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## **SV@Home: Financing, Equity, and Innovation for Accessory Dwelling Units**

Presented by Turner Center

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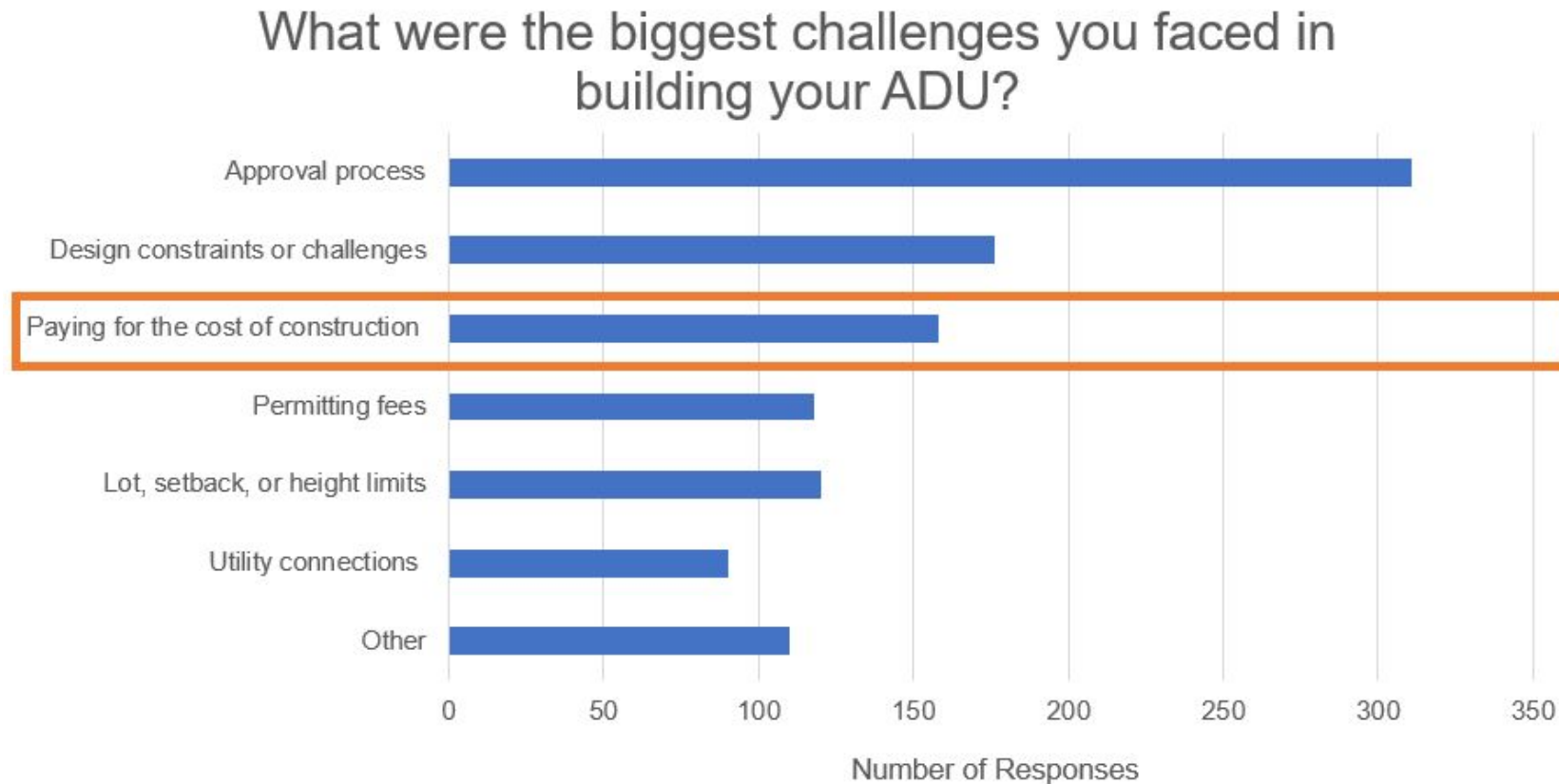
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# ADU Financing

# Financing is challenging for many, including those who successfully built their ADU



# Project background

## Problem Statement

1. ADUs can help homeowners and add housing supply;
2. Many, especially lower income and BIPOC homeowners, have limited access to construction financing;
3. What steps, policy or otherwise, can be taken to expand credit?

## Goals

1. Identify the universe of financing options for ADU construction
2. Identify barriers within government-backed that limit their usefulness for ADU construction
3. Develop policy recommendations to break down these barriers

## Methodology


1. Literature review
2. One-on-one interviews with SMEs
3. Roundtable sessions with SMEs

# How have people been financing ADU construction?

Type of Product	Utilization
Liquid Assets	62%
Mortgages	43%
Unsecured Debt	7%
Other	3%

HELOC / Home Equity Loan	56%
Cash-out refinance	35%
Renovation Loan or other construction loan	6%



*Renovation loans are unpopular despite being a tool for those with little home equity. **Why?***

# Issues -203(k)

## ADU Specific

## General

### Rental Income

Consideration of stable income:

- In-place lease
- No in-place lease
- Unbuilt ADU

### Eligibility

- Single family dwelling only
- One ADU only
- Attached only
- Owner-occupied only

### Appraisals

- Appraiser expertise

- Higher interest rates or fees
- Long closing timeframe
- High rate of denial
- Releasing money more easily to contractors

# Recommendations – 203(k)

## ADU Specific

### Rental Income

- Analyze performance of loans with ADUs; modify guidelines as appropriate

### Eligibility

- Analyze potential to allow ADUs on 2-4 unit properties
- Analyze potential to allow up to 3 ADUs per property
- Review attached-only interpretation
- Investment properties?

### Appraisals

- Recommend / require ADU specific training for appraisers
- Clarify ability to include ADU income into appraised value

## General

- Explore areas to streamline origination and servicing
  - Underwriting software
  - Cost estimation
  - Draw process
- Analyze rate of denial

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# ADUs and Communities of Color

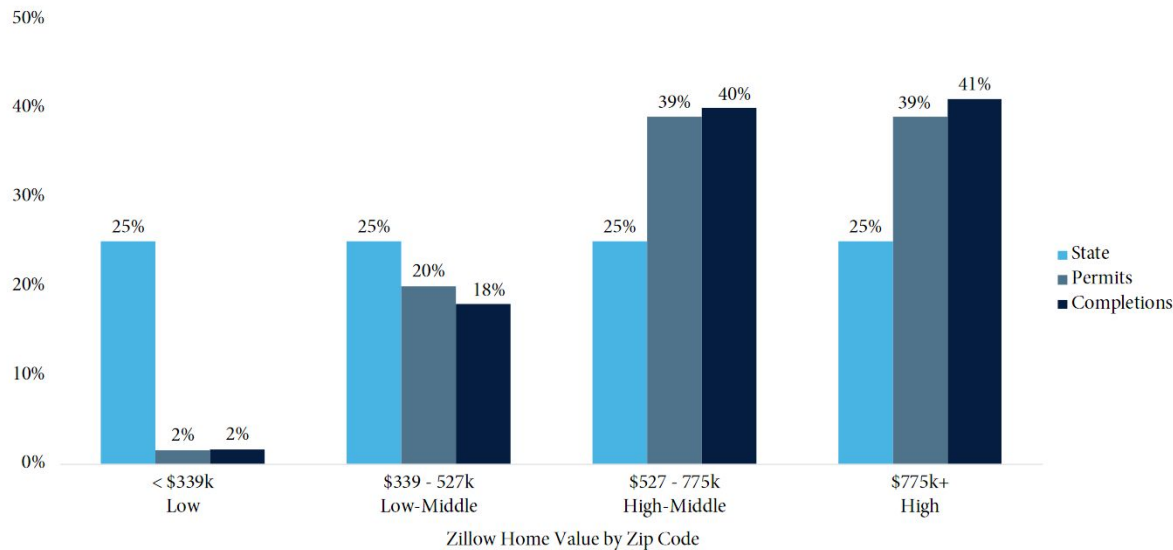


# ADUs are predominantly built in wealthier and whiter neighborhoods due to complex financing

ADUs are predominantly built in areas with high home values...

And the concentration of white people in an area positively impacts chances of an ADU being built

Figure 5. ADU Permitting and Completions by Home Values in Zip Code



	<b>LA</b>	<b>SF</b>	<b>Capital</b>	<b>San Diego</b>
% non-Latinx White residents	+	+		+
% Black residents	+			-
% Latinx residents	+			

**Source:** Chapple, Karen, David Garcia, Eric Valchuis, and Julian Tucker. "Reaching California's ADU Potential: Progress to Date and the Need for ADU Finance." Center for Community Innovation and the Turner Center for Housing Innovation: University of California, Berkeley, August 2020. [http://turnercenter.berkeley.edu/uploads/Reaching\\_Californias\\_ADU\\_Potential\\_2020\\_1.pdf](http://turnercenter.berkeley.edu/uploads/Reaching_Californias_ADU_Potential_2020_1.pdf). Right: if the coefficient for a given independent variable (e.g., % Black residents) is greater than zero, meaning that the independent variable has a positive effect on the dependent variable, a (+) is shown. If the coefficient is negative, then a (-) is shown. If the results are statistically insignificant, then the area is shaded grey.

# ***Cost is the most significant barrier for communities of color***

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- Lack of financing options
- Initial costs for permits and surveys
- Unexpected costs during construction

# ADUs for All: Paper Recommendations

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- Build the capacity of community organizations to reach out to homeowners and provide assistance on ADUs
- Expand tailored financing resources and homeownership counseling to BIPOC and/or low- and moderate-income households
- Streamline ADU permitting and approval processes at the local level in order to reduce cost and complexity for homeowners
- Create clear state and local pathways to bring existing, unpermitted ADUs up to code

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# San Diego ADU Bonus Program

# ADU Bonus Program Guidelines

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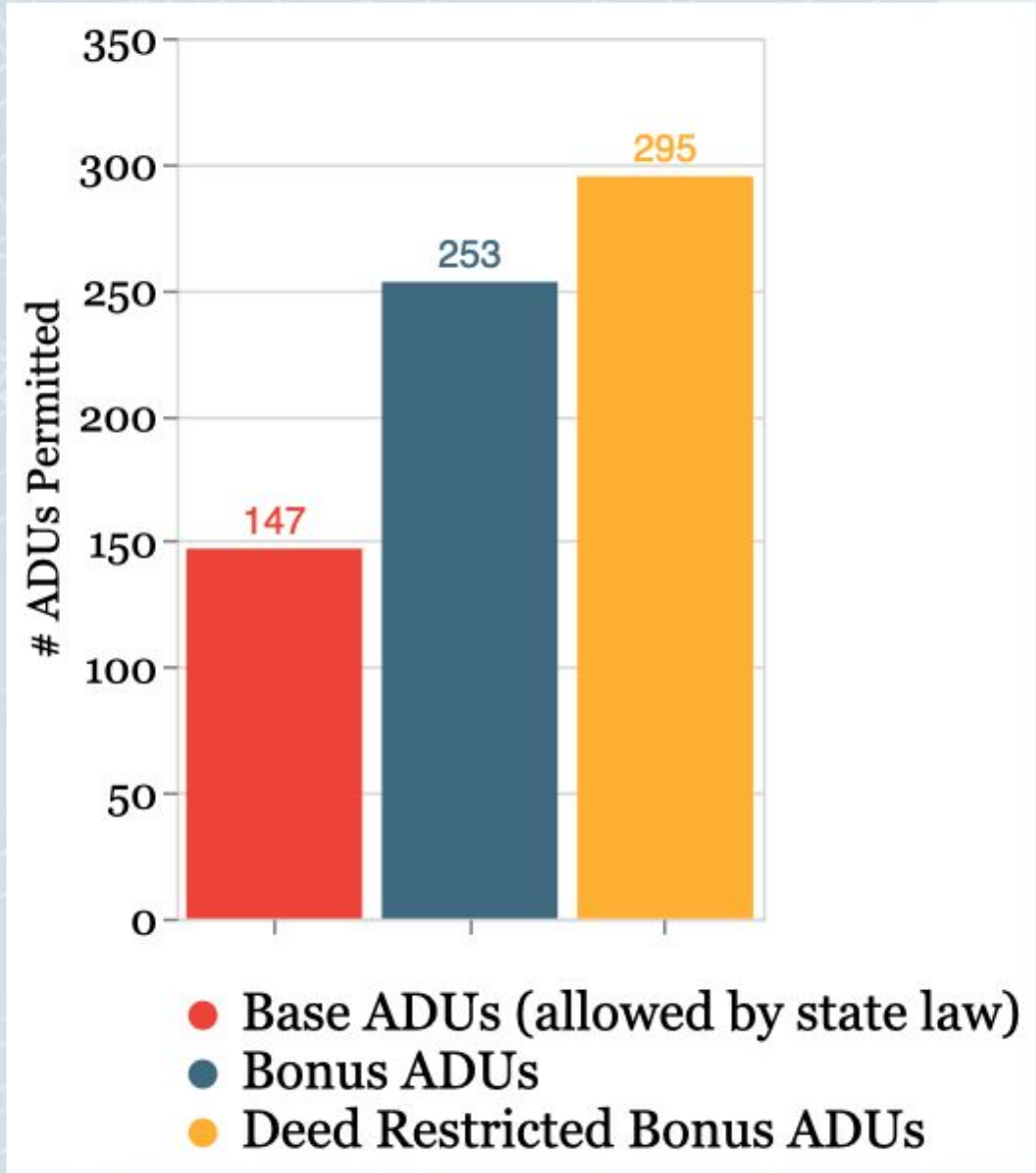
- Additional ADUs are one deed restricted unit per market rate unit built.
- Deed restricted units timelines are determined by income
  - 15 years - moderate income
  - 10 years - low income
- Affordable ADUs shall be comparable in size, bedroom mix, amenities and features to market-rate ADUs.
- In a single family zone, the affordability restriction will be on title in second lien position. In a multifamily zone, the affordability restriction will be on title in first lien position.
- Existing city land use regulations for floor area ratio, lot coverage, and height requirements influence the number of additional units that can fit on a given lot.

# The ADU Bonus Program

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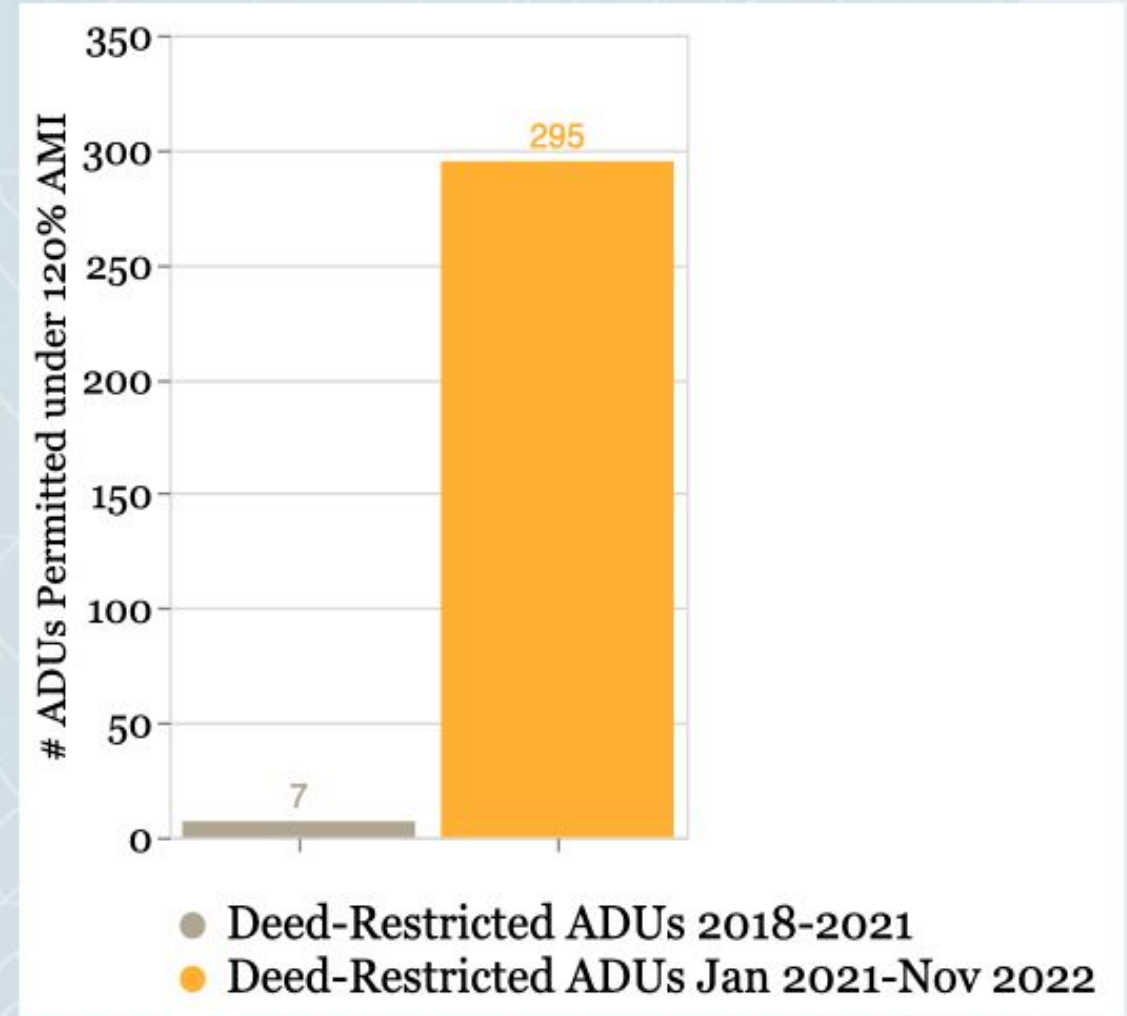
- The City of San Diego has gone above and beyond these state laws, in part to achieve compliance in its Housing Element.
- In 2020, the City received a planning target of 108,036 new housing units over the next 8 years, 64,179 of which must be affordable to moderate- or lower-income residents.
- Key elements of the program:
  - Transit Priority Areas - Unlimited ADUs
  - Outside of TPA - 2 additional ADUs per lot
- **Result:** Nearly 300 deed-restricted ADUs are being built without public subsidy.

Figure 1: Number of Deed-Restricted ADUs Permitted in San Diego, with projected ADU Bonus Program Units



# Program By The Numbers

Figure 2: Breakdown of ADU Bonus Program Projects (January 2021-November 2022)



## ***Why The ADU Bonus Program Works***

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- Maximizing the number of units allowed on a given lot
- Leaning on ADU state laws
- By-right ministerial approvals for extra units
- Lien positioning and commercial loans with existing home
- San Diego Housing Commission administers deed-restriction



# Example Projects

6 units, 2bd/2ba

9 studios + Renovated Triplex



# Collaboration Leads to Benefits

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- Collaboration between San Diego Planning staff and Building community
  - Development Services Department (DSD) and Project Manager
  - Annual codes rewrite
- Benefits for Smaller Scale Builders
  - More likely to be led by women or people of color
  - Lower cost to build missing middle housing
  - Easier financing with prospective rental income
- Lower cost to build missing middle housing
- Drawbacks
  - Limited homeownership units and family-sized units

