

# Affordability of Accessory Dwelling Units

A report and recommendations for RHNA 6

Prepared by the ABAG Housing Technical Assistance Team with Funding from REAP

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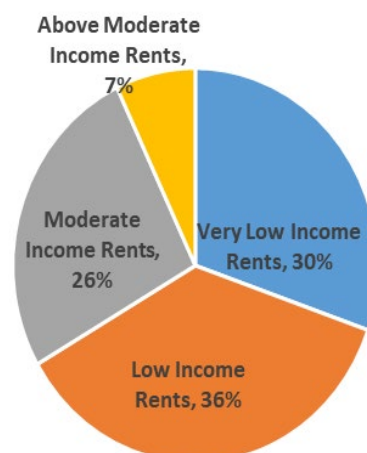
## 1. Overview

Accessory dwelling units (ADUs) are independent homes on a residential property with their own cooking and sanitation facilities and outside access. They can either be part of or attached to the primary dwelling or can be free standing/detached from the primary dwelling. Given their smaller size, typically between 400-1000 square feet (Source: Implementing the Backyard Revolution), they frequently offer a housing option that is more affordable by design. They also offer infill development opportunities in existing neighborhoods and a potential supplemental income source for homeowners. Similar are Junior ADUs (JADUs), which are even smaller living units enclosed within a single-family structure. JADUs have independent cooking facilities and outside access, however they may share sanitation facilities with the primary home. Both have become an increasingly popular housing type in recent years.

Recent California legislation has facilitated policy changes at the local level that encourage ADU development by streamlining the permitting process and shortening approval timelines. State law requires jurisdictions to allow at least one ADU and JADU per residential lot. These legislative and policy changes have increased ADU development across many California communities.

In 2020, the Center for Community Innovation at the University of California at Berkeley (UC Berkeley) undertook a comprehensive, statewide survey of ADUs, resulting in a document entitled *“Implementing the Backyard Revolution: Perspectives of California’s ADU Homeowners”*, released on April 22, 2021. This memo uses and extends that research, providing a foundation that Bay Area jurisdictions may build upon as they consider ADU affordability levels while developing their Housing Element sites inventory analyses. This report’s affordability research has been vetted by the California Department of Housing and Community Development (HCD) which has approved the recommendations as safe harbor assumptions for most jurisdictions. Figure 1 presents a summary of ADU affordability and Table 1

**Figure 1: Affordability of ADUs**



presents a recommendation for assumptions for Housing Elements. See the main body of the report for more information on methodology and assumptions.

We are recommending a conservative interpretation that assumes more moderate and above moderate ADUs than the research found. These assumptions represent a floor for most jurisdictions. If the market conditions in a particular jurisdiction warrant higher assumptions, then additional analysis can be provided to HCD for consideration.

**Table 1: Affordability Recommendations for ADUs for Housing Elements**

Income	Recommendation
Very Low Income (0-50% AMI)	30%
Low Income (51-80% AMI)	30%
Moderate Income (81-120% AMI)	30%
Above Moderate Income (120+ AMI)	10%

Notes: AMI = Area Median Income. See below for more information on assumptions.

**Affirmatively Furthering Fair Housing Concerns**

Although ADUs are often affordable, jurisdictions should be cautious about relying on them too heavily because of fair housing concerns. Many ADUs are affordable to lower and moderate income households *because* they are rented to family and friends of the homeowners. If minorities are underrepresented among homeowners, the families and potentially friends of the homeowners will be primarily white. Therefore, relying too heavily on ADUs could inadvertently exacerbate patterns of segregation and exclusion. Additionally, ADUs often do not serve large families, another important fair housing concern. Conversely, ADUs accomplish an important fair housing goal by adding new homes in parts of the city that are more likely to be areas of opportunity.

Jurisdictions with fair housing concerns may want to use more conservative assumptions based on open market rentals, excluding units made available to family and friends, as summarized below:

**Table 2. AFFH Affordability Recommendations**

Income	Recommendation
Very Low Income	5%
Low Income	30%
Moderate Income	50%
Above Moderate Income	15%

## Further Outreach and Data

Although HCD has reviewed this memo and believes the conclusions are generally accurate, it is still important for jurisdictions to ensure the information reflects local conditions. As part of ground truthing the conclusions, jurisdictions should provide opportunity for the stakeholders to comment on any assumptions, including affordability assumptions based on this memo.

## 2. UC Berkeley Survey

In the Fall and Winter of 2020, the University of California at Berkeley's Center for Community Innovation, in collaboration with Baird + Driskell Community Planning, conducted a statewide survey of homeowners who had constructed ADUs in 2018 or 2019<sup>1</sup>. Over 15,000 postcards were mailed to households directing them to an online survey. The overall response rate was approximately 5%, but Bay Area response rates were higher, up to 15% in some counties. In total, 387 ADU owners from the Bay Area completed they survey, with 245 of those units available on the long term rental market.

Key takeaways include:

- Just under 20% of Bay Area ADUs are made available at no cost to the tenant.
- An additional 16% are rented to friends or family, presumably at a discounted rent, though the survey did not ask.
- Market-rate ADUs tend to rent at prices affordable to low and moderate income households in most markets.

## 3. Methodology

ABAG further analyzed the raw data from the UC Berkeley survey, because the authors of *Implementing the Backyard Revolution* did not present their results according to income categories (e.g. very low income, low income, etc.).

This ABAG summary uses the affordability calculator published by the California Department of Housing and Community Development ([link](#)) to define maximum income levels. HCD defines an affordable unit as one where a household pays 30 percent or less of their annual pre-tax income on housing.

<sup>1</sup> A summary is available here - <http://www.aducalifornia.org/implementing-the-backyard-revolution/>

The definition of affordable rents shifts with income category (Low, Very Low, etc.), household size/unit size, and geography. The income categories are as follows: Very Low = under 50% of Area Median Income (AMI), Low Income = 50-60% AMI, Moderate = 60-110% AMI.<sup>2</sup>

Because some counties have different median incomes, the results are adjusted accordingly. 2020 AMIs were used because the survey was completed in 2020.

Additionally, ABAG made the following assumptions regarding persons per unit, which matched HCD’s recommendations:

- Studios 1 person
- 1 Bedrooms 2 people
- 2 Bedrooms 3 people
- 3 Bedrooms 4 people

See the following document for information on HCD’s assumptions.

<https://www.hcd.ca.gov/community-development/housing-element/docs/affordability-calculator-2020.xlsx>

#### 4. Summary of ADU Use

Table 2, below, shows the usage of ADUs. Because this report concerns affordability of available dwelling units, those not available for rent (short term rentals, home office and other) are excluded from further analysis.

<b>Table 3. Usage of Accessory Dwelling Units</b>						
<b>Region</b>	<b>Friend/ Family Rental</b>	<b>Family - No Rent</b>	<b>Long Term Rental (Open Market)</b>	<b>Short Term Rental</b>	<b>Home Office</b>	<b>Other</b>
East Bay	12%	19%	27%	2%	14%	27%
Peninsula	16%	18%	28%	4%	14%	20%
North Bay	13%	16%	33%	2%	8%	28%
Bay Total (9 Counties)	14%	18%	29%	3%	13%	24%
Statewide Total	16%	19%	30%	2%	12%	21%

Other includes homeowners who live in the ADU, needs repairs, empty, used as extra bedroom, etc. The response rate in San Francisco was too low for meaningful comparison so it is not presented separately, but is included in the Bay Area total. East Bay includes Alameda and Contra Costa Counties, Peninsula includes San Mateo and Santa Clara Counties, North Bay includes Marin, Sonoma and Napa Counties.

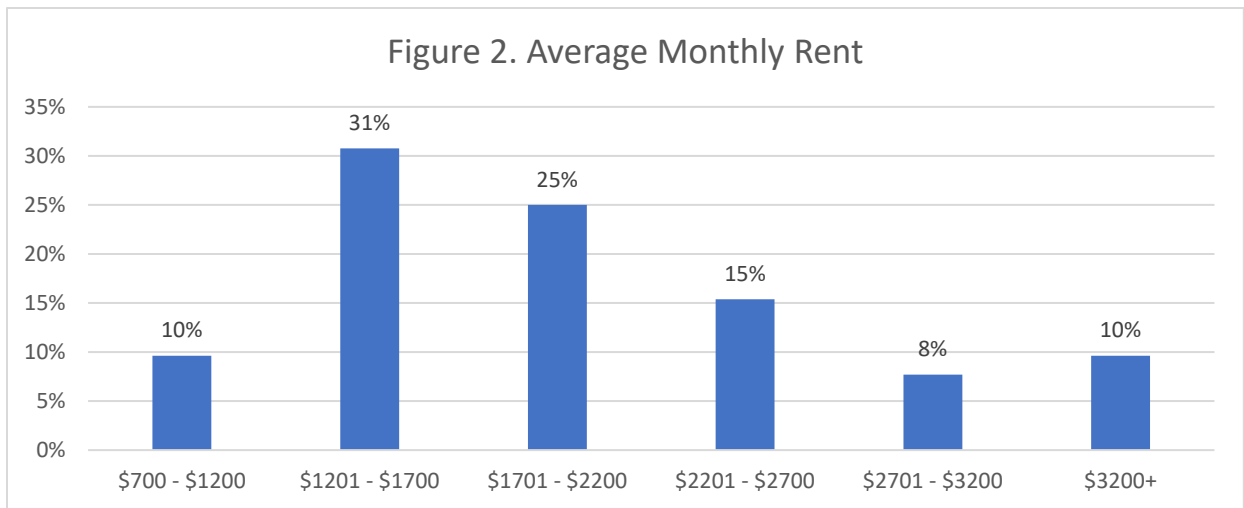
<sup>2</sup> Please note, these assumptions are more conservative than is typically used, but match HCD’s recommendations.

## 5. Affordability of ADUs

### Rental Data

The analysis found that many ADUs are made available to family members, often at no rent. The survey did not query the rent of family/friend rentals, only asking if rent was charged.

Of those ADUs available on the open market (not rented to family or friends), most charged rents between \$1,200 and \$2,200, as shown in in Figure 2.



### Assigning ADUs to Income Categories

This report’s affordability analysis has two parts:

1. Market Rate ADUs: Those not rented to friends or family; and
2. Discount Rate ADUs: Those rented to family or friends for discounted or no rent

#### *Market Rate ADUs*

Market rate ADUs were usually affordable to low or moderate income households, based on the methodology identified above. Depending on the part of the region, the ABAG analysis found:

- Very Low Income: 0-7% of market rate units were affordable to very low income
- Low Income: 15-44% of market rate units were affordable to low income
- Moderate income: 40-70% of market rate units were affordable to moderate income households.

- Above moderate: 9-15% of market rate units were affordable to above moderate income households.

The data is summarized in the chart below.

**Table 4. Affordability of Market Rate Units**

	Very Low	Low	Moderate	Above Moderate
East Bay	0%	15%	70%	15%
Peninsula	6%	31%	48%	15%
North Bay	7%	44%	40%	9%

This chart only shows ADUs rented on the open market. The response rate in San Francisco was too low for meaningful comparison so it is excluded from this analysis.

*Discount Rate ADUs*

Based on previous HCD precedent, this analysis uses actual rents to determine affordability. The occupant’s relationship to the owner is secondary, the relevant factor is the rent charged. (Please note the potential fair housing concerns that can arise from this approach). Specifically, this analysis assigns units made available to family or friends available at no rent as very low income. Additionally, this analysis assigns units *rented* to family or friends as low income<sup>3</sup>.

*Combined Market and Affordable ADUs*

Table 4, below, combines the information for discounted and market rate ADUs.

**Table 5. Market Rate and Discounted ADUs**

Region	Friend/ Family Rental	Family - No Rent	Very Low Income Rents	Low Income Rents	Moderate Income Rents	Above Mod. Income Rents
East Bay	20%	33%	0%	7%	33%	7%
Peninsula	24%	28%	3%	15%	23%	7%
North Bay	20%	25%	4%	24%	22%	5%
Bay Total (9 Counties)	22%	28%	2%	14%	26%	7%
State-Wide Total	24%	28%	1%	9%	23%	14%

<sup>3</sup> The survey did not ask the rent of units that were rented to family members.

The response rate in San Francisco was too low for meaningful comparison so it is not presented separately, but is included in the Bay Area total.

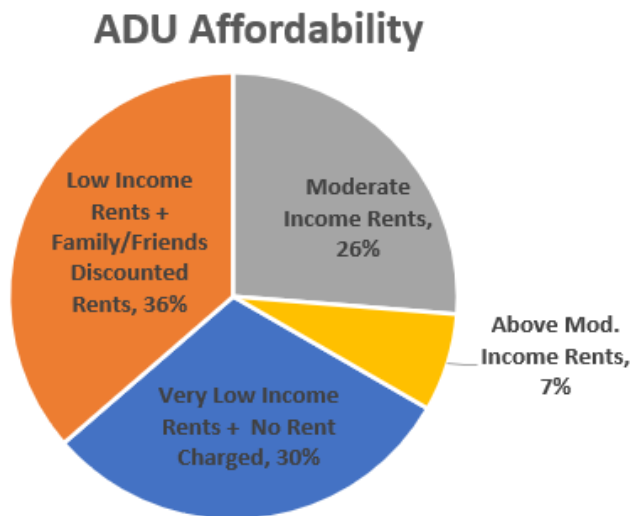
**Table 6. Affordability Including Family/Friends Rentals**

Region	Very Low Income Rents	Low Income Rents	Moderate Income Rents	Above Mod. Income Rents
East Bay	33%	27%	33%	7%
Peninsula	31%	39%	23%	7%
North Bay	29%	44%	22%	5%
Bay Total (9 Counties)	30%	36%	26%	7%
Statewide Total	29%	33%	23%	14%

Assigning the family/friends ADUs to income categories produces the following results

This chart combines ADUs made available for free with Very Low Income and ADUs available for a discount with the Low Income category. The response rate in San Francisco was too low for meaningful comparison so it is not presented as its own line, but is included in the SF Bay Area Total.

Figure 2 shows affordability levels for the region. It is a graphical representation of the Bay Area as a whole.



**Figure 2:** Results shown for 9-county Bay Area. “Very low” rents include units available to family or friends at no cost. “Low” rents include discounted family rentals.

## 6. Additional Research and Considerations

In general, ADUs are affordable for several reasons:

- Many units are available for no or low cost rent to family members or friends. Additionally, a smaller number of owners intentionally rent their ADUs below market because they believe affordable housing is important. Source: Implementing the Backyard Revolution
- ADUs tend to be fewer square feet than units in apartment buildings after controlling for bedroom size, which results in lower prices. Source: Wegmann & Chapple (2012)
- ADU owners tend to prefer their choice of tenant versus maximizing rent. Additionally, they will often not significantly raise rents once they have a tenant they like. Source: Baird + Driskell homeowner focus groups.
- ADU owners often do not know the value of their unit so they may underprice it unintentionally. Source: Baird + Driskell homeowner focus groups.

A number of other studies have found that many ADUs are used as housing for friends or family for free or very low cost, consistent with the UC Berkeley Report. A selection of these are outlined below:

- A 2012 UC Berkeley publication entitled “Scaling up Secondary Unit Production in the East Bay” indicates that approximately half of all secondary dwelling units are available for no rent.<sup>4</sup>
- A 2018 report entitled “Jumpstarting the market for ADUs” surveyed ADUs in Portland, Seattle, and Vancouver and found that approximately 17% of ADUs were occupied by a friend or family member for free.<sup>5</sup>
- A 2014 analysis entitled “Accessory dwelling units in Portland, Oregon: evaluation and interpretation of a survey of ADU owners” found that “18% of Portland ADUs are occupied for free or extremely low cost.”<sup>6</sup>

## 7. Notes

This report was funded by the Regional Early Action Grant, which the state legislature provided to ABAG and other council of governments. Analysis was conducted by Baird + Driskell Community Planning. Please contact Josh Abrams, [abrams@bdplanning.com](mailto:abrams@bdplanning.com) for more information.

<sup>4</sup>[https://communityinnovation.berkeley.edu/sites/default/files/scaling\\_up\\_secondary\\_unit\\_production\\_in\\_the\\_east\\_bay.pdf?width=1200&height=800&iframe=true](https://communityinnovation.berkeley.edu/sites/default/files/scaling_up_secondary_unit_production_in_the_east_bay.pdf?width=1200&height=800&iframe=true)

<sup>5</sup> [http://ternercenter.berkeley.edu/uploads/ADU\\_report\\_4.18.pdf](http://ternercenter.berkeley.edu/uploads/ADU_report_4.18.pdf)

<sup>6</sup> <https://accessorydwellings.files.wordpress.com/2014/06/adusurveyinterpret.pdf>