Habitat for Humanity®

Affordable accessory dwelling units: Innovative housing solutions for households with low incomes and older adults

Freddie Mac estimates that in 2020, the U.S. suffered a housing shortage of 3.8 million housing units.[1] Rising materials and labor costs, and especially land acquisition and development costs, hamper housing production and push construction into higher-priced tiers. As a result, many communities have become increasingly unaffordable and unobtainable for people of all ages, restricting some people from moving closer to family members. Almost 30% of all households spent more than 30% of their income on housing costs – defined as being cost-burdened. Twenty-one percent of homeowners and 46% of renters are cost-burdened.[2] For older adults, 32% of all households are cost-burdened – 26% of homeowners and 54% of renters.[3]

In addition to being cost-burdened, older adults face challenges in being able to live independently as they age. As of 2019, 8% of households headed by adults age 65-79 and 18% of households headed by adults age 80 or older

This evidence brief:

- Summarizes research on key factors that support the development of accessory dwelling units, or ADUs, for populations with low incomes and older adults.
- Emphasizes the key barriers that Black and Hispanic/Latino populations confront in constructing ADUs.
- Highlights some Habitat for Humanity affiliates that are developing ADUs.

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EVIDENCE BRIEF

indicated having difficulties navigating their homes.[2] The likelihood of needing additional support increases with age, especially for older adults with lower incomes who tend to have more disabilities than households with higher incomes.[3] Furthermore, almost 80% of adults age 65 and over live alone (42% of older adult households) or with a spouse or partner (37% of older adult households), and many (80%) live in detached single-family units.[3] Hence, many older adults will need accessibility improvements and supportive services to be able to live independently in their homes and communities.

Affordability and accessibility concerns require a broadening of options that improve access to housing for households with low incomes and more accessible housing for older adults. Accessory dwelling units, or ADUs, offer a solution and are becoming an increasingly popular housing option because of their affordability, flexibility and potential for housing stability. ADUs are independent housing units located on the same lot as a single-family primary home. Colloquially, ADUs are also called secondary units, in-law suites, backyard homes, guest homes or carriage homes. ADUs can be sized and configured in various ways – attached or detached from the primary home, above garages, or as basement apartments.

The development of ADUs is not a recent phenomenon and can be traced to well before the 20th century, before strict land development and zoning rules.[4] Historical examples of ADUs include carriage houses, additional housing for staff and family members, and workforce homes as part of infill development. More restrictive zoning rules that narrowed housing choices to only single-family detached housing in certain neighborhoods flourished in the mid-20th century. Not until the 1980s did cities revive support for ADUs, but more vigorous support occurred in the 2000s as cities responded to growing housing demand and sought more affordable housing options.[4] Examining data from multiple listing services, or MLS, Freddie Mac estimated that between 2000 and 2019, the percentage of ADU listings expanded from 1.6% of all MLS listings (with less than 25,000 ADUs listed) in 2000 to 6.8% (with almost 250,000 ADUs listed) in 2019. Between 2009 and 2019, first-time listings of ADUs grew annually by 8.6%, driven by ADU production in the West and South. As of 2019, 1.4 million ADUs existed in the U.S.[5]

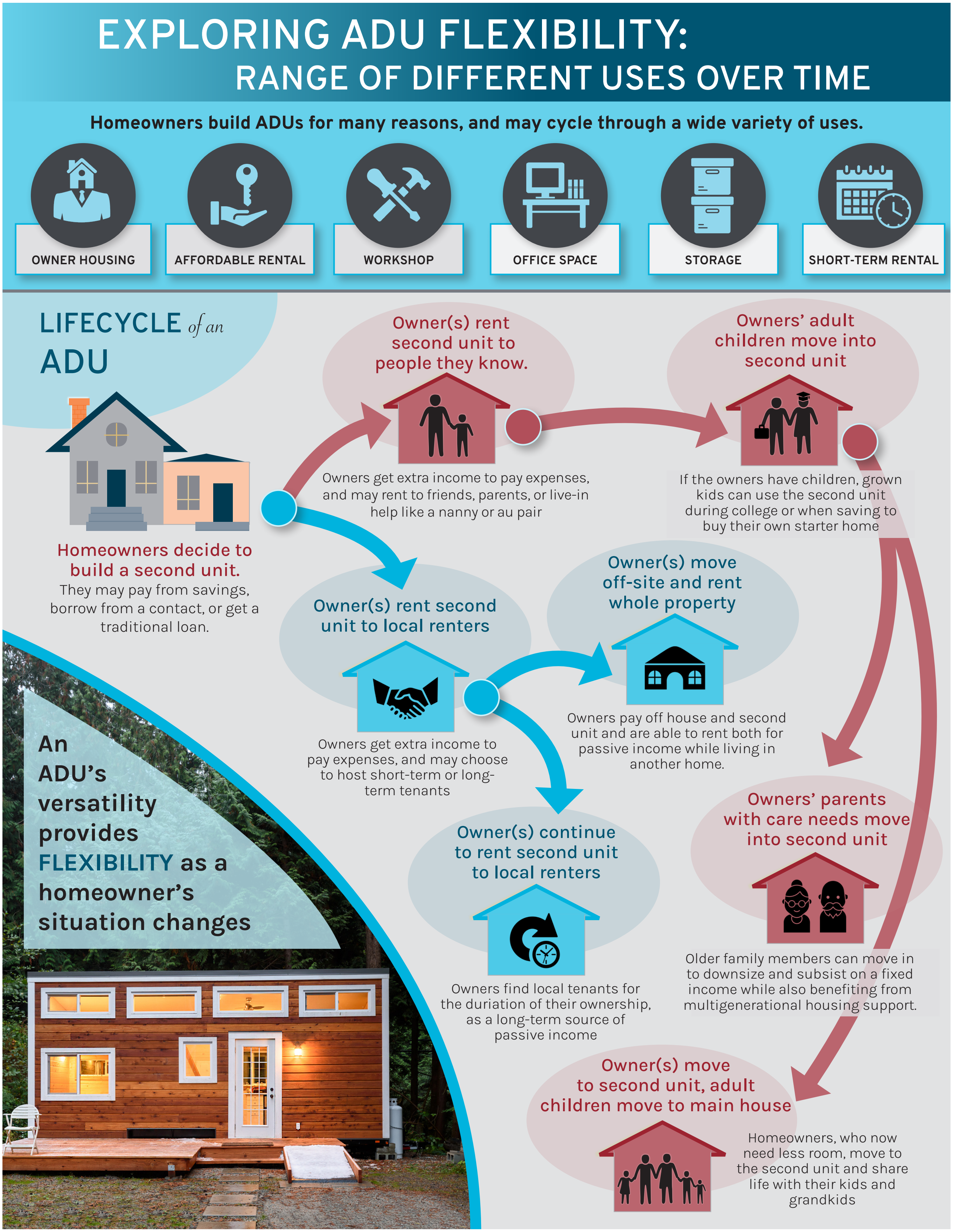
Benefits of accessory dwelling units for households with low incomes and older adults

ADUs increase housing availability by creating additional lower-cost housing units within existing residential lots, increasing the supply of housing without the need for new land development. ADUs cost considerably less to develop than single-family homes because of the lack of land acquisition and development costs and their traditionally smaller size (400 to 1,200 square feet, depending on local regulations).[6] A recent survey found that constructing an ADU in California costs on average $166,500 (in 2023 dollars), equivalent to $463 per month – or $278 per square foot (in 2023 dollars) – but with a considerable range in costs that depends on the type of ADU built (e.g., garage conversion, detached or attached) and financing used, among other factors.[7] On the other hand, the average cost to build a house in California is $494,859, which includes the cost of land and the house.[8] The average ADU construction costs were similar to construction costs in Portland, Oregon; Seattle, Washington; and Vancouver, British Columbia.[9] The lower construction costs often translate to below-market rental rates. Almost 60% of ADU homeowners surveyed in Portland, Seattle and Vancouver indicated renting their ADUs below the market rent, and 60% of ADUs were rented long-term.[9] Only 12% of survey respondents reported using or intending to use the ADUs as short-term rentals. This means that the vast majority of ADUs are being used for permanent housing and not short-term rentals. ADUs expand more affordable housing options for households with low incomes, particularly in areas with high housing costs.

ADUs can also promote housing stability. Figure 1 depicts the potential life cycle of an ADU, which shows the use of an ADU and how it can change throughout the lifetime of a homeowner. Each phase may not be sequential, and some may even be skipped by the homeowner. An ADU can generate rental income for those living on fixed or limited incomes to use as a cushion against financial upsets, such as increases in medical care costs or the loss of a job. Similarly, ADUs can provide supplementary income to help a homeowner pay their mortgage, cover housing expenses, and pay property taxes that can become more challenging for households living on limited or fixed incomes.[9]

An ADU can help older adults remain in their communities and close to support networks. AARP has repeatedly found that older adults prefer to live in their homes and communities as they age as opposed to a nursing home or other living facility.[10] ADUs can include features for increased accessibility to support mobility within the home, such as universal design features, which promote safety and overall well-being for older adults. An AARP survey found that over 30% of adult respondents indicated the need for home repairs or modifications as members of their household age.[11] ADUs can also provide on-site accommodations for a live-in paid caregiver or family for senior adult homeowners. Approximately 90% of older adults in need of long-term support tend to live outside of nursing homes, potentially attributable to the high cost of nursing homes – with median costs of over $100,000 per year – or assisted living facilities – with median costs of over $50,000 per year.[12] ADUs can provide more affordable housing compared with the cost of nursing homes, as the annual median cost of in-home care can range from $28,000 to over $50,000, depending on the number of hours of care required.[12] Intergenerational households are also becoming more common, with 20% of older adults living in households that include at least one adult from another generation.[3] An AARP survey found that among adults 50 or older, 69% would consider living in an ADU to be close to someone but still have their own space, and 68% would build an ADU to house a caregiver to help with daily activities.[13] A caregiver could also live in the primary home while an older adult lives in an ADU because of the need to live in a smaller or more accessible space.

Figure 1: Life cycle of an ADU



Source: ECONorthwest.

Key factors for expanding the supply of accessory dwelling units

Relaxing or removing major policy and zoning regulatory obstacles encourages ADU construction.

- Legislation that effectively improves the ease and viability of building an ADU is associated with increased ADU production. In Portland, Seattle and Vancouver, the passing of supportive ADU legislation encouraged increased permitting. Since supportive ADU legislation was passed, permits have risen from 3% to 10.9% in Portland, 0.8% to 2.1% in Seattle, and 0.6% to 6.3% in Vancouver between 2010 and 2015.[8]
- Supportive ADU legislation varied by locality. Commonalities included permitting ADUs by right with minimal review, removal of owner occupancy requirements, streamlined permitting, and relaxed design and setback standards.
- Almost one-third of ADU homeowners surveyed in California reported local zoning reforms as the top factor in enabling the construction of their ADU, but this view differed depending on locality. However, 47% of survey respondents also cited the approval process among the top two challenges in constructing an ADU.[7] California localities with the least restrictive laws regulating ADUs were 67% more likely to receive ADU applications at least monthly than those localities with restrictive laws.[14]
- Compared with residents of single-family detached homes, ADU occupants are generally less likely to own a car.[15] California cities with no off-street parking requirements are more than twice as likely as other cities to receive at least one ADU application per month.[14] This means that eliminating parking restrictions can promote ADU development without increasing neighborhood traffic congestion.

Waiving impact fees and improving financing options can help homeowners afford to build ADUs.

- Some evidence suggests that lifting impact fees – the fees paid to local governments to support the cost of providing public services to a new development – may spur ADU expansion by lowering the cost of construction. In 2010, Portland waived system development charges, which are similar to impact fees, of up to $12,000, and permit applications multiplied from 25 in 2009 to 439 in 2017.[16]
- Most homeowners finance their ADUs through cash savings and supplement with cash-out refinancing or home equity loans.[17] Survey respondents in Portland, Seattle and Vancouver cited the inability to obtain a loan (34%) and the need to pay for the cost of construction (18%) as the two biggest challenges to constructing an ADU.[9] Households with both low income and low home equity must often resort to cash savings and personal resources to finance construction of an ADU (Figure 2).
- Homeowners need mortgage products tailored to ADUs, especially those homeowners who have low incomes and little equity in their homes. Local initiatives by community-based lenders, foundations and local governments provide innovative financing geared toward the ADU market (e.g., ADU Accelerator Program in Los Angeles and My House My Home in Santa Cruz, California). Recently, Freddie Mac supported a new mortgage loan available for ADUs, CHOICERenovation, which offers borrowers the ability to fund construction through a no-fee mortgage refinance and folds into the homeowner's existing mortgage. As of 2022, CHOICERenovation allows the homeowner to factor in rental income when underwriting the loan.[18] Furthermore, the Federal Housing Administration, or FHA, recently issued a proposal to similarly use ADU rental income to qualify for FHA-insured mortgage financing, such as 203(k) renovation loans.[19]

Figure 2: Difficulty in procuring funding sources

	High-income	Low-income
High home equity	Cash-out refinance or home equity loan/HELOC	Special FHA, nonprofit loan, or Fannie Mae loan products
Low home equity	Renovation loan	Cash savings and personal resources

Level of difficulty finding and qualifying for loan products:

Least difficult — Most difficult

Source: Adapted from UC Berkeley Center for Community Innovation, 2017

Providing education, development planning tools, and preapproved ADU designs facilitates broader and more equitable access to ADU development.

- Learning about ADUs through an educational website, event or tour motivated 15% of ADU owners to start their ADU project.[9,20] Many municipalities and nonprofits have built toolkits or centers to guide homeowners through the development process. For example, Los Angeles and Seattle created tools to help homeowners understand whether they can construct ADUs on their properties, and the Napa Sonoma ADU Center provides informational resources and development planning tools ranging from an ADU construction costs calculator to predesigned plans.[21] Los Angeles also has an LA ADU Accelerator Program that matches ADU homeowners with older adults seeking affordable rentals.[22]
- Using designs preapproved by localities expedites the ADU development process, diminishing the permit process time. In Seattle, the typical permitting time for a detached ADU is four to eight months; using designs already preapproved by the city reduces this time to two months (or 56 calendar days) on average and also saves in permit fees, which is important to households with limited or fixed incomes.[23,24]

ADU financing: A key barrier to expanding the supply of accessory dwelling units among Black and Hispanic/Latino populations

Discriminatory housing policies that include a history of redlining, restrictive covenants and exclusionary single-family zoning have limited access to housing for communities of color, particularly Black and Hispanic/Latino populations. Many older Black and Hispanic/Latino households grew up under the confines of these discriminatory housing policies, which excluded them from housing and economic opportunities and subsequent possibilities for homeownership. Black and Hispanic/Latino households are less likely to be homeowners, a prerequisite for building an ADU.[25–27] Reflecting the effects of these discriminatory practices, ADU permits tend to be granted in areas with a higher white population and higher income levels — households that likely have access to capital that enables them to self-finance construction of the ADU and the resources to navigate the development process.[7] A study conducted in California found that the jurisdictions where these populations reside also tend to have more supportive ADU policies.[14]

Assessing the number of unpermitted ADUs within localities is challenging, but one study estimated a disproportionate concentration of unpermitted ADUs in Black and Hispanic/Latino communities in California.[28] Among the challenges to communities posed by unpermitted ADUs are safety and health risks from ADUs that do not comply with building codes (e.g., using substandard building materials, posing increased fall risks, and lacking heating and cooling), overburdened utility and infrastructure systems, and insecure tenure for both homeowners and renters stemming from the risk of eviction or reporting by renters.[29] Homeowners also may not be able to capitalize on increases in property value, as appraisers may not include unpermitted ADUs in their appraisal value.[29]

Financing barriers can limit Black and Hispanic/Latino households' ability to build ADUs.

- Black and Hispanic/Latino households have on average less disposable income and wealth compared with their white counterparts and are therefore less likely to afford the high upfront costs of constructing ADUs. Compared with the average white household, the average Black or Hispanic/Latino household earns about half as much and holds 15% to 20% as much net wealth.[30] The median net wealth for white households is $190,000, compared with $24,000 for Black households and $36,000 for Hispanic/Latino households. The racial wealth gap increases even more for homeowners.[2]

- Black households in the Sacramento metropolitan area ranked financing as a greater obstacle to constructing ADUs than white households, and both financing and financial risk were bigger obstacles for Hispanic/ Latino households.[31]
- Lenders deny mortgages at twice the rate for Black applicants and at a rate about 60% higher for Hispanic/Latino applicants than for white applicants — 27.1% for Black applicants, 21.9% for Hispanic/Latino applicants, and 13.6% for white applicants.[32] The high denial rate for Black and Hispanic/Latino applicants reflects the results of historic structural barriers faced by these applicants.
- Black and Hispanic/Latino households have limited access to traditional forms of credit. When financing is attainable, they often face high-cost loans, even when controlling for credit score and other risk factors.[33]

Habitat for Humanity affiliates developing accessory dwelling units

Several Habitat affiliates are implementing ADU programs in their geographic service areas to address the need for affordable housing and to help generate additional income support for homeowners. We highlight three Habitat affiliates that have forged different paths to implementing ADU programs within their service areas and have achieved differing results. The three affiliates — Habitat for Humanity Metro Maryland, Habitat for Humanity Metro Denver in Colorado, and Habitat for Humanity Monterey Bay in California — all aim to provide affordable ADUs to homeowners with low incomes and older adults from across their service areas, where the area median income and median home prices, which include all homes currently for sale, exceed the national medians (Table 1). Further, the ratio of median home price and area median income in the counties targeted for ADU development exceed those of the state for Metro Maryland (Montgomery County) and Monterey Bay (Santa Cruz County), suggesting that the affiliates are developing ADUs in areas burdened by high housing costs. The affiliates also serve areas where the average percentage of homeowners is below the national average of 65.9%. Despite the lower-than-average homeownership rates, each affiliate's service area has disproportionately lower percentages of Black and Hispanic/Latino populations who own their homes compared with the U.S. average, while the average percentage of white homeowners is similar to the national rate. Of note, however, is that the Denver affiliate's population of homeowners across most homeownership demographics is above Colorado's averages.

Despite similarities in homeownership characteristics, these three focal affiliates journeyed through different pathways to develop their varied ADU programs. Habitat for Humanity Metro Denver partnered with multiple organizations to launch the West Denver Single Family Plus, or WDSF+, ADU pilot program and acts solely as the designer and builder in the partnership. Habitat for Humanity Monterey Bay also partnered with other entities, primarily for funding and senior support after ADU construction, and is responsible for much of the entire process from selecting qualified homeowners to building the ADUs. Habitat for Humanity Metro Maryland has a strong advocacy and educational focus to encourage ADU development within Maryland.

The three affiliates also vary in their target populations and applicant requirements. Habitat for Humanity Metro Maryland, potentially the most permissive of the three, does not plan to require applicants to qualify by income (Table 2). Habitat for Humanity Metro Denver, through its partnership in WDSF+, no longer requires its target population to meet income restrictions for owners, but to keep ADUs affordable for renters, it does require tenants' income to fall below 80% of area median income, or AMI, if the homeowner earned more than 80% AMI when they applied to the WDSF+ program. Finally, My House My Home targets adults age 62 and older for new ADU builds or ADU renovations. Further, senior applicants must earn 50% to 80% of the AMI.

The three affiliates have also faced differing challenges in establishing their ADU programs. Metro Denver's WDSF+ program, though having 16 ADUs either completed or underway, has recently encountered difficulties in homeowners' ability to finance the ADU because of increasing interest rates. Supportive statewide ADU policies aid Monterey Bay's My House My Home, but extensive permitting timelines, a lack of applications into the program, and a limitation on sites that are suitable for ADU placement hinder the program. Metro Maryland has encountered challenges in obtaining stable funding to launch its ADU program.

The intent of these case studies is to enable organizations that are interested in beginning an ADU program to understand the potential barriers, considerations and opportunities that accompany the founding of such a program. Below we describe the housing and regulatory environment of each affiliate and its ADU program and the barriers the affiliate faced in implementing the program.

Table 1A: **Comparison of housing markets at the national and state levels and across the geographic service areas of Habitat for Humanity Metro Denver** [34–40]

	U.S.	Colorado	Metro Denver				
			Arapahoe County	*Adams County*	*Denver County*	*Douglas County*	*Jefferson County*
Median home price	**$400,000**	**$558,300**	**$415,500**	**$360,600**	**$556,000**	**$540,400**	**$463,400**
Homeownership							
Percentage of total population	65.9%	66.5%	64.9%	67.9%	46.6%	78.4%	70.8%
Percentage of total Black population	48%	37.2%	43.5%	45.7%	35.7%	45.5%	42%
Percentage of total Hispanic/ Latino population	57%	52.9%	46.4%	60.5%	35.7%	68.1%	48.5%
Percentage of total white population	75%	71.8%	74.5%	74.5%	74.5%	74.5%	74.5%
Area median income	**$70,700**	**$80,184**	**$82,710**	**$78,304**	**$117,000**	**$127,443**	**$93,933**

Table 1B: **Comparison of housing markets at the national and state levels and across the geographic service areas of Habitat for Humanity Monterey Bay** [38,40–47]

	U.S.	California	Monterey Bay	
			Monterey County	*Santa Cruz County*
Median home price	**$400,000**	**$742,800**	**$731,500**	**$1,100,000**
Homeownership				
Percentage of total population	65.9%	55.8%	51.7%	60.5%
Percentage of total Black population	48%	34.8%	35.8%	32.9%
Percentage of total Hispanic/ Latino population	57%	45.9%	41.1%	40.2%
Percentage of total white population	75%	64%	60%	65%
Area median income	**$70,700**	**$84,097**	**$81,400**	**$96,000**

Table 1C: **Comparison of housing markets at the national and state levels and across the geographic service areas of Habitat for Humanity Metro Maryland** [38,40,42,48–54]

	U.S.	Maryland	Metro Maryland	
			Montgomery County	*Prince George's County*
Median home price	**$400,000**	**$379,000**	**$530,000**	**$412,000**
Homeownership				
Percentage of total population	65.9%	71.8%	65.4%	62.2%
Percentage of total Black population	48%	52.6%	42.2%	60.9%
Percentage of total Hispanic/Latino population	57%	55%	54.8%	51.6%
Percentage of total white population	75%	78.5%	73.2%	76%
Area median income	**$70,700**	**$91,431**	**$118,000**	**$91,000**

Table 2: **Programs at a glance — Key facts about featured ADU programs**

Affiliate	**Habitat Metro Maryland**	**Habitat Metro Denver**	**Habitat Monterey Bay**
Program names	MM ADU Program	West Denver Single Family Plus (WDSF+) ADU Pilot Program	My House My Home; Habitat My House My Home ADU Program
State	Maryland	Colorado	California
Target population	Low-income homeowners	Low-income homeowners in nine target neighborhoods	Low-income senior homeowners
AMI of target population	--	--	<80% AMI
Number of ADUs built	0	6 completed, 10 under construction	8 completed
Major challenges/ barriers	Regulations, funding	Funding given increasing interest rates	Permitting timelines, interest in the program, capacity
Key partners	City of Takoma Park, Montgomery County	West Denver Renaissance Collaborative (WDRC); Denver Housing Authority (DHA); Strong, Prosperous, and Resilient Families Challenge (SPARCC); Fannie Mae; Colorado Housing and Finance Authority (CHFA); city and county of Denver	Senior Network Services, City of Santa Cruz, CalHome

CASE STUDY

Habitat for Humanity of Metro Denver

The population of the Denver metropolitan area has increased 6.5% over the past five years, consistently increasing by just over 1% per year. As of December 2021, approximately 3 million people were residing in the metropolitan area.[55] Homeownership in Denver peaked in 2005 at 73% and decreased to 51% after the Great Recession; homeownership rates were 54% in 2021.[36,37] Homeownership rates differ substantially by race and ethnicity, with Black and Hispanic/Latino homeownership rates well below the overall and white homeownership rates in each of the counties in the Denver metropolitan area (Table 1A). The AMI for the Denver metropolitan area is $117,000, corresponding to a target population served of households earning $35,100 to $93,600.[40]

Regulations on ADUs

Adopted in 2010, the Denver Zoning Code regulates where attached (located within the primary home) and detached (separated from the primary home) ADUs are allowed and includes building form standards regarding height, minimum lot size and depth, setbacks, footprint size, and structure dimensions.[56] The zoning code allows only one ADU per lot and does not permit ADUs if more than one primary structure already exists on the zone lot. ADUs do not trigger any off-street parking requirements for single-unit homes. Furthermore, the property owner in some, but not all, single-unit zoned districts must live on-site in either the ADU or the primary home, and if the owner does not live on the property, the ADU must be “decommissioned.” There is no clear information about how decommissioning is accomplished other than that the ADU is legally unusable as a rental unit. As per Denver’s Code of Ordinances Section 33-49, the penalty, if rented, is $1,000 per day. Like the construction of a new single-family home, ADUs can trigger city land dedication requests to expand an existing alley width or sidewalk right-of-way. Right-of-way is the width of a strip of land between property lines set aside for public use or ownership for a street, alley, crosswalk, easement or other infrastructure.

Most recently, the Denver Planning Board and Denver City Council have advocated the inclusion of new text in the Denver Zoning Code to expand the potential areas eligible for ADUs. This is part of the Blueprint Denver initiative, a citywide land use and transportation plan adopted in 2002 and updated in 2019. The plan covers a 20-year call for growing an inclusive city through complete neighborhoods and complete transportation networks, to include diversifying housing stock and housing choice through the expansion of ADUs in all residential areas of Denver. This plan defines complete neighborhoods as those that connect people to where they live, work and recreate and that include green space, recreational and social spaces. Blueprint Denver’s new ADU-friendly zoning, if passed, is projected to begin in spring to summer 2023.[57]

Figure 3: **Median homes prices in Denver, Colorado, from 2018 to February 2023**

Based on Redfin calculations of home data from MLS and/or public records.

Description of the program

Habitat for Humanity Metro Denver builds new homes and conducts owner-occupied repairs in Denver, Adams, Arapahoe, Douglas and Jefferson counties and serves primarily urban areas but some rural areas as well. Founded in 1979, Habitat Metro Denver has served over 500 families through its homeownership programs and 1,000 families through its home preservation programs. A patchwork of ADU regulations exists across the five counties that Habitat Metro Denver serves. As such, the Habitat affiliate, in partnership with the West Denver Renaissance Collaborative, or WDRC, focuses its ADU construction in nine west Denver neighborhoods impacted by gentrification and in which construction of ADUs is already allowed. WRDC aims to increase residential stability for homeowners and renters by building ADUs in the nine target neighborhoods that have experienced gentrification and residential destabilization. Habitat Metro Denver seeks to make ADUs a commonly accepted housing form in the Denver area, pushing for more accessible financing and fewer construction and zoning barriers throughout the metro area and the United States. The program is helping longtime residents invest in their properties, build intergenerational wealth, and create economic flexibility. This is critically important for families with low and moderate incomes living in historically redlined areas – areas that include many Hispanic/Latino residents with limited resources who will be able to leverage any existing home equity.

In 2019, WDRC launched the WDSF+ ADU pilot program in collaboration with the Denver Housing Authority, or DHA; Strong, Prosperous And Resilient Communities Challenge, or SPARCC; Fannie Mae; Habitat for Humanity Metro Denver; the Colorado Housing and Finance Authority, or CHFA; and the city and county of Denver. The program works with homeowners and program partners to plan, price, design, finance and build an ADU on their residential property. All entities shared a mission to provide affordable housing in Denver's high-cost housing market via new programs and nontraditional mechanisms to improve access to affordable housing.

DHA, CHFA, SPARCC, Fannie Mae, and the city and county of Denver all provided funding opportunities to enable swift implementation and progress of the ADU program, focusing on equitable access to development in historically low- and moderate-income neighborhoods experiencing involuntary displacement fueled by investor speculation, new public infrastructure investments and rising housing costs. The original $930,000 in grant

> "Habitat for Humanity doesn't have the capacity to build to meet the demand, but they can be the beginning of a culture change in housing."
>
> **– John Hall, Chief Operating Officer, Habitat Metro Denver**

and award funding from SPARCC and Fannie Mae provided critical seed money to create the program and revolving funding to bridge predevelopment costs. Committed funding for homeowner financing came early in the program creation, with $500,000 from the city's Department of Housing Stability, or HOST, providing qualified homeowners $30,000 in affordable ADU funding; FirstBank's $3 million earmarked for ADU financing; and a CHFA $1.5 million line of credit for construction mortgages.

Through the partnership, Habitat Metro Denver focuses on design and construction of the ADUs while WDRC focuses on homeowner selection, technical assistance and financing. Habitat Metro Denver and The American Institute of Architects designed six floor plans for potential ADUs, ranging from a studio (432 square feet) to a three-bedroom (864 square feet) ADU and a garage apartment-style ADU. Habitat Metro Denver uses a hybrid-modular construction approach and invested in off-site production of ADU walls.

WDRC identifies and selects homeowners who are interested in adding an ADU to their property. WDRC requires homeowners to live in Denver neighborhoods currently zoned for ADUs, with lots meeting residential zoning requirements and the ability to have detached ADUs built in the back third of the lot per zoning restrictions. The ADU program provides:

- Site predevelopment and bridge funding for initial site costs.
- Certified housing counseling.
- Access to financing with local ADU-focused lenders at market rates.
- Cost estimating and project feasibility.
- Architecture services and preapproved ADU designs.
- Site planning, final design submittal preparation and permitting.
- ADU construction.
- Property management training.

While the program initially partnered only with homeowners with a household income of less than 120% of AMI, WDRC eliminated this requirement in 2021. However, WDRC requires homeowners to rent to tenants making no more than 80% of AMI if the homeowner qualified for the program with an income exceeding 80% of AMI; this deed restriction is in place for 25 years and is retained even if the property is sold. This restriction does not apply to homeowners who qualified for the ADU program at or below 80% of AMI. If the property is sold with outstanding secondary ADU construction loans, those loans must be paid upon sale of the property. If rented, the ADU must serve as a residence or long-term rental property per the deed restriction; this is consistent for 25 years after the ADU's completion, regardless of the AMI of the homeowner. While Habitat Metro Denver noted that homeowners do build ADUs to rent, often they are seeking to house multigenerational families on the same lot for a more affordable cost than building or purchasing a home on a separate lot. Building an ADU for adult children or in-laws to live in provides opportunities for families to remain together in neighborhoods that they love and to build intergenerational wealth.[51] For example, Michele, a single mother from the Metro Denver area, is building an ADU for her son to move into after he graduates from college. In the meantime, Michele will rent the ADU to a nonfamily tenant, similar to other homeowners wishing to gain additional income and financial stability. Jose and his daughter Lorena are building an ADU for him to live in as he ages, while Lorena and her family will move into the primary home to care for him.[51]

ADUs built through this partnership cost between $184,000 and $240,000 because of the lack of land acquisition costs and reduced land development costs, while Habitat Metro Denver's newly constructed homes are appraised at values of $465,000. WDRC offers a $30,000 grant to homeowners making less than 80% of AMI, and Habitat Metro Denver provides $21,000 grants to those making less than 120% of AMI. Homeowners must finance the remaining balance through market-rate loans that WDRC has facilitated through local lenders familiar with ADU loans. These include the Denver Housing Authority, which offered a second position construction mortgage from a $1.5 million line of credit offered by CHFA and $3 million from FirstBank earmarked for ADU financing. Another financing option is the Elevation Community Land Trust's Stay in Place Program, where a homeowner sells their property, purchases back the primary home and the ADU at a reduced price, and agrees to lease the land through a 99-year renewable land lease.

WDRC sits within the Denver Housing Authority Planning & Data department, from which it also receives much of its grant funding. Other funding sources include the city and county of Denver, SPARCC, and Fannie Mae. FirstBank and CHFA provide ADU financing and construction mortgages, respectively.

Barriers to implementation and maintenance

Most financing does not account for rental income from ADUs, which makes it difficult for homeowners with low to moderate incomes to obtain ADU financing. In the past, some homeowners used cash-out refinancing to fund ADU construction costs, relying on their existing home equity to secure their financing. Recent increases in the cost of financing ADUs at market rate from multiple interest rate increases have decreased the financial viability of the ADU program for many families. The increased cost of borrowing has impacted the ADU buyer pipeline.

Exacerbating financing barriers, the affiliate reports that its construction costs have increased 25% from 2020 to 2021 and an additional 50% from 2021 to 2022. Coupled with delays in the supply chain and the paucity of contractors and subcontractors, this resulted in an increase in ADU construction costs of nearly $60,000 per unit from 2020 to 2022. Habitat Metro Denver and WDRC created quarterly pricing projection sheets to account for price increases and to avoid financing issues during or after the construction process. These cost increases, however, still reduce homeowners' ability to finance or otherwise fund the construction of an ADU. Nevertheless, Habitat Metro Denver has indicated that construction costs have begun to stabilize in recent months. Of note, construction costs for ADUs include sewer tap and water fees equivalent to fees paid to build much larger homes. Denver does not calibrate these fees to be commensurate with the size of the unit; some Colorado municipalities average up to $60,000 per unit for water and sewer tap fees.

In addition to financing and increased costs, homeowners aiming to build an ADU must ensure that all structures on their property are permitted before they begin construction on the ADU. Unauthorized structures on the property must be demolished or be permitted before construction begins. This process can be cost- and time-prohibitive to homeowners, as the permitting process for an ADU does not differ from that of a traditional home. Obtaining the appropriate permits, inspections and certifications can take six months, similar to the timeline of building a home. Further, if the city determines a structure is not permitted but is able to be permitted, the homeowner must hire an architect and prove that the structure adheres to current city code, not the code at the time of construction. ADU proponents are advocating for a solution that meets the intent of the code, but the city does not currently offer such an option. Researching and resolving such issues can take up to a year, delaying or creating cost impacts for the homeowner that have significant financial implications separate from an ADU. The path to get such structures permitted adds time, stress and financial strain to the ADU development process. Homeowners typically end up demolishing unauthorized structures before moving forward with ADU construction, further complicating their development. Site compliance issues such as these need dedicated city staff members, policy standards, and reasonable-response time frames to help homeowners achieve compliance without punitive costs and outcomes. One-size-fits-all regulations disproportionately drive up the costs of ADUs and reinforce that ADU development is accessible only to homeowners with significant financial means. In historically disinvested neighborhoods, these policies fuel displacement and inequitable access to investment solutions.

Results and planned progress of the ADU program

Since the inception of this ADU program, Habitat Metro Denver, in partnership with WDRC, has completed six detached ADUs that have received their certificate of occupancy, with 10 more under construction. Approximately 83% of participant homeowners in the pilot program identify as households of color seeking to house members of their family. A report on the progress of the ADU program dated April 2022 shared the incomes and rental intentions of 10 homeowners affiliated with the program at that time: three of the 10 homeowners who participated or were participating in the ADU program earned incomes below 67% of AMI, another three earned incomes between 68% and 80% of AMI, and the remaining four homeowners earned incomes between 81% and 108% of AMI.[58] Nine of the 10 homeowners planned to immediately house family members in their ADUs, and the 10th planned to do so after renting to help offset the cost of the ADU. Most homeowners wanted to build the largest of the available ADU design options, two- or three-bedroom ADUs, though four ended up building smaller units because of the cost. These early outcomes align with the city and county of Denver's HOST goals for family units, support for BIPOC — Black, Indigenous and people of color — households, and solutions for minimizing displacement.

As of March 2023, Habitat Metro Denver was the only builder for the partnership, though additional builders plan to join the program depending on ongoing economic conditions. There is far more demand than the affiliate has the capacity to meet, so these construction partnerships are a welcome addition to facilitate residential stability more swiftly in west Denver neighborhoods.

CASE STUDY

Habitat for Humanity Monterey Bay, California

Habitat Monterey Bay serves Monterey and Santa Cruz counties in California. Together, these counties are home to just over 700,000 residents.[43,44] Homeownership is at its highest point since 2009, at 60.5% in Santa Cruz County and 51.7% in Monterey County, following an 8% decrease in homeownership during and after the Great Recession of 2008 (Table 1B). Across both counties, homeownership rates for Black and Hispanic/Latino households significantly declined as compared with white households. In Monterey County, 41.1% of Hispanic/Latino households own homes, as do 35.8% of Black households, while white homeownership rates climb to 60%. Similarly, in Santa Cruz County, homeownership among Hispanic/Latino households is at 40.2%, and among Black households it is at 32.9%. Among white households in the county, the homeownership rate is 65%.[47,52]

In February 2023, Santa Cruz County home prices decreased 19.3% compared with the previous year, selling for a median price of $1.1 million,[59] a 30% increase from fall 2020. In Monterey County, the median home sale price was $731,500, an increase of 20% from 2020.[60] About half of all homes sold in Santa Cruz are sold above the list price, indicating that Santa Cruz continues to have a competitive housing market despite the recent decline in housing prices. The AMI is $96,000 in Santa Cruz County[43] and $81,400 in Monterey County.[44]

Regulations on ADUs

Starting in 2017, California promoted ADU development by prohibiting minimum lot sizes for ADU development and maximum lot sizes for ADUs less than 850 square feet (or 1,000 square feet if the ADU has more than one bedroom), eliminating additional parking requirements if the ADU is within one mile of public transit, and reducing the 120-day application review time by 50%.[61] California further eliminated many restrictive regulations around ADUs as of Jan. 1, 2022, overriding local ordinances that prevented ADUs. For example, AB 345 (Chapter 343, Statutes of 2021) addresses the needs of entities like Habitat for Humanity affiliates aiming to build ADUs, as this statute requires allowance of separate sale of ADUs from the primary dwelling on a lot, if:

- The ADU or primary dwelling was built or developed by a qualified nonprofit.
- There is an enforceable restriction on the use of the property between the low-income buyer and nonprofit that satisfies the requirements of Section 402.1 of the Revenue and Taxation Code.
- The entire property is subject to the affordability restrictions to assure that the ADU and primary dwelling are preserved for owner-occupied, low-income housing for 45 years and are sold or resold only to a qualified buyer.
- The property is held in a recorded tenancy in common agreement that meets certain requirements.

California passed additional clarifying legislation in 2022 (SB 897 and AB 2221) to expedite ADU construction throughout the state. This state legislation facilitated the ADU application process, minimized permitting timelines, and reduced neighborhood-specific barriers to building ADUs, such as homeowner association-related restrictions, to enable builders across the state to address the California housing crisis more swiftly.

Localities, however, sometimes imposed their own ordinances to either promote or restrict the development of ADUs. In Monterey County, two ordinances were passed allowing ADUs or junior ADUs – ADUs under 500 square feet – on any residential property with a current or proposed single-family residence and establishing standards for ADUs and JADUs in unincorporated areas of the county, enabling the cities within Monterey County to retain or create their own rules governing ADUs and JADUs. The ordinance in the noncoastal region of Monterey County (Ordinance 5341) went into effect in October 2020, while the ordinance affecting the coastal areas (Ordinance 5343) has yet to be enacted, according to the county's website.[62, 63]

In Santa Cruz County, the initial ADU ordinance was passed in 1983 and updated in January 2020. This ordinance aligned the policies of Santa Cruz County with statewide regulations in addition to setting minimum site areas for ADUs and JADUs and establishing specific requirements for setbacks, frontages, structure height and the maximum number of stories. The county further updated the ordinance to define acceptable uses of ADUs and JADUs in the county, the permissible number of ADUs and JADUs on a parcel, and the size of ADUs and JADUs. The updates also aligned the policy with state law.[64] The city of Santa Cruz also updated its ADU regulations to reflect state ADU laws, which included establishing ministerial review of ADUs and JADUs.[65]

Description of the programs

Habitat Monterey Bay built an average of five homes per year over the past 10 years. This affiliate was founded in 1989 and is considered a large affiliate based on the population of its service area. Habitat Monterey Bay offers two ADU programs – the Habitat ADU Program and My House My Home – and over the past 15 years it has built four ADUs through these programs. The affiliate also has built four other ADUs that were not funded by either of the two programs. The Habitat ADU Program, available in Santa Cruz and Monterey counties and funded by a grant from CalHome, focuses on helping low-income homeowners build an ADU on their property to secure additional income and create long-term affordable housing options. My House My Home is a partnership between older homeowners, aged 62 and above, Habitat Monterey Bay, the city of Santa Cruz, and Senior Network Services to build or renovate ADUs on existing properties of older homeowners to help them keep their property and age in place.[64] This case study focuses on the latter program.

To participate in either of these programs, a household must earn between 50% and 80% of AMI and have at least 500 square feet on their lot to construct an ADU. The space requirement differs from the traditional lot size requirement, which is barred in California. Homeowners

> Low-income senior homeowners can either downsize into the ADU, which is fully wheelchair accessible, and age in place there, or they can remain in their main house and then rent out their ADU.

– As stated by Satish Rishi, Habitat Monterey Bay's executive director, in *AARP Liveable*

must also qualify for a loan with the affiliate, be willing to supplement the cost of the ADU, and add a low-income deed restriction to their property. Habitat Monterey Bay provides plans, materials, labor, permits, logistics for construction, utility hookups (no septic support) and financing options.

In 2015, Habitat Monterey Bay interviewed older adults with low household incomes and found that many residents moved to Santa Cruz when they were in their 20s to 40s when housing prices were much lower (1970s to 1990s), leaving them asset rich but cash poor. Rising property taxes and costs of living make it difficult to sustain life in their communities, evincing the need to build ADUs that older adults with low incomes can live in as a mechanism to increase income and to create housing into which homeowners could age. These interviews led to the creation of the My House My Home program, which restricts eligibility to those 62 and older who are at risk of losing their homes because of increasing housing costs and cost of living or being unable to safely navigate their homes. This program aims to alleviate financial burdens to allow homeowners to age within their communities.

The goals of the My House My Home program are to:

- Help older homeowners with low incomes keep their property and age in place.
- Build a new or renovate an existing ADU on the property of older homeowners to provide additional income and adjustable living accommodations to help them age in place.
- Bring existing homes onto the rental housing market for families with low incomes.[66]

Applicants to the My House My Home program must:

- Own and occupy the property and be a permanent resident.
- Earn less than 80% of AMI. As a point of reference, a two-person household residing in Santa Cruz must earn less than $100,000 to qualify for this program.
- Be able to put up to $40,000 toward the ADU through home equity or a loan from the affiliate.
- Be willing to add a low-income deed restriction to their property that potentially expires after 20 years.

My House My Home aims to build an accessible ADU into which older adults can downsize and rehabilitate the primary house into an affordable rental managed by a property management company. Homeowners aiming to rent the ADU built through My House My Home or the primary homes on the property are required to rent to households making 80% or less of AMI, as determined by the ZIP code of the primary home, and cap rental rates at 80% of AMI.[67]

> "I own the house; I've been here 65 years. [Building an ADU through My House My Home] makes me feel real good ... it makes me feel like I fit in with the community."

– As stated in *AARP Liveable* by a Monterey Bay homeowner

Initially, Habitat Monterey Bay started the pilot with funding from the city of Santa Cruz. The city contributed $80,000 per unit, and Habitat Monterey provided a matching amount. At the time of the agreement, both partners believed the amount sufficient to cover ADU construction costs. However, construction costs instead ranged between $200,000 and $250,000, prompting the city of Santa Cruz to reconsider its commitment to the program and reallocate its funds to other programs. Consequently, Habitat Monterey sought other funders and partnered with the California Department of Housing and Community Development to receive a grant for up to $100,000 per unit. The affiliate supplements the remainder of the cost to the homeowner through funding from foundation grants, gifts of labor, gifts in kind and donations. Homeowners can also receive a forgivable loan of up to $30,000 from the affiliate, which counts toward the $40,000 they must put toward the cost of the ADU. Homeowners may rent either the primary home or the ADU to households with incomes at or below 80% of AMI, with rent set by the city.[67] For each year that either is rented to a qualifying renter, the loan is forgiven at 5% and is fully forgiven after 20 years. If the homeowner, however, rents to an income-ineligible renter, the remainder of the forgivable loan is due to Habitat Monterey Bay.

The My House My Home program initially required a deed restriction of 30 years that survived the sale of the home unless the homeowner paid off the loan. Habitat Monterey reduced the period to 20 years after some pushback from participants. Over time, as the loans are paid back, the funds go back into a revolving fund to help pay for future My House My Home projects. Habitat Monterey Bay has completed three ADUs under the My House My Home program.

Barriers to implementation and maintenance

Despite the statewide simplification of the ADU development process, the permitting process remains quite long, taking up to nine months in 2022. Many urban planning departments in California have created a standard architectural design process, preapproved ADU designs, and standard permitting of ADU structures and utility connections for ADUs to minimize the time and effort required to obtain the required permits, but Santa Cruz and Monterey counties and the municipalities therein have not made this transition, despite United Way of Monterey County's initiative to achieve common, preapproved designs throughout the county. Permitting fees required by the city of Santa Cruz are nearly $12,000 for an 800-square-foot ADU, further contributing to the financial burden of building ADUs.[9] These fees may be in place because individual municipalities want to maintain control of ADU design and permitting within their geographic limits. Alternatively, this could be a mechanism to reduce ADU construction in the city. Given current permitting timelines and the balance of resources, the affiliate is prioritizing construction of new homes to increase homeownership within its service area.

Despite the relatively small expense required from a homeowner to partner with Habitat Monterey Bay to build an ADU, a paucity of applications for the service exist, and even fewer sites are available that will accommodate the types of ADUs the affiliate builds because of the size or topography of the site. For example, if the potential site for an ADU is on septic rather than connectable to the sewer system, if the property has a steep drop-off, or if the site is in an inaccessible area because of its proximity to a neighbor's boundary, the affiliate cannot move forward with building the ADU. The affiliate has also explored fully assembled ADUs with homeowners, but for a particular property, the location did not work because of power lines.

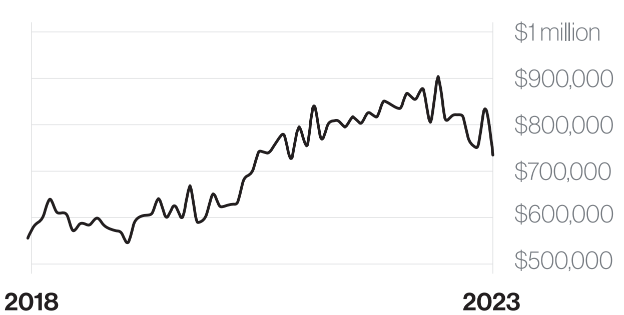
Results and planned progress of ADU program

Over the past 12 years, Habitat Monterey Bay has built eight ADUs, seven of which are detached, new-construction, one-bedroom units. Three of the units are also part of the My House My Home program. An additional unit was a garage conversion to an ADU. Based upon current capacity and community need, Habitat Monterey Bay has shifted its priorities to completing an 11-home development and plans to construct only one to two ADUs per year. Constructing ADUs requires pulling essential workers from other Habitat home development sites, slowing the progress toward homeownership for households with low incomes. In the past, the affiliate built ADUs when there were no active primary home projects, but home construction is active again after a lull in the beginning of the COVID-19 pandemic. To continue meeting the needs for ADUs, Habitat Monterey Bay is looking for good quality, prefabricated ADUs, which would require the affiliate only to complete homeowner selection and purchase of the ADU. The manufacturer would complete the site preparation and construction. As of March 2023, the affiliate had not identified a prefabricated ADU manufacturer that met its quality standards.

If limited capacity were not a consideration, the affiliate would build as many ADUs as possible, but lengthy permitting time frames, active home construction, high permit and impact fees, and the lack of preapproved ADU designs across counties and municipalities make it difficult to prioritize building ADUs, as they require similar levels of resources as a single-family home. The affiliate noted that preapproved ADU designs would facilitate the spending of grant money, including the $1 million grant from CalHome that is earmarked for the affiliate's ADU building efforts, but because of the lengthy nine-month permitting process that existed until the latest state legislation was enacted, the ADU would not be built before the grant expires.

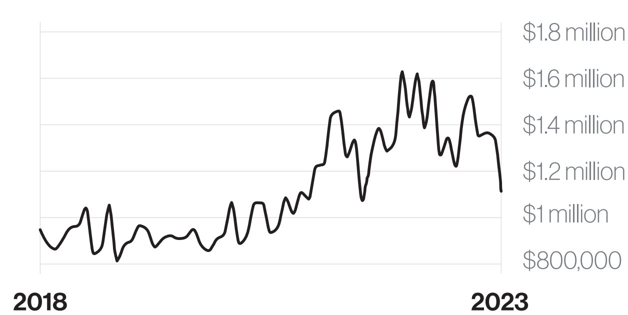
Figure 4: **Median home prices in Monterey and Santa Cruz counties, California, from 2018 to February 2023**

Monterey County



Based on Redfin calculations of home data from MLS and/or public records.

Santa Cruz County



Based on Redfin calculations of home data from MLS and/or public records.

CASE STUDY

Habitat for Humanity Metro Maryland

Habitat Metro Maryland serves Montgomery County, Maryland, northwest of Washington, D.C., and Prince George's County, east of Washington, D.C. Together, these counties account for almost 2 million residents, an increase of nearly 10% since 2010.

In 2023, the median sales price of a home was $530,000 in Montgomery County and $412,000 in Prince George's County; these prices have been stable since summer 2022 (Table 1C). [42,51] The homeownership rate in Montgomery County is 65.4%; in Prince George's County, it is 62.2%. This differs by race and ethnicity, with Black and Hispanic/Latino homeownership in Montgomery County at 42.2% and 54.8%, respectively, and 60.9% and 51.6% in Prince George's County.[52] The area median income in Montgomery County is approximately $118,000,[53] while in Prince George's County it is $91,000.[54] This corresponds to earnings between $34,850 and $96,600 for a family of four in the Metro Maryland service area, the 30-80% AMI range served by Habitat for Humanity affiliates.

Regulations on ADUs

With no statewide development standards supporting ADUs as a means of affordable housing or otherwise, Prince George's County has not progressed in passing supportive ADU policies. In Housing Opportunity for All, Prince George's Comprehensive Housing Strategy, or CHS, the county recognizes that ADUs could help support low-income and older adult homeowners.[68] Prince George County's CHS would help standardize zoning and construction of ADUs, but no regulations have been changed since the inception of the 2019 CHS.

Though most residential areas in Montgomery County do permit the development of ADUs, zoning regulations vary across the localities. Montgomery County passed legislation to permit ADUs in 2013 (Zoning Text Amendment 12-11), and in 2018 the county enabled conditional use approval for ADUs that met standard requirements for parking, size of the ADU and distance from other ADUs (Zoning Text Amendment 18-07), simplifying the permitting and construction process.

Habitat Metro Maryland focused its efforts on community education and advocacy to improve the feasibility and acceptance of ADU construction in the area, partnering with council members and other local officials to continue the progression of ADU-supportive legislation. In 2019, the affiliate's policy agenda on ADUs included:

- Allowing ADUs on smaller lots (less than 1 acre) that can be detached from the main house.
- Allowing ADUs on properties even if that property borders another property with an ADU.
- Allowing homeowners to live in either the main home or the ADU and allowing the property owner to rent out either unit.[69]

In 2019, Montgomery County ZTA 19-01 passed, allowing detached ADUs in small-lot zones and reducing parking requirements within one mile of Metrorail public transportation.[70] Notably, ZTA 19-01 requires that the lot on which an ADU is built must remain owner-occupied or the ADU must be demolished. The owner may live in either the primary home or the ADU to meet this requirement.[70] Additionally, in the 2022 legislative session, the Maryland General Assembly considered SB0871: Accessory Dwelling Unit Authorization and Promotion Act, which will promote and encourage the creation of ADUs on land zoned for single-family residential use throughout the state to meet the housing needs of the citizens of Maryland.[71] The bill has yet to be signed into law.

Description of the program

Habitat Metro Maryland serves a large population within its geographic service area and has been active since 1982. The affiliate's goal was to launch an ADU program in 2020 for income-qualified homeowners. To date, however, Habitat Metro Maryland has had to pause its ADU program, and no ADUs have been built as a result of setbacks from the COVID-19 pandemic and the subsequent increase in construction costs, paired with low funding commitments for the ADU program thus far.

The affiliate actively worked with the largest historical district in Montgomery County, the city of Takoma Park, to obtain $100,000 to pilot an ADU program. The Department of Housing and Community Development in Takoma Park saw opportunity to create density near public transit without compromising the character of the neighborhood by encouraging the development of interior attached ADUs, attached ADUs through a home addition, and detached ADUs where permitted. The affiliate worked closely with the council members and city manager in founding and planning for its ADU program, prioritizing basement conversions to maximize the funding amount. However, city leadership changed and put the program on pause until fiscal year 2024. The dissolution of the partnership forced Habitat Metro Maryland to pivot and seek alternative partners because of low funding commitments.

Housing Initiative Partnership Inc., or HIP, is a Maryland-based organization that specializes in providing innovative affordable housing and works with both homeowners and home seekers to create affordable housing options. Habitat Metro Maryland has had discussions with HIP to help older adult homeowners, the target population for ADUs, to find tenants to offset costs and use their pool as a pipeline to the ADU program. Older adult homeowners will be able to use the rental income generated from either the ADU or their primary home to supplement their income. Habitat Metro Maryland hopes to begin its ADU program in fiscal year 2024.

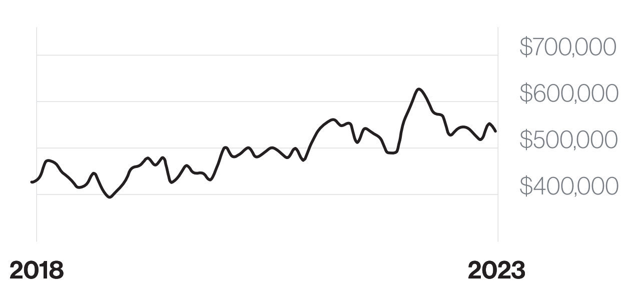
Barriers to implementation

Before 2019, legislation posed the largest barrier to Habitat Metro Maryland's ADU program, but funding has quickly become the most impactful barrier. Habitat Metro Maryland is now identifying stable funding for its ADU program. The affiliate's ideal situation would be to obtain state and local funding to subsidize the cost of building ADUs with homeowners with low incomes who agree to rent their ADUs to households earning up to 80% of AMI. The affiliate's vision for ADUs is that the income generated from renting either the ADU or the primary home will subsidize income for households or older adults with low incomes, enabling them to pay for future home repairs and build savings in addition to equity, though this still requires subsidization to make it affordable to the target homeowner partners.

Despite the fact that Montgomery County is experiencing an affordable housing crisis, some local legislators in Maryland are skeptical of the need for and impact of ADUs. State laws do not require that municipalities allow ADUs nor that ADUs, if built, remain affordable housing options, and legislation ensuring affordable housing options has not yet been proposed. At the time the affiliate was interviewed, there were no lasting affordability requirements built into Habitat Metro Maryland's ADU program framework, though the affiliate acknowledged that this requirement could make ADUs more acceptable to state and local legislators. The local concern is that without requirements around lasting affordability, ADUs would become short-term rental properties that would not produce affordable housing for residents and would benefit only the homeowner. Habitat Metro Maryland suggests finding a champion on the governing body to increase conversations about the benefits of ADUs to combat some of the skepticism surrounding their impact. More frequent community education and discussion

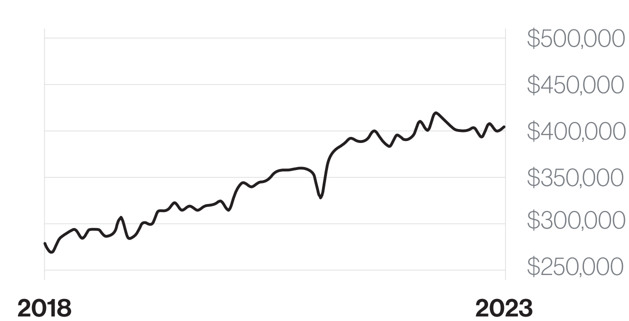
Figure 5: **Median homes prices in Montgomery and Prince George's counties, Maryland, 2018 to February 2023**

Montgomery County



Based on Redfin calculations of home data from MLS and/or public records.

Prince George's County



Based on Redfin calculations of home data from MLS and/or public records.

around the need for ADUs could aid in gaining governmental buy-in, especially if examples of successful ADU programs in other locations are referenced.

Planned progress of the ADU program

The affiliate's ADU program is planned to begin in 2024 with a few small projects, with the quantity increasing as the affiliate's capacity increases. Habitat Metro Maryland hopes to pair the ADU program with housing vouchers, which would provide certainty in rental income for the homeowners while expanding the pool of rental units available to households with low incomes who use housing vouchers. The program will begin in Takoma Park, as initially planned, then expand throughout Montgomery County.

The affiliate aims to work with the county to determine more sustainable funding, potentially by matching public and private funds. The affiliate representative acknowledged that making ADUs built by Habitat Metro Maryland rent-restricted for up to 10 years and/or permanently affordable may increase their appeal to legislators and housing managers, but those details have not been confirmed.

Recommendations to increase ADU development

Consider whether ADUs are a viable option to expand the affordable housing supply and, if so, how to develop ADUs.
Determine whether ADUs are an appropriate addition to your housing production program and community needs by reviewing practical guidance on housing needs, researching local zoning, considering the number of residents who are aging in place, etc. If you find them to be appropriate, consider creative solutions to expand housing options and provide housing opportunities to households with low incomes, such as placing deed restrictions on the ADU to ensure occupancy for households with low incomes and advocating to separate the ADU from the primary unit to allow occupancy by two homeowners. Habitat California advocated to pass a law, AB 345 (Chapter 343, Statutes of 2021), to allow the ADU to be sold separately from the primary unit. In building an ADU, the program can result in two homeowners in affordable homes sharing the same lot, also referred to as tenancy in common. This situation provides the opportunity for two lower-income homeowners to build equity and wealth from homeownership. The California law expressly stipulates that nonprofit developers must build the home and ADU using sweat equity.

Be an informed advocate of ADU programs and develop a network of ADU champions.
Find a successful ADU program on which to model your program. Become knowledgeable about it and be able to communicate its benefits well. Find a champion on the governing body you are working with; this person can advocate for your program in meetings to which you are not invited. Record the names of people who testify in support of ADUs in legislative settings within your area and establish meaningful connections with them and their organizations. For example, Habitat Metro Maryland connected with Montgomery Housing for All, an organization that supports missing middle housing units and transit-oriented development. Make sure you connect with the supporters and ensure their attendance at council/zoning meetings. To present a diverse and broad-based coalition, be purposeful in including households with low incomes, households with older adults, Black and Hispanic/Latino households, and organizations that support these groups. Ensure that you educate the communities in which you would want to build so that they understand the benefits of ADUs and so that community members become ADU champions. This will help in advocacy efforts.

Identify a model program.
Habitat affiliates that have found success in forming ADU programs can serve as an example for other affiliates. Despite challenges in gaining governmental support and identifying funding, dozens of ADUs have been built by the three Habitat programs highlighted in this brief. These affiliates also have goals for future ADU construction

and ideas on how to increase the sustainability of their programs. Reach out to programs that mirror your vision and learn about opportunities and potholes they experienced when creating and implementing their ADU program. These can include financing, permitting and zoning issues, along with feedback on ideal partnerships.

Understand the differences between types of ADUs and associated variation in their development.

Nuances exist in the development of ADUs that differ when constructing single-family homes, particularly for attached or interior ADUs, that need to be well understood. Permitting for these types of ADUs is more complicated, as it may require the addition of a second electrical meter, water/sewer meter or a separate HVAC system to prevent shared air between the primary residence and the interior or attached ADU. Compliance with the building code's fire separation requirements also may be an issue. The cost of permitting and adding these meters or units may be prohibitive and untenable for the homeowner and adds layers of risk and liability.

Figure out the finances.

Analyze what funding and financing of ADUs would look like in your service area and the availability of alternative funding support from community development financial institutions, community development corporations, other nonprofits or local entities. When its program began, Habitat Metro Denver's financial model relied on low interest rates and the ability of homeowners to cash-out refinance their homes to finance ADU construction. High interest rates have slowed the pipeline of interested homeowners and have forced Habitat Metro Denver and WDRC to re-evaluate their financing model and mechanisms. Both Habitat Metro Maryland and Habitat Monterey Bay initially partnered with their respective cities for funding, and both cities withdrew funding as their priorities shifted. The affiliates were forced to either rework the partnership or seek other funding sources, demonstrating the importance of diversifying funding mechanisms.

Create or lean into community partnerships.

Creating partnerships or leaning into existing partnerships can enable affiliates to quickly start an ADU program without having to build all the capacity. WDRC currently provides all the financing and financial coaching and identifies and evaluates applicants, reducing the administrative burden on the affiliate. Maintain frequent communication with all partners to ensure transparency, trust and continuity of the partnerships.

Habitat Metro Denver partners with local high schools, which offer a geometry in construction course. Throughout the school year, students learn about geometry by building ADUs; these programs are supported by donated labor and materials from various sources, including the affiliate. While the affiliate pays to have the units moved to their respective lots in west Denver and anticipates additional inspection challenges, this is one way to increase capacity and help grow the construction workforce.

One of the greatest strengths of the ADU pilot program in metro Denver is the collaboration between partners and funders committed to lowering ADU costs, increasing access to ADU development, advancing affordable ADUs within a struggling market in Denver, and improving the sustainability of growth of the ADU program in partnership with WDRC.

Work closely with your city and county to identify opportunities to build ADUs.

To make ADU construction feasible in the near- and long-term, finding a partner to create modifiable ADU designs could help to narrow the search for appropriate lots and facilitate a quicker turnaround time for permitting. If feasible, work with your city and county officials to authorize preapproved ADU designs across cities. In cooperation with the local governmental agencies, secure funding and get cities involved in funding ADUs with money they have set aside for housing.

Advocate for zoning reform that will encourage the construction of ADUs, therefore increasing affordable housing options and socioeconomic outcomes for families that otherwise would not have opportunities for homeownership. In California, the Regional Housing Needs Assessment, or RHNA, conducted on a cyclical basis, determines how many affordable housing units must be built to keep up with demand over the next 10 years. ADUs count toward this target number, so if barriers to building ADUs are further removed, California communities can more efficiently reduce the needed affordable housing units as calculated via RHNA.

Conclusion

ADUs, although not a new phenomenon, have experienced tremendous growth within the past two decades in response to the affordable housing crisis. ADUs can serve as one approach in a larger coordinated strategy to address the housing affordability issue. This evidence brief highlights factors that organizations and policymakers across multiple levels of government can implement to support the expansion of ADUs and provide affordable housing solutions while stabilizing housing for households with lower incomes and older adults. Three Habitat affiliates have shared the challenges and disparities in their service areas, along with their experiences in developing their ADU programs. These affiliates have discussed some of the factors that have contributed to their progress and success with ADU construction, such as advocating for supportive regulation, streamlining ADU designs and permitting, and determining financing models for potential ADU homeowners that would make construction more financially attainable, especially for Black and Hispanic/Latino homeowners facing financial barriers to developing ADUs.

The evidence brief offers the following recommendations to other entities interested in developing ADUs, primarily garnered from the lessons Habitat affiliates learned when implementing their ADU programs:

- Advocate for supportive ADU legislation and mechanisms that enable the construction and affordable financing of ADUs.
- Promote ADUs within your intended community to ensure their receptiveness, which will help with advocacy.
- Model your program on successful, existing programs that match your community's needs, challenges, assets and goals.
- Understand the differences in permitting and construction of ADUs compared with single-family homes.
- Ensure a continuity of funding through public and/or private funds that will lower the ADU construction costs to households with low incomes and older adults or facilitate homeowner financing at terms feasible for those living with limited or fixed incomes to afford.
- Identify or lean into community partnerships.
- Include deed restrictions to ensure that ADUs remain affordable to households with low incomes, if rented.

Additional resources

ADU design, construction and financing

- AARP Livable Communities. *ADUs Are an American Tradition*. **aarp.org/livable-communities/housing/info-2019/adus-are-an-american-tradition.html**
- AARP Livability Index. **livabilityindex.aarp.org**
- *AARP ABCs of ADUs*. **aarp.org/adu**
- Grant, J.; Guzman, S.; and Harrel, R. "Accessory Dwelling Units: A Step-by-Step Guide to Design and Development." AARP. **aarp.org/adu**
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- Peterson, K. (2019). "Innovations in Financing for Accessory Dwelling Units." *Accessory Dwellings*. **accessorydwellings.org/2019/05/16/2019-is-the-year-of-adu-financing-innovation**

Accessible design of ADUs

- *AARP HomeFit Guide and Universal Design*. **aarp.org/livable-communities/housing/info-2020/homefit-guide.html**.
- Goehner, A.L. "Universal Design and Visitability." AARP Livable Communities. **aarp.org/livable-communities/housing/info-2021/visitability-and-universal-design-in-sarasota-county-florida.html**

ADU policy guidance

- AARP Government Affairs. *ADU Model State Act and Local Ordinance*. **aarp.org/adu**
- American Planning Association (APA). "Knowledgebase Collection: Accessory Dwelling Units." **planning.org/knowledgebase/accessorydwellings**
- Guzman, Shannon, and David Morley. *Expanding ADU Development and Occupancy: Solutions for Removing Local Barriers to ADU Construction.* Washington, DC: AARP Public Policy Institute, May 26, 2023. **https://doi.org/10.26419/ppi.00172.001**

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