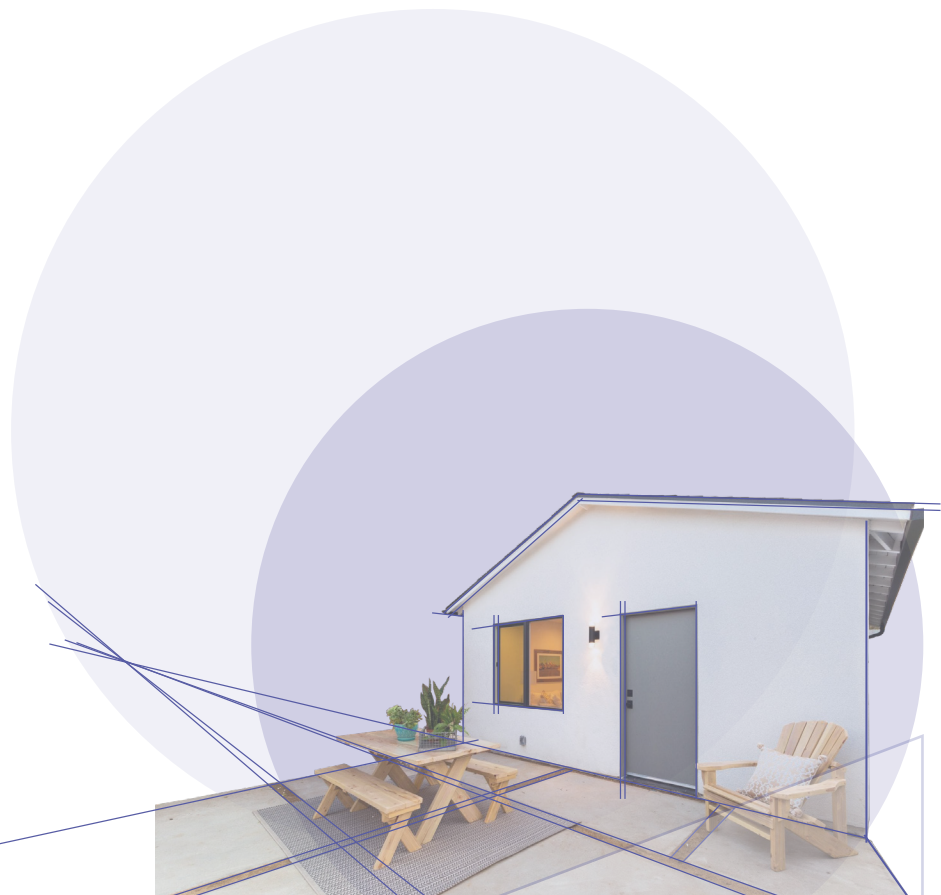
Plans Submitted	5,537	28.29%
Issued Permits w/o C of O	6,971	35.62%
Permits Finaled	910	4.65%
C of O Issued	6,153	31.44%
Total	19,571	

Table 9: Total ADU Plans Submitted, Issued a Permit, Permit Finaled, and Issued a Certificate of Occupancy in the City of Los Angeles from 2013 to July 2020

The City of LA has had about one third of permits submitted go through to completion. Table 9 shows that over 28% never make it past submission to the Department of Building and Safety. Further, nearly 36% of the permits issued don't get a certificate of occupancy. Overall, nearly 64% of permits submitted are not finalized or given the required certificate of occupancy.

UNDERSTANDING THE VIEWPOINT OF EXPERTS

Five Key Lessons from the Experts	33
Homeowners & Renters	35
Building & Safety Experts	38
Other Jurisdictions with ADU Programs	38
Manufacturers	43
Financier	44



In order to accurately assess the process of developing an ADU, interviews were conducted to understand the multiple players and the successes and issues they face. This qualitative data informs the quantitative data, giving more detail on specific issues around ADU development, and provides insight on tension points within the process. In total, there were nine formal interviews conducted:

- (2) Homeowners with ADUs
- (1) Renter of ADU at Below Market Rate
- (1) Building and Safety Expert
- (3) Cities with ADU legislative regulations
- (1) Manufacturer
- (1) Financier

Through interviewing experts and informal conversations with Advisory Board members, there were many nuances and lessons that can be learned for LA County and any program or products that are developed.

FIVE KEY LESSONS FROM THE EXPERTS

1 Technical assistance for homeowners is a core need.

To build an ADU it requires homeowners to assume the duties of developer and project manager. For many homeowners, especially first time builders, navigating the zoning and code regulations is a daunting task. Managing a construction project, finding and selecting a qualified general contractor and architect within budget poses many challenges for homeowners. Providing clear and concise information to homeowners can truly support more development of ADUs.

2 Case management for targeted tenant populations makes the process smoother.

In the realm of affordable housing, case managers help serve the needs of tenants ranging from providing emotional support, helping people become self-sufficient, to ensuring all property needs are maintained. The more expectations and duties required of homeowners who commit to house voucher applicants, the more likely they will avoid ADU programs focused on providing affordable housing to vulnerable populations. Similar to the need to provide homeowners technical assistance to construct an ADU, case managers should also be provided to manage tenant/property relations and management.

FIVE KEY LESSONS FROM THE EXPERTS

3 Right-sized financial incentives and support for homeowners must be created.

Financial support and incentives for homeowners is crucial. There are little to no financial products available for ADUs because conventional financial institutions view ADUs as “risky” investments. As a result, the most common ways homeowners finance their ADU are through personal/family savings, a refinancing of their home, or a home equity line of credit. For low-income homeowners with limited cashing savings, minimal equity in their home, or poor credit history, financing the construction of an ADU is very difficult. It’s especially important to deliberate when developing financial incentives when seeking to help low-income and marginalized households, who require more upfront financing than more well off households. High cost cities such as Boston found that by providing zero interest loans as high as \$50,000 in their ADU program, they were better equipped to support lower income applicants who sought financing for their ADU and the unexpected costs that came with development.

4 Private lending institutions are needed for scaling ADU development.

Public funding alone cannot meet the growing demand for ADUs, and existing conventional loan products are not structured to assist in ADU development. Local government agencies have a limited amount of funds available to finance affordable ADU initiatives and provide grants/loans to homeowners. Capital and support from conventional financial institutions are needed to help local government agencies expand affordable ADU initiatives. Because of the cost and timeline, not all pilot programs funded by government agencies are renewed. The programs also take a long time to launch - often 2 or more years from the launch of the pilot to completing construction of an ADU. Without conventional finance institutions support for ADU financial products, local governments run the risk of stifling ADU development as an option to provide affordable housing at scale.

5 Communications among affected agencies is a core component to streamlining processes and overall success.

Government agencies must build better systems of communication for both their internal communications among departments and external communication towards homeowners submitting permit applications. Lack of internal communication among government departments/agencies can result in an ADU permit application being delayed months or the replication of similar programs and stunted ADU development regulations. Whereas lack of external communication from government departments/agencies to homeowners can leave homeowners frustrated with government agencies during the permitting process. Lack of clarity about processes from government agencies also leaves homeowners susceptible to a loss of economic opportunities due to delay in construction and permitting.

HOMEOWNERS & RENTERS

Homeowner One

The homeowner interviewee is a resident of Long Beach, CA, and has owned their main residence since 2013. In 2020, they converted their detached garage into an ADU. The 1 bedroom ADU garage conversion is approximately 460 square feet and cost roughly \$50K to complete. To fund the ADU, a combination of cash savings and a personal loan from family relatives was used. Initially the homeowner did take a separate loan from a lending institution, but opted not to use it after receiving support from family and relatives. Their primary rationale behind building an ADU was to earn supplementary rental income. They have not participated in any programs that incentivize renting out the unit below market. However, the homeowner currently rents out the ADU slightly below market rate to a friend for \$1,250 per month, and includes amenities such as an in-unit laundry room.

Key lessons learned and items to consider when thinking about County incentives for homeowners:

Access to technical assistance and greater support from the Building & Safety Department would be beneficial to have.

Access to technical assistance and information was a key issue the interviewee flagged. They stated that without help from their partner, an electrical engineer, they would have struggled in the development phase of the ADU. The most difficult process they encountered was obtaining consistent and easy to understand information from her city's building department in a timely manner. The homeowner recounted a couple of instances where they were told conflicting information from different department representatives. When thinking about incentives for homeowners it's important to consider providing them a more stable line of communication with the building department representatives.

Upfront information about County affordable ADU programs when applying for a permit will get more people interested.

The homeowner expressed great interest in opting into County affordable ADU programs. They suggested it would be helpful to have been informed by the building department of all the programs available to her pre-development. For the homeowner, being able to be a part of a solution to address the affordable housing crisis is important.

Thorough vetting of potential tenants has to be done.

While the homeowner is open to enrolling into an affordable ADU program to house low income tenants, they expressed a little concern about housing a complete stranger. As a new parent the safety of their child is their number one concern. For the interviewee and their partner, being able to have some say and vet potential tenants is important to them and their family.

Financial Incentives for Homeowners to cover construction costs would be useful.

According to the homeowner without financial support from family relatives they would have taken out a private loan to fund her ADU. For homeowners who are not as fortunate, the interviewee believes financial incentives to cover construction costs would be great. Given that their ADU was built in 2020, they are unclear to what degree an ADU will impact their property taxes. However, the interviewee anticipates their property taxes will rise as a result, and is interested in possible tax incentives to lower them.

Homeowner Two

The homeowner interviewee is a resident of Sherman Oaks, and has resided at their current property since 2011. In 2018, their detached 450 square feet renovated garage ADU was constructed and permitted. The 1 bedroom ADU garage conversion costs \$65,000 to complete and was financed through cash savings. Their primary rationale for wanting to build an ADU was to create a work space office. In the far off future, the interviewee and their partner envisions either renting out their ADU or selling their property. Although the homeowner doesn't have immediate plans to rent out the ADU they expressed interest in the County offering financial incentives such as covering construction costs or splitting his parcel.

Delayed permitting time can cost homeowners loss of economic opportunity.

The homeowner recounted their most frustrating experience developing their ADU was going through the permitting process. According to the interviewee it took over 4-5 months to obtain an easement review from the Department of Water and Power (DWP). Despite numerous efforts to reach DWP, representatives on the status of their easement review request, they were largely met with no response. Further, upon completing the construction of the ADU, it took the homeowner a year and half to obtain a permanent certificate of occupancy. The certificate of occupancy was delayed due to the Building and Safety Department misplacing the homeowner's file and internal staff shuffling. The homeowner's efforts to outreach and call the building and safety department was largely met with no response.

Given that the homeowner and their partner were able to conduct their business in their primary residence, they were able to manage a year and half without use of their ADU. However, the interviewee points out that had their partner's business success been dependent on the completion of their ADU, they would have experienced a significant loss of income waiting for city departments to obtain their building permits. Similarly, had the interviewee and their partner needed rental income from the ADU right away, they would have had to forgo almost a year and half worth of rent.

Timely communication from City and County agencies is necessary.

Although the homeowner understands permit and certificate of occupancy review delays are inevitable, they found the lack of timely responses or no responses at all from city offices to be extremely frustrating. In one case, the homeowner attempted to call and email the building and safety department 20-25 times for an update on his permanent certificate of occupancy review application. This was over the course of a year and a half. Despite numerous outreach efforts, the homeowner wasn't able to get clear updates on the status of their application. For the homeowner, regardless if a review process is delayed or not - simply having a city agency representative return their calls to provide an update on the status of their application would have helped ease project management stress.

Divisions of parcels & tax abatement incentives should be explored for homeowners.

In addition to obtaining a stipend and/or low interest loan to cover the cost of construction, the homeowner expressed interest in County incentives around tax abatement and parcel splitting. The homeowner cited that a tax abatement would help lower their property taxes and a parcel split could help increase the value of his home. Additionally, the homeowner notes that if they were to make his ADU a rental property, they would like it if the County could help them find solutions to create privacy screens or landscaping between their primary residence and the ADU property.

Renter of ADU

The ADU tenant interviewee is a resident of the neighborhood of City Terrace, and has resided in their ADU as tenant since February of 2019. The interviewee lives in a detached 1 bedroom ADU that is approximately 450 square feet, and pays \$800 per month for rent. The interviewee was first made aware of the ADU by their landlord, whom they had previously been employed under for 10 years. Prior to occupying their ADU, the interviewee wasn't actively searching for an ADU. Although the interviewee recalls their cousin living in a small detached ADU, the interviewee personally didn't know too much about them. As a full time student and worker, what drew the interviewee to their ADU was the low rent and their familiarity with the landlord. The interviewee's ADU came equipped with a washer/dryer, designated on street parking, private yard space, and a separate entrance from the main residence.

Key lessons learned from the ADU tenant interview and input to think about from the perspective of an ADU tenant:

Familiarity with the landlord can be a plus.

The ADU tenant's good standing relationship with their landlord prior to moving into the ADU afforded them many benefits. Since occupying the ADU in February 2021, the interviewee's flat rent of \$800 per month has not risen. Additionally the interviewee doesn't have to pay for electricity, water, or trash fees. Lastly the interviewee noted they have a great line of direct communication with the landlord and can immediately contact them if they have any issues.

Privacy is key.

The interviewee expressed having access to a private backyard entry and outdoor yard space that is separate from the main property makes them feel more ownership of their ADU. Additionally they expressed as an adult with their own social life and in relationship, they appreciate their privacy and the division their ADU has from the main property. That being said, the interviewee believes living in an ADU is a great starter unit for tenants seeking an affordable unit or students still in school. However the interviewee doesn't see their ADU as a long term rental and upon graduation they intend to move to a bigger apartment or house with their partner.

BUILDING & SAFETY EXPERTS

City Of Los Angeles Department Of Building & Safety

Jeff Napier, Public Information Officer for the City of Los Angeles Department of Building & Safety

Jeff Napier serves as Public Information Officer at the City of Los Angeles - Department of Building and Safety. The Department of Building and Safety oversees the permitting process of ADUs and issues certificates of occupancy to new buildings, additions, and change of use or occupancy. Before an ADU can be legally occupied in the City of Los Angeles they must pass building and safety inspections.

Key lessons learned from the City of Los Angeles Building and Safety Department:

Multi-department clearance can cause permitting delays.

Depending on an ADUs' project scope and location, the process to permit an ADU could require multiple department clearances and reviews of items such as water drainage and easement, before obtaining permit approval from the building and safety department. Napier notes the clearances needed by multiple government agencies as a potential factor that could slow down the permitting process for ADUs.

OTHER JURISDICTIONS WITH ADU PROGRAMS

City Of Pasadena, CA

William Huang, Housing Director for the City of Pasadena
Randy Mabson, Program Coordinator for the City of Pasadena Housing Department

The City of Pasadena Housing Department is led by Executive Director William Huang, and Randy Mabson. Huang comes from a background in architecture design and real estate development. He has decades of experience working as an affordable housing real estate developer in Los Angeles County, and has previously served as Director of Housing

Development and Preservation for the County of Los Angeles. Additionally Huang is an ADU owner and has previously used it to house low-income housing voucher holders. Randy Mabson serves as Program Coordinator for the City of Pasadena's Housing Department. Mabson has played a pivotal role developing and implementing Pasadena's recent Second Unit ADU Program.³¹

Pasadena's Second Unit ADU Program launched October 1, 2020. The program seeks to be a one-stop-shop that provides comprehensive assistance including financing, design services, permitting, and construction support to homeowners seeking either to build a new ADU or permit their existing ADU.

Key lessons learned and items to consider when designing an ADU program with affordable housing in mind:

Seek to align program features with existing governmental services.

Rather than trying to reinvent the wheel, Huang suggests making an effort to identify existing government programs and services which can be used to complement components of an ADU program. Huang sought to utilize Pasadena Housing Authority's pool of section 8 voucher holders and rental assistance applicants as low income tenants to be housed in ADUs. By using existing government agencies and programs, such as the Housing Authority's pool of tenants, Huang and his team was able to save time by not having to develop a new system to evaluate low-income tenants.

One program can't do everything - it is necessary to have a clear attainable goal for each program.

It is important to recognize that one program alone cannot solve the entire affordable housing crisis. According to Huang, it's very difficult to design one program that does both sufficiently address the wealth/asset gap for low income homeowners and provide affordable housing for low income tenants. In lieu of seeking to create one program that seeks to do everything, Huang recommends experimenting with different pilot programs that seek to address one issue as its main focus.

Conventional lenders are key for wide scale adoption.

Huang believes that it makes sense to galvanize conventional lenders to support funding ADU, especially as a public agency with limited capital to fund ADU programs. Without support from conventional lenders, Huang doesn't believe it is possible to have wide scale development or rehabbing of ADUs. If the goal is to create a market of ADUs that could supplement affordable housing stock, conventional lenders will be needed to underwrite construction loans at a rate in which the County cannot sustain alone.

31: "Pasadena Second Unit ADU Program - Department of Housing." Pasadena Department of Housing, March 2021. <https://www.cityofpasadena.net/housing/second-unit-adu-program/>.

ADUs are not a solution for all demographics in need of affordable housing.

While there is a lot of interest from cities in creating an affordable ADU platform, Huang cautions ADUs are not a viable option for all tenants. Special needs low income tenants such as chronically homeless, at risk youth, and VASH, are a set of tenants who wouldn't be ideal for affordable ADU housing. For homeowners, especially first time property managers, the onsite supportive needs and monitoring of special need low income tenants will be far too demanding. When considering viable low-income tenant options for ADUs, tenants such as Section 8 voucher holders and elderly low-income tenants should be prioritized.

Technical assistance and bias training are necessary.

Huang notes both technical assistance and bias training are needed when creating an ADU program. Homeowners, especially first time builders, do not make the best project managers. Also, navigating dense zoning and code regulations can prove very challenging for those inexperienced homeowners who are going through the permitting process for the first time. Bias training is also critical because of the stigma around affordable housing and low-income tenants. In the past, Pasadena Housing Authority produced a video to educate landlords on Section 8 and which highlighted the benefits of the program including the reliability of rental income.

City Of Boston, MA

Dr. Taylor Cain, Director of Housing Innovation Lab,
Eva Jermyn, Architect for the City of Boston,
Jay Lee, Assistant Director of Design Construction Openspace for the City of Boston

In recent years Boston, Massachusetts, has been taking innovative approaches to encourage and supplement the development of ADUs. In 2017, the City of Boston launched its Additional Dwelling Unit Program, a 18-month pilot program designed to incentivize homeowners to build ADUs. The two primary goals of the program were to: (1) add more naturally-occurring affordable housing options to the city, (2) enable homeowners to age in place by providing the opportunity to acquire rental income. The pilot program incentivized owner-occupants of 1, 2, and 3-family homes in East Boston, Mattapan, and Jamaica Plain to build ADUs by providing technical assistance and expedited permitting. Additionally the pilot program also provides zero interest loans upwards of \$30,000 USD to eligible low to moderate homeowners. Whereas the majority of ADU programs encourage the development of new detached ADUs, the main stipulation of the Additional Dwelling Unit is to develop ADUs within the existing building envelope.³²

The ADU program was developed and managed through joint efforts by Dr. Taylor Cain - Director of Housing Innovation Lab (Mayor's of Boston Agency), Eva Jermyn - Architect for the City of Boston, and Jay Lee - Assistant Director of Design Construction Openspace

32: "ADU Pilot Report." City of Boston Mayor Martin J Walsh, August 2020. https://docs.google.com/document/d/14DTrBoW2CGSiCclLGGnwhRXujCzVHbVineBIIKPRvHE/edit?usp=embed_facebook.

for the City of Boston. Through the 2017 launch of the pilot program, Dr. Cain's team has been able to gather insight into what worked well in the implementation of the program. Following the success of the 2017 pilot program, in 2020 the Additional Dwelling Unit Program version 2 launched. In contrast, the 2020 program is now a citywide initiative and provides eligible applicants zero interest loans of up to \$50,000.³³ It's important to note in neither the pilot program, nor the current permanent program, are there any clauses requiring homeowners who participate to rent out their ADU at an affordable rate or accept housing voucher applicants.

Key lessons learned from the City of Boston to implement a successful ADU program are as follows:

Working in collaboration with multiple government agencies from the get-go is essential and time saving.

By bringing all key government agencies together (permitting department, fire department, and building/planning department), Dr. Cain's team was better enabled to efficiently identify ADU regulatory barriers and propose corrections in real time to department heads, as well as work through the issues their mitigations may have facilitated.

Rather than focusing on changing the entire zoning code, start small and call out constraints and limitations of ADU development definitions.

Dr. Cain noted her team found success creating footnotes and text amendments in zoning regulations that would be shared with key government departments for discussion. This allowed for amendments to be approved as issues arose, as well as provided needed and innovative clarification.

It's crucial to identify key target neighborhoods and communities to launch an ADU program as a trial run before finalizing a program.

According to Dr. Cain, the initial three selected neighborhoods of East Boston, Mattapan, and Jamaica Plain, were specifically selected to enable the City of Boston to test out different questions about the ADU program. Neighborhoods were selected based on whether they had one or more of the following attributes - a high concentration of people of color and homeownership, an existing concentration of ADUs, and residents' high willingness to accept the program/in need of financial support. By being intentional and building strong support in specific neighborhoods, the team was able to illustrate proof of concept to both the City of Boston government and homeowners. An unexpected outcome from the pilot program was it quickly gained traction organically through word of mouth. Homeowners in non-targeted neighborhoods increasingly inquired about the program and requested expanding the program to include their neighborhood.

³³: Cain, Dr. Taylor, Eva Jermyn, and Jay Lee. Boston Additional Dwelling Unit Team Interview - Inclusive Action, October 30, 2020.

Unexpected or hidden costs can blindside and discourage homeowners from building an ADU.

In Boston, larger buildings must include sprinklers in their ADU according to building and safety code. Dr. Cain noted that initially homeowners were caught off guard assessing construction cost of their ADU. Homeowners failed to take into account the cost of B&S code related add-ons. In other cases, ADUs located in unique locations such as floodplains impact what type of ADU can be built and the overall cost. To better cover unexpected costs and encourage homeowners to follow through building their ADU, the zero interest loan was increased from \$30,000 to \$50,000.

Multnomah County, OR

Steve van Eck, Senior Research & Evaluation Analyst

In 2018, Multnomah Idea Lab launched “A Place For You”, an ADU pilot program. The intent of the ADU pilot program was to incentive homeowners to construct ADUs and provide housing to formerly homeless families for a minimum of 5 years. A unique incentive of the pilot program is that Multnomah County covers 100% of ADU development cost, provides technical assistance to homeowners, and assigns caseworkers to formerly homeless ADU tenants. One stipulation of the program is that Multnomah County will own the ADU for a minimum of 5 years after completion, and the primary homeowner will not be eligible to collect rent payments during that time period. After the first 5 years, homeowners will be eligible to purchase the ADU back from Multnomah County at a fair market price. It’s up to the homeowner to decide whether to continue housing and charge rent to the original tenant. As an added bonus for the formerly homeless tenants residing in the ADUs, the first 5 years are offered free social services and reduced rent at 30% of their monthly income. Collected rent from ADU renters are refunded back to renters after their initial 5 year contract expires.³⁴

Key lessons learned from Multnomah County to implement a successful ADU program are as follows:

Caseworker support is essential to sustaining peace between homeowners and renters.

Multnomah Idea Lab found that they severely underestimated the amount of conflict resolution and supportive services needed to sustain amicable relationships between tenants and homeowners. Multnomah Idea Lab found caseworkers do a great job resolving typical landlord and tenant issues and acting as a mediator between both parties.

34: Multnomah County. ““The Only Thing We Lacked Was a Home”: A Place For You Pilot Project Houses Four Families,” September 2018. <https://multco.us/multnomah-county/news/only-thing-we-lacked-was-home-place-you-pilot-project-houses-four-families>.

Innovative construction and design approaches are not always accessible to all.

Prefabricated (prefab) ADU units can be cheaper to build off site than traditional on-site construction units; Multnomah prefab units were approximately 66% cheaper than their traditional units. However one drawback of prefab units is that they must comply with ADU zoning requirements in addition to federal highway standards when shipped. As a result, Multnomah Idea Lab found that many lots were ineligible to obtain prefab units, because they did not have access to corner lots or wide enough alleys to transport prefab units during shipping.

Gifting homeowners an ADU can pose legal challenges.

Gifting homeowners an ADU as an incentive will require homeowners to pay gift taxes on the ADU upon completion. To mitigate burdening homeowners with hefty gift taxes, Multnomah Idea Lab drafted legal agreements to sell ADUs back to homeowners. A controversial part of the agreement gives the County discretion to sell the ADU back at an undisclosed “fair market price”. Although not disclosing the “market price” value of the ADU until time of sale legally permits the County to sell the ADU back to the homeowner at an affordable rate. Many homeowners’ lawyers strongly advised homeowners to not participate in the pilot program, because there were no legal precedents in Multnomah County of property being sold back to homeowners at undisclosed rates until time of sale. It is important for the County of Los Angeles to consider creative legal solutions to ensure homeowners are not liable for paying gift taxes on ADUs that might be owned by the County.

Homeowners value design flexibility and access to design options.

When surveying homeowners, Multnomah Idea Lab found homeowners unanimously stated they would have liked to have more ADU design options to choose. Homeowners expressed wanting to have ADUs that aesthetically resembled their primary residence in lieu of the modular design options provided by the County.

Scaling affordable ADU housing will require policy change at state and federal levels.

Van Eck notes it will require state and federal level policy changes to acquire more public funds to support cities seeking to produce affordable ADUs. Van Eck states in order to catalyze a broad scale adoption of affordable ADU housing, state and federal governments will need to permit the allocation of LIHTC subsidies to be used to construct ADUs.

MANUFACTURERS

Restore Neighborhoods LA

Jason Neville, ADU/Real Estate Developer

Jason Neville has years of experience developing ADUs as a real developer. Neville spearheads Building Blocks, a one-stop-shop ADU design build firm, with business partner/ licensed contractor John Perfitt. Neville also has experience in ADU policy development. Previously he has worked on Mayor Eric Garcetti's Innovation Team to help shape ADU law and make it easier to construct ADUs. As an ADU developer, Neville provides first hand perspective into the challenges developing ADUs and insights into solutions to address ADU development challenges.

Key lessons learned to help making the ADU development process more efficient and cost friendly:

Need for a faster and transparent permitting process.

There is a need for both the City and County to be more transparent in the ADU permitting process. According to Neville, homeowners and ADU developers can be left waiting upwards of 6 months or more to obtain final approval from DWP on ADU plans. These long wait periods often add more time and cost to develop ADUs, and can deter interested homeowners from completing an ADU project. Neville suggests that the City and County should explore better internal management protocols in effort to accelerate the permitting process. Furthermore Neville recommends the City and County prioritize enhancing their external communication practices. Neville notes the importance, especially for first time ADU permit applicants, of having consistent and timely communication with the permitting department in lieu of not hearing anything until their applicant is processed.

High cost of compliance can be a deterrent.

Depending on the size and location of an ADU, homeowners and developers are subjected to comply with additional site and/or ADU zoning requirements. Neville cites these compliance requirements not only add time to the development process, but can also add significant cost. According to Neville three factors drive up ADUs cost - foundation work, utility connections, and storm water management related requirements. Foundation, especially on hillsides can add upwards of 20% premium to construction costs - due to additional engineering and design service fees. Although Neville notes little can be done immediately by the City or County to reduce cost of foundation work on hillsides, he cites it as something to think about when determining incentives.

Other ADU compliance components can be cost prohibitive. Utility connections can add anywhere between \$5,000 - \$20,000 on a project depending on whether a local jurisdiction allows utilities to go through a main house or separate connection. Neville has found homeowners in local jurisdictions that allow ADUs to run through main connections

are better able to save on utility connection costs. Neville suggests local jurisdictions that require separate utility connections consider permitting shared connections where feasible.

Lastly, storm water management related requirements for City of Los Angeles' ADUs greater or equal to 500 square feet can add upwards of \$3,000 low impact development measurements (LID) fees and 6 weeks of development time. Storm water management requirements typically mandate a homeowner to install 4 water barrels to catch rain runoff. In the field, Neville has found homeowners tend to remove the barrels after inspection, which is counter intuitive to the requirement in the first place. Although capturing rainwater runoff is important, Neville argues that in the case of ADUs, storm water management requirements should be removed. According to Neville, ADUs are generally too small to capture significant amounts of rainwater to justify the high cost homeowners must pay to install water barrels.

Keep it simple, make less work for the County staff and homeowners.

When considering incentives to encourage homeowners to rent out their ADUs to low income tenants, Neville stresses the importance of making the process as simple as possible to opt in. For the sake of time and money Neville recommends that the County focus on finding and incentivizing homeowners who already own an ADU in lieu of focusing on constructing new ADUs. Furthermore, in order to facilitate the wide scale adoption of an affordable ADU program, Neville argues the easing of compliance clauses for both the homeowner and government should be explored. Rather spending time developing time demanding compliance check processes, Neville believes the County should strive to be lenient especially while we are in the midst of an affordable housing crisis.

FINANCIER

GENESIS LA

Pavlin Buchukov, Senior Loan Officer

Genesis LA is a Los Angeles County based Community Development Financial Institution (CDFI) and Community Development Entity (CDE). Working in partnership with the City of Los Angeles, LA-Más and other local organizations, In 2017, Genesis LA served as a primary financier for homeowners enrolled in the City of Los Angeles and LA-Más' Backyard Homes Project. The Backyard Homes Project is intended to operate as a one-stop-shop program that provides technical support and financial support to homeowners seeking to build ADUs. In exchange for financial and technical support homeowners are required to rent out their ADU for a minimum of 5 years to Section 8 voucher holders (Learn more about The Backyard Homes Project in Section on County and City ADU programs).

Genesis LA's Senior Loan Officer, Pavlin Buchukov, shares insights into key lessons learned financing ADU projects with the City of Los Angeles and the current landscape of barriers impacting ADU finance models.

Key lessons learned about the financial barriers to develop ADUs and how to make financing ADUs more accessible:

Existing financial models do not support homeowners seeking to build ADUs.

There are no wide-scale unified financial approaches or models for homeowners who lack upfront capital to construct ADUs. Large banks tend to avoid providing construction financing for ADUs because there is no added equity before an ADU is constructed; the value of the home only increases once an ADU is completed. With limited options, homeowners interested in building an ADU typically resort to refinancing existing mortgages or taking out a line of credit against their equity with their existing bank or a new bank. In some cases, homeowners use a credit card with a high credit limit to finance construction cost. For low income households, these existing financial approaches are not viable options. Until banks recognize ADUs as worthwhile investments, homeowners are left to recycle existing financial models that are not designed for ADUs.

Subsidies and direct assistance are better than loans.

Loan products are not a sustainable solution for lower income households. For many lower income households, servicing their existing mortgage and household needs is a challenge in itself. In some cases, lower income homeowners were paying 50-60% of their monthly income to service their mortgages. Even with projected new additional rental income from an ADU, they still do not have enough to service a new loan. It's important to pair both subsidies and financial assistance with lower income households. If the County wants to help lower income households without further indebting them, subsidies and assistance programs should be prioritized. County subsidies in the range of \$20,000 - \$30,000 can help lower income households cover initial development costs.

Existing financial models need to re-evaluate what constitutes collateral.

Traditional banks and lenders do not recognize ADUs as a safe investment, and as a result homeowners are left with limited options to finance ADUs. Buchukov states that in order to better serve lower income households, who often have limited capital or equity available, existing financial models need to re-evaluate what constitutes as collateral. If banks recognize prospective income, more homeowners will be able to qualify for home loans and construct an ADU. Buchukov recommends banks take into consideration at least up to 75% of prospective income from a new ADU unit when underwriting.

County incentives should be multidimensional and cater towards homeowners' income brackets.

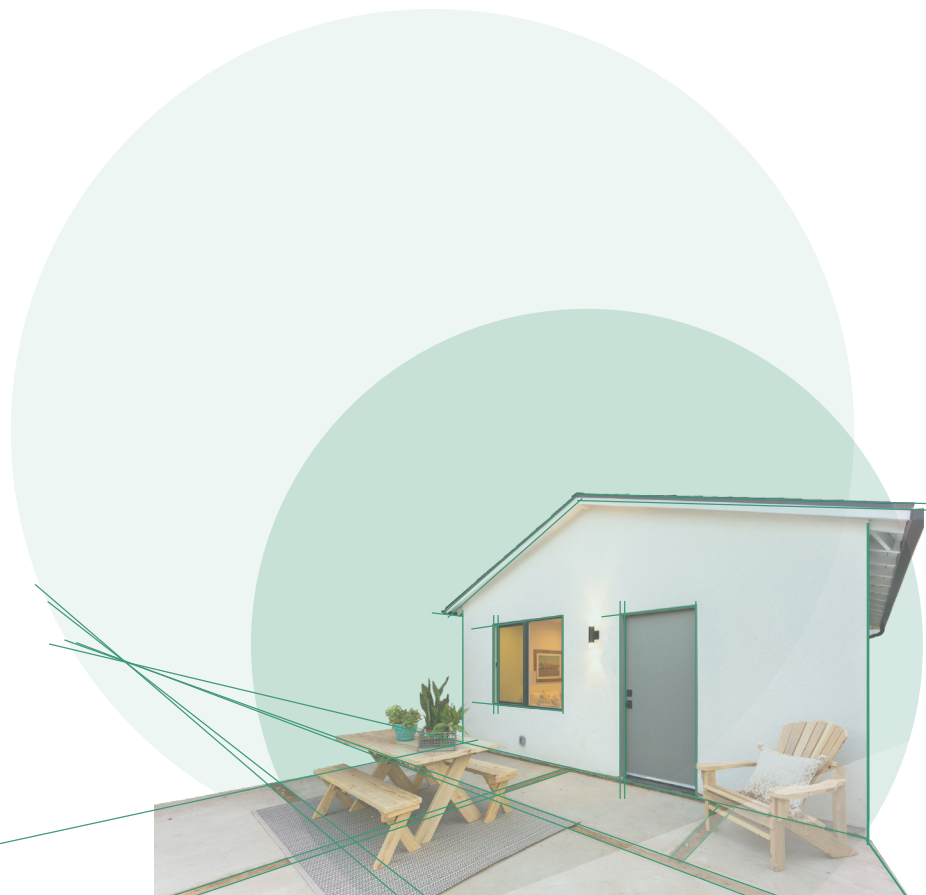
In the immediate, the County should explore multiple solutions that cater towards targeted populations based on income brackets. Given that the County will have limited funds for subsidies and financial assistance, there should be appropriate levels of support geared towards households' income levels. However, in the long run, if the County wants to expand affordable ADU programs, they should focus their efforts on reaching larger financial institutions who can underwrite projects. Buchukov states while there are innovative government programs that develop and fund affordable ADU housing options, these types of programs are unsustainable.

Prejudices against affordable housing and low-income tenants must be mitigated and educated against.

There needs to be a general public education component on lower income tenants/Section-8 voucher holders to address negative stereotypes. Section-8 voucher holders are often seen as bad tenants who destroy property and/or immoral characters. Buchukov states a strong educational component will help encourage more homeowners to opt in participating in initiatives that support housing for lower income renters.

SURVEY REVIEW: CHALLENGES HOMEOWNERS FACE & PERKS OF AN ADU

Four Major Takeaways from the Surveys	48
ADU Homeowner Profile Analysis	49
ADU Renter Profile Analysis	54



FOUR MAJOR TAKEAWAYS FROM THE SURVEYS

1 The majority of surveyed homeowners with ADUs live above the median household income.

Approximately 57.7% of the ADU homeowners surveyed households earn over \$100,000 which is 14% over the LA County Household median homeowner household income of \$87,656. Nearly 46% of the homeowners surveyed households earn over \$150,000 annually, while only 24% of LA County households earn that amount.

2 ADU rent prices reported by both homeowners and tenants is more affordable than the County median rent, but is still too high.

The surveyed average asking rent price by homeowners for ADUs is \$1,790.25, and the surveyed average reported rent price by tenants is \$1,464.55. Although the surveyed ADU asking price for rent by homeowners and reported rent by tenants is lower than the County median rent of \$2,471, both surveyed rent prices are still too high to be considered affordable. Provided the median household income for renters in LA County is \$46,382, if renters were to pay \$1,464.55 for rent they would be paying 37.9% of their income. Considering 30% of income or less is classified as affordable housing, although these ADUs are more affordable, they are still burdensome for tenants broadly.

3 Homeowners named navigating the permit process and obtaining finances as one of the biggest challenges.

Approximately 77% of homeowners stated the permitting process was the most difficult process for them, followed by 58% reporting obtaining financing as an obstacle in building the ADU. The overall average cost to build an ADU from surveyed homeowners was \$101,730.

4 Financial support is the most desired incentive for homeowners to consider renting below market rate.

When considering incentives to rent below market, approximately 79% homeowners stated having their initial construction cost covered and paying it back with future ADU rent as their number one choice. The second most popular choice was obtaining a very low to no interest long-term loan, which accounted for 67% of respondents. It's important to connect the high demand for financial support incentives back to homeowners expressing that financing their ADU was their biggest challenge besides going through the permitting process. Provided that there are few ADU-specific financial products in the market, financing ADUs is a major barrier homeowners are left to overcome themselves. The majority of surveyed homeowners paid for the ADU via refinancing their primary residence (73%), with 50% of respondents paying for it via cash savings. No survey respondents financed their ADU through a construction loan from a bank.

To better understand development challenges, usage of ADU units, and insights into potential incentives to encourage homeowners to build/rent out ADUs at an affordable rate, 52 ADU homeowners were surveyed. In addition, 33 ADU renters were surveyed to better understand the appeal of ADUs to tenants. All respondents reside in Los Angeles County and either own or rent an ADU.

ADU HOMEOWNER PROFILE ANALYSIS

The majority of ADU homeowner respondents - 78.8%, reported building or permitting their ADU after 2015. In 2016, the state of California ushered a flurry of bills that targeted easing strict development regulations. Approximately 80.7% of homeowner respondents reported residing in the main residence dwelling, 15.4% live in their ADU, and less than 8% reported to live in neither the main residence or ADU.

In regards to ADU usage, 11.5% of surveyed homeowners report their ADU being used as a living or work space for those who live in the main residence. The majority of survey respondents, 73.1%, rent out the ADU to someone who is not a friend of the family. Less than 12% surveyed reported their ADUs occupied by a family member or friend. One respondent, stated that their unit was vacant.

The top two reasons for building an ADU according to respondents were:

1. Extra rental income/offsetting mortgage costs
2. Increase in property value

Other named reasons for building the ADU included:

- Having another space to work from.
- Creating affordable housing for family members for when those family members need it.

Income Range	# of Respondents	% Of Respondents
\$35,001 - \$55,000	2	3.85%
\$55,001 - \$75,000	10	19.23%
\$75,000 - \$100,000	10	19.23%
\$100,001 - \$150,000	6	11.54%
\$150,001 - \$200,000	5	9.62%
\$200,001 - \$250,000	7	13.46%
\$250,000+	12	23.08%
Total	52	

Table 9: Income level of ADU Homeowners

According to Table - 9, 23% of ADU homeowners earn over \$250,000 per year. Collectively, over 76% of ADU homeowners earn above \$75,001 annually in income, which amounts to over 16% above median household income in Los Angeles County of \$64,251 (ACS 2018). In addition, 57.7% of surveyed ADU homeowners reported their households earning \$100,001+ a year, which amounts to 14% over the median household income of \$87,656 homeowners in LA County.

ADU Physical Attributes Analysis

In order to fully understand how rent is distributed for survey respondents, an assessment of the physical attributes of the ADUs homeowners built was necessary. For the survey, four classifications were given: attached new construction, attached renovation, detached new construction, and detached renovation. Table 10 below, illustrates the breakdown of ADUs by size and unit type.

	1001 - 1200 square feet	150 - 500 square feet	501 - 750 square feet	751 - 1000 square feet	Over 1200 square feet	Total
Attached - New Construction	4		12	5	1	22
Attached - Renovation	1	4	1	2		8
Detached - New Construction	1	6	1	3		11
Detached - Renovation	1	6	2	2		11
Total	7	16	16	12	1	52

Table 10: ADU Breakdown by Size and Construction Type

The most common ADU typology reported by respondents was the attached new construction, between 501 and 750 square feet - accounting for 23% of respondents.

	1 Bdrm	2 Bdrms	3 Bdrms	Studio	Total
150 - 500 square feet	8	3		5	16
501 - 750 square feet	4	12			16
751 - 1000 square feet	2	10			12
1001 - 1200 square feet		7			7
Over 1200 square feet			1		1
Total	14	32	1	5	52

Table 11: ADU Breakdown by Size and Room Type

According to Table 11, 2-bedroom ADUs were the most reported ADUs built, accounting for 62% of the 52 ADU homeowners surveyed. Following 2-bedrooms, 1-bedrooms accounted for the second most ADUs built - 27%, studio ADUs - 10%, and 3-bedrooms the least common - 2%. One respondent reported having an ADU over 1200 square feet, which exceeds the legal standard square footage of 1200 square feet to be considered an ADU in the state of California.

Size	Monthly Rent
150 - 500 square feet	\$1,093.94
501 - 750 square feet	\$2,028.13
751 - 1000 square feet	\$2,245.00
1001 - 1200 square feet	\$1,914.29
Over 1200 square feet	\$2,800.00
Total	\$1,790.25

Table 12: Average Rent by Square

# Of Bdrms	Monthly Rent
Studio	\$1,017.60
1 Bedroom	\$1,347.50
2 Bedrooms	\$2,073.13
3 Bedrooms	\$2,800.00
Total	\$1,790.25

Table 13: Average Rent by # of Bedrooms

Table 12 and Table 13 both illustrate the larger the square footage and the more bedrooms in a unit, the more expensive the rent is for an ADU. The total average rent charged for ADUs is \$1,790.25. In contrast, the total average rent for surveyed ADUs is approximately 27.5% cheaper than the median asking rent in the County of Los Angeles of \$2,471 for a 2-bedroom. The average rent from survey respondents for a 2-bedroom ADUs is \$2,073.13, or 16% less expensive than the average asking rent.

Although rents for these ADU survey respondents are lower than the average asking price, it is still more than what would be considered affordable for the median renter in LA County making \$46,346 per year. An affordable rent (or 30% of annual income) for a median earning renter would be \$1,159 per month. Based on the information from respondents, only a studio falls under that range, whereas the larger units would not be considered affordable for the median renter in LA.

ADU Construction Cost Analysis

The overall average construction cost of surveyed ADU homeowners is \$101,730.77, as seen in Table 14 below. Attached renovated units have the lowest average construction cost of \$64,000, which is 37% lower than the overall average. The cost of attached renovated and attached new construction is similar to that of the permit information from the County - showcasing that ADU homeowners surveyed are seeing similar costs to what the County had been estimating through permitting costs.

Type of ADU	Avg. Cost to Build
Attached - New Construction	\$ 132,227.27
Attached - Renovation	\$ 60,625.00
Detached - New Construction	\$ 108,363.64
Detached - Renovation	\$ 64,000.00
Overall Avg. Cost	\$ 101,730.77

Table 14: Average Construction by ADU Type

Financing Type	# Of Respondents	% Of Respondents
Cash Savings	26	50.00%
Home Equity Line of Credit	23	44.23%
Refinance and cash out option based on main home value only	38	73.08%
Refinance and cash out option based on main home + future ADU value	3	5.77%
Purchased main home, constructed ADU with cash option based on future property value	21	40.38%
Loan from family members or friends	10	19.23%
Construction loan from bank	0	0.00%
Total Respondents	52	

Table 15: ADU Financing Models

Table 15 illustrates the financing mechanisms utilized by homeowners to construct their ADUs. Homeowners were able to select as many financial methods as they used to construct their ADU. According to survey respondents, the top three ways ADUs were financed were by: Refinancing and getting cash out based on the main home value (73%), cash savings (50%), and a home equity line of credit (44%). No respondents reported using a construction loan for financing. ADU homeowners’ limited reliance on banks to secure construction loans reaffirms the general consensus that there are limited financial models outside of refinancing available for ADU development.

Affordable ADU Homeowner Development Incentives Analysis

Supplementing cost of construction and having that money paid back through rental payments was named the most encouraging incentive for renting out the unit at an affordable price. 79% of survey respondents reported having “construction cost covered, but partial rent given back” as their preferred incentive. “Very low to no interest construction loans” and “Grants for 25% of construction cost” were selected as the second and third desired incentives for ADU homeowners. Property tax abatements were a close fourth, and a necessary incentive to explore because there is existing precedent for this type of incentive.

Incentive Types	# Of Respondents	% Of Respondents
Property tax abatement	29	55.77%
One-time, cash payment for 25% of construction costs	30	57.69%
Initial construction costs covered then paid back with rent	41	78.85%
Very low to no interest long-term loan	35	67.31%
Splitting the parcel	12	23.08%
Total Respondents	52	

Table 16: Incentives Homeowners would Consider to Rent Below Market

Challenges for Homeowners	# Of Respondents	% Of Respondents
Finding a contractor	13	25.00%
Permitting process / Building & Safety checks	40	76.92%
Obtaining finances	30	57.69%
Design constraints and challenges	21	40.38%
Utility connections	11	21.15%
Total Respondents	52	

Table 17: ADU Development Challenges Experienced

When considering County of Los Angeles incentives for homeowners, it's important to cross reference the challenges that homeowners faced when building an ADU. An overwhelming 77% of respondents reported the "permitting process / building & safety checks" as the most challenging process developing their ADU. The second most selected challenge reported was "obtaining finances", and third, "design constraints and challenges." Two of the top three challenges reported by ADU homeowners center around understanding construction/design and permitting. A major key to easing the development process is ensuring that homeowners have a clear understanding of what they are getting into when they decide to build an ADU, and providing them with information about fair and equitable contractors. This was also underscored by the interviews with homeowners that were conducted.

ADU RENTER PROFILE ANALYSIS

The majority, or 91% of the 33 ADU renters surveyed, reported living in attached units, while only 9% of surveyed ADU renters reported living in detached units. The respondents were almost evenly split in living in a 1 bedroom and living in a 2 bedroom unit - at 51.5% and 48.5% respectively. Nearly all of respondents reported having access to a parking space on site and access to yard space, and 42% reported having access to a washer/dryer. Lastly, an overwhelming 91% of respondents reported being within 8 miles of work, with 57.6% overall being within 2-4 miles of work.

The three primary reasons why renters chose to rent an ADU according to respondents were:

1. Affordability.
2. Proximity to work.
3. Convenience (vs. that of an apartment or other housing option).

ADU Renter Rent & Income Analysis

# Of Bedrooms	Avg. Monthly Rent
1 bedroom	\$ 860.00
2 bedrooms	\$ 2,106.88
Overall Average	\$ 1,464.55

Table 18: Average ADU Rent by # of Bedrooms

Type of Unit	Avg. Monthly Rent
Attached unit	\$ 1,502.67
Detached unit	\$ 1,083.33
Overall Average	\$ 1,464.55

Table 19: Average Rent by Type of ADU

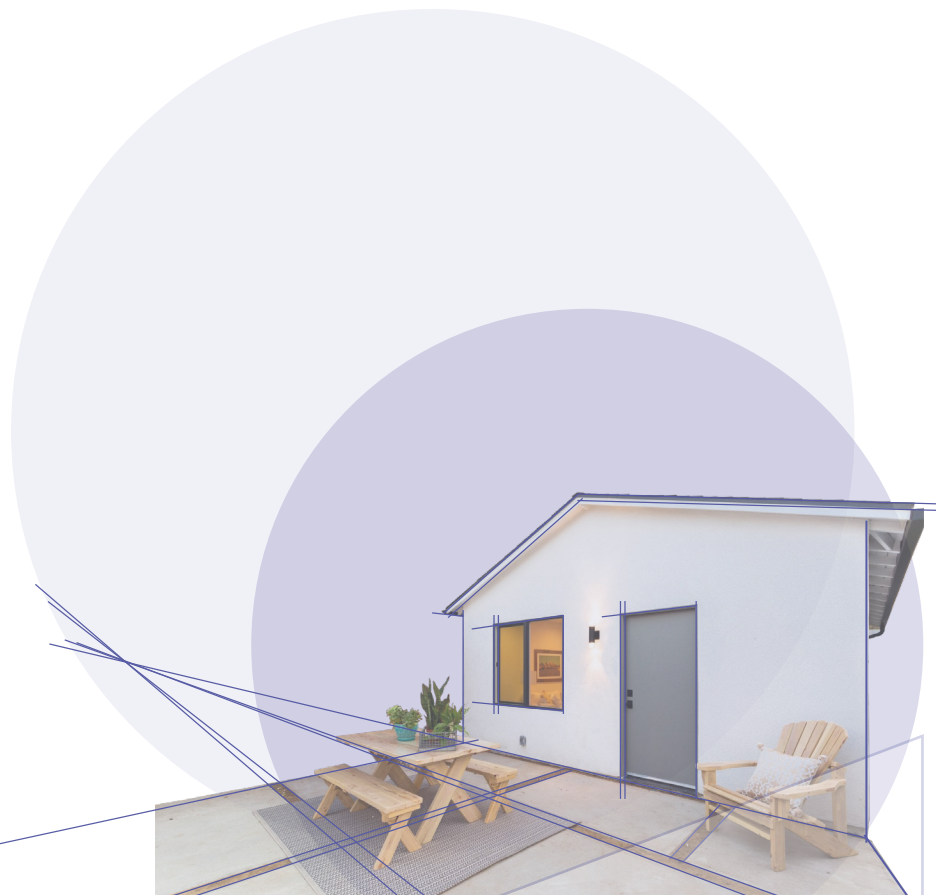
Financing Type	# Of Respondents	% Of Respondents	Average Rent
\$4,999 - \$15,000	1	3.03%	\$ 250.00
\$15,001 - \$35,000	1	3.03%	\$ 1,100.00
\$35,001 - \$55,000	1	3.03%	\$ 800.00
\$55,001 - 75,000	13	39.39%	\$ 1,213.85
\$75,000 - \$100,000	17	51.52%	\$ 1,788.24
Total	33		\$ 1,464.55

Table 20: Renter's Income Breakdown and Average Rent

Based on information reported by survey respondents, average rent reported for all ADU types is \$1,464.55 monthly. No survey respondents live in a studio apartment. Of respondents, the lowest income brackets do not have a significant decrease in rent, with the exception of one respondent having rent of \$250 monthly, and income less than \$15,000.

ADU LAWS & PROGRAMS

Regulations in California	57
The County and City of Los Angeles ADU Programs	60
Regulations in Other Major U.S. Metropolitan Areas	66
A Selection of ADU Programs Around the United States	66
Innovative Policies and Programs	69



In order for rent to be considered affordable for the median income renter in LA County, monthly rent cannot exceed \$1,158.65. Notably, over half of respondents to the survey report having income between \$75,001 and \$100,000 - 62% over the median income for renters in LA County. In order to understand how Accessory Dwelling Units (ADUs) have become so prevalent and a deserved focus of attention, regulations applying to LA County must be assessed. Over the last 5 years, there have been sweeping changes in law that effectively deregulate how and where ADUs are built, as well as other requirements around them - making them an easy avenue for housing development, especially in single-family zoned areas across the state.

ADU regulation in LA County is governed by the General Ordinance of Los Angeles County Division 7 Section 22.140.640 - Accessory Dwelling Units. The General Ordinance provides baseline guidelines for the development of ADUs with regards to development restrictions, height, and parking.

REGULATIONS IN CALIFORNIA

Over the last decade there has been a push to relax development standards and regulations to encourage accessory dwelling units in the state of California. The growing cost of housing in dense metropolitan areas, such as Los Angeles and San Francisco, and the shortage of new affordable housing units has been a driving force for these policy changes.

1982 - 2003 Early State Laws

SB 1160 & AB 1866

In 1982, the state of California enacted SB 1160, the first ADU state law. SB 1160 mandated every local agency in the state adopt provisions to aid in the construction of ADUs, originally called second dwelling units, as a housing option for seniors, college students, and low-income households. Despite state efforts to encourage ADU development, SB 1160 fell short on explicitly outlining development standards to prevent local government agencies from blocking ADU development.³⁵ Local agencies required that ADUs undergo discretionary permit reviews in which ADU applications were rejected. In 2002, the state of California adopted AB 1866 which mandated local governments agencies amend development standard regulations to permit ADU development, and mandated ADUs be ministerially approved. Additionally AB 1866 mandated a maximum ADU size of 1,200 square feet.³⁶

35: "Accessory Dwelling Unit Ordinance." City of Los Angeles, 2017. <https://planning.lacity.org/ordinances/docs/adu/information-sheet.pdf>.

36: AB-1866 Housing: Density Bonuses, Pub. L. No. 1866, § Section 2, 65852.2 (2002). https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=200120020AB1866.

ADU Development Requirements for LA County

Development Restrictions	<ul style="list-style-type: none"> • Minimum floor area of 150 square feet, and one habitable room with a minimum area of 70 square feet. • Maximum floor area is 1,200 square feet. For attached ADUs dwelling units can't exceed 50% of the habitable area of said-family dwelling residence at time of application submittal. • ADUs are subject to all applicable Community Standards District or Specific Plan provisions pertaining to floor area and lot coverage, however cannot exceed the maximum floor area specified above.
Height	<ul style="list-style-type: none"> • General. Maximum height of an ADU cannot exceed above 25 ft. • Community Stands District and Specific Plans can specify a height restriction, in which case one must take whichever is less but it cannot exceed 25 ft. • If an ADU is located 200 ft within proximity of a scenic route it shall not exceed the height of a single-family residence or 18 ft, whichever is less.
Parking	<p>No parking is required for an ADU under the following conditions:</p> <ul style="list-style-type: none"> • Located within 1 mile of public transit. • Located within an architecturally and historically significant historic district. • The ADU is part of the proposed or existing primary residence or an accessory structure. • When street permit parking is required but is not offered to the occupant of the ADU. • When there is a car share vehicle located within one block of the ADU. • ADU is located outside of a Very High Hazard Severity Zone.

2016 State Laws

SB 1069

The mid to late 2010's ushered a new wave of ADU laws and regulations in California, as affordable housing demand grew and pressure to permit ADUs increased. In 2016, SB 1069 and AB 2299 were signed into state law by Governor Brown. Both SB 1069 and AB 2299 set out to ease the regulatory development barriers hindering ADU development remiss in AB 1866. Furthermore, SB 1069 mandated that if a county or city adopts an ordinance for the creation of ADUs, the ordinance must specify: (1) designated areas ADU can be located, (2) develop building standards, (3) and ensure ADUs standards are consistent with zoning regulations. SB 1069 also significantly eased parking restrictions, and prohibited cities from requiring ADUs have fire sprinkler systems if the main residences do not.³⁷

37: SB-1069 Land Use: Zoning, Pub. L. No. 1069, § Section 1-8, 65582.1 (2016). <https://leginfo.ca.gov/faces/billTextClient.xhtml?billId=201520160SB1069>.

AB 2299

AB 2299, officially replaced the term “second unit” with “accessory dwelling unit”. AB 2299 regulated numerous components of ADU development standards such as: (1) mandates that the floor area of a ADU shall not exceed 50% of the existing living area, (2) capped maximum ADU total area to 1,200 square feet, (3) enabled ADUs to be built on sites zoned for single-family and multi-family use. Additionally AB 2299 granted cities the authority to regulate rental limitations on ADUs and require ADUs be rented out longer than 30 days. The ADU rental limitations are important to note because it helps protect against the likelihood of ADUs being used solely for short term rentals and positions ADUs as a viable solution to address the growing need for long-term rental units.³⁸

2017 State Laws

SB 229 & AB 494

SB 229 & AB 494 are two complimentary bills passed together to amend portions of SB 1069. SB 229 & AB 494 officially authorized local agencies to provide ordinance guidance for the creation of ADUs in single family and multi-family residential zones. Additionally they capped the size of a detached ADU to 1200 square feet at maximum, and eliminated setback requirements for existing garages converted to an ADU. In regards to parking, SB 229 & AB 494 waived parking requirements for ADUs located within 1/4 mile of a transit stop, and capped parking for an ADU to one parking space per unit or bedroom (whichever is less).³⁹⁴⁰

2019 State Laws & Present Day Regulations

2019 saw the passage of six state regulations: SB 13, AB 670, AB 671, AB 881, AB 68, and AB 587. SB 13 and AB 670 both help ease the barriers to ADU permitting and construction. SB 13: (1) removes the 1-1 parking replacement requirement if an ADU is built and removes a parking spot, (2) prohibits local agencies from imposing an owner-occupancy requirement until Jan 1, 2025, (3) and waives impact fees for ADUs less than 750 square feet. AB 670, further helps remove barriers to ADU development by voiding government documents and regulations that prohibits the construction of ADUs. This enables homeowners who were previously prohibited by local government agencies or homeowners associations in their community to bypass restrictive barriers allowing for the construction of an ADU.

38: AB-2299 Land Use: Housing: 2nd Units, Pub. L. No. 2299, § Section 1, 65852.2 (2016). https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201520160AB2299.

39: AB-494 Land Use: Accessory Dwelling Units, Pub. L. No. 494, § Section 1-3, 65852.2 (2017). https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201720180AB494.

40: SB-229 Accessory Dwelling Units, Pub. L. No. 229, § Section 1-3, 65852.2 (2017). https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201720180SB229.

AB 881 & AB 68

AB 881 & AB 68 are a set of overlapping bills passed together. AB 881 mandates (1) local governments to ministerially approve ADU applications in both residential and mixed use zones, (2) prohibits local governments from imposing owner-occupant requirements for both ADUs and primary residences.⁴¹ AB 68 (1) removes minimum lot size requirements for ADUs, (2) significantly eases FAR and setback requirements, (3) reduces the ADU application approval time to 60 days. Lastly AB 881 & AB 68, enables up to 2 ADUs on multi-family properties, and an ADU and JADU on a single family property.⁴²

AB 587

AB 587 creates an opportunity for ADUs to be sold separately from the main property. Properties owned by a non-profit corporation are eligible to sell ADUs separately for the purpose of building/rehabilitating single-family and multi-family residence for sale for low-income families.⁴³ The purpose of ADU 587 is to expand access to homeownership to eligible low-income homeowners.

AB 671

AB 671 mandates the California Department of Housing and Community Development to draft a list of “existing state grants and financial incentives” available in the state by Dec. 31, 2020. The intent of AB 671 is to incentivize homeowners to construct ADUs to be rented out at very low, low, and moderate-income households.⁴⁴

THE COUNTY AND CITY OF LOS ANGELES ADU PROGRAMS

With an abundance of legislation passing to make ADUs a more viable housing option, multiple programs were developed in both the County and the City of Los Angeles. Below is an overview of some of the different programs within LA County.

LA ADU Accelerator Program - City of Los Angeles

The ADU Accelerator Program is a City of Los Angeles program that pairs older adults with homeowners who are willing to provide stable housing by offering their ADUs as an affordable rental. The program provides a property management service for homeowners

41: AB-881 - Accessory Dwelling Units., Pub. L. No. 881, § Section 1-5, 65852.2 (2019). https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201920200AB881.

42: AB-68 Land Use: Accessory Dwelling Units, Pub. L. No. 68, § Section 1.1, 65852.2 (2019). https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201920200AB68.

43: AB-587 Accessory Dwelling Units: Sale or Separate Conveyance, Pub. L. No. 587, § Section 1, 65852.26 (2019). https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201920200AB587.

44: AB-671 Accessory Dwelling Units: Incentives, Pub. L. No. 671, § Section 1-4, 65583 (2019). https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201920200AB671.

renting out their unit. The program launched October 2019, selected its first cohort of 75 homeowners and tenants, and began moving elderly tenants into ADUs in February of 2020. Following the success of the first cohort, the City of Los Angeles is looking at ways to scale up the program to capture more interested homeowners and look into offering financial incentives for participants.

As of March 2021, the ADU Accelerator relaunched their application portal for its second cohort of program participants.⁴⁵

The Backyard Home Project - City of Los Angeles

The Backyard Home Project is an LA-Más led affordable housing initiative to incentivize homeowners in the City of Los Angeles to build an ADU and lease out their ADU to Section 8 voucher holders for a minimum of 5 years. This program was implemented in 2017 and provides homeowners technical assistance incentives that includes free project management, affordable housing and construction services, landlord training and tenant support services, and possible signing bonuses for new Section 8 landlords. Additionally, financing will be offered to a limited number of projects.

The success of the pilot program led to the expansion of the The Backyard Home Project to include unincorporated LA County in late 2020. The Backyard Home Project seeks to house 10+ families in the near future and recently broke ground on its first property.⁴⁶

The Standard Plan Program - City of Los Angeles

The Standard Plan Program is an ADU design database of permit-approved drawings curated by the City of Los Angeles Department of Building and Safety, Department of City Planning, and Bureau of Engineering. The preapproved permitted ADUs are designed by a host of nationally recognized architects and firms, as well as local organizations such as LA-Más. Upon launch on March 5, 2021, the Standard Plan Program featured 20 pre-approved designs and seven more designs awaiting approval by the Department of Building and Safety. It is expected that over time, more designs will be added.⁴⁷ According to Christopher Hawthorne, Chief Design Officer for the City of Los Angeles, the intent of the Standard Plan is to demystify the ADU process and make it more transparent to a broader cross section of homeowners, and significantly cut down on permitting times - in some cases to as little as one day.⁴⁸ For the time being, the Standard Plan Program doesn't offer interested homeowners financial services to fund their ADU, but the City of Los Angeles anticipates the laid out design plans will enable homeowners to reduce the cost of architect services and permits on their project due to the designs being pre-approved.

45: Ibid. City of Los Angeles. "LA ADU Accelerator Program"

46: LA Más. "The Backyard Homes Project: An Affordable Housing Initiative," March 2021. <https://www.mas.la/affordable-adus>.

47: City of Los Angeles Department of Building & Safety. "Standard Plan Program | LADBS," March 2021. <https://ladbs.org/adu/standard-plan-program>.

48: Hawthorne, Christopher, and Alejandro Gonzalez. Interview With Christopher Hawthorne - Inclusive Action, February 9, 2021.

Second Dwelling Unit (Accessory Dwelling Unit) Pilot Program - County of Los Angeles

The LA County Second Dwelling Unit Pilot Program was created as part of a comprehensive strategy to combat homelessness; the pilot program was implemented August 2017 and was allocated \$550,000 to launch. The pilot program incentivizes homeowners in unincorporated Los Angeles County to construct an ADU or use their existing ADU to house people transitioning out of homelessness for a minimum of 10 years. This program offers homeowners a forgivable loan of \$75,000 to construct a new ADU and \$50,000 for rehabilitating an existing ADU. Second, LA-Más, a local grassroots community development organization, provides homeowners with technical assistance in financing, designing, permitting, and construction of their ADU.⁴⁹

Of the 62 applications located in unincorporated LA County that were considered, the program awarded three homeowners to build new and three homeowners to renovate and permit their existing ADUs. Three lessons learned from the pilot program - (1) ADUs cost more to construct than originally assumed; (2) Identifying qualified contractors can be challenging; and (3) Even with technical assistance and expedited processing from County departments, the ADU development still takes significant time.⁵⁰

United Dwelling - Los Angeles County

United Dwelling is a Los Angeles County based one-stop-ADU-shop that operates as a developer, contractor, and property manager. United Dwelling's core mission is to build small affordable homes in a scalable manner. In addition to providing design/build and property management services, United Dwelling also offers flexible financing options and helps connect homeowners to trusted financiers. On average, United Dwelling is able to reduce the cost of constructing their ADUs to \$95,000 by opting to build them in bulk in a geographic location. This helps improve construction efficiency. United Dwelling has a 30 day construction turnaround time from demolition to completion. In 2021, United Dwelling is on track to build 400 units, and in 2022 they are seeking to complete 80 units per month.⁵¹

49: Ibid. Los Angeles Department of Regional Planning. "Second Dwelling Unit Pilot Program | DRP"

50: Trinidad, Mark. Mark Trinidad Interview - Inclusive Action, December 1, 2020.

51: Swedberg, Ryan. Ryan Swedberg Interview - Inclusive Action, September 2, 2020.

Pasadena Second Unit ADU Program - City of Pasadena

The Pasadena Second Unit ADU Program is an incentive program developed by the City of Pasadena Department of Housing. The program seeks to provide comprehensive assistance including financing, design services, permitting, and construction support to homeowners seeking either to build an ADU or permit their existing ADU. In exchange for services, homeowners who opt to build a new ADU must lease their ADU for a minimum of seven years to Section 8 voucher holding tenants. Homeowners with pre-existing ADUs are able to select whomever they want as their tenant. The Pasadena Second Unit ADU Program was launched on October 1, 2020. The program has approximately \$850,000 in funding collected through the City of Pasadena inclusion funds. It's estimated the program will assist between 5-7 households, in at least three of which will be new construction builds.⁵²

Below are the two ADU development options provided to program participants:

Option 1- New Construction ADU

- Up to \$150,000 financing
- 3-year loan with 1.0% simple interest
- Deferred payment for 3 years
- Must be refinanced prior to end of deferred payment period

Option 2 - Pre-existing ADU for Renovation and permitting

- Up to \$75,000 in financing
- 20-year loan with simple 1.0% interest
- Deferred payments for the first 5 years
- Household income must be under 80% AMI

REGULATIONS IN OTHER MAJOR U.S. METROPOLITAN AREAS

Los Angeles is among many jurisdictions across the nation that are looking at ADUs as an option for substantially increasing housing stock. Understanding how Los Angeles compares among them for progressive policies that allow for further ADU development contextualizes how LA can improve its processes. Figure 12 on the previous two pages explores regulations in five other jurisdictions.

52: Ibid. "Pasadena Second Unit ADU Program - Department of Housing."

Progressive ADU Zoning & Ordinances Around the United States

	Los Angeles County	Austin, TX	Portland, OR	Seattle, WA	St Paul, MN	Washington, DC
Ordinance Updated	Jan 1, 2020	2015	March 2019	2019	2018	2016
By Right or Special	By Right	By Right	By Right	By Right	Review required	By Right
Permit Time Duration	60 Days max application approval period pursuant to AB-68	N/A - Depends on application	N/A - Depends on application	N/A - Depends on application	N/A - Depends on application	N/A - Depends on application
Lot Size	Not required	5,750 sf min	Not required	3,200 sf min for a DADU, must have at least 25 ft wide and 70 ft deep	5000 sf min	Depends on zone area: 2000 sf (R-19) 1200 sf (R-20)
ADU Size Constraints	JADU: 500 sf ADU: 1200 sf or 50% of habitable area of primary residence	ADU: 1100 sf, or 0.15 FAR whichever is smaller	ADU: 75% of primary size, or 800 sq ft max. All detached ADUs cannot be exceed 15% of total site area	1,000 sf for SF zone (0.5 FAR); 650 sf for LR zone	800 sf max	450 sf or 30% of rear yard area (whichever is greater). Cannot be more than 35% of gross floor area of primary dwelling
Height	Less than 25 ft; if within 200 ft of a scenic route it can't exceed the height of the residence or 18 ft, whichever is less	Cannot exceed 30 ft; 2-level max	Cannot exceed 20 ft	Max: 25 ft for single family zone; 20 ft in LR zones	25 ft max	20 ft / 2-stories limit for detached ADUs
Setbacks	4 ft from property line, unless converting an garage or building from ground up from the garage	10 ft from the primary house	Detached ADUs must be set back 40 ft from front line or directly behind the house	Must be set back 20 ft from the front yard line; 5 ft from the side yard; 25 ft or 20% of the rear yard	ADU can only be erected in rear yards. Setbacks shall be waived, however ADU can no more than 35% of rear yard	Must be built in rear of house and be located a minimum of 12ft from the centerline of the alley, if applicable
Design	Not required	Not required	Must visually match the exterior finish materials, roof pitch, and orientation of primary house.	Not required	Not required	Not required
Rent Limitations	Prohibits ADUs from being rented out for periods of 30 consecutive days or less	Maximum of 30 days per year for ADUs constructed after Oct 1, 2015	Short term rentals permitted	Short term rentals are permitted but must acquire a short-term rental operator license which is valid for 12 months	Short term rentals permitted	Short term rentals permitted

Progressive ADU Zoning & Ordinances Around the United States

	Los Angeles County	Austin, TX	Portland, OR	Seattle, WA	St Paul, MN	Washington, DC
Parking	<p>No parking is required for an ADU under the following conditions:</p> <ol style="list-style-type: none"> 1. Located within 1 mile of public transit 2. Located within an architecturally and historically significant historic district 3. The ADU is part of the proposed or existing primary residence or an accessory structure 	<p>One parking space is required for an ADU in addition to the primary structure parking already on the property</p> <p>Parking is not required if the ADU is located within 1/4 mi of a transit stop</p>	<p>Additional on-site parking is not required. However if parking is required for existing primary residence unit, it must be replaced or retained</p>	<p>No additional ADU parking is required provided minimum parking for the primary dwelling is maintained</p>	<p>No additional ADU parking is required provided minimum parking for the primary dwelling is maintained</p>	<p>No additional ADU parking is required but existing parking on the property can be removed - existing parking could potentially be moved elsewhere on the property.</p>
Home Owner Occupancy	Not required pursuant to SB-13	Required	Required to live in either primary residential unit or ADU	Required to live in either primary residential unit or ADU	Not required	Required to live in either primary residential unit or ADU
ADU Occupancy Household Limits	N/A	N/A	One household or up to a max of five unrelated individuals	N/A	One household or up to a max of four unrelated individuals	No more than three people can live in an ADU
Additional Regulations	<ol style="list-style-type: none"> 1. ADU can be sold separate from primary unit pursuant to AB 587, which permits single family properties owned by non-profits to sell ADUs separate from the primary units 2. AB 68 permits up to 2 ADUs on a single-family and multi-family property 	N/A	N/A	Allows 2 ADUs on one lot, if the second one is affordable below 80% AMI and meets green building standard. (either one attached or one detached, or two attached)	ADU cannot be sold separate from primary dwelling and it may not be a separate tax parcel	Property owner must obtain a residential rental business license from DCRA

Figure 12: Progressive ADU Zoning & Ordinances Around the United States

A SELECTION OF ADU PROGRAMS AROUND THE UNITED STATES

Utilizing the potential of ADUs as a means for wealth generation, affordable housing options, and general increase in housing supply is a focus in many jurisdictions both within and outside of California. Below is a list of different programs around the country that look to answer some of these questions and have successfully launched their own pilot programs.

A Place For You

Multnomah County (Portland), Oregon

In 2018, Multnomah Idea Lab launched “A Place For You”, an ADU pilot program. The intent of the pilot ADU program was to incentivize homeowners to construct ADUs and provide housing to formerly homeless families for a minimum of 5 years. This program is unique in the sense that all construction and permitting expenses will be covered under the permission that the new ADU will be under ownership of Multnomah County for the first 5 years and the primary homeowner will not be eligible to collect rent payments during that time period. After the first 5 years, homeowners are eligible to purchase the newly constructed ADU back from Multnomah County at a reduced price. After the homeowner purchases the ADU back, they can decide whether to continue housing the family or not. As an added bonus for the formerly homeless tenants residing in the ADUs, the first 5 years are offered free social services and reduced rent at 30% of their monthly income, with subsidy from the County and its partners.

The “A Place For You” program was developed by Multnomah Idea Lab, a public sector agency within Multnomah County’s Department of Human Services. Multnomah Idea Lab partnered with Enhabit, a local nonprofit organization to help manage the properties. In total four ADUs were built and approximately \$550,000 USD was allocated from several sources: Multnomah County, the Joint Office of Homeless Services, and the Meyer Memorial Trust. The initial goal was to build each unit at \$75,000 each, however ultimately two modular units built off site cost just under \$80,000 and two units built on site cost using innovative insulated panels cost \$133,000. According to Mary Li, Director of Multnomah Idea Lab the difference in cost between the units derived from different construction techniques tested. The pilot program garnered the interest of over 1000 volunteers who registered.⁵³

53: Multnomah County. ““The Only Thing We Lacked Was a Home”: A Place For You Pilot Project Houses Four Families,” September 2018. <https://multco.us/multnomah-county/news/only-thing-we-lacked-was-home-place-you-pilot-project-houses-four-families>.

Equity First Affordable Small Homes (EFASH)

Portland, Oregon

Equity First Affordable Small Homes (EFASH) is a 2018 pilot program based out of Portland, Oregon, developed to create a replicable model for constructing, financing, and managing ADUs. The program attempts to take a 2-part approach to mitigating displacement: (1) targets low to medium income households who could benefit from collecting rent from an ADU, (2) provides low income renters affordable ADU options at 60% AMI rent (\$916). The program incentivizes homeowners by providing \$66,000 in subsidies to help cover construction funding gaps. Homeowners who participate in the program must provide affordable housing to low income tenants for 10-15 years.

EFASH was developed through partnerships from Hacienda Community Development Corporation, Portland Community Reinvestment Initiatives (PCRI), and ROSE Community Development. The pilot program is still ongoing and is expected to produce 10-15 pilot sites.⁵⁴

My House My Home Program

City of Santa Cruz & Monterey Bay, CA

My House My Home Program is a partnership between Habitat for Humanity Monterey Bay, County of Santa Cruz, and Senior Network Services. The focus of My House My Home Program is to provide both low-income senior citizen homeowners (62+ years old) the opportunity to age in place and provide Section 8 voucher holders access to affordable ADU housing. Santa Cruz County provides senior citizen homeowners seeking to build an ADU financial assistance in the form of a \$80,000 loan at 3% interest, which can be deferred up to 30 years. Additionally the County and Senior Network Services provides case management with supportive services to homeowners and tenants.

In exchange for participating in the program, homeowners must enter into a deed restriction with the County in which requires them to rent out the ADU or primary residence at or below 60% AMI. Once the homeowners pays off the loan plus interest, the deed restrictions will be released.⁵⁵

54: Living Cully. "Affordable Small Homes," March 10, 2021. <http://www.livingcully.org/adu/>.

55: Molloy, Kathleen. "My House My Home Partnership with Habitat for Humanity." County of Santa Cruz - Planning Department, April 2018. <http://www.santacruzcountyplanning.com/Portals/2/County/adu/My%20House%20My%20Home%20Loan%20Program.pdf>.

Additional Dwelling Unit Program

Boston, Massachusetts

The City of Boston's Additional Dwelling Unit Program launched in 2017 as an 18-month pilot program. Since the initial pilot program, the Additional Dwelling Unit Program has scaled from a pilot for 3 neighborhoods to a stable citywide program. The two primary goals of the program were to: (1) add more naturally-occurring affordable housing options to the city, (2) enable homeowners to age in place by providing the opportunity to acquire rental income. The program incentivized owner-occupants of 1, 2, and 3-family homes in East Boston, Mattapan, and Jamaica Plain to build ADUs by providing technical assistance and expedited permitting. Additionally the program also provides low interest loans of \$30,000 - \$50,000 USD to eligible low to moderate homeowners. Whereas the majority of ADU programs encourage the development of new detached ADUs, the main stipulation of the Additional Dwelling Unit is to develop ADUs within the existing building envelope.

The Additional Dwelling Unit Program was developed and managed through a joint collaborative effort between the Mayor's Housing Innovation Lab at the Department of Neighborhood Development, Inspectional Services Department, and the Boston Planning & Development Agency.⁵⁶ For more information on the Additional Dwelling Unit Program, see Understanding the Viewpoints of Experts.⁵⁷

The Alley Flat Initiative

Austin, TX

The Alley Flat Initiative based out of Austin, TX, was created in 2005. The program seeks to increase the stock of affordable housing for renters and provide an additional stream of rental income to low to moderate households. Homeowners who participate in the program must keep their ADU unit affordable for a minimum of 5 years in exchange for discounted architecture and planning consulting fees.

The Alley Flat Initiative was created in partnership with the University of Texas School of Architecture, the Guadalupe Neighborhood Development, and the Austin Community Design and Development Center. Since the program's inception in 2005, the Alley Flat Initiative has built 7 ADUs. According to program evaluation reports, homeowners who participate are able to drop ADU cost on average from \$123,000 per unit to \$105,000, or roughly by 14%.

56: Ibid. Cain, Dr. Taylor, Eva Jermyn, and Jay Lee. Boston Additional Dwelling Unit Team Interview

57: The Alley Flat Initiative. "The Alley Flat Initiative Proposes a New Sustainable, Green Affordable Housing Alternative for Austin," March 2021. <https://thealleyflatinitiative.org/about/>.

Yard Homes

Minnesota

Yard Homes is a Minnesota based vertically integrated company that builds and finances ADUs for homeowners, public agencies, and nonprofits. Yard Homes was officially established and registered as a company in January of 2020. What makes Yard Homes unique is their innovative financing model for their Y-ELP program initiative, which enables Y-ELP to produce affordable ADUs. The Y-ELP programs require partnerships with at least 2 nonprofits in which one non-profit serves as a housing partner and the other a supportive housing partner.

The Y-ELP program can be broken down into 3 steps:

1. Yard Homes finances and builds an ADU on a property owned by a nonprofit housing partner.
2. Yard Homes acquires a 10 year lease from the nonprofit housing partner, and creates a master lease with a supportive housing partner. Additionally, the supportive housing partner helps oversee the veterans voucher program and identify ADU tenant candidates.
3. After the ADU is paid back in 10 years, Yard Homes transfers the ADU title to the nonprofit housing partner or property owner. The new ADU title holder can then determine whether or not they would like to keep the ADU affordable as is or raise the rent and select a new tenant.

Yard Homes has also been able to secure a Program Related Investment (PRI) to use as collateral for a \$1 million loan. According to Yard House, for every \$25K they have they are able to develop 1 ADU unit. Yard Homes hopes to continue expanding their affordable ADU development by utilizing payment asset backed securities pools.⁵⁸

INNOVATIVE POLICIES AND PROGRAMS

In addition to understanding existing programs geared specifically towards ADUs, there are also emerging programs, as well as ones that can be re-fitted to apply closer to the development of ADUs, that should be considered when developing any local programs or incentives for building ADUs. Considering that financing is one of the biggest barriers for homeowners, and a more feasible way for the County to ensure that ADUs are rented out affordably, most innovation can happen here. However, the other major issue is cutting costs and streamlining processes for construction and permitting. Both areas have existing programs that can be learned from and tweaked to fit the needs of ADU development in Los Angeles.

58: YardHomes. "Yard Homes - Affordable Housing," March 2021. <https://www.yardhomesmn.com/adusinthenews>.

Innovative Financing & Incentives

Federal Indian Housing Policy

Federal Indian housing programs are administered by HUD and are specifically designed to provide Indian tribes and tribal members access to loans and/or affordable housing stock. Section 184 Indian Home Loan Guarantee Program (Section 184) and Title VI Loan Guarantee Program (Title VI) are two Indian housing programs that have the potential to be replicated and adjusted by Los Angeles County to support affordable ADU development and ensure renting them out at below-market rate.

Section 184 Indian Home Loan Guarantee Program

The Section 184 Indian Home Loan Guarantee Program is one of three HUD programs nested within the 1937 Housing Act. The 1937 Housing Act was implemented on tribal land in the 1960s, when federal Indian policies sought to provide tribes self-determination without assimilation. The overall objective of the Housing Act of 1937 programs was to provide tribes access to affordable housing on tribal and/or trust land, without displacing or relocating Indians to cities.⁵⁹

The Section 184 Indian Home Loan Guarantee Program was designed to encourage private mortgage lending in Indian Country. Indian Country suffers from a lack of financial investment from traditional financial institutions. This program is geared solely towards Indian tribal members. This program utilizes federal HUD funding to provide participating lenders 100% guarantee backed loans in the event an Indian borrower defaults on a loan. Indian borrowers are required to pay 1.5% of loan guarantee fee at closing which can be financed into the mortgage.⁶⁰ As of 2021, the Section 184 loan can be used in 38 participating states with participating lenders. One benefit of this program is that it doesn't have a minimum credit score requirement and low credit scores do not require higher mortgage rates. Although this program has no minimum credit score requirement, applicants' credit histories are still evaluated. Additionally, applicants are expected to be up to date with bills and must provide proof of income. Moreover, participating lending institutions are encouraged to assess applicants on a case by case basis to determine creditworthiness.

Despite HUD's intention to make acquiring loans easier in Indian Country, lending institutions are still denying between 35-48% of all Indian loans on and off reservations and citing poor credit history as the primary reason for denial.⁶¹ If LA County were to

59: Title II - Assisted Housing For Indians and Alaska Natives, Pub. L. No. Public Law 100-358, § Section 201 (1988). <https://www.govinfo.gov/content/pkg/STATUTE-102/pdf/STATUTE-102-Pg676.pdf>.

60: U.S. Department of Housing and Urban Development (HUD). "Lenders Section 184 Resources," March 2021. <https://www.hud.gov/Section184Lenders>.

61: Davila, Christina, and Keith Wiley. "Exploring the Challenges and Opportunities for Mortgage Finance in Indian Country." Housing Assistance Council, April 2018. <http://www.ruralhome.org/storage/documents/publications/rrreports/rrr-native-american-mortgage-white-paper.pdf>.

adopt a similar loan guarantee program for ADU development, it's recommended that LA County consider explicitly outlining in their version of a "limited denial of participation" conditionals around acceptable credit history factors.⁶²

Title VI Loan Guarantee Program

The Title VI Loan Guarantee Program is a program nested within the Native American Housing Assistance and Self-Determination Act (NAHASDA). The Title VI Guarantee Program was designed to help Tribally Designated Housing Entities (TDHEs) acquire large loans from conventional lending institutions. The program permits TDHEs the opportunity to borrow upwards of 5x their annual Indian Housing Block Grant (IHBG) allocation in the form of a low interest loan from conventional lenders. HUD backs the loan by guaranteeing 95% of a TDHEs future IHBG allocation as collateral. A benefit of the Title VI Guarantee Program is that it enables tribes to cover project expenses in present value construction cost and inflation rates. Flexible loans permit terms of 20 years and the interest may be fixed, adjustable, or floating.⁶³ It is important to emphasize there is an extreme lack of capital in Indian Country and the housing demand and needs of tribes are high. It is well documented that the majority of TDHEs barely break even and the IHBG program is not sufficient enough to cover the needs of tribes as it is. Although the Title VI program enables tribes to access larger pools of capital upfront through traditional low interest bank loans, some tribes may still find it challenging paying off a new loan and maintaining existing operations.⁶⁴

The Title VI Loan Guarantee Program is a HUD program embedded into the Native American Housing Assistance and Self-Determination Act of 1996 (NAHASDA). Signed into law by then President Bill Clinton, it provides tribes the authority and decision-making power to create their own housing authorities called Tribally Designated Housing Entities (TDHEs). TDHEs serve as tribal housing development agencies that operate as housing developers to service low-income tribal members. Additionally NAHASDA gives tribes the ability to dictate what type of housing typologies development gets built and where it's located on tribal and trust lands. Another important element about NAHASDA is that it consolidated all the previous Indian housing programs (Mutual Help Homeownership, Turnkey III Homeownership) into a singular housing annual block grant called Indian Housing Block Grant Program (IHBG). The IHBG creates a central funding source that helps streamline funding to tribes. Every year, federally recognized tribes receive disbursements of non-competitive IHBG funding to help fund affordable housing development. Funding per each tribe can range from \$24K upwards to \$72 million, which are dependent on a series of factors pertaining to a tribe's size, housing shortage, and median income levels.⁶⁵

62: "Section 184 Indian Loan Guarantee Program Processing Guidelines." U.S. Department of Housing and Urban Development Office of Public and Indian Housing, September 2014. <https://www.hud.gov/sites/documents/PIH201422UNDRWRITGUIDELNS.PDF>.

63: U.S. Department of Housing and Urban Development (HUD). "Title VI Loan Guarantee Program - Homeownership - Indian Housing," March 2021. https://www.hud.gov/program_offices/public_indian_housing/ih/homeownership/titlevi.

64: U.S. Department of Housing and Urban Development (HUD). "Obstacles, Solutions, and Self-Determination in Indian Housing Policy," 2015. <https://www.huduser.gov/portal/periodicals/em/spring15/highlight1.html>.

65: U.S. Department of Housing and Urban Development (HUD). "NAHASDA," March 2021. https://www.hud.gov/program_offices/public_indian_housing/ih/codetalk/nahasda.

City of Pasadena - Department of Housing

The City of Pasadena Department of Housing are developing two potential financing pilot products to add to their Second Unit ADU Program. For one product, the City of Pasadena is looking to work with a conventional lender and the second product the City of Pasadena is looking to provide a larger flexible loan to lower-income homeowners. Both of these programs have not been approved by the Pasadena City Council and are contingent on the Council passing these programs. These votes are expected to happen later in 2021.

The City of Pasadena Department of Housing is working with a conventional lender to leverage government funds, so the amount of the City's subsidy dollars allocated to sustain their ADU program will not be as high. Although not finalized, the City of Pasadena is negotiating a 20-to-1 deal, in which for every dollar the City of Pasadena provides, the conventional lender would provide 20 dollars. Leveraging funds with a conventional lender would enable the City of Pasadena to build more ADUs and provide less funds as an incentive to homeowners, and a conventional lender to cover the rest, while also requiring the ADUs are rented out at a below market rate. The City of Pasadena is also considering helping homeowners save on the life cycle of their loan, by providing some public financing to help homeowners lower the interest rate. It's estimated homeowners could save tens of thousands of dollars if the City of Pasadena provides some funding to write down interest rates. Additionally, the City of Pasadena will also provide professional services upfront so homeowners are better prepared to start building once they acquire a conventional loan. These loan incentives will still have a requirement to lease to a rental assistance household for a set amount of years.

For the second potential pilot, the City of Pasadena Department of Housing is considering a flexible large loan geared towards homeowners who do not qualify for conventional loans. This pilot program seeks to address the wealth gap and asset gap issue with low income households and disadvantaged minority households. This City of Pasadena loan would provide long term, flexible financing so that these households can take advantage of ADUs as a wealth building tool.⁶⁶

Self-Help Federal Credit Union

Self-Help Federal Credit Union is a national, mission driven credit union that strives to provide financing to help low-wealth borrowers buy homes, start and build businesses, and strengthen community resources.⁶⁷ In 2017, Self-Help Federal Credit Union worked in partnership with LA-Más, Genesis LA, and several other local organizations, to provide financing to fund the Backyard Homes Project. In addition to contributing to the Backyard Homes Project, Self-Help Federal Credit Union has developed an underwritten first mortgage with cash out refinance product to help homeowners finance ADUs. The

⁶⁶: Huang, William, and Randy Mabson. Pasadena Second Unit ADU Program Interview - Inclusive Action. Zoom Video, January 26, 2021.

⁶⁷: "Self-Help Federal Credit Union," March 2021. <https://www.self-helpfcu.org/home>.

underwritten first mortgage product has two incentives: 1) the use of 75% of future rental income generated by the ADU as part of the borrower's income to help with debt-to-income requirements, and 2) gap financing in which Self-Help Federal Credit Union allows homeowners to finance their increase in cost to compensate for their time between loan deployment and tenant move in (and therefore rental income). According to Self-Help Federal Credit Union, they were able to implement this underwritten first mortgage product *because* they had assurance that all the processes and services (reputable general contractor, project manager, architect, etc) needed to build an ADU would be handled through the Backyard Homes program. For lenders, financing the construction cost of a project is most risky because of all the unknowns that can occur - including length of time, unforeseen roadblocks, and more. Self-Help Federal Credit Union states they believe more lending institutions would consider financing ADUs less risky, if they have clarity and assurance the building process will be handled in a timely and transparent manner.⁶⁸

Construction and Streamlining Processes - Prefabrication & Printing Construction

Prefabrication (prefab) construction is a catch all phrase that refers to the process of manufacturing standardized components (i.e. wall sections, floors, roofs and etc). Prefab construction is not a new concept itself but the technology and methods being deployed have greatly improved over the many decades that this method has been used. The overall interest in prefab construction stems from its ability to reduce cost of construction and time.⁶⁹ Multnomah County Idea Lab found that their "A Place for You" pilot program prefab ADU units came out to be 66% cheaper than traditional building construction ADUs. While prefab can reduce construction cost, prefab construction may pose a challenge implementing because ADU units must comply with both ADU zoning requirements and federal highway standards when shipped.⁷⁰ Multnomah Idea Lab found that many lots were ineligible to obtain prefab units due to not having access to corner lots or wide enough alleys to transport prefab units.

3D-printing construction refers to use of industrial 3-axis printers to build a structure/building from the ground up. 3D printing construction is a relatively new technique that has taken off in the past decade. As of today, 3D printers are capable of printing walls and processing cement. Benefits of 3D printing include saving 60-80% of time on job sites, reducing waste, and allowing more freedom in design.⁷¹ In Austin, TX, a construction technology startup called ICON, is pushing the envelope of prefab construction via 3D printing homes. Because they are done through 3D printing, they can work around the

68: Mayer, Lillian. Self-Help Federal Credit Union Interview - Inclusive Action. Zoom Video, January 21, 2021.

69: Northgate Industries. "Prefab VS Modular Construction: What Is The Difference," November 2017. <https://northgateindustries.com/prefab-vs-modular-construction-what-is-the-difference/>.

70: Eck, Steven van. "A Place for You" Interview - Inclusive Action. Zoom, December 1, 2020.

71: Ellis, Grace. "The Truth About 3D Printing in Construction." Autodesk Construction Cloud, August 2020. <https://constructionblog.autodesk.com/3d-printing-construction/>.

issue of customizing the unit. In March 2018, ICON debuted their first permitted 3D-printed home 350 square feet prototype designed to house underserved communities. The time to build the house took 48 hours of work time and the cost to build amounted to \$10,000.⁷² In 2019, ICON announced plans to build 100 homes between 600-800 square feet for less than \$4,000 in El Salvador. ICON estimates it will take less than 24 hours of work time to print a home.⁷³ The material that is used for these units is also lighter, more insulating, and more weather resistant than concrete, making it an easier material to transport, and able to sustain many decades of wear.

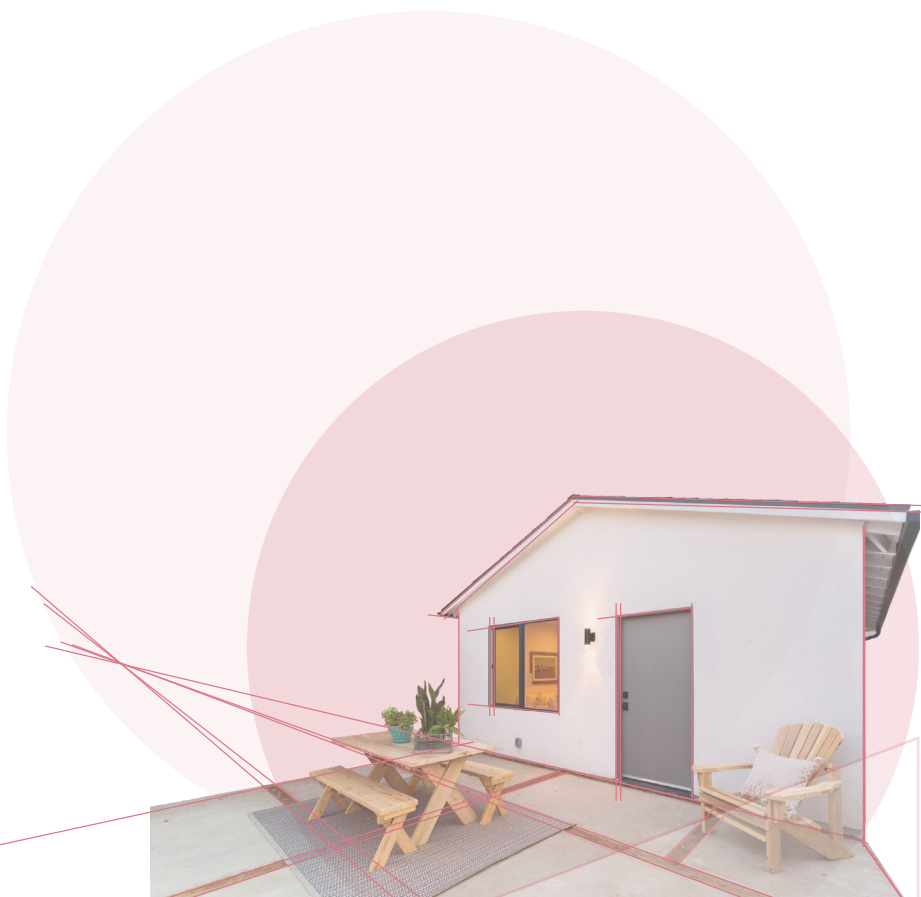
Innovations like this should be watched to see how they can be integrated into programs that the County already has, or is planning to do. However, programs like this must be looked at with a critical lens when assessing for LA, because if wide alleyways and wide roads are required to transport a prefabricated house, that leaves out large areas of LA where roads are narrow and access for large vehicles is difficult.

72: ICON. "ICON Unveil the First Permitted 3D-Printed Home." ICON Build, March 2018. <https://www.iconbuild.com/updates/new-story-and-icon-unveil-the-first-permitted-3d-printed-home>.

73: Reggev, Kate. "How ICON Is Building the \$4,000 3D-Printed Homes of the Future." Dwell, February 2019. <https://www.dwell.com/article/icon-3d-printed-homes-for-4000-dollars-23d715bf>.

RECOMMENDATIONS & LESSONS LEARNED

Five Lessons Learned Throughout the Research	78
Values for Los Angeles	80
Streamlining Processes & Technical Assistance	80
Financing & Incentives for Renting at Below-Market	84
Areas For Further Research & Innovation	90



ADUs have proven to be a viable option for assisting in alleviating the housing crisis in Los Angeles. It is clear through the sheer volume of applicants for all of the ADU programs that there is a willingness to build ADUs and rent them at a below-market rate. This type of eagerness should be taken advantage of to make sure that more ADUs are built quickly, effectively, and equitably - and are then part of the rental stock of Los Angeles.

With information from interviews, surveys, permit analysis, secondary information analysis, and communication with local experts, below is a list of lessons learned, values to guide ADU development as well as short and long term recommendations for Los Angeles County to consider as more ADUs are being built each year. Although streamlining processes is an important step in creating ADUs as a more accessible option for housing development, it is also harder to require affordability with rental of the unit. To create lasting incentives to develop ADUs as affordable rental properties, designing appropriate financial incentives is necessary.

The County should consider that no single program is going to solve the housing crisis - instead, ADUs are one tool in the toolbox to make a significant contribution in housing options. Tailored programs for specific audiences are the best way to tackle the many housing issues that both homeowners and tenants face. The following recommendations have multiple audiences in mind, including homeowners who do have the means to build ADUs today, as well as lower income homeowners, and low income tenants.

IDENTIFYING HOMEOWNERS' PAIN POINTS & AREAS TO ADVANCE ADU DEVELOPMENT

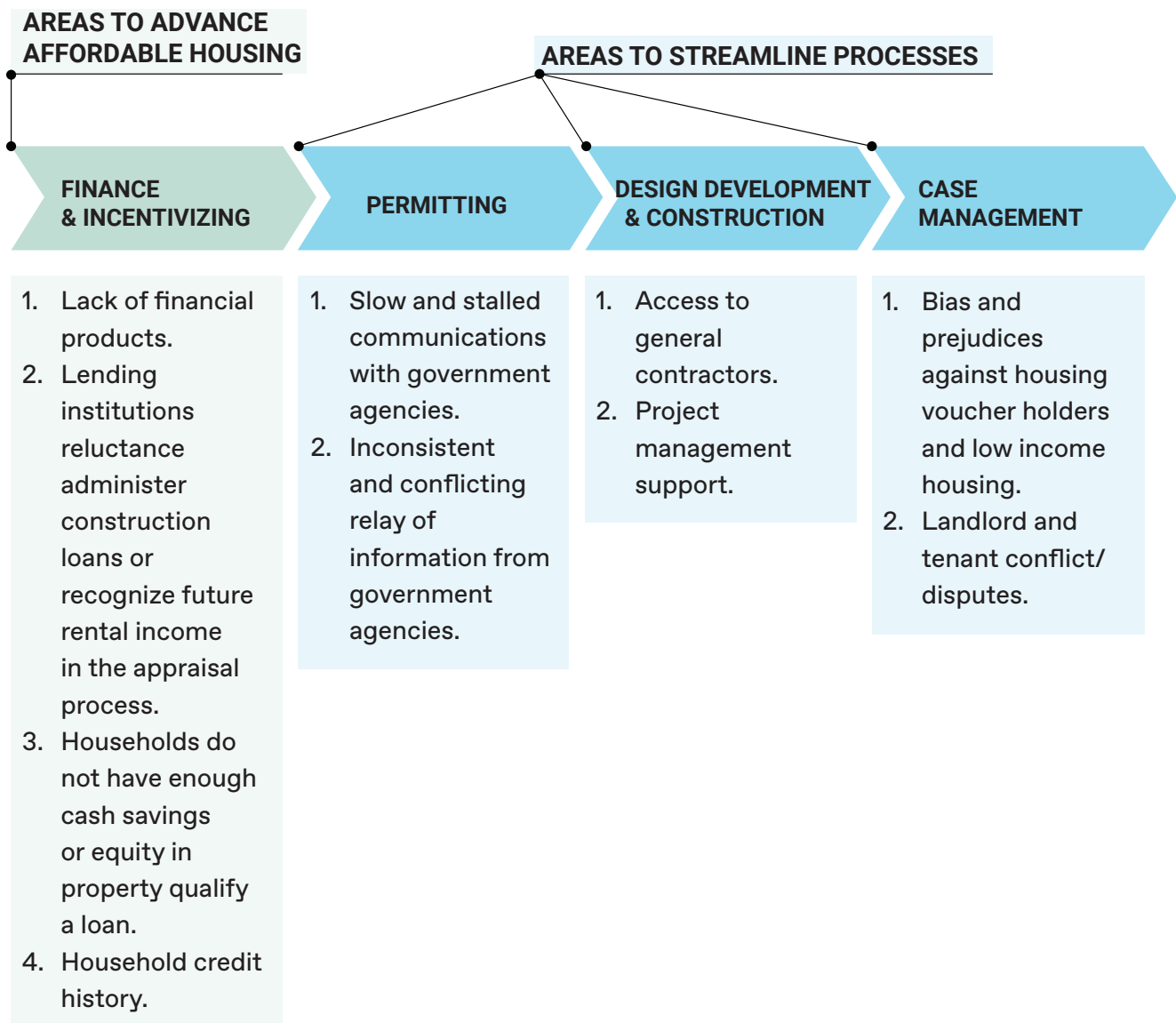


Figure - 13: Identifying Homeowners' Pain Points & Areas to Advance ADU Development

Figure 13 illustrates the four major stages of developing and renting an ADU from financing to case management, and identifies the common issues homeowners experience in each stage. Our recommendations seek to address the “pain points” homeowners face, in addition to advancing affordable housing development and streamline the permitting and construction process.

FIVE LESSONS LEARNED THROUGHOUT THE RESEARCH

1 Technical Assistance for homeowners who are looking to build an ADU is important for all parties involved in the process.

Technical Assistance provided to homeowners builds trust between the public and agencies through transparent processes, it assists homeowners in the difficult process of development, and it reassures financiers about the process of development - making them more comfortable with loaning to a homeowner, and ultimately facilitating security for more accessible loan terms.

2 Financing options for ADU development must be accessible for the average homeowner.

Traditional lending products have too strict of terms to serve the median earning homeowner. Forty two percent of homeowner respondents earn less than \$100,000. Interviews with experts, survey respondents, and secondary research all showcased that people need more amenable loan terms, and right-sized financing options. The financing options in the current marketplace serve people with excellent credit, and who are able to afford interest on large loans and have a substantive amount of equity in their home. In order to scale ADU development, better loan products need to be created, backed, and deployed. This, however, must be paired with clearer processes for development.

3 Public agencies across the region should consider a clear and centralized process for permitting ADUs.

Streamlining processes will make it easier to develop ADUs, assist government agencies in clarifying processes, and ensure contractors know which agencies to call to get status updates on permitting. The faster that ADUs are built, the more money goes towards housing in the long run. For each additional delay ADU developers experience because of bureaucracy, someone is not housed, the homeowners are not collecting income to supplement their mortgage, and contractors are unable to take on more projects - effectively slowing down the process of people being housed and homeowners earning income to pay off debt.

FIVE LESSONS LEARNED THROUGHOUT THE RESEARCH

4 Financing products and housing programs should be designed with their specific customer in mind.

Each product or program may be able to tackle multiple issues, but there should be a named and tailored goal of each product/program. The goal should serve a specific population. For example, a product or program that is meant to build wealth for a homeowner would not necessarily work if rents are capped through affordable housing programs. Similarly, housing programs meant to house people who were formerly unhoused, may not be a direct fit for other populations that are in need of housing. Tailoring a product or program to a specific group - whether homeowners or renters - must be intentional to mitigate the named goal from the beginning. In any program or product, equity must be at the forefront to ensure that people who have been historically harmed by racist housing practices are the ones who are best served.

5 In order to scale ADU programs, traditional financing lending institutions need to change their requirements.

Private financing institutions have many tools at their disposal to assist in the affordable housing crisis. Encouraging private banking companies to finance products/programs for what are historically considered “risky” lenders, will have a major impact on ADU development. Brokering deals with private lending institutions to expand products targeted to ADU development could assist in both getting more ADUs built, and also rented out at an affordable rate if the County ensures it. In addition to more amenable terms, there are people who do qualify for traditional loans and refinancing products - and people in LA who own homes also are interested in assisting with the housing crisis. Financing institutions can build products around this population with requirements to rent out affordably with encouragement from the County.

VALUES FOR LOS ANGELES

The housing crisis is affecting low-income, tenants of color more than anyone else. In order to combat this, all programs, policies, and changes to existing programs must be considered with racial equity at the forefront.

Developing a Racial Equity Approach

Black, Latino/a/x, Brown, and Indigenous individuals and communities in Los Angeles County have historically been deprived of conventional financial products and services. Presently, conventional banks are not interested in providing loans needed by low-to middle income homeowners, who often have neither excellent credit or significant equity in their home, to build ADUs. Even more so, the affordable housing crisis significantly impacts individuals and communities of color, who are being displaced by the thousands due to speculative real estate and gentrification. There is a great need for both BIPOC homeowners and tenants to have access to affordable housing and have the ability to build equity in their property. When developing an affordable ADU program its critical a racial equity framework is rooted in the core of the program. A deliberate effort should be made to align future ADU programs with the objectives of the County's Diversity Equity and Inclusion Department.

Educational programs around racism, classism, biases and discrimination against low income tenants must be a requirement for homeowners who utilize County services. Additionally, financial institutions who the County partners with to finance ADUs must also go through training and commit to uplifting just principles in their practice. Moreover, when either the County or a financial institution partner assesses a homeowner's loan application they should also strive to evaluate an applicant based on character in lieu of credit score.

STREAMLINING PROCESSES & TECHNICAL ASSISTANCE

Within Los Angeles County and the City of Los Angeles, there are many programs to assist both homeowners and tenants. Programs such as the Second Dwelling Unit pilot at the County, and the LA ADU Accelerator at the City both have services that are complementary and could be expanded to better serve a broader group of homeowners looking to build an ADU and then rent it out at below-market rate. As noted in the interviews with experts, as well as through the Advisory Board, homeowners are not developers, and are therefore not familiar with the processes of building a house. This, paired with the fact that building a house is not an easy feat, makes the process frustrating for both the homeowners, and often the permitting parties, financiers, and more. Streamlining processes and providing technical assistance to homeowners is one way that the development process for ADUs can be smoother and take less time to develop. Below is a list of ways that streamlining processes can be achieved.

Immediate Adjustments and Research

These are ways that LA County can take action immediately to begin alleviating some of the issues homeowners face when developing their ADUs.

Internal Assessment of County Programs & Initiatives

As noted in the section on local programs, Los Angeles County and the cities within it have many programs within it that benefit both tenants and homeowners. Many of them have similar or complementary goals and serve similar populations, making them perfect for alignment (such as the ADU Accelerator and the Standard Plan program). Inventory must be taken of each program, who they serve, what agencies are involved, and then an additional assessment to see how they can be expanded and communicate more with one another to be more effective in their work. When assessing programs it is important to understand each program's jurisdictional limitations, incentives to homeowners, target homeowner and tenant demographics, and program cost.

Rather than implementing new pilot programs or initiatives, the County should look into what supportive programs and departments can supplement ADU programs, such as utilizing LACDA's Section 8 Housing Choice Vouchers for ADU tenants - and making a concerted effort to let future ADU homeowners know about the Section 8 program, and others, to get tenants for their home additions.

Special attention must be paid to programs that provide services for case management and property management. Identifying which of the programs can be expanded and provided to homeowners who commit to renting their unit at an affordable rate, will help avoid duplicative programs, and build upon existing structures that are serving LA County residents.

County programs that can be expanded to provide services such as property management, case management, and tenant placement, have the ability to be paired with affordable housing options through explicit programs. LACDA's Second Unit program is a local case study on what the true cost of case and property management is, and will have multiple lessons learned in terms of what is feasible to expand on. Similarly, the City's LA ADU Accelerator will be able to clearly explain the cost of programs that assist with property management only, and how to mechanically structure the condition of an affordable unit with use of property management services.

The Executive Director of the City of Pasadena’s Housing Authority, William Huang, stated the importance of creating as little property management work for homeowners as possible. He found that if homeowners are to be overburdened with property management work, they will either not sign up or drop out of affordable ADU programs. Additionally Huang stressed ADUs should not be a solution to house all vulnerable demographics. People who need close attention when provided stable housing for the first time are not best suited for this type of residence because the optimal level of care cannot be given by property or case management. Because ADUs are on a private residence, the onsite supportive services that are often given at permanent supportive housing sites will not be available; further, necessary services like these would likely be too demanding for homeowners to provide, even with support from a caseworker.

Clarifying the Pathway for ADU Development in a Step-by-Step Guide

Following 2016 and the passage of a bundle of state ADU bills, there has been a 180% uptick in the development and permitting of ADUs between the years of 2017 and 2019 in LA County. The surge in demand of ADUs has outpaced the traditional building and safety services needed to efficiently review and permit ADUs in a reasonable time frame. One of the ways to quickly manage expectations is to develop a step-by-step guide on ADU development. There should be three brochures total:

- How to build a new ADU from the ground up;
- How to bring your unpermitted unit up to code and get it permitted (this must include information on the benefits of bringing the unit up to code and getting it permitted); and,
- How to renovate an existing structure to be an ADU.

These step-by-step guides must be written in plain language and showcase in a clear, linear way, the steps for developing an ADU. This should include information on what agency is the lead on each part of the process, the time each step takes, possible deviations in the process, the contact information from each agency, and be designed in an aesthetically pleasing, easy to read way.

These how-to guides must be authored in partnership with homeowners who are currently going through the permitting and construction process for their ADU. Homeowners who are selected to inform these guides should be provided with incentives such as a stipend for their time, waived fees for certain permits, or deferred property taxes. Local artists who center the voices of the people who are being impacted (homeowners building ADUs) should be employed to design and manage the process of creating these resources. LA County can reference the City of Seattle’s “ADUniverse” website as an example of a comprehensive ADU resource and data hub.

Information in a Step-by-Step guide could be very useful to new homeowners. The County should consider providing this step by step guide and other related literature to realtors to distribute when selling single family and multi family units. The “point of sale” is an opportunity to shape the narrative around ADUs as both a wealth generating housing development, and a social good in assisting with the housing crisis. It is possible that a guide like this might have a different tone than the ones listed above depending on the County’s goals in administering this information.

Medium to Long Term Initiatives

Short-term recommendations above will help lay the groundwork for the medium to long-term solutions to streamlining processes.

List of Approved Contractors and Designers

One of the issues highlighted in survey responses was the need for fair contractors and designers. The County can facilitate an open solicitation for contractors and architects to sit on a “consultant bench” that has been approved by the County. Systems like this already exist in other public agencies in Los Angeles - such as LA County Metropolitan Transit Authorities Jobs Coordinator Panel, or the City of Los Angeles Bureau of Street Services Consultant Bench for sidewalk vending.⁷⁴

A rubric for this bench of contractors and architects should be developed by Public Works, Building & Safety division, and the Department of Regional Planning. Rubrics must also be made in conjunction with homeowners who have gone through the process of developing an ADU in unincorporated LA County. In order to ensure that consultants applying to be part of this bench offer fair prices for their services, there should be non-traditional requirements, such as a letter of recommendation from a former client, including information on the cost of ADUs developed, and timeliness of the delivery of the project.

LA County has been considering this option at the Department of Regional Planning, especially when working together with the City of LA. Updates around this can be heard from the Chief Executive Office and the County Counsel for both the Department of Regional Planning and the Chief Executive Office.

74: “Metro Job Coordinator Panel,” January 2021. <https://media.metro.net/2020/Full-Job-Coordinator-List-1-2021.pdf>.

ADU Concierge

This research, as well as that of other institutions, has found the permitting process as the number one pain point for homeowners outside of the financial cost to build. Homeowners have cited the slow process to obtain approval for permits: upwards of 4 to 5 months. Homeowners also noted that attempts to reach support from their respective jurisdictions, especially via phone or email, result in delayed responses, or none at all.

To meet the high demand of ADU development, the County should develop a dedicated ADU Concierge team. A key metric of success of the ADU Concierge is decreasing the current wait time for permit approval from 4-5 months to 60 days. The ADU Concierge should also provide superb technical assistance for homeowners and be prepared to overcome language barriers and tech divide challenges when assisting homeowners. This requires cultural fluency training, and orientations on case management to ensure that the proper resources are provided to homeowners seeking information.

The ADU Concierge team should consist of one position at the Department of Regional Planning, and one position for each geographical area division within the Public Works Department, Building and Safety Division. Because these two departments are the main purveyors of ADU permits, their teams should work closely together to provide pointed information to homeowners and contractors who are looking for updates on their projects - with clear, concise information on where their permit is located in the process and what open queries there are about the application. This dedicated team of people would coordinate internal communication to ensure that homeowners and contractors get information they are seeking in a timely manner. Because this work will span multiple agencies, the people on this team should participate in cross-departmental training about responsibilities of each person, their respective departments, and the expectations of their roles.

This team of people must also have contact information for architects and general contractors, options for County lending products and funding sources, and be informed of County affordable ADU programs.

FINANCING & INCENTIVES FOR RENTING AT BELOW-MARKET

Although streamlining processes is an important step in creating systems that support ADU development, it does not guarantee that affordable housing will be built. Innovative financing options are an incredible tool for the County to leverage to ensure that ADU development leads to more affordable housing within LA. Traditional lenders are often risk averse and require stringent qualifications that leave a lot of potential ADU owners out. This opens up an opportunity for the County to create products that showcase how less stringent requirements that combat issues of racism are one way to assist in creating more, and especially more equitable, housing options. A successful public financing program could not only help build more ADUs, it may have the added benefit of influencing the practices of financial institutions and how they finance housing options like ADUs.

Understanding the need of constituents is key when developing products. A product that serves a homeowner with a high credit score will not be a useful tool for someone who is considered to be a “risky,” lower-income homeowner. Similarly, a program meant to serve formerly unhoused residents may not work for programs that are meant to serve re-entry populations, or other groups of tenants who deserve specialized care.

The list below covers multiple types of homeowners needs to assist in building more affordable housing, but does not go into detail about what tenants should be targeted through these programs. Intentional conversations around what tenants should be served must occur when developing these incentives. Any of the financial items that are developed for the County must also be paired with bias and cultural fluency training for all homeowners who participate. Programs should be developed in conjunction with ARDI Initiative values, and center the experience of tenants. Since neither homeowners nor tenants are homogenous groups, the County must be explicit about who new ADU initiatives are seeking to serve and design efforts in a manner that engages the impacted group.

LA County Guaranteed Financing

The Section 184 program detailed in the Innovative Policies and Program section is a model that can catalyze discussion at LA County around what a guaranteed loan program for ADU development can look like. The County should set aside a pool of funds used as a guarantee to back ADU construction loans from private lending institutions. Users of these types of loans must also be obligated to rent out their ADU at an affordable rate and serve populations most in need.

There are some considerations that must be explored in order to launch such a program.

- **Identify lending institutions to participate.** Participating lending institutions will need to agree to honor the LA County’s ADU Loan Guarantee program conditions. Ideal participating lending institutions whether they are small banks, CDFIs, MDIs, should be willing or have experience working with non-traditional applicants who typically don’t have access to traditional loans due to credit requirements. Establishing a network of participating lending institutions will be key to facilitating the wide scale adoption of ADU friendly lending. To jump start an ADU Loan Guarantee Program “network,” LA County can start by identifying those lending institutions that are already accustomed to the Section 184 Program.⁷⁵

75: “Section 184 Approved Lenders.” U.S. Department of Housing and Urban Development Office of Public and Indian Housing, May 2020. <https://www.hud.gov/sites/dfiles/PIH/documents/SEC184LENDERMAY2020.pdf>.

- **Create equitable credit standards through character based lending.** Credit scores should not be used as criteria to evaluate applicants seeking to acquire a financing product. Holistic, equity-driven approaches to underwriting must be developed to ensure that prospective borrowers who are traditionally shut out from mainstream financial institutions can access the capital to build housing on their property. Equity-driven underwriting would avoid setting minimum credit scores for eligibility, consider the future rental income of an ADU as part of a borrower's debt service coverage ratio, and be open to homeowners who may still have a substantial principal outstanding on their primary home.
- **Use below-market loan terms.** ADU development is far different from buying a house because the time between getting a loan and when income will be collected for the unit are often a year or more apart. Loan terms could reflect this reality by offering an introductory period where no principal payments are due or aligning loan payments with the date when an ADU is expected to be occupied.

It is important to note that a key take-away has been that traditional lending institutions/banks are most concerned about the risk involved. If the County were to provide 100% guaranteed backed funding to borrowers acquiring loans, traditional lending institutions would be willing to provide loans for ADU development.

The benefits of this type of program span from administration to outcome. LA County will not have to allocate time or resources to administer each loan by establishing a network of lending institutions participants in LA County dedicated to underwriting and administering the loans based on the agreed upon criteria. Additionally, LA County can utilize small banks and lending institutions who may be better equipped to provide their clients better technical assistance support when needed.

LACDA should also be consulted in this process. LACDA could provide a database of low-income tenants and housing voucher holders, who could be selected to be housed in an ADU. This type of program is also a great way to connect both homeowners and tenants to existing programs within the county that have been identified by the internal assessment.

Affordability in Perpetuity

A loan guarantee program can also be repurposed to build affordable housing by investing in ADUs owned by nonprofits, community land trusts (CLTs), and community development corporations (CDCs). Partially guaranteed loans for small lending institutions (CDFIs, MDIs, and etc), non-profits, CLTs, and CDCs who are seeking to build affordable ADUs should be considered. Similar to the Section 184 program, the County would need to establish a network of conventional lenders who would administer loans to nonprofits, CLTs, and small lending institutions. In the event a participating non-profit, CLT, or CDFI were to default on their loan to a conventional lender, the County would use said pool of funds to pay off the loan to the conventional lender and the non-profit loan applicant would pay back the County on terms that work well for the CLT, CDC or nonprofit. By supporting mission-driven developers and engaging them in ADU development, the County can build the stock of affordable housing that in perpetuity.

County Administered ADU Construction + Permit Loans with Repayment through Rents

The cost to develop an ADU is significant for most homeowners. The cost to renovate an existing structure can range from \$30,000 to \$75,000, or anywhere from 34% to 85% of the median annual income of a homeowner in LA County. 79% of survey respondents said that covering construction costs and paying them back over time through rent would be a useful incentive to ensure that units are rented out affordably. This would then be able to incentivize two sets of homeowners: those who would qualify for traditional loans, as well as low income homeowners.

Creating a loan program administered by the County that covers the construction costs and estimated permitting costs would ensure that construction of ADUs is a more attainable goal for those who do not have the savings or credit score necessary for traditional financing options. It also is an opportunity to create a revolving fund so that it is replenished over time, allowing for money to be re-administered to new loan recipients. Monies would be recuperated as a percentage of the rental income from the ADU that is renovated - splitting the income between the County and the homeowner.

A program like this should be used for smaller ADU projects - such as garage conversions - to ensure that money can be used on more projects overall. After a few years of administration, an evaluation can take place to understand the feasibility of giving out larger loans for newly built ADUs.

Eligibility requirements for such a program should not be stringent like traditional capital options. Similar to the loan guarantee programs, there are certain criteria that must be thought through with homeowners in mind. This includes:

- **Character based lending and holistic approach to understand “credit worthiness.”** In order to ensure most homeowners are eligible for a program like this, there must be a flexible and character based understanding of credit worthiness - including a holistic look at expenses, collateral, and repayment history for other bills the homeowner has had.
- **Deferred payments.** Loan payments should commence three months after occupancy to allow for the homeowner to build up funds before beginning to pay off the loan. Terms for repayment can be signed and verified with the submission of the lease for the unit. This also ensures that the homeowners are not expected to start paying back the loan before they are receiving any income for the unit.
- **Simple interest.** Because the loan is meant to help provide affordable housing and is also serving the purpose of building wealth for the homeowner, simple interest should be used for the purpose of replenishing administrative costs. 1% simple interest is the suggested amount to make the money as accessible as possible.
- **Unrestricted funding sources.** Ensure money is coming from unrestricted revenue sources (such as property taxes) to ensure that flexible terms can be realized and character based lending techniques are honored.

In addition to the necessary bias training that must be paired with any loan program administered by the County, it is an opportunity to encourage use of a list of approved contractors who have proven ability to get work done effectively and on time. LA County would not be the first jurisdiction to explore a fund like this. The program in Pasadena is similarly structured but only with six loans being funded during the pilot. It also does not directly take money from the rental income, and instead is a standard loan payment.

Similar to the benefits of a loan guarantee program, a County-led loan program that is administered by a County department can be a model for other jurisdictions who seek to catalyze ADU development. It may also influence the private sector in how it designs loan products for homeowners who seek to build additional housing units on their property.

CONSIDER THIS

Should the County consider seeding with \$1.5 Million, 20 loans could be serviced in the first year. The high level cost breakdown would be:

- \$1 million for loans - amounting to 20 loans at \$50,000 per recipient.
- \$200,000 set aside for administration in the first year.
- \$100,000 set aside for start up costs including research, contracting time, and agency meetings.
- \$200,000 set aside for a loan loss reserve in the chance that some of the loans default. This money should also sit in a trust account and be scaled proportionally with the increase in loans deployed.

Under the assumption that the County would recuperate \$500 per month per lendeer, the loan payments would replenish for another loan to be deployed after 5 months. As the loan pool and program grows, the faster more loans will be able to be deployed.

Leverage County Funds to Partner With Traditional Lenders

There is a market of people who do qualify for traditional loan products. There were hundreds of applicants who would qualify for traditional loans across the multiple programs throughout LA County - showcasing their willingness and desire to assist in the growing housing crisis. Developing a product like this is also an opportunity to build mixed income neighborhoods in traditionally high-income and homogenous communities throughout LA.

The best way to build a product like this and provide resources at scale for ADU development is to leverage the County's monies and have traditional banking institutions match funds multiple times over. The City of Pasadena is exploring a program like this that will possibly leverage funding at a ratio of 20:1. Their program is not finalized, but it is expected to launch later in 2021.

The loan product itself should be built in conjunction with the County and have attractive terms - such as lower interest rates and deferred payments for the period of construction. Most importantly, a condition of this loan product is to rent out the unit at an affordable price for multiple years once it is ready for occupancy.

AREAS FOR FURTHER RESEARCH & INNOVATION

In recent years the market for ADUs in Los Angeles has grown exponentially due in part to the passage of favorable state regulations. Nationwide, policymakers, developers, designers, and small financial institutions are experimenting with ADU pilot programs to produce affordable housing stock. Although the regulatory field in California has swayed in favor of ADU development, the finance industry has yet to catch up to this sustainable housing trend. As stated throughout this research, two of the greatest barriers limiting the proliferation of ADUs are the lack of financial products available to homeowners to finance their ADU project, and lack of construction project management experience of homeowners.

Many cities have found success providing technical assistance and expediting the permitting process as a component to their individual ADU programs. To address the lack of financial products available in the market, many have offered qualified homeowners simple interest loans or grants to cover development costs. However public funding for ADUs is limited and overall not sustainable in the long run without substantive changes in requirements.

Affordable Housing Developers & Scattered Sites

Affordable housing developers are an incredible asset especially in Los Angeles where the need is so high. Their experience in design, project management, construction, and property management make them uniquely fit to think through what it would mean to develop ADUs at scale. Rethinking ADUs as possible affordable scattered sites through administration by an affordable housing developer is a concept that should be explored further.

United Dwelling is already doing a version of this. They build ADUs in bulk on site - grouping four or more individual homeowners by geographic location and building all units in that geographic area at the same time. This cuts down on construction cost. They also offer property management and tenant placement, similar to many affordable housing developers. Their expertise in this space would be useful in determining how further research can be conducted around this and what benefits an Affordable Housing Developer would bring to this sector.

Affordable Housing developers also have access to many types of funding streams that individuals don't have access to. This is one of the major benefits of having a program that runs through them. However, the cost of building ADUs through a developer should be weighed against how much typical affordable units cost to build (due to funding streams and administration). Further, separate funding streams must be considered to ensure ADUs are not taking precious money meant for multi family complexes. Talking with experts in this space will be necessary to understand the feasibility, limitations, and possibilities with building out ADUs as scattered sites.

County Operated “ADU Bank”

The County has an opportunity to build out innovative financing products and showcase how well they work to increase housing stock through private ownership. The suite of loan and equity products and services that the County can offer could be consolidated into a County operated “ADU Bank” that has both a mix of public funding to ensure affordable housing, as well as private lending money to scale programs. This ADU Bank could provide funding that is unique for ADU development that is entirely separate from other affordable housing financing initiatives. This is different from a trust account because money would be moving both in and out as homeowners pay back their loans, and as money is administered to recipients. To center racial equity, the ADU Bank would be exclusively for homeowners seeking to build an ADU that rents below market rate.

The ADU Bank would be able to utilize the many agencies that have been working towards building more affordable housing, and would be like a “one stop shop” for all ADU related needs - list of approved design and construction contractors, financing options, information on project management and property management, and information on existing County programs that apply to users of the Bank.

CONCLUSION

Accessory Dwelling Units offer a unique opportunity to build new housing units in all types of neighborhoods. For many homeowners, an ADU offers the ability to house a loved one, for others, it's an opportunity to add value to their property and an additional income stream to their household. Leaders have correctly identified that the housing crisis requires various types of tools to add to our housing stock, and ADUs should be considered among the suite of housing initiatives that we must enact in order to build the hundreds of thousands of housing units needed.

Fortunately, there are promising pilot initiatives that have begun to experiment with how ADUs could be built in a way that respects neighborhood character, houses low-income people, and support homeowners. But these demonstration projects, as well as the experiences of ADU owners, developers and tenants have highlighted barriers that have hindered the proliferation of permitted ADUs. Too many have been stymied by the bureaucracy that confronts those who seek a construction permit, some struggle to identify experienced contractors, and many others are lacking access to the capital needed to build an ADU that is safe, functional, and complementary to their existing home and neighborhood.

These issues could be addressed with “simple” interventions that seek to streamline permitting for ADU development, provide access to low-interest capital, and support property owners with a “concierge” that can make their experience easy and worthwhile. These interventions must be paired with the expectation that new ADUs support family members or low-income individuals; without these expectations it will be difficult to ensure that ADUs can contribute to the affordable housing stock. Worse yet, we would miss an opportunity to connect ADU development to the ecosystem of existing programs that provide housing vouchers and housing support services to tenants in need.

ADUs alone will not solve the housing crisis, but the prospect of developing thousands of these units in our region can certainly have a positive impact that we shouldn't ignore. We are looking forward to seeing how the County of Los Angeles invites homeowners to join a movement to build more housing, especially for low-income tenants, by streamlining systems, establishing new channels to get capital into the hands of people who need it, and forging connections with existing programs and leaders who care about our communities.

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APPENDICES

Appendix A - Interview Questions	95
Appendix B - Survey Questions	99

Appendix A - INTERVIEW QUESTIONS

Homeowner / Long Beach Resident

1. How big is your ADU, how much did it cost, and what was your reason for building your ADU?
2. Now that you have built your ADU, what are a few things you wished you knew prior to completing that would have saved either time or money?
3. What challenges if any did you experience financing your ADU?
4. How do you think the City and/or County could have better supported you during your development phase? Were there things that worked really well?
5. What resources did you find most helpful when developing your ADU? (i.e. input from general contractor, self-help manuals, online community group, personnel at government agency)
6. How did you come up with the rental cost?
7. How has your property taxes been impacted since completing your ADU?
8. What incentives do you think the County should consider to ADU homeowners who opt to rent out their ADU below market rate for low income tenants?

Homeowner / Sherman Oaks Resident

1. How big is your ADU, how much did it cost, and what was your reason for building your ADU?
2. Now that you have built your ADU, what are a few things you wished you knew prior to completing that would have saved either time or money?
3. How do you think the City and/or County could have better supported you during your development phase?
4. What resources did you find most helpful when developing your ADU? (i.e. input from general contractor, self-help manuals, online community group, personnel at government agency)
5. Were there components of the permitting process you found to be particularly easy or difficult?
6. What incentives do you think the County should consider to ADU homeowners who opt to rent out their ADU below market rate for low income tenants?
7. How has your property tax been impacted since developing your ADU?

Renter / City Terrace Resident

1. How long have you lived in your ADU?
2. What was the rent when you first moved in and what is the rent now?
3. Did you have any challenges finding the ADU/were you aware what the ADU was when you first came upon it?
4. Are you aware/enrolled in any affordable housing programs?
5. What amenities do you have access to now (i.e laundry room, parking, etc) and what amenities do you believe are needed to make your living situation more suitable in the long run?

6. Do or did you ever have any conflicts with your landlord on the property?
7. What services (i.e. free public transit, reduce utility fees) or incentives (i.e. rent stipends) do you think the County should consider offering to ADU tenants enrolled in an affordable ADU program?
8. If you needed assistance with any conflicts you might have with your landlord, do you know where to look for that information?

Building & Safety / Jeff Napier - City of Los Angeles Department of Building & Safety

1. How Does the Department of Building and Safety currently help facilitate the development of ADUs in the City of LA?
2. Could you describe the typical process required for an ADU to obtain a certificate of occupancy?
3. What are the costs associated with the permitting of an ADU? What are the permits needed and how much does each cost?
4. How has COVID impacted the permitting process and time it takes to get through the process?
5. What are some of the factors of a project that drive up the cost of permitting an ADU?
6. What are some of the factors/barriers that delay the turnaround time of permitting an ADU?
7. What programs or protocols is the Department of Building and Safety currently offering to reduce the cost and time of ADU permitting?
8. What programs or protocols has the Department of Building and Safety considered to further help reduce the cost and time of ADU permitting, and why?
9. What regulatory changes or subsidies should the City consider to encourage homeowners to build ADUs and reduce permitting cost?

City of Pasadena / William Huang & Randy Mabson

1. Can you give a brief overview of the Second Unit program in your own words?
2. What was the onus behind this particular program? What was the need you were seeing and trying to fill?
3. What made you decide on two options for this program / Why were these two the ones that made it?
4. What challenges did you face around developing an incentive for either the homeowners or the new tenants?
5. What challenges did you face establishing partnership with Housing Services to gather Section 8 tenants?
6. Are caseworkers available to both homeowners who build new ADUs and renovate their ADU if they opt to have Section 8 vouchers?
7. What feedback have you gotten from homeowners about the program?

City of Boston / Dr. Taylor Cain, Eva Jermyn & Jay Lee

1. Can you give us a brief overview of the Additional Dwelling Unit program and what the inspiration was behind it?
2. What was the process for designing this program? How was it determined that the no-interest loan was going to be used?
3. This program works within tight zoning constraints. What was the process to think through how to address keeping within the same house footprint?
4. Were there any unexpected challenges you came across in developing incentives for either homeowners or ADU tenants?
5. Looking at the program now, do you have any improvements you would like to make to further the mission of the program?
6. Do you have plans to scale this program? If so, how?
7. What feedback have you received from homeowners and tenants in response to the program?
8. What other ADU development programs around the country or globally should we be looking into- especially ones that are designed for assisting low-income homeowners?

Multnomah County / Steve van Eck

1. In Portland, have you found that ADU development has assisted in meeting affordable housing goals for the area?
2. What have you found to be the key policies and initiatives needed in order to make ADUs a viable affordable housing option?
3. Why did you choose to have this program focus on housing the unhoused vs low income tenants, seniors, etc?
4. What was the initial goal for developing the A Place For You pilot program / How did you go about designing this program specifically?
5. What challenges did you face around developing an incentive for either the homeowners or the new tenants?
6. What have been key areas of tension and how do you think the program could be tweaked to be more effective?
7. What feedback have you gotten from homeowners about the program?
8. What does scaling this program look like?
9. Which of the 2 construction methods - prefab off site vs onsite worked better?
10. Was caseworkers budgeted for at the beginning?

Manufacturers / Jason Neville - Building Blocks

1. How has the ADU development landscape changed over the last couple of years?
2. What permitting pain points have you encountered?
3. What are the top three factors you found that typically drive up the cost of designing/constructing an ADU?
4. How can the permitting process within both the City of LA and the County of LA need to be streamlined to help make building/converting ADUs easier?
5. Are there alternative materials or fabrication processes that should be considered for ADU development?
6. What state, county, and/or city zoning regulations impact your ability to reduce cost on both new ADU developments, as well as conversions?

Financier / Pavlin Buchukov - Genesis LA

1. What are existing financing models that are used by homeowners to build an ADU? (i.e. borrowing against a property, mortgage loans, construction loans, etc)
2. What financing models have you explored or considered to make access to capital more accessible for low to moderate income homeowners?
3. What made you pursue or not pursue a non-traditional financing model?
4. What metrics do you use to evaluate potential borrowers interested in building an ADU?
5. Are those metrics flexible at all / Do you see places where they could be changed?
6. How can financing models be leveraged to encourage ADU owners to rent their unit to low-income tenants?
7. Access to capital is a major issue for low-income homeowners / What should the County consider providing to assist low to moderate income homeowners obtain financing for ADU development?

Appendix B - SURVEY QUESTIONS

Preliminary Questions Asked of ALL Respondents

1. Name / (Type: Short Answer Text)
2. Email / (Type: Short Answer Text)
3. Zip Code / (Type: Short Answer Text)
4. Street Address
5. I am... / (Type: Multiple Choice)
 - An owner of a property with an ADU - occupy main dwelling
 - An owner of a property with an ADU - occupant of ADU
 - An owner of a property with an ADU - live on a different property
 - A renter occupant of an ADU

ADU Owner Questions

1. Which best describes the ADU on your property?
 - Detached - New Construction
 - Detached - Renovation (garage conversion and/or legalization of unit)
 - Attached - New Construction
 - Attached - Renovation - (previously built, includes garage conversion and/or legalization of unit)
 - Other: (Type Response)
2. What year was the ADU ready to be lived in or legalized?
3. How long have you owned the property?
 - Under 1 year
 - 1-5 years
 - 5-10 year
 - 10-15 years
 - 15+ years
4. What was your main reason for investing in a permitted ADU?
5. How is the ADU currently being used?
 - Occupied - as the residence for the owner or family member of the owner, or close friend.
 - Occupied - as the primary residence of someone who is not a family member or close friend
 - Used by the main house occupants as a living or work space
 - Vacant - but intended to be the primary residence of a tenant
 - For short-term housing (less than 1 month stays)
 - Other: (Type Response)

6. If the unit has been vacant, how long has it been vacant for?
 - N/A
 - 1 - 4 Months
 - 5 - 7 Months
 - 8 - 12 Months
 - 1 year +
7. Has COVID affected your ability to generate revenue from your ADU?
8. If so, how are you planning to use your ADU once safer at home restrictions are lifted?
 - Long term rental property
 - Residence for family member/friend
 - Short term rental property (less than 1 month stays)
 - An extra living or workspace
 - Other: ____
9. On average how much rent do you receive from your ADU tenant per month (without utilities)?
10. How much net rent do you receive per month (after factoring costs of insurance, property management, etc.)?
11. What is the approximate size of the ADU?
 - 150 - 500 square feet
 - 501-750 square feet
 - 751-1000 square feet
 - 1001-1200 square feet
 - Over 1200 square feet
12. How many bedrooms does the ADU have?
 - Studio
 - 1 bedroom
 - 2 bedrooms
 - Other: ____
13. Have you taken part in any LA County or City of LA ADU development programs for building your ADU, such as United Dwelling?
 - Yes
 - No
14. If so, which one?
15. What have been the benefits of having an ADU?

16. Would you consider renting your ADU at below market rent if any one of the following programs were available to you? (Select all that apply)
- Property tax abatement for a set amount of years.
 - One-time, cash payment subsidy (such as a grant or forgivable loan) for 25% of construction costs
 - Initial construction costs are covered and unit affordable for a set amount of years, but a percentage of rent received goes back to pay for construction costs.
 - Very low to no interest long-term loan for construction and permitting costs.
 - Splitting the parcel into two pieces of property for individual ownership.
 - Other: ____
17. How did you finance the building of the ADU? (Select all that apply)
- Cash savings
 - Home equity line of credit
 - Refinance and cash out option based on main home value only
 - Refinance and cash out option based on main home + future ADU value
 - Purchased main home, constructed ADU with cash option based on future property value
 - Loan from family members or friends
 - Construction loan from bank
 - Other:
18. What were the two biggest challenges you faced in building your ADU? (Select 2 options)
- Finding a contractor
 - Permitting process / Building & Safety checks
 - Obtaining finances
 - Design constraints and challenges
 - Utility connections
 - N/A
 - Other:
19. What would have made the process of building/renovating the ADU smoother for you? An example might be expedited permitting process or technical assistance.
20. Approximately how much did it cost to build/renovate the ADU?
21. What is your household income range?
- \$4,999 - \$15,000
 - \$15,001 - \$35,000
 - \$35,001 - \$55,000
 - \$55,001 - \$75,000
 - \$75,000 - \$100,000
 - \$100,001 - \$150,000
 - \$150,001 - \$200,000
 - \$200,001 - \$250,000
 - \$250,000+

22. OPTIONAL: What is your employment status?

- Employed full-time
- Self-employed
- Retired
- Employed part-time
- Disabled or unable to work
- Not employed, actively looking for work
- Not employed, not actively looking for work
- Other:

23. OPTIONAL: Which of the following races do you identify as being? (Select all that apply)

- White or Caucasian
- Middle Eastern or South West Asian/North African
- Asian American
- American Indian or Alaskan Native
- Black or African American
- Latin American Descent
- Other:

ADU Resident Questions

1. What kind of ADU do you live in?

- Attached unit
- Detached unit
- Other:

2. How many bedrooms does the ADU have?

- Studio
- 1 bedroom
- 2 bedrooms
- Other:

3. How many people live in the ADU?

- 1
- 2
- 3
- 4
- 5+

4. Why did you choose to live in an ADU?

5. How did you find this ADU to live in?

- It is owned by a friend or family member and they told me about it.
- Online through websites like Craigslist, PadMapper, Westside Rentals, etc.
- Broker
- Saw a "For Rent" sign while walking/driving/biking
- Other: ____

6. On a scale of 1-5, how was the process of finding housing within your price range?
/ (Type: Linear Scale)
 - 1: Very Easy - 5: Very Difficult
7. How much rent do you pay per month (excluding utilities)? / (Type: Short Answer Text)
8. Do you receive any rental subsidies? If so, which of the following: (Please select all that apply)
 - Tenant Section 8 Voucher
 - Homeless Incentive Voucher
 - Project-Based Voucher
 - Not Applicable
 - Other: ____
9. Do you have access to any amenities, including any the following: (Please select all that apply, and add additional amenities in the "Other" option)
 - Yard Space
 - Parking Spot on site
 - Washer/Dryer or other items with main house
 - Other: ____
10. How far do you live from where you work?
 - 0 - 2 miles
 - 2 - 4 miles
 - 4 - 8 miles
 - 8 - 10 miles
 - More than 10 miles
11. What is your household income range?
 - \$4,999 - \$15,000
 - \$15,001 - \$35,000
 - \$35,001 - \$55,000
 - \$55,001 - 75,000
 - \$75,000 - \$100,000
 - \$100,001 - \$150,000
 - \$150,001 - \$200,000
 - \$200,001 - \$250,000
 - \$250,000+
12. OPTIONAL: What is your employment status?
 - Employed full-time
 - Self-employed
 - Retired
 - Employed part-time
 - Disabled or unable to work
 - Not employed, actively looking for work
 - Not employed, not actively looking for work
 - Other:
13. OPTIONAL: What is your age?

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