

## ADU Memo 9-19-18

### Distinguishing Additional Living Quarters from ADUs:

In our Multiple Listing Service (MLS), there is a check box for “additional living quarters” but not for ADUs. The “additional living quarters” list from the MLS includes both 1) homes that have a true detached or attached ADU and 2) homes that don't have a true ADU but simply have an extra bedroom, bathroom, and some type of kitchenette/wet bar/etc on a different level of the home from the main living room, kitchen, and bedrooms. This 2<sup>nd</sup> type of home was not included in the ADU data below. In wading through the MLS data, I used the same definition of ADU as found in Recode.

### ADU Definition

*As found in Recode 2<sup>nd</sup> Draft:* An additional dwelling unit located on the same lot with and is incidental to, a principal single-family dwelling. An accessory dwelling unit may be attached or detached and must include separate cooking and sanitary facilities, with its own means of ingress and egress.

### MLS Data

*Homes sold with an ADU are rare in Knoxville:* According to our MLS data, there have been 30 homes sold with an attached or detached ADU since 1-1-2016 within the city limits of Knoxville (another 35 sold outside city limits in Knox County).

*Homes sold with an ADU are at higher price points:* The average sales price of homes with an ADU was \$427K, well above the citywide average sales price in the \$180K range. Only 2 sales appear to be distressed sales. The main causes for this higher price point was due to the location, size of the homes, and lot size, not to the over-valuation of homes with an ADU. However, the sold price-per-square foot of homes with an ADU was \$111, while it was only \$106 for those without an ADU. This +\$5 per-square-foot valuation appears to be due to location of some ADUs in high-price-point, desirable neighborhoods (namely Sequoyah Hills where 7 of the sales occurred and the average sold price-per-square-foot was in the \$200 range).

*Homes sold with an ADU are larger:* The average size of a home with an ADU is 3,079 square feet, including the ADU. Homes sold without an ADU averaged 1,640 square feet (only 4 homes with ADUs were under this average).

*Homes sold with an ADU are on larger lots:* Half of the homes sold with an ADU are on larger-than-average lots of 1/2 acre to 1 acre in size (This is consistent with the zoning of the neighborhoods where these homes are located; all 7 sales in Sequoyah Hills were on lots over 1/2 acre.).

*Homes sold with an ADU are older:* The average year built for a home with an ADU is 1935, with only two sales of homes built after 1960 (This is consistent with the time period in which ADUs were permitted by the city.). The average year built for a home without an ADU is 1971.

*Homes sold with an ADU stayed on the market longer (sort of):* Homes sold with an ADU averaged 92 days on market, while homes without an ADU closed in an average of under 50 days. However, just over half of the homes with an ADU did close in under 50 days. Another 3 of these listings took over year to close, skewing the average days on market upward (Of these 3 listings, 2 were severely outdated and the other was over 8,000 square feet, suggesting it was a major condition of the house which led to longer days on market.). Also, the older age of the homes with ADUs tends to lead to longer average days on market, a trend we find on the MLS as a whole.

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### Other Municipality Data

*ADUs are being allowed by right in more zones and municipalities across the U.S.:* In researching ADU regulations and ordinances, I reached out to Governmental Affairs Directors of REALTOR Associations across the country. In sum, what I found was a common narrative: multiple municipalities of varying size and location implementing ordinances in recent years to allow ADUs to be built in residential zones in general, or in a greater number of residential zones than currently allowed, and/or easing regulations and restrictions in current ADU ordinances.

*Municipalities are permitting ADUs as part of a multi-pronged approach to increase the availability of affordable housing:* In speaking with other Govt Affairs Directors and reading articles associated with new/amended ADU ordinances, the main stated purpose of these new/amended ADU ordinances is to provide another mechanism, another opportunity, to add affordable inventory to the housing market. By affordable, I don't mean government subsidized, but at a cost that a larger segment of the population can afford.

Stated policy considerations included providing for multi-generational housing, affordable rental units for year-round or seasonal workers (depending on the locality), and adding inventory to meet the housing demand vs supply available.

#### *Municipalities regulate ADUs similarly to Recode:*

- Maximum height: a wide range of 15-30 feet was found, but in no cases taller than the principal structure
- Maximum number of bedrooms allowed: if a maximum was listed, it was 2 bedrooms,
- Maximum size of the ADU in relation to the SFR on the property: a wide range of 25%-50% of the footprint of the principal structure or anywhere from 750-1200 square feet allowed depending on the lot size,
- Minimum setbacks: this varied widely depending on the city,
- Minimum lot size required to permit an ADU: this varied depending on how maximum size of the ADU was regulated, in some cases there was no minimum, in others it was listed as a 'a standard lot' size,
- Parking required: this varied from no parking required to 1 off-street space per bedroom required; some limited the parking allowed to only 1 off-street space per bedroom,
- Design standards: all incorporated design standards so as to match and not interfere with the principal structure.
- Other popular regulations: maximum 1 ADU per residential lot; ADU only allowed on a lot with a SFR (not allowed on lots with duplexes).

#### *Municipalities researched with new/amended ADU ordinances since 2010 (partial list):*

- Nashville, TN – 2014 amendments to allow ADUs in zones that allow duplexes.
- Chattanooga, TN – currently looking at expanding ADUs by right in more zones than currently allowed
- Charlotte, NC – 2012 added ADUs by right to multiple residential zones.
- St. Petersburg, FL – recently passed an ordinance encouraging ADUs, didn't see an uptick in ADU permit requests, so now considering expanding the ordinance to increase the number of properties allowable for ADUs to help the affordable inventory crisis in a built-out county.

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- Cape Cod, MA – coalition working to pass ADU ordinances in every town in the area to provide more inventory of affordable housing for tourist industry workers (3 towns passed ordinances in past 2 years).
- Austin TX – 2015 eased restrictions in the current ADU ordinance to allow for ADUs on smaller lot sizes, eliminated some ADU driveway and parking requirements near mass transit.
- Portland, OR – all allowing ADUs by right in more residential zones with appropriate restrictions on size, height, etc, in order combat the shortage of affordable housing.
- Vancouver, WA – allowed ADUs in all residential zones and without owner-occupant requirement for principal structure/SFR.

### **Practical considerations with ADUs:**

*ADU construction is a significant financial consideration.* Interviews with builders and contractors, and other data found show a wide range of construction costs for an ADU that could be built within Recode guidelines, making it difficult to state an average cost. Most of the cost variation depends on total square footage and cosmetic finishes chosen. Common costs include ground surveys, architectural plans, permitting, basic construction, connection to utilities (power, water, sewer), inspections, and so on. Total cost for a smaller ADU can exceed \$60,000 and reach above \$120,000 for a larger ADU, as allowed in Recode. Carrying costs such as increases in utility use, maintenance, home owner's insurance, and higher property tax valuations are also significant financial considerations.

*ADUs are generally built by long-term, owner-occupant homeowners.* Again, interviews with builders and contractors, and also mortgage loan originators, show that a majority of their customers who seek to build an ADU on their property are owner-occupants who want to use the ADU for their personal use – pool house, guest house, entertainment space, etc. It was also suggested that their customers plan to live in the principal residence well into the future and don't plan to sell their property anytime soon; they are making the considerable financial investment of constructing an ADU as a long-term investment in their property. Mortgage loan originators also stated that it is rare for them to have customers request a HELOC or other financing for an ADU, mirroring MLS data that homes with ADUs are rare in the Knoxville/Knox County area.

### **San Francisco, California:**

*ADUs are only 1 piece of the housing affordability pie.* San Francisco, where housing prices are some of the highest in the country, recently lowered impact fees on constructing ADUs, resulting in a dramatic increase in permit applications. This extreme uptick is unusual, and hasn't been documented outside large California metros. California also has a long-time, well-documented housing affordability and availability issue, and very restrictive and expensive single- and multi-family regulations and permitting processes.

All of these factors led to ADUs being basically the only option left for constructing affordable housing units in these metros; California municipalities made it so difficult and financially unfeasible to construct affordable homes/rentals and multi-family structures, that property owners' backyards became the only place left to construct smaller, more affordable housing units. So long as Knoxville, and its surrounding municipalities, keep reasonable housing regulations and permitting processes in place, and continue to allow for other affordable single- and multi-family housing construction, ADU construction will continue to be a small percentage of construction permits, as it is in most other municipalities.

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### **Recode and ADUs**

*The overall regulations and restrictions placed on ADUs in Recode are within the range found in other municipalities.* Limitations on location on the lot, size/square feet, location, height, design standards, 1 ADU per lot, setbacks, and so on, are comprehensive and reflect the full list of ADU regulations found in other municipalities.

*ADUs are a small part of overall neighborhood health and stability.* During the Recode process, concerns have been voiced by some Knoxville residents that neighborhood character and stability will be negatively affected by allowing ADUs by right in all residential zones. Studies and data on neighborhood health and home value stability all include a long list of factors – market factors like supply/demand, location, amenities, schools, infrastructure, public investment, crime rates, and on and on – that all play a role in effecting the upward or downward trend of an area. I found no data suggesting that a lack of or proliferation of ADUs alone positively or negatively affect neighborhoods and housing values, even in the California metro examples.

As stated in the MLS Data section, and as a local neighborhood example, Sequoyah Hills has the most number of ADUs sold recently and currently for sale, according to our MLS data, and has not suffered nor achieved gains due to this. Rather, larger market forces and neighborhood-specific amenities and location have played a greater role in the desirability and health of the neighborhood and property values within it.

I am happy to provide more data and testimonials on ADUs as requested. Thank you for the opportunity to be an active part of the Recode process.

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