

Menu of Ideas: Incentives to invest in the development of affordable ADUs

The goal of this document is to provide concrete ideas for local jurisdictions regarding how they can invest in the development of affordable ADUs. Some jurisdictions may be overwhelmed by the potential cost of investing in ADU development, and this menu of options illustrates a wide range of investments jurisdictions can make – some without having a large impact on budget, staff time or other resources.

The menu includes options ranging from an investment of as little as \$150 per ADU to as much as \$50,000 per ADU or more, with those funds going **directly** to the homeowner to incentivize ADU development. Each incentivization can be tied to an affordability restriction on the ADU that *matches* the level of incentive. Best practices for such affordability restrictions are discussed below.

The document covers the following:

1. Best practices for affordability restrictions on ADUs
2. Menu of incentives for development of affordable ADUs

Best practices for affordability restrictions on ADUs

The menu of ideas below are all developed with a few crucial best practices in mind based on lessons learned from prior ADU programs developed in CA. Those overarching best practices are:

- Avoid long term affordability restrictions – Homeowners do not want to make long-term, particularly multi-decade, commitments
- Offer an out for homeowners – Ensure they can pay back the loan and exit the system when desired
- Match the incentives to the requirements – If a jurisdiction wants to offer more restrictive conditions (e.g., renting to a Section 8 tenant, etc.), the incentives need to be large
- Reduce uncertainty in the process for the homeowner -- The more fixed costs and clarity in the permitting process, the better

It's crucial to also consider equity when creating an affordable ADU program, especially if you have a goal of Affirmatively Furthering Fair Housing via ADU development. Items to keep in mind:

If your goal is to support BIPOC and/or low-income tenants via ADUs:

- Estimate accurately and with precision for your specific jurisdiction the number of ADUs that can reasonably be expected to accommodate Very Low and Low Income households, *especially* without your jurisdiction implementing any incentives with concurrent affordability restrictions such as those listed in this document. For guidelines on affordability and ADUs [see here](#), but

note that you should tailor your numbers with information gathered from your jurisdiction specifically as well.

- Allow family members (or at least low-income family members) to live in an ADU built through your program. Limiting tenants to non-family members excludes some BIPOC communities that value multi-generational living for cultural and/or financial reasons.

If your goal is to support BIPOC and/or lower-income homeowners via ADUs:

- Grants are better than loans. Debt averseness is a big barrier for BIPOC homeowners to benefit from ADUs due to discriminatory lending practices they've either witnessed or suffered from in the past. White and affluent homeowners have conversely been able to literally leverage debt to access more wealth. For this reason, grants are better than loans for many BIPOC homeowners to build ADUs. At the very least, any ADU loan program should have clear upfront marketing that includes financial education to build trust in the program.
- Allow homeowners to use an ITIN number or a Social Security number to access ADU financing. This ensures you don't exclude undocumented homeowners from your program.
- Ensure your program has bilingual capacity so that language access is prioritized for non-English speaking homeowners.
- Partner with grassroots and community based organizations with specifically targeted marketing to BIPOC subgroups in your jurisdiction to ensure that trusted organizations in these communities can help you spread the word about your ADU program.

If your goal is to support community members with disabilities via ADUs:

- Include the option for an additional grant or other subsidy to build an accessible ADU.
- Include an incentive (e.g., financial or expedited permitting) for all ADUs in your jurisdiction to be built to be accessible or at least with principles of Universal Design.

For further background, we spoke with a prefab company recently that shared these thoughts, which resonate very much with what we've seen statewide:

- The simpler the better when it comes to a successful affordable ADU program. All of these conditions (must be rented to low income tenant, homeowner must be 80% of median income, etc.) are discouraging and confusing for homeowners, and that confusion prevents qualified homeowners from even applying to use it. So simpler and straightforward will generate more interest, and in addition more qualified usages.
- Grants have seen much more success than loans. The model is the recent changes to the CalHFA ADU grant. First version, almost no interest nor applications. Second version, everyone is sprinting and scrambling to get access to it, and people who couldn't previously build an ADU now can.

- \$10k not only covers significant up front hard costs, but will also move the needle much more for customers than \$5k.

Affordability requirement options to mix and match with the menu of incentive options

- Requirement to rent ADU to Sec 8 tenant
- Requirement to rent ADU to low-income tenant at no more than 30% of tenant's income
- Requirement that homeowner be lower income

Characteristics to consider:

- Limit requirement timeline to 5 - 8 years (HCD may prefer 8 years to match the Housing Element cycle)
- Option to opt out of requirement by paying off loan or paying back grant
- Match the requirement to the incentive appropriately

With this in mind, below are some ideas we have (which may be mixed and matched).

Menu of Affordable ADU Incentives:

Incentive 1: Cover costs ancillary to the Redwood Credit Union ADU loan product (~\$3,500 - \$4,500 per ADU)

Cover ancillary costs for the homeowner associated with [Redwood Credit Union's ADU construction loan product](#), which is designed to help homeowners who don't have sufficient income or equity in their existing home finance building an ADU. These costs are normally paid by the homeowner directly to RCU. These ancillary costs for the loan range from about \$3,500 - \$4,500 depending on the project. This total includes an origination/processing fee (\$120 fixed fee), lender fee paid to 3rd party (includes tax service contract & flood zone check)(\$60), title insurance (~\$500), notary fees (~\$150-200), government recording fee (~\$400), property appraisal (~\$1,000), RCU construction management & 3rd party inspection fees (\$1,500 fixed fee).

Incentive 2: Fee waiver for use of [Napa Sonoma "pre-reviewed" ADU plan](#) (prefab or site built) (~\$5,000 - \$47,000 per ADU)

The fee waiver amount can vary but could include coverage of: Sewer district connection fees (can be ~\$5,000-\$12,000); impact fees (varies widely but could be up to ~\$30,000); school district fees (varies but can be up to ~\$5,000). This has the added benefit of incentivizing homeowners to use

"pre-reviewed" plans which will also save time and money for the jurisdiction itself (reduced staff time spent on ADU permit processing).

Incentive 3: Cover license fee for use of [Napa Sonoma "pre-reviewed" ADU plan](#) (prefab or site built) (~\$500 - \$2,000 per ADU)

This has the added benefit of incentivizing local homeowners to use "pre-reviewed" ADU plans which then saves the jurisdiction staff time and resources during the plan check process. The license fee is paid directly from the homeowner to the designer, architect or prefab company that created the plan so this can be a reimbursement from the jurisdiction to the homeowner.

Incentive 4: Free ADU Feasibility Consult (\$150 - \$500 per ADU)

At the moment, the Napa Sonoma ADU Center provides free [ADU feasibility consults](#) but soon we will be beginning to charge homeowners a flat fee of around \$150 to cover partial costs of the consults. The consults themselves cost our nonprofit around \$500 and costs can be higher as well depending on the consult. The jurisdiction could reimburse the fee paid by the homeowner directly to the homeowner.

Incentive 5: Capped ADU fees (~\$0 - \$42,000 per ADU)

One of the deterrents for homeowners to build ADUs is that it is often impossible for them to get concrete information from a jurisdiction upfront about the likely fees they'll have to pay for the ADU. If the jurisdiction could guarantee that ADU fees would be capped at ~\$5,000 and any additional fees would be waived or subsidized, that would be a significant help to homeowners by reducing uncertainty and risk in the ADU process.

Incentive 6: Grants to cover upfront costs of a prefab ADU (~\$1,000 - \$20,000 per ADU) (note that some prefab options may not fit on smaller city parcels, sloped properties, or properties with access barriers)

One of the key barriers for homeowners to build ADUs is the level of risk and uncertainty in terms of cost, timeline, complexity, and unforeseen obstacles that can arise during site built construction. As prefab ADU companies take off, we're seeing prefab options as a key way to overcome these barriers and thereby foment ADU development/increase innovation in construction practices. One of the best elements of prefab is that most companies offer a turnkey solution ("concierge service") that takes the time, cost and energy of construction management and getting through the permitting process off the shoulders of the homeowner. If the jurisdiction covered some of the upfront costs of prefab ADUs it could help incentivize homeowners to build ADUs:

- \$1,000 refundable charge for an estimate and proposal from the prefab company
- \$9,000 service charge for the prefab company to manage design and permit submittal

- \$5,000 - \$10,000 possible additional costs to submit permit e.g., soils report, survey, foundation engineering costs
- And then permit costs which can range up to \$47,000

I'll just note of course that prefab ADUs won't work on every lot -- e.g., they don't work well if there are challenges with site access or a slope. They also won't work on smaller lots -- more common in city limits where we really want to increase density from a climate resiliency standpoint -- because on smaller city lots we really should be building up, not out (e.g., above garage, 2 story units, etc.) For this reason, I think it makes most sense to apply financial assistance to [any pre-reviewed plans in the Napa Sonoma ADU Standard ADU Plans Program](#) since this includes both prefab and pre-reviewed site built plans.

Incentive 7: ADU Rescue Program & fee waivers or grants for unpermitted ADUs (~\$500 - \$80,000 per ADU)

As we know there are a number of unpermitted ADUs that need to be brought up to code in order to be permitted. Sonoma County recently instituted a new "ADU Rescue Program" which allows homeowners to submit a request for a 5 year stay of enforcement on their unpermitted unit (based on the Jan 2020 state law that states a homeowner can be granted a 5 year stay of enforcement on an unpermitted ADU if the jurisdiction determines there is no health & safety issue with the unit). Sonoma County's program allows the homeowner to hire a licensed professional (architect, contractor or engineer) to conduct a 3rd party assessment of the unit for habitability and submit a form to the county requesting the state of enforcement. Other jurisdictions could institute a similar program, with the added benefit of (1) reimbursing the cost of the 3rd party professional to conduct the habitability assessment & submit the required form; and/or (2) covering the costs of the fees to get the ADU permitted (~\$5,000 - \$47,000); and/or (3) covering the cost of the architect/designer to draw up plans and submit the ADU Permit Application required to get the unit permitted (~\$5,000 - \$20,000). Note that none of these options includes the cost of any other professionals required to do the work to actually bring the unit up to code, which can include plumbers, electricians, GC, structural engineers, etc. (I bring this up to note the extremely high cost of getting an ADU permitted for some projects.)

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