

Attachment D – Ascent Memorandum



March 24, 2025

To: Enrique Flores, Land Use/Environmental Planner, County of San Diego

From: Matt Gelbman, Senior Urban Planner, Ascent

Subject: Research on Impacts of Separate Sale or Conveyance of Accessory Dwelling Units

Introduction

Accessory Dwelling Units (ADUs) have emerged as a vital tool for increasing the supply of housing, promoting housing affordability, and fostering diverse housing options. Traditionally, ADUs are rented or occupied by family members while remaining under the ownership of the primary dwelling's property owner.

Through the SANDAG Housing Acceleration Program (HAP), the County of San Diego requested research on the economic impact of separately selling ADUs as permitted by Assembly Bill (AB) 1033 (Government Code Section 65852.2). This memo summarizes research on how the separate sale of ADUs may affect housing affordability, rental supply, homeownership opportunities, and ADU construction. By analyzing existing studies and case study examples, this memo presents insights into potential benefits, challenges, and key considerations for developing an ADU ownership program consistent with AB 1033.

Overview

The following components are included as part of this summary of research related to AB 1033:

- Introduction
- Overview
- Summary of AB 1033
- Key Findings
- Overview of Case Studies
- Research Summary
- References

Summary of AB 1033

AB 1033 (Government Code Sections 65852.2) allows local agencies to adopt an ordinance to permit the separate sale or conveyance of ADUs as condominiums (SANDAG 2024). Under this legislation, ADUs can be legally sold independently from the primary dwelling unit, creating a new category of homeownership opportunities. This policy aims to expand housing options while maintaining local control over implementation.

Key Findings

The following represent key findings related to the separate sale or conveyance of ADUs.

- **Finding #1: ADU condos are not likely to reduce the supply of rental units and may provide another source of affordable housing.** ADU condos expand the overall supply of housing, which research has shown helps stabilize housing costs over time. Because ADU condos serve a different market segment than single-family homes, they primarily expand the availability of smaller, more affordable housing options. By increasing housing choices, ADU condos help maintain affordability within the ADU market without negatively impacting broader housing market stability.
- **Finding #2: ADU condos create new, more affordable homeownership opportunities.** ADU condos provide accessible homeownership options for first-time buyers and individuals who may not be able to afford a traditional single-family home. Beyond expanding overall housing supply, ADU condos can offer a unique and inclusive path to homeownership, particularly in areas where the options for affordable housing units are limited.
- **Finding #3: ADU condos reduce financial barriers to further ADU construction.** Current ADU financing options are limited because rental income from ADUs is often not fully considered in mortgage qualification calculations. ADU condos, by being legally separate properties, can qualify for conventional mortgage loans with more favorable interest rates and terms than traditional ADU construction loans.

Overview of Case Studies

To better understand the impacts of ADU ownership programs, case studies from Seattle, Washington, and Austin, Texas were examined. These examples provide insights into how the separate sale of ADUs has affected the housing market and findings from these case studies directly inform the research summary that follows.

- **Seattle, Washington.** Studies in Seattle show that legalizing ADU condos has not led to ADU rents increasing higher than conventional housing. Most ADUs are in higher income areas, expanding homeownership opportunities in these neighborhoods.
- **Austin, Texas.** In Austin, up to 40% of ADU condos continue to function as rental housing, with rents comparable to non-condo ADUs. The program has helped seniors and disabled persons remain in their neighborhoods by offering more suitable housing options.

Research Summary

This section summarizes research on the impacts of the separate sale or conveyance of ADUs.

1. ADU condos are not likely to reduce the supply of rental units and may provide another source of affordable housing.

Lowering barriers to ADU development is a proven and established strategy for addressing housing unaffordability by increasing housing supply. ADU condos build upon this approach by creating an additional path to homeownership while maintaining rental affordability.

- As the national leader in ADU production, California’s ADU has proven to be an effective legal mechanism to produce more housing by reducing regulations and barriers that would otherwise make ADUs financially prohibitive (Elmendorf and Nall 2024).

ADU Condos Help Maintain Affordable Rents

- If expanding the supply of ADU condos improves the affordability of ADUs in an area, rental prices are expected to become more affordable as well. There is a relationship between costs to own and costs to rent: “Where owning is expensive, so is renting.” (ULI 2024).
- A greater mix of housing options generally results in lower rent growth, as new units help alleviate demand pressure on existing housing (Li 2019).
- In Seattle, legalizing ADU condos has not caused ADU rents to rise higher than conventional housing options. Although ADUs increase parcel value by 15-20%, ADUs still rent for less than conventional housing options, with a significant portion of ADUs renting for less than \$1,000 per month (University of Washington 2020; City of Seattle 2024a).
- Austin’s ADU condo program demonstrates that ADU condos can continue serving as rentals, and at prices comparable to similar rentals.
 - About 60% of Austin ADU condos are claimed as primary residences, indicating they are owner-occupied (McHugh 2022).
 - Up to 40% may be rented out by the unit owner. Owners may not be aware of property tax reductions for a property that is claimed as a primary residence (homestead exemption) (McHugh 2022).
 - Real estate investors tended to rent out purchased ADUs at similar levels to owner-occupiers at vacancy, all else equal (Davis 2023).

ADU Condos Would Not Have a Negative Impact on Single-Family Home Values

- Since ADUs are not direct substitutes for single-family homes, their separate sale is unlikely to reduce single-family home values. Instead, they primarily impact the affordability of other ADUs (Li 2019).

- ADU condos cater to the “missing middle” housing market which typically serves younger, single-person, or smaller households, looking for affordable options (Missing Middle Housing, n.d.).
- In Seattle, the median sales price of an ADU condo is 64% of the principal dwelling unit and 47% of new detached homes (City of Seattle 2024b).
- Research indicates that a 10% increase in condo supply leads to an approximate 1% decrease in rental and sales prices within a 500 ft buffer, though this primarily affects the sales prices for comparable housing types (Li 2019).

Non-Profit and Homeowner ADU Development Supports Affordability

- Financial modeling in the Austin area estimates that ADUs built by nonprofits and homeowners sell for 5% less than those developed by for-profit builders due to simpler finishes and lower overhead costs (McHugh 2022).
- Providing technical support and streamlining regulations could encourage more non-profit and homeowner-led ADU development, mitigating unwanted increases in land value from for-profit developers (McHugh 2022).

2. ADU condos create new, more affordable homeownership opportunities.

Increasing the overall supply of homes is a key strategy to expand access to homeownership. In particular, removing restrictions on infill homeownership development lowers the barriers for first time homeowners by catalyzing the creation of more entry-level housing in neighborhoods that otherwise do not have such ownership opportunities (Turner Center 2023).

ADU Condos Offer More Affordable Entry Points into Homeownership

- In Seattle and Portland, 40-50% of ADUs constructed are sold as condominiums to new homebuyers, where they are bought for approximately half the value of a stand-alone single-family home (Casita Coalition 2024).
- Based on a survey of ADU owners in Seattle, the median ADU sold as a condo in 2022 was priced at \$757,000 in comparison to \$1.18M for the associated primary dwelling unit. Newer detached homes sold for a median price of \$1.61M. These various price points demonstrate how ADUs can allow for homeownership opportunities that are more affordable than other forms of housing (City of Seattle 2024a).

ADU Condos Provide Independent Housing for Seniors and Disabled Persons

- 60% of seniors are open to moving into an ADU as a means of maintaining independence while reducing housing costs (AARP 2021).
- More missing middle housing, such as ADU condos, allows more seniors to age in place in their communities (Casita Coalition 2024).

- Austin's ADU condo program has helped seniors, disabled persons, and veterans remain in their neighborhoods, providing permanent affordable housing options. (McHugh 2022).

3. ADU condos reduce financial barriers to further ADU production.

Current ADU Financing Limitations

- More than half of ADUs in California are funded from a homeowner's personal liquid assets. Homeowners without such savings typically must rely on personal loans with much higher interest rates than mortgage products (Goodman 2024).
- Mortgage financing options are limited because full potential value of an ADU income is not considered in qualifying calculations (Goodman 2024).
- Renovation financing is unreliable due to high denial rates (Goodman 2024).

ADU Condos Expand Financing Opportunities

- As ADU condos create a separate parcel identity, they can be financed through conventional streams which historically have had lower interest rates, such as home construction or purchase loans (Turner Center 2020).

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