

THE PEW CHARITABLE TRUSTS

# Accessory Dwelling Units

*Findings from Other States & Jurisdictions*

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

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# 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.

CITYLAB

HOUSING

## 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.

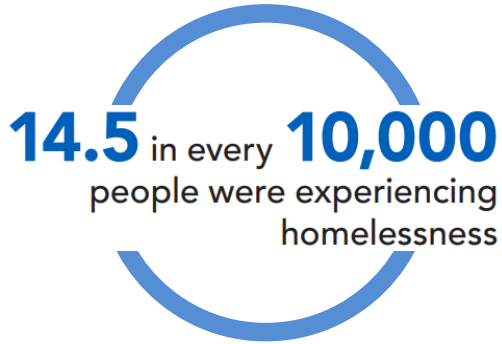
MONTANA **MTEP** FREE PRESS

## Renters in Missoula see huge price increases, few options

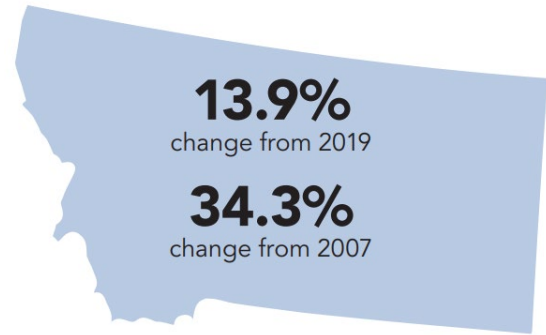
Missoulian

# Homelessness is rising in Montana

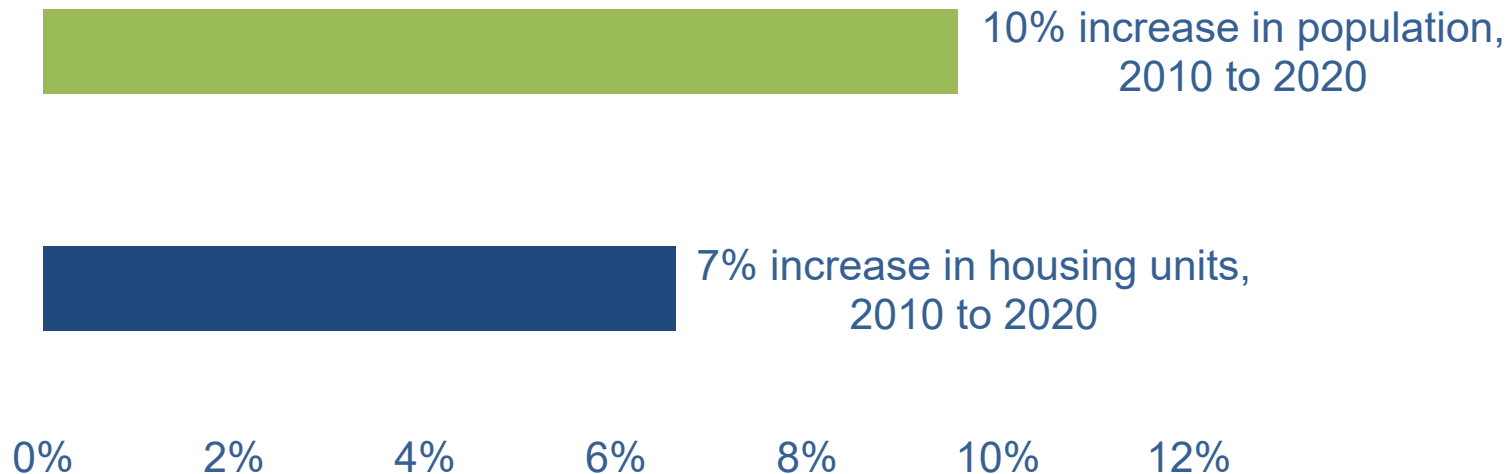
14th highest homelessness rate, 2020



4th largest % increase, 2019-2020

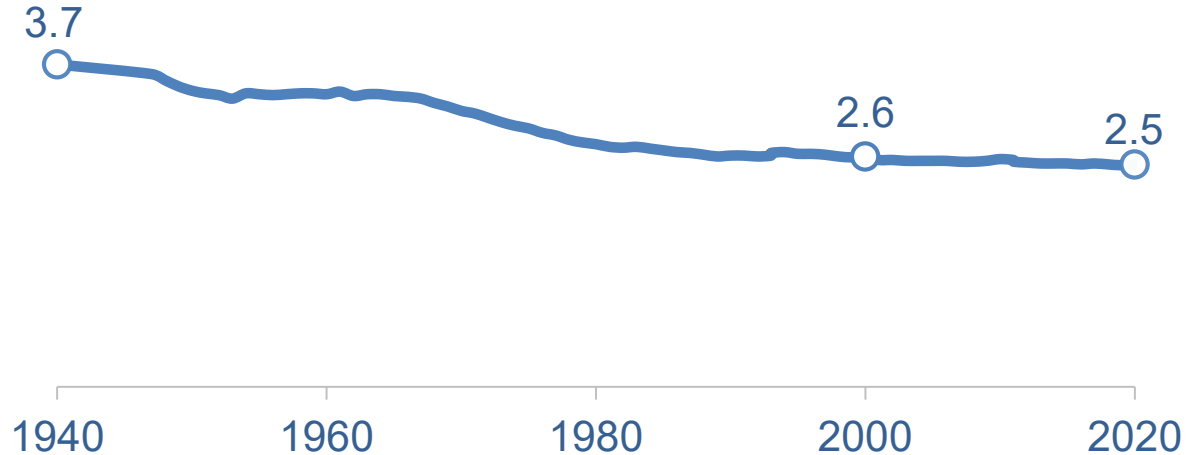


# Home building hasn't kept pace with population growth in Montana



# A growing population in smaller households fills more homes

*Average number of people per household, U.S.*



# Housing costs rise when supply is short



Source: Federal Reserve Economic Data; National Association of Realtors Monthly Supply Data

# 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



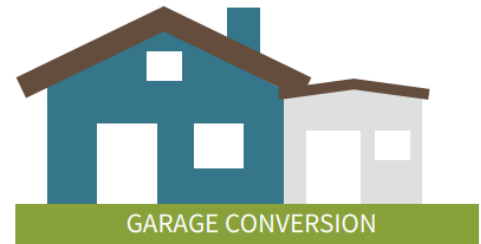
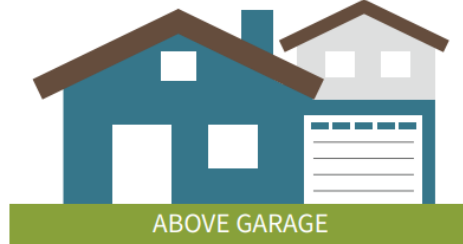
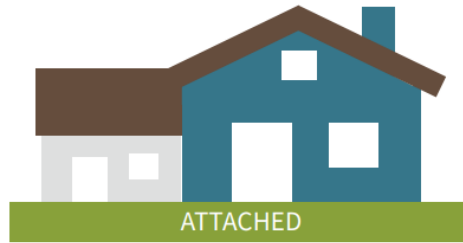
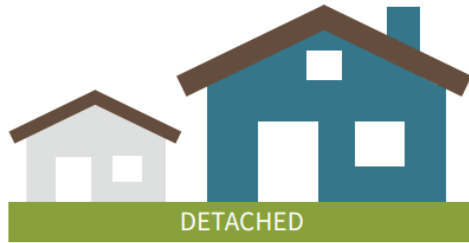
Economic growth is slower



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  $\leq 80\%$  AMI in 5 high-cost California counties
- House families making  $\leq 70\%$  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



**Pre-Approved Designs & Vendors:**

**L.A. permitting in 1 day;  
San Jose in 1 hour**

Discretionary review	“By right” approval	Preapproved vendors and designs
<ul style="list-style-type: none"><li>• Case-by-case or requiring a variance; ADUs rare</li></ul>	<ul style="list-style-type: none"><li>• Several states, plus many cities and towns; ADUs much more common</li></ul>	<ul style="list-style-type: none"><li>• Los Angeles, CA</li><li>• San Jose, CA (38 ADU permits in 2016, 390 to date in 2021)</li></ul>



# Parking & Lot Size Regulations



## Additional Regulations Have Limited Production

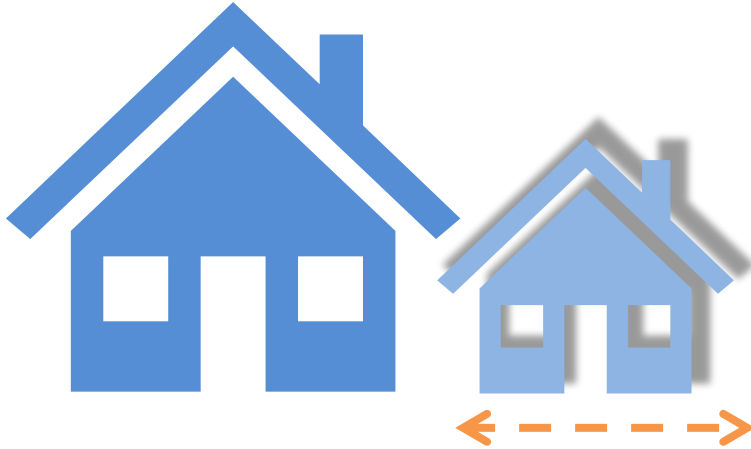
- Off-street parking requirements have often made ADU development infeasible; jurisdictions with high ADU production usually have no parking requirements or only in narrow circumstances (such as for multi-bedroom ADUs)
- Low levels of ADU production where large lot sizes required

# Laws regulating max. number of ADUs per lot



1 ADU	1 detached + 1 internal	2 ADUs
<ul style="list-style-type: none"><li>• Most common</li></ul>	<ul style="list-style-type: none"><li>• California</li><li>• Fayetteville, AR</li></ul>	<ul style="list-style-type: none"><li>• AARP model act</li><li>• Portland, OR</li><li>• Gainesville, FL</li></ul>

# 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

Anchorage, AK	Vermont	California
Max. lesser of <ul style="list-style-type: none"><li>900 sq. ft., or</li><li>75% of main house</li></ul>	Max. greater of <ul style="list-style-type: none"><li>900 sq. ft., or</li><li>30% of main house</li></ul>	<ul style="list-style-type: none"><li>Max. 1200 sq. ft.</li><li>Jurisdictions may set max, but 800+</li></ul>

## Data point

Prefab detached ADUs are usually 400-900 sq. ft.

# Laws regulating short-term rental of ADUs



Short-term rentals restricted	Short-term rentals allowed
<ul style="list-style-type: none"><li>Slightly lower rents marketwide and slightly lower sales prices for houses with ADUs</li></ul>	<ul style="list-style-type: none"><li>Slightly higher rents and 1/6 less production</li></ul>

## Data point

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

# 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](http://www.pewtrusts.org)

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