

The Future of Accessory Dwelling Unit (ADU) Financing

Lindsay Keare, Ford/Ross '23



Image from Flickr via Brett VA



Image from Flickr via Sightline Institute



Image from Flickr via Sightline Institute

ADU Definition

- Additional living structures on single family or multi-family lots
- Can be new structures, garage conversions, or a separate part of the primary dwelling
- Includes a kitchen and bathroom



Image from Flickr via Cole Jackson

Primary Use Cases

- Adult children
- In-laws moving in/residential elder care too expensive
- Rental income
- Increased home value
- Aging-in-place

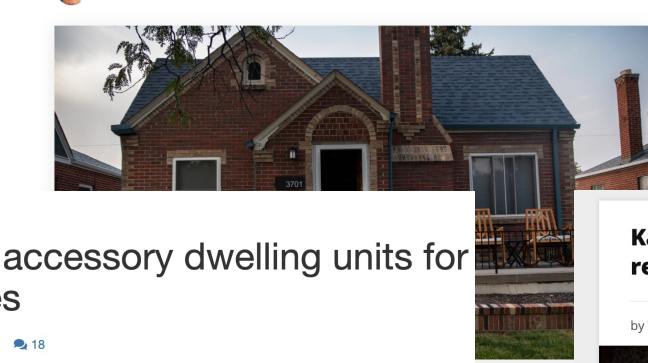
Legislative Landscape

- In the past several years, many states and municipalities have made ADUs easier to build or harder to object to

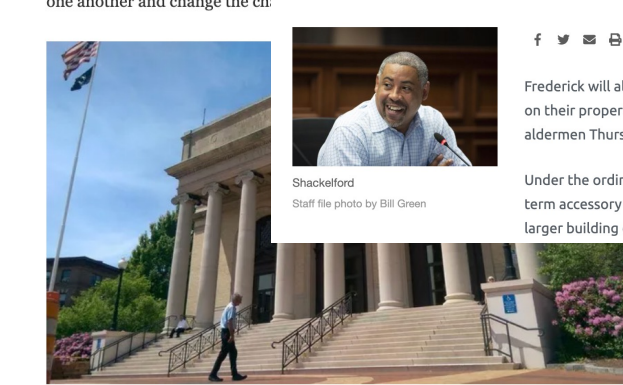
Denver's embrace of rezoning for "granny flats" is growing by neighborhood, individual initiative

After a pandemic pause, accessory dwelling units regain momentum through council efforts and recommendations of city planners

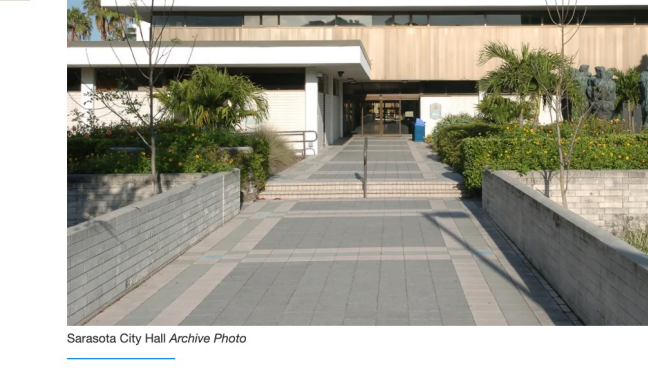
by Kevin Gleason 4:05 AM MST on March 3, 2023



Framingham considering accessory dwelling unit allowance
JEFF MALACHUK/Staff Writer
Framingham, Mass. (AP) — Framingham is considering a new ordinance that would allow residents to build accessory dwelling units on their property.



Frederick approves accessory dwelling units for residential properties
AP Photo/Robert G. Thomas
FREDERICK, Md. (AP) — Frederick City Council has approved a new ordinance that would allow residents to build accessory dwelling units on their property.



Kalispell accessory dwelling unit ordinance passes 1st reading
by Vanessa Foster Tuesday, July 20th 2021



Sarasota City Commission says yes to accessory dwelling units
Anna Snipes Sarasota Herald-Tribune
Sarasota, Fla. (AP) — The Sarasota City Commission has approved a new ordinance that would allow residents to build accessory dwelling units on their property.

ADUs by the Numbers

While cost can vary greatly by metropolitan area, typical ADUs cost between \$100-200k, meaning that the cost of financing an ADU is often prohibitive to those who could most benefit from one (see example right).

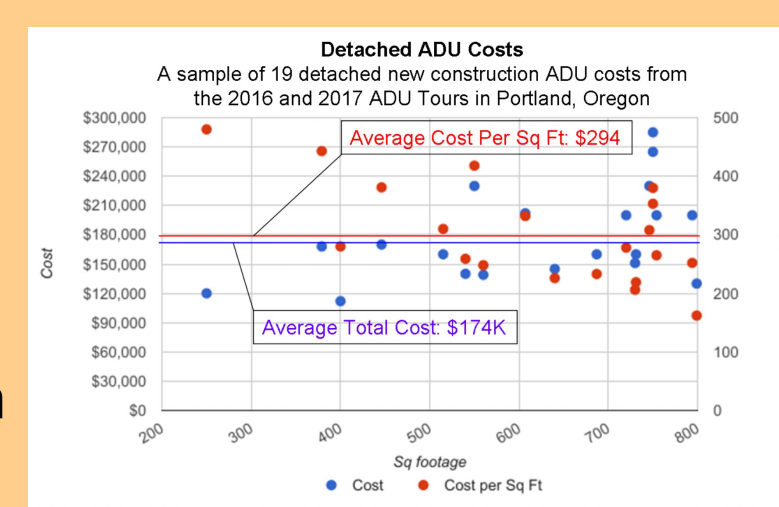
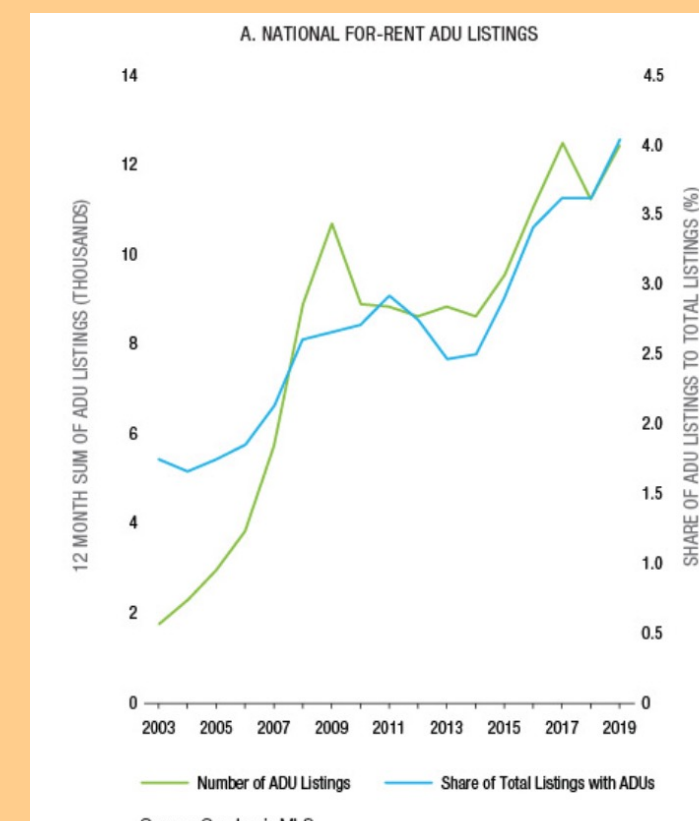


Image from buildinganadu.com

Recent liberalization of ADU laws in California led to a many-fold increase in ADU permits issued in LA – these numbers (and the units they would add to the housing stock) would likely be higher if more financing options existed.



The graph at right highlights the increase in ADU rental listing in the past two decades, demonstrating that ADUs are not only used by family members, but are also becoming a critical element of the rental housing market.



Source: CoreLogic, MLS

Benefits of ADU Asset Class

- Serves as suburban infill
- More NIMBY-proof than other housing forms
- Substitute for building in flood plains and fire prone areas
- Can utilize existing structures
- Can add to housing stock near transit centers in residential areas

Shortcomings of Current Financing Options

- Geared toward high-income homeowners
- Geared toward homeowners with higher home equity
- Loan limits are sometimes not high enough to finance an ADU
- Loan limits don't take into account rise in home value post-ADU construction or ADU rental income

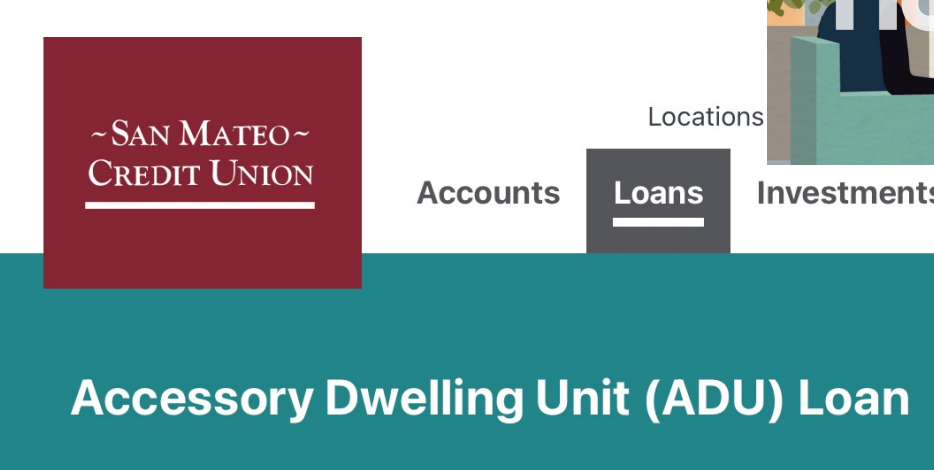
Current Efforts to Expand Financing

- ADU-specific credit union loans
- City-run programs, like LA's Backyard Home Project and the Boston Home Center ADU Loan program

BOSTON HOME CENTER ADU LOAN

The Boston Home Center will offer a loan that provides gap funding for qualified program participants.

LOAN ELIGIBILITY
To qualify for the lo



Future of ADU Financing

- Community Development Financial Institution loans, like Oregon-based Craft3's ADU loans
- Government-sponsored enterprise ADU mortgage products
- Loans tied to rent ADUs to low-income tenants

