Accessory Dwelling Units

Findings from Other States & Jurisdictions

Montana State Legislature, Local Government Interim Committee
November 18, 2021
Agenda

• Links between housing availability and affordability
• How restrictions impact housing availability
• What is an accessory dwelling unit (ADU)?
• ADU results in other states and jurisdictions
• Recent examples of ADU policy changes
• Q&A
Montana feels impacts of housing shortage

Remote Workers Spur an Affordable Housing Crunch in Montana

Bozeman has become a haven for coastal refugees as the pandemic drags on, intensifying a housing crisis for existing residents of the town.

Billings joins the Montana home rush

The Wall Street Journal recently ranked the state’s largest city as the nation’s top emerging housing market. Locals paint a more complicated picture.

Renters in Missoula see huge price increases, few options

Missoulian
Homelessness is rising in Montana

14th highest homelessness rate, 2020

14.5 in every 10,000 people were experiencing homelessness

4th largest % increase, 2019-2020

13.9% change from 2019
34.3% change from 2007
Home building hasn’t kept pace with population growth in Montana

- 10% increase in population, 2010 to 2020
- 7% increase in housing units, 2010 to 2020
A growing population in smaller households fills more homes

Average number of people per household, U.S.
Housing costs rise when supply is short
Research consensus: Heavy home-building restrictions increase costs, reduce growth

In jurisdictions that heavily regulate their housing supply...

- Large minimum lot sizes
- Single unit per lot limits
- Strict parking and floor-area requirements
- Apartment bans
- Long or conditional permitting process

Housing costs are higher
Economic growth is slower
Fewer homes are built
What is an accessory dwelling unit (ADU)?

Source: AARP
ADUs cost less to build than other homes

- Can have same utility connections as main house
- Infrastructure is already established for the parcel
- No added land costs; adding a detached unit or converting existing space to a new use
- Smaller
Prefab ADUs built efficiently off-site
ADUs meet some, not all, housing needs

Small families, relatives

• 11% have children
• 15% have older adults (65+)
• 16% house the homeowner’s relative

Workforce housing

• 86% have just 1 or 2 residents

Percentage of California ADUs permitted in 2018-19
ADUs often affordable around or somewhat below median income

Location, size, lack of amenities = rents that tend to be lower than other new construction

Without subsidies, about 1 in 3 ADUs...

- Are affordable to families making ≤80% AMI in 5 high-cost California counties
- House families making ≤70% AMI in Vancouver, British Columbia
ADUs alone can’t solve housing affordability

Percentage of single-family homes with ADUs, 2015

B.C. rent rates highest in Canada, Vancouver remains country’s most expensive city: report
Landscape of ADU laws

• ADU approval processes
• Number of allowed ADUs per lot
• Restrictions on unit size
• Short-term rental restrictions
• Owner-occupancy requirements
Laws regulating ADU approval process

- **Discretionary review**
  - California: Approval by ordinance, requiring permits, plans, and reviews by a building inspector and city council; ADU permits rare.

- **“By right” approval**
  - California: By right of owner, if the ADU is not more than 200 square feet.

- **Preapproved vendors and designs**
  - L.A. permitting in 1 day; San Jose in 1 hour.

- **Pre-Approved Designs & Vendors:**
  - L.A. permitting in 1 day; San Jose in 1 hour.

- Los Angeles, CA
- San Jose, CA (38 ADU permits in 2016, 390 to date in 2021)
Parking & Lot Size Regulations

Additional Regulations Have Limited Production

- Off-street parking requirements have often made ADU development infeasible; jurisdictions with high ADU production usually have no parking requirements or only in narrow circumstances (such as for multi-bedroom ADUs)
- Low levels of ADU production where large lot sizes required
Laws regulating max. number of ADUs per lot

<table>
<thead>
<tr>
<th>1 ADU</th>
<th>1 detached + 1 internal</th>
<th>2 ADUs</th>
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<tbody>
<tr>
<td>• Most common</td>
<td>• California</td>
<td>• AARP model act</td>
</tr>
<tr>
<td></td>
<td>• Fayetteville, AR</td>
<td>• Portland, OR</td>
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<td></td>
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<td>• Gainesville, FL</td>
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Laws regulating ADU size

Considerations

Low height limits can stifle garage or 2-story ADUs; low max. sizes can limit feasibility, esp. for interior ADUs

Other zoning laws, like setbacks, may still apply to ADUs

<table>
<thead>
<tr>
<th>Anchorage, AK</th>
<th>Vermont</th>
<th>California</th>
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<tbody>
<tr>
<td>Max. lesser of • 900 sq. ft., or • 75% of main house</td>
<td>Max. greater of • 900 sq. ft., or • 30% of main house</td>
<td>• Max. 1200 sq. ft. • Jurisdictions may set max, but 800+</td>
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Data point
Prefab detached ADUs are usually 400-900 sq. ft.
Laws regulating short-term rental of ADUs

Data point
1-month minimum term often mechanism for restricting short-term rentals

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<th>Short-term rentals restricted</th>
<th>Short-term rentals allowed</th>
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<tr>
<td>• Slightly lower rents marketwide and slightly lower sales prices for houses with ADUs</td>
<td>• Slightly higher rents and 1/6 less production</td>
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ADU Impact Fees

Local Impact Fees Affect Feasibility

- California prohibits impact fees for ADUs under 750 sq. ft; much slower ADU production in CA before that law took effect
- Portland, OR had impact fees until 2010: just 25 ADUs produced in 2009; at least 70 per year since, topping 400 in peak years (kept impact fees for short-term rental ADUs only)
# ADU Financing

## Consideration

Owner-occupancy requirements have made financing ADUs difficult & reduced building; in CA, 2/3 ADU properties owner occupied when not required

## How ADUs have been financed

- By builders, who can add ADUs when constructing or renovating homes
- Affluent homeowners, or those with enough equity for home equity loan/HELOC
- Personal or construction loan
- Still a challenge; no widespread dedicated financing mechanism
ADU Key Takeaways

- In states and jurisdictions with permissive laws, ADUs have incrementally increased housing supply; tend to be affordable for those around or somewhat below median income without subsidies.

- ADUs have only added to housing supply meaningfully in areas where they are by-right with few parking & lot-size regulations; streamlined approvals & no/low impact fees have increased ADUs.

- Jurisdictions with heavy restrictions & requirements have seen few ADU built or converted from basements & garages.
Thank you!

Connect with us at www.pewtrusts.org

Alex Horowitz, principal officer
ahorowitz@pewtrusts.org
202-540-6315