



THE PEW CHARITABLE TRUSTS

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.

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.

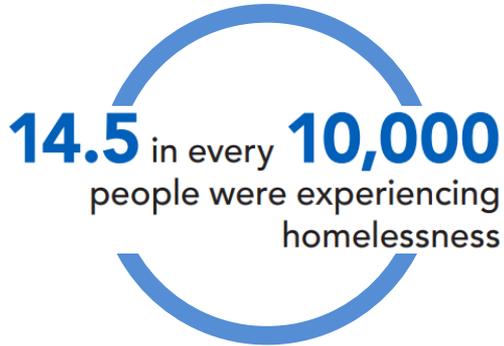
MONTANA **MTEP** FREE PRESS

Renters in Missoula see huge price increases, few options

Missoulian

Homelessness is rising in Montana

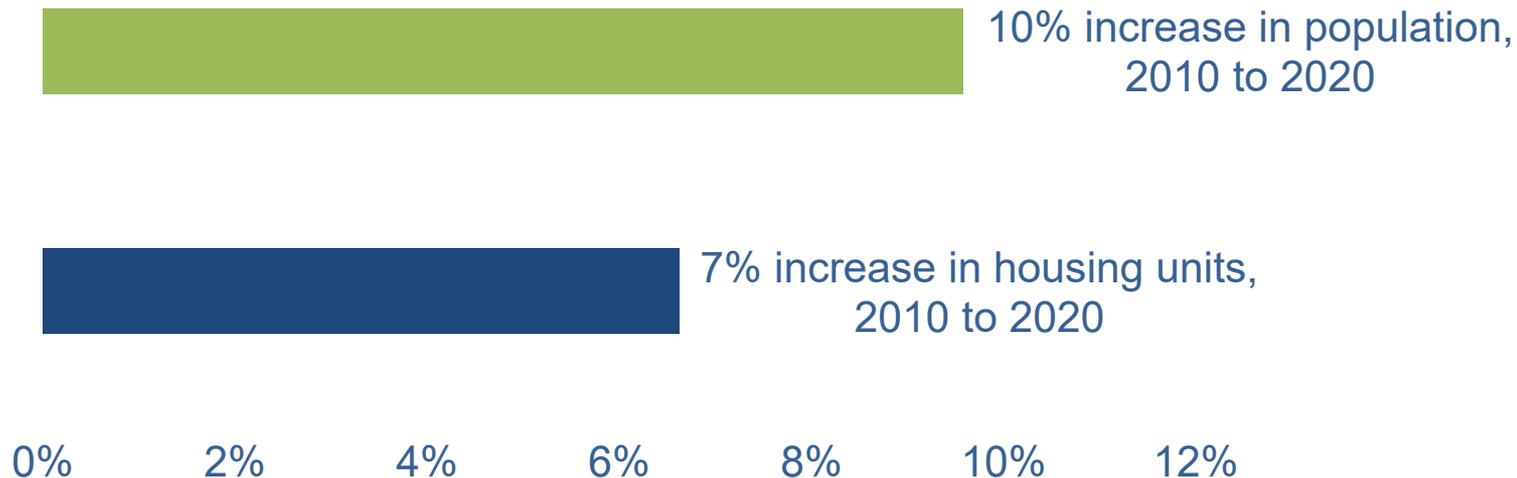
14th highest homelessness rate, 2020



4th largest % increase, 2019-2020

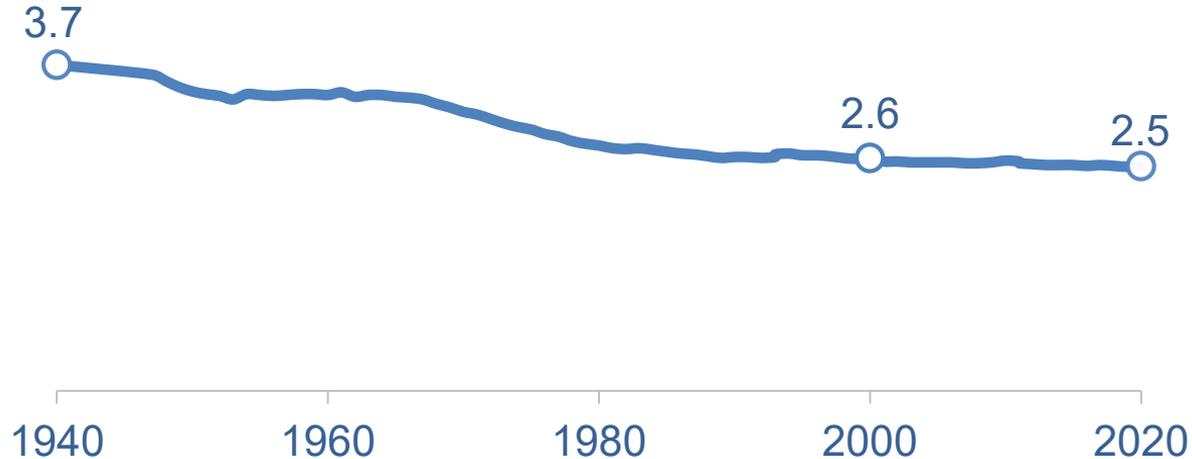


Home building hasn't kept pace with population growth in Montana



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

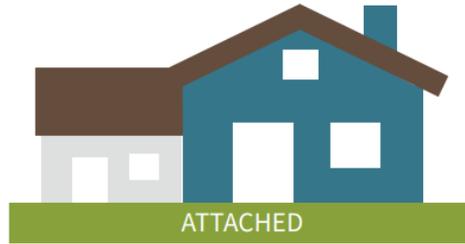


Economic growth is slower



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



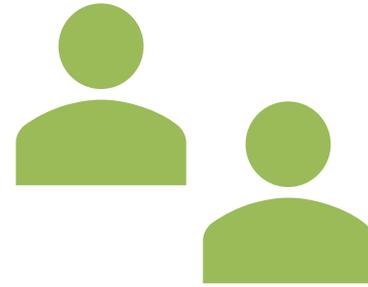
ADUs meet some, not all, housing needs

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



Vancouver, BC

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

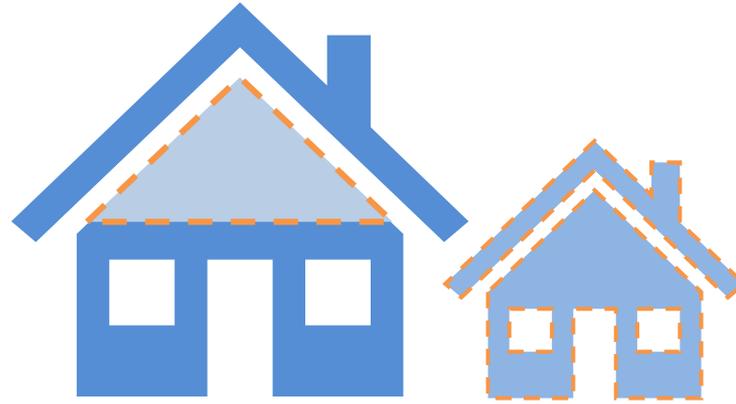
Parking & Lot Size Regulations



Additional Regulations Have Limited Production

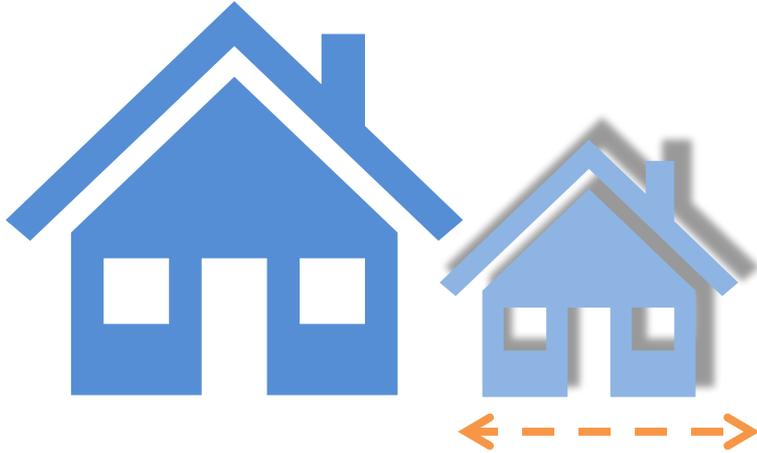
- Off-street parking requirements have often made ADU development infeasible; jurisdictions with high ADU production usually have no parking requirements or only in narrow circumstances (such as for multi-bedroom ADUs)
- Low levels of ADU production where large lot sizes required

Laws regulating max. number of ADUs per lot



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

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

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

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!

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