IF YOU ZONE IT, WILL THEY COME?
RECOMMENDATIONS FOR THE PRODUCTION OF ACCESSORY APARTMENTS IN THE DISTRICT OF COLUMBIA

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A capstone thesis paper submitted to the Executive Director of the Urban & Regional Planning Program at Georgetown University’s School of Continuing Studies in partial fulfillment of the requirements for Masters of Professional Studies in Urban & Regional Planning.

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ABSTRACT

In January, 2016, the District of Columbia Zoning Commission adopted a new zoning code. In addition to simplifying the code and adapting it to DC’s current context, the Zoning Regulations of 2016 include significant policy reforms. One of these reforms is a provision that allows for the by-right development of Accessory Apartments in certain residential zones in the city. As evidenced by the experiences of several cities that have adopted and implemented similar policies related to accessory units, Accessory Apartments, also known as Accessory Dwelling Units (ADUs) can provide many benefits to the individual, community, and city. The 2016 zoning change was an important and critical step in progress towards the production of Accessory Apartments in DC, however, the zoning provision will not independently mobilize the market for Accessory Apartment production. Rather, there are a number of steps that need to be taken to promote and encourage the development of accessory apartments in the District of Columbia. This paper explores the benefits and challenges related to ADU development and make recommendations for encouraging the production of accessory units in DC.

KEYWORDS

Accessory Dwelling Units, Accessory Apartments, Washington, DC, Zoning, Implementation, Affordable Housing

RESEARCH QUESTIONS

1. What purpose do Accessory Apartments serve?
2. What do the Zoning Regulations of 2016 say about Accessory Apartments?
3. What are the best practices from other jurisdictions that have approved ADU programs?
4. Can Accessory Apartment production have an impact on housing affordability in the District?
5. What are the challenges related to Accessory Dwelling Unit production?
6. How can DC create an environment that encourages high levels of production of Accessory Apartments?
TABLE OF CONTENTS

ABSTRACT ................................................................................................................................. 2
KEYWORDS ................................................................................................................................. 2
RESEARCH QUESTIONS ............................................................................................................. 2
TABLE OF CONTENTS ............................................................................................................... 3
LIST OF TABLES ....................................................................................................................... 5
LIST OF FIGURES ..................................................................................................................... 5
INTRODUCTION .......................................................................................................................... 6
  A History of Accessory Units in DC ....................................................................................... 7
RESEARCH METHODOLOGY .................................................................................................... 9
  Literature Review .................................................................................................................. 9
  Interviews .............................................................................................................................. 10
  Review of Regulatory Documents ....................................................................................... 10
Demographic Research ............................................................................................................. 10
  Geospatial Analysis ............................................................................................................. 11
LITERATURE REVIEW ............................................................................................................. 11
  What is an ADU? ................................................................................................................... 11
  What Purpose do ADUs serve? .............................................................................................. 13
    City Benefits ....................................................................................................................... 14
    Community Benefits .......................................................................................................... 16
    Homeowner Benefits ......................................................................................................... 19
    Tenant Benefits ................................................................................................................ 21
RESEARCH FINDINGS ............................................................................................................ 22
  DC’s Residential House (R) Zones ....................................................................................... 22
  Demographic and Economic Trends Increasing the Need for New Housing Options in DC ......... 31
  Potential Benefits of Accessory Apartment Development in DC .......................................... 35
Financial Risks Serve as Barriers to ADU Production at Individual Level ................................. 36
  Challenge 1: ADU development costs ................................................................................. 37
  Challenge 2: Financing ADU development ......................................................................... 41
  Fannie Mae’s HomeReady Program ................................................................................... 44
  Challenge 3: Appraisal complications .............................................................................. 46
Financial Benefits as Motivating Factors ............................................................................. 49
LIST OF TABLES

Table 1 ........................................................................................................................................... 15
Table 2 ........................................................................................................................................... 15
Table 3 ........................................................................................................................................... 35
Table 4 ........................................................................................................................................... 44

LIST OF FIGURES

Figure 1: ADU Typologies .................................................................................................................. 12
Figure 2: A detached ADU in Moscow, Idaho .................................................................................. 12
Figure 3: A detached ADU in Portland, Oregon ............................................................................... 13
Figure 4: Benefits of ADUs .............................................................................................................. 14
Figure 5: Residential Zones in DC .................................................................................................. 24
Figure 6: 5076 Rockwood Pkwy NW (Zone R-1-A) ...................................................................... 24
Figure 7: 1623 U St. SE (Zone R-3) ............................................................................................. 25
Figure 8: 5313 5th St. NW (Zone R-3) ........................................................................................... 25
Figure 9: 4001 21st St. NE (Zone R-1-B) ..................................................................................... 25
Figure 10: 5219 Ames St. NE (Zone R-2) ....................................................................................... 26
Figure 11: Median Household Income in DC’s Residential Zones ................................................. 26
Figure 12: Owner-occupied Housing in DC’s Residential Zones ................................................... 29
Figure 14 ......................................................................................................................................... 30
Figure 15 ......................................................................................................................................... 36
Figure 16 ......................................................................................................................................... 37
Figure 17 ......................................................................................................................................... 38
Figure 18 ......................................................................................................................................... 39
Figure 19 ......................................................................................................................................... 40
Figure 20: HomeReady Eligibility in DC ....................................................................................... 45
INTRODUCTION

"...the idea of accessory apartments is deceptively simple..."

Patrick Hare, Accessory Units: The State of the Art (1989)

On January 14, 2016, the DC Zoning Commission unanimously voted to adopt a new zoning code, a set of rules and regulations that dictate how land can be used in D.C. The new code replaced a nearly 60-year old code that had been identified by the Office of Planning as severely outdated and ill-equipped to serve the rapidly growing District of Columbia. According to the District Elements of the Comprehensive Plan for the National Capital as adopted in 2006, “the Zoning Regulations...need substantial revision and reorganization, ranging from new definitions to updated development and design standards, and even new zones.” In addition to simplifying the code and adapting it to DC’s current context, the 2016 changes to the zoning code included significant policy reforms. One of these reforms was a provision that allowed for the by-right development of Accessory Apartments in certain residential zones in the city.

According to the DC Zoning Handbook, an Accessory Apartment is “a dwelling unit that is secondary to the principal single household dwelling unit in terms of gross floor area, intensity of use, and physical character, but which has a kitchen and bath facilities separate from the principal dwelling and may have a separate entrance.” DC uses the term “Accessory Apartment” to describe what is commonly defined in the field as an Accessory Dwelling Unit (ADU), so as not to cause confusion with the acronym the District uses to abbreviate the term.

“Affordable Dwelling Unit,” which is different. In this paper, the two terms will be used synonymously, but the term Accessory Apartment will be used when describing accessory units within a context that is specific to DC.

In general, these units can be classified into three categories, depending on their configuration relative to the primary dwelling unit: interior, attached, and detached. Interior ADUs are located within the primary dwelling, and are typically built through conversion of existing space, such as an attic or basement. Attached ADUs are living spaces that are added to the primary dwelling. Typically, the additional unit is positioned to the side or rear of the primary structure, but it can also be located on top of an attached garage. Detached ADUs are structurally separate from the primary dwelling. These units can be constructed over existing accessory structures, such as a detached garage, or they can be built as units that are separate altogether from accessory and residential structures.4

A History of Accessory Units in DC

The Accessory Apartments produced as a result of the new zoning code will not be the first of their kind in DC. In the middle of the nineteenth century, DC’s alleyways were filled with accessory housing units. According to the book “Alley Life in Washington: Family, Community, Religion, and Folklife in the City, 1850-1970 (Blacks in the New World),” which extensively documents the history of DC’s alley housing, these units were typically about twelve feet wide

and twenty-four to thirty feet deep, with one or two rooms on each floor, and were located adjacent to street-facing housing in DC’s central core.

These accessory units were developed as a result of rapid population growth in the city in the mid nineteenth century. In the late 1860s, DC possessed neither the sufficient buildings to house more than 48,000 newcomers to the city, nor an efficient means of transporting them around the city. This condition led to the intensification of development patterns in DC’s central core, with developers building on both the street and its alley simultaneously. The implicit assumption seemed to be that the middle class would live on the streets, while working class people would reside in the alleys.⁵ According to a survey of alleys conducted in 1912, there were once more than 3,300 alley dwellings in DC.

In response to what was perceived as “unsanitary conditions” and the “moral decay” of alley inhabitants, Congressional action was taken in 1892 to prohibit the construction of alley dwellings. Further action was taken in 1934 to restrict the occupancy of alley dwellings. The result of these rulings was the destruction of much of DC’s original alley housing. Today, 108 units survive in the city’s alleys, however many of them are unoccupied.⁶ While alley dwellings have their own definition in DC’s zoning code, and are decidedly not synonymous with Accessory Apartments in terms of their respective use definitions, The DC Office of Planning has identified Accessory Apartments as an analogous housing resource that can produce the same benefits as DC’s original alley housing.

⁵ Borchert, James, Alley Life in Washington: Family, Community, Religion, and Folklife in the City, 1850-1970 (Blacks in the New World) (Champaign: University of Illinois Press, 1980), 2-56
ADUs serve many important functions, and can lead to many benefits at the city, neighborhood, and individual level. In order for DC to experience the type of benefits that ADUs have the potential to create, the production of Accessory Units must reach a certain scale. The adoption of the Zoning Regulations of 2016, that allows for the development of accessory apartments as a matter of right in certain residential zones was an important and critical step in progress towards the production of ADUs. However, the zoning provision will not independently mobilize the market for Accessory Apartment production. Rather, there are a number of steps that need to be taken to promote and encourage the development of accessory apartments in the District of Columbia.

**RESEARCH METHODOLOGY**

This development of this paper required both quantitative and qualitative research, and was rooted in the recognition of the importance of the location-specific social, economic, and historical context that gives relevance to the subject of Accessory Apartment development in the District of Columbia.

*Literature Review*

The literature review process included a careful examination of previous research on accessory dwelling units. Previous research identified the benefits and challenges related to ADU development, the policies that allow for them, and their impact in places where they have been developed. Forty-two sources were reviewed for this paper.
Interviews

Nine interviews were conducted as part of the research process for this paper. Interview subjects included local advocates, planners, regulators, lenders, architects, and contractors. Having a diverse range of experiences with the research topic, each of the interview subjects offered a unique perspective on the location-specific opportunities and challenges related to ADU development in DC.

Review of Regulatory Documents

Research for this paper required an extensive review of documents related to the rules and regulations that govern ADU development in the District of Columbia. These documents included the Zoning Regulations of 2016, and the materials that led to their adoption. In addition, a thorough review of records from the Board of Zoning Adjustment (BZA) helped inform conclusions about the ADU application and review process that existed prior to the zoning change.

Demographic Research

Demographic data provided by the U.S. Census and the DC Office of Planning was carefully reviewed in order to add context to the research topic and its relevance in the District of Columbia. Demographic data also allowed for conclusions related to the potential impact of ADU development in DC, as informed by the experience in other cities.
**Geospatial Analysis**

Geographic information systems (GIS) were used to identify the specific locations relevant to the discussion of ADUs in DC. In addition, GIS was used to form visual representations of the relevant demographic data in those locations.

**LITERATURE REVIEW**

There is extensive literature on the subject of Accessory Dwelling Units. Although the literature covers a broad variety of perspectives and discussed many applications of ADUs as a development type, this review will focus on providing a frame of reference for accessory unit development, which may be useful in crafting a strategy for implementation and adoption in the District of Columbia. This review begins by defining Accessory Dwelling Units as a development type before explaining their purpose, benefits, and impact in cities that have successfully adopted and implemented zoning strategies that target the production of accessory units.

**What is an ADU?**

According to the American Planning Association (APA), an Accessory Dwelling Unit is a secondary dwelling unit established in conjunction with and clearly subordinate to a primary dwelling unit, whether a part of the same structure as the primary dwelling unit or a detached
dwelling unit on the same lot. Depending on their configuration relative to the primary dwelling unit, ADUs can be classified into three categories: interior, attached, and detached. These typologies and examples of developed ADUs can be observed in Figures 1-3.

*Figure 1: ADU Typologies*

![Figure 1: ADU Typologies](image1)

Source: City of St. Paul

*Figure 2: A detached ADU in Moscow, Idaho*

![Figure 2: A detached ADU in Moscow, Idaho](image2)

Source: City of Moscow

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What Purpose do ADUs serve?

The benefits of ADUs have been well documented. According to a 2008 study prepared by the US Department of Housing and Urban Development, ADUs offer a variety of benefits to individuals, communities, and municipalities, including the efficient use of land and a more dynamic use of housing. According to the study, ADUs help increase a community’s housing supply, can help increase the availability of affordable housing, provide an opportunity for multi-generational households to form, allow property owners to access an income stream that offsets the cost of housing, and can diversify housing stock and households in neighborhoods, among other benefits. Additional benefits are identified in Figure 4.

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Figure 3: A detached ADU in Portland, Oregon

Source: City of Portland

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8 “Accessory Dwelling Units: Case Study,” 1-3.
City Benefits

Research on ADUs shows that accessory units can have a positive economic impact on communities.

Positive Economic and Fiscal Impacts

Research conducted by the University of California at Berkeley concluded that construction of a backyard cottage, or any type of secondary unit, impacts the local economy in three ways, creating direct jobs, through the purchase of design and construction services and retail goods; indirect jobs, as design and construction firms, as well as retailers, purchase their own inputs; and induced jobs (as the workers holding the direct and indirect jobs consume goods).\textsuperscript{9} The researchers used an economic model to analyze the impacts of a $100,000 construction project to install an accessory unit, finding that it stimulated about $81,000 of

indirect and induced spending in the local economy. When multiplied by the potential level of secondary unit production, this had a significant impact on the local private economy. Additionally, by increasing the square footage of improvements on a lot, a municipality may collect more tax on a property following the construction of an ADU, thus increasing the potential for ADUs to have a positive fiscal impact. The following tables show the economic and fiscal impacts of ADUs in three municipalities in California. As the tables show, the impacts related to job creation, and tax collections are significant.

*Table 1*

| Economic impacts and construction jobs created from the full Flatlands backyard cottage build-out. |
|---|---|---|---|
| **Potential backyard cottages created** | Berkeley Flatlands | El Cerrito Flatlands | North Oakland Flatlands |
| | 5,074 | 1,681 | 1,923 | 8,677 |
| **Direct, indirect and induced local economic impacts** | $919 million | $304.4 million | $348.3 million | $1,571.7 million |
| **Direct, indirect, and induced jobs created** | 8,626 | 2,858 | 3,269 | 14,753 |

Source: Wedmann, Nemirow and Chapple.

*Table 2*

| Projected increases in assessed value and property tax collections resulting from full Flatlands secondary unit build-out. |
|---|---|---|---|
| **Potential backyard cottages created** | Berkeley Flatlands | El Cerrito Flatlands | North Oakland Flatlands |
| | 5,074 | 1,681 | 1,923 |
| **Increment in assessed value @ $100k/unit** | $507.4 million | $168.1 million | $192.3 million |
| **Annual revenue increment @1.2% tax rate (nearest $1k)** | $6,088,000 | $2,017,000 | $2,307,000 |
| **Actual property tax collections (Fiscal Year 2008-2009)** | $42,757,143 | $5,641,087 | $10,394,719 * |

Source for property tax collections for Fiscal Year 2008: [www.californiacityfinance.com](http://www.californiacityfinance.com).

*The actual property tax collections figure for North Oakland is the citywide total in 2008-2009 multiplied by North Oakland’s share of citywide housing units as of Census 2010 (about 11%).*
Community Benefits

The primary benefits of ADUs at the community level are the potential for ADUs to increase the supply of housing options and to address social issues, particularly those relating to housing for an aging population.

According to research completed over several years by the Municipal Research and Services Center (MRSC), a Seattle-based nonprofit that provides legal and policy guidance for municipalities in the state of Washington, ADUs also have the following benefits at the community level:

1. ADUs can help to increase the supply of affordable housing without government subsidies.

2. ADUs encourage better housing maintenance and neighborhood stability

3. ADUs can help meet smart growth goals by creating more housing opportunities in existing urban areas\(^\text{10}\)

ADUs Can Help to Increase the Supply of Affordable Housing without Government Subsidies

As a development type, ADUs provide an opportunity for municipalities to increase the availability of housing options without the necessity of local government expenditures or subsidies. This is particularly beneficial in housing markets where home prices are high and resources for subsidizing housing costs are scarce. When compared to the costs of constructing

new government-subsidized apartments, the lower cost of converting existing units, which are paid for by the homeowner, offers an attractive option for most municipalities.\textsuperscript{11}

The addition of modest housing units to well-established, often desirable low- or medium-density residential neighborhoods that are close to transit, shopping and other amenities suggests a major affordability benefit, particularly since secondary units can often be installed cheaply enough that homeowners can afford to rent them for much less than would be the case for other types of rental units. In addition, as a type of infill development, ADUs also tend to be better integrated into the community, unlike other forms of affordable housing that may be concentrated in a few areas. With ADUs, this dispersion often occurs without the necessity for the type of government intervention and subsidy often necessary for conventional affordable housing development.\textsuperscript{12}

**ADUs Encourage Efficient Use of Existing Housing Stock and Infrastructure**

Many homes built in the middle of the twentieth century were designed to hold households that were larger than many households are today. A consequence of changing demographics and reduced household size has been a widespread increase in the number of homes with surplus living space\textsuperscript{13}. By using surplus space in single-family homes, ADUs promote more efficient use of the community's existing housing stock and supporting

\begin{flushleft}
\textsuperscript{11} Ibid.
\textsuperscript{12} Ibid.
\end{flushleft}
infrastructure. In addition, the presence of diverse housing options within a single neighborhood allows residents to upgrade or downsize their housing unit without leaving the community.\(^\text{14}\)

**ADUs Encourage Better Housing Maintenance and Neighborhood Stability**

Research has shown that by allowing ADUs, communities can encourage better upkeep of the existing housing stock since homeowners can apply a portion of the income from their rental unit to maintaining their property. Additionally, there has been documentation of cases where homeowners have exchanged rent reductions for maintenance services by tenants.\(^\text{15}\)

ADUs also help to enhance neighborhood stability since they can provide homeowners (e.g., elderly homeowners on fixed incomes and single parents with low incomes) with the extra income they may need to remain in their homes for longer periods.\(^\text{16}\)

**ADUs Can Help to Meet Smart Growth Goals by Creating More Housing Opportunities Within Existing Urban Areas**

In addition to bolstering the stock of affordable housing, a secondary unit strategy could help to further the more general goal of concentrating projected regional housing growth in centrally-located urban core areas that have already been developed, thereby lessening the amount of housing growth taking place on undeveloped land.\(^\text{17}\) Many states and local governments have adopted Smart Growth policies to steer new growth to areas that are already

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\(^{14}\) Tyre, Patricia Therese, “Accessible Dwelling Units as Affordable Housing and Smart Growth: Case Studies of Winter Park and Orlando, Florida” (Masters Thesis, The University of Florida, 2008).

\(^{15}\) Katsumaya, “Accessory Drilling Units: Issues and Options,” 11

\(^{16}\) Ibid.

urban or urbanizing. Using surplus space in existing housing is one way that communities can take action to meet regional growth management goals to conserve land, house more people within urban growth areas, and prevent more sprawl.  

**Homeowner Benefits**

The same study by MRSC identified the following benefits of ADUs to the homeowner:

1. ADUs provide an opportunity for multigenerational housing
2. ADUs can provide homeowners with extra income to help meet rising homeownership costs
3. ADUs provide homeowners with the ability to trade rent reductions for needed services
4. ADUs provide increased security and companionship
5. ADUs can help first-time homebuyers qualify for loans and help offset mortgage payments

**ADUs Provide an Opportunity for Multigenerational Housing**

Multigenerational housing has become an attractive option for households seeking to accommodate aging parents and adult children. By providing a separate but proximate housing unit, located on land which a homeowner already owns, an ADU can allow families to retain a semi-independent living situation in a way that is both affordable and accessible.  

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ADUs Can Provide Homeowners with Extra Income to Help Meet Rising Homeownership Costs

ADUs can provide homeowners with additional income needed to meet high mortgage and maintenance costs. According to MRSC, in certain cases, rental income from an ADU may be the primary means by which a household remains able to stay in their home, as opposed from being displaced from it.\textsuperscript{20} The additional income from an ADU may be particularly helpful for households who are living on a fixed income. Housing studies reviewed by MRSC have shown that the single-family home is not only the most common form of housing for senior citizens, but it is also the type of housing most often preferred by them.\textsuperscript{21} However, many older adults on fixed incomes may find it difficult to stay in their homes in the face of rising costs for utilities, maintenance and property taxes. ADUs may allow some of these elderly homeowners to stay in their homes, even on fixed incomes, where the extra income from an ADU helps them to offset some of their living expenses.\textsuperscript{22}

ADUs Provide Homeowners with the Ability to Trade Rent Reductions for Needed Services

Homeowners may also offer lower rents to tenants in exchange for assistance in performing various household services. According to cases studied by MRSC, for some elderly homeowners, being able to exchange rent reductions for needed services could be a deciding factor enabling them to stay in their homes.\textsuperscript{23} A 2001 survey conducted by researchers in Seattle found that 35\% of homeowners reported that some assistance was exchanged between

\begin{multicols}{2}
\textsuperscript{20} Ibid.
\textsuperscript{22} Katsuyama, “Accessory Dwelling Units: Issues & Options,” 13.
\textsuperscript{23} Ibid.
\end{multicols}
Tenants, of course, would also benefit from service exchange arrangements by having their rents reduced in return for performing various services.

**ADUs Can Help First-Time Buyers Qualify for Loans and Help Offset Mortgage Payments**

The presence or opportunity to build an ADU and benefit from its potential rental income may help first-time home buyers qualify for a mortgage loan that they might not get. After purchasing a home, the rental income from an ADU could help reduce the financial burden of a high mortgage payment. Young families could rent out an ADU until a time when their incomes have risen and they need more room. In this way ADUs allow families the flexibility to adjust the way they use their homes to suit changing life-cycle needs.

**Tenant Benefits**

From a tenant’s perspective, ADUs provide access to rental housing in neighborhoods that might be otherwise inaccessible. Studies have shown that ADUs rent for less than average market rent levels. Lower rents are possible primarily because ADUs do not require the development of new land and are cheaper to build than conventional rental units.

ADUs offer housing opportunities for households in neighborhoods where they might not otherwise afford to live there. ADUs present an opportunity for these households to enjoy the

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amenities typically found in certain neighborhoods, including access to transportation options, schools, and other amenities.27

As this review shows, accessory units have contributed significant benefits in cities that have successfully adopted and implemented zoning strategies designed to encourage their production. As mentioned, some of the shared benefits that ADUs create (i.e. benefits shared by individuals, communities, and municipalities) will only be realized if ADU production reaches a certain scale. The literature reviewed herein may be useful in helping stakeholders in DC understand the benefits of ADUs as a development type, and may motivate local stakeholders to implement DC’s new zoning code in a way that maximizes potential production of these units.

RESEARCH FINDINGS
Accessory Apartments provide a unique opportunity to address DC’s housing needs in a way that works within existing development constraints. A closer look at DC’s zoning code, an examination of the experiences of other cities, and an understanding of remaining challenges related to Accessory Apartment development can help inform recommendations for scaling accessory unit production in the District of Columbia.

DC’s Residential House (R) Zones
The DC Zoning Regulations of 2016 (ZR16) permit accessory apartments as a matter-of-right use subject to certain conditions in Residential House (R) zones, and as a special exception

in the Georgetown residential zones (R-19 and R-20). According to the zoning regulations, the Residential House zones are designed to provide for “stable, low-to moderate-density residential areas suitable for family life and supporting uses.” The provisions of the R zones are intended to:

1. Provide for the orderly development and use of land and structures in areas predominantly characterized by low- to moderate-density residential development;

2. Recognize and reinforce the importance of neighborhood character, walkable neighborhoods, housing affordability, aging in place, preservation of housing stock, improvements to the overall environment, and low- and moderate-density housing to the overall housing mix and health of the city;

3. Allow for limited compatible accessory and non-residential uses;

4. Allow for the matter-of-right development of existing lots of record;

5. Establish minimum lot area and dimensions for the subdivision and creation of new lots of record; and

6. Discourage multiple dwelling unit development.

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30 Ibid.
Figure 6 depicts the geographical location of R zones in the District. As the following figures and images show, R zones cover a significant land area and lay in neighborhoods that are very diverse in terms of density, housing stock, and housing quality.

Source: DC Office of Zoning

Source: Google
Figure 7: 1623 U St. SE (Zone R-3)

Source: Google

Figure 8: 5313 5th St. NW (Zone R-3)

Source: Google

Figure 9: 4001 21st St. NE (Zone R-1-B)

Source: Google
These neighborhoods are also diverse in terms of demographics. Figure 11 shows the Median Household Income in DC’s Residential zones, with darker shading representing higher median income.

Structures in the R zones are controlled by general development standards, which are intended to control the bulk and volume of structures, control the location of building bulk in
relation to adjacent lots and streets, regulate the mixture of uses, and promote the environmental performance of development. Accessory apartments in the R zones are controlled by the development standards that pertain to each individual R zone, meaning that the addition of an accessory apartment must not render the property noncompliant with zoning for the overall lot. The specific design- and use-related requirements the govern the development of Accessory Apartments are as follows:

1. One accessory apartment may be established on a lot in a Residential Zone

2. Either the principal dwelling or accessory apartment unit must be owner-occupied for the duration of the accessory apartment use.
   a. The total number of persons that may occupy the accessory apartment cannot exceed three, except in the R-19 or R-20 zone where the aggregate number of persons that may occupy the house, including the principal dwelling and the accessory apartment combined, cannot exceed six.

3. An accessory apartment located in the principal dwelling will be subject to the following conditions:
   a. The house must have a minimum of gross floor area (GFA), exclusive of garage space. This minimum GFA is either 1,200 square feet, or 2,000 square feet, depending on the zone.
   b. The accessory apartment unit may not occupy more than 35 percent of the gross floor area of the house
4. An accessory apartment in an accessory building in a Residential Zone is permitted as a matter of right subject to the following conditions:

   a. There must be permanent access to the accessory building apartment; subject to additional design conditions;

5. Not more than two of the requirements specified in the zoning guidelines may be modified or waived by the BZA. Any request to modify more than two of the requirements of this subsection shall be deemed a request for a variance. However, the owner-occupancy requirement cannot be waived.

6. Prior to renting an accessory apartment in any zone, the property owner shall obtain a Residential Rental Business License from the Department of Consumer and Regulatory Affairs and the property shall be inspected for relevant housing code compliance\textsuperscript{31}

These conditions will affect the potential levels of ADU production in the District. While there are more than 106,000 lots in DC’s ADU-eligible R zones, design-related regulations including minimum gross floor area (GFA) for eligible properties, setback requirements, etc., will prevent certain homeowners from constructing an accessory apartment as a matter of right. In addition, early industry movers have hypothesized that the owner-occupancy requirement will be a major impediment to the large scale production of accessory apartments, due to the fact that this requirement eliminates the ability for investors to construct accessory apartments. The source of this anecdotal evidence identified that investors would be likely producers of accessory apartments, if given the chance, since they have an inherent interest in maximizing value on their

properties. Figure 12 shows owner-occupied housing in DC’s Residential zones, with darker shading representing higher levels of owner occupancy. This map demonstrates the potential implications of DC’s owner-occupancy requirement on potential Accessory Apartment production.

**Figure 12: Owner-occupied Housing in DC’s Residential Zones**

In order to determine feasibility, each homeowner who wishes to construct an ADU on their property will need to evaluate the zoning-required design and use standards within the context of their lot. Careful consideration must be given to lot capacity and the configuration of available space when determining a property’s eligibility to construct an Accessory Apartment as a matter of right. These limitations are not insignificant. Figure 14 shows that design-related

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constraints were among the biggest challenges faced by Portland homeowners when constructing accessory units on their property, according to a 2013 survey.

Prior to the zoning change, all development of ADUs in residential zones required a Special Exception to be issued by the Zoning Commission. This presented significant barriers related to time and cost. Records from the BZA show that one application for the development of an ADU in an R-1-B zone took 10 months to approve.33 In addition, homeowners seeking a special exception to construct an accessory dwelling on their property had to pay a fee of $325 to pursue the exception. Due in part to these regulatory barriers, records from the BZA show that less than 30 ADUs were applied for between 1994 and 2016. All were approved, though some with conditions.34 In addition to the process-related changes that the new zoning regulations

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allow, ZR16 changed many of the design and use guidelines associated with Accessory
Apartments under the former zoning code.

**Demographic and Economic Trends Increasing the Need for New Housing Options in DC**

On a macro level, there are many trends that suggest that ADUs could present an
opportunity to address the growing demand for increased housing choices. These demographic
trends are: the increasing aging population, the decreasing household size, and the increasing
number of non-traditional housing types. A recent study conducted by researchers at the
University of California at Berkeley summarized several trends that are contributing to the
growing demand for accessory units. The study concluded that recent and projected changes in
demographics, lifestyle preferences, and housing affordability suggest increased demand for
secondary units in the near future. Specifically, the study concluded that the aging of the U.S.
population and the declining share of married-couple households and households with children
were likely to have a significant impact on the housing market.35 Research found that households
without children and retirement-age households would be more receptive to smaller lot and
house sizes, and may value proximity to public transportation, work, and shopping. Similarly,
since 70 to 80% of baby boomers report a preference to “age in place,” there is a growing
interest among aging homeowners to adapt their homes—constructing smaller spaces either for
themselves or caretakers—so they can stay.”36

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35 Chapple et al., “Yes In My Backyard: Mobilizing the Market for Secondary Units,” *The Center for Community Innovation at
the Institute for Urban & Regional Development at UC-Berkeley* (2012): 2. accessed November 15, 2016,
http://communityinnovation.berkeley.edu/reports/secondary-units.pdf.

36 Ibid.
Additionally, demographic shifts are creating a disconnect between the type of housing that households need and the type of housing that exists. Many single-parents, single-persons, and young families either cannot afford, or do not need, a large home for themselves or their families. At the same time, many parents of baby boomers are now empty-nesters who live in homes that were originally built to hold families of five or six. This confluence of events has created a glut of housing that does not meet the needs of today’s households, and a shortage of those that do. Herein lies the opportunity to adapt the space that exists today in a more efficient and effective housing solution.

DC already has a shortage of housing that meets the needs of its existing residents. A 2015 study conducted by the Urban Institute identified the current state of DC’s housing market and forecasted changes to the market given projected growth and demographic change. The study found that the most common housing problem in DC is that housing costs exceed what people can afford. The study concluded that more than 40% of District households are cost burdened, which means that they are paying more than 30% of their income on housing. Specifically, renters throughout the city are significantly burdened by housing costs, with nearly a quarter paying 50% or more of their income on rent (a level deemed to be severely cost burdened). Increased population is expected to exacerbate the affordable housing shortage. The Urban Institute study concluded the city’s population is expected to continue to increase across all income levels, which will widen the gap between the number of households and the number of available and affordable units.

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39 Ibid.
There are a number of factors that contribute to the insufficient supply of housing in high-cost areas. These factors include scarcity of land, restrictive land-use controls, environmental and other regulations, insufficient infrastructure, expensive building materials, cumbersome permitting processes, community opposition to higher-density development, tight credit and financing, and more. The severity of these barriers varies from place to place, but taken as a whole, they almost always lead to the production of too few housing units.\textsuperscript{40}

Insufficient housing supply causes households that wish to reside in a particular area to compete for a limited number of units. This competition leads to a bidding up of housing costs, pricing many individuals out of the market altogether.\textsuperscript{41} A shortage of available, affordable housing threatens to displace long-term residents as more affluent households pay a premium for homes that would traditionally be occupied by lower-income families.\textsuperscript{42}

The Washington, DC region is one of the most expensive places in the country to own and rent property. The median house price in the region was $372,500 in 2013, compared with the national median price of $175,700. Similarly, median rents were $1,481/month regionally, compared to $905/month nationally.\textsuperscript{43} Since 2000, the average year-end sale price of a home in the United States has increased 53\%, compared with 118\% in the DC region and as much as 275\% in the District.\textsuperscript{44} With high housing costs, low- and even moderate-income residents experience housing cost burdens. More than 33\% of households in the DC region pay more than 30\% of their income on housing. When looking just at renters, that share increases to 46\%, with


\textsuperscript{41} Ibid.

\textsuperscript{42} Ibid.


\textsuperscript{44} Blumenthal, McGinty and Pendall, “Strategies for Increasing Housing Supply in High-Cost Cities,” 4.

Various factors have contributed to escalating housing prices in the DC region. Most fundamentally, the shortage of buildable land has limited development options and slowed housing production. At 68 square miles, the District has little land that isn’t developed or owned by the federal government, and the height limitation inhibits efforts to increase density.\footnote{Blumenthal, McGinty and Pendall, “Strategies for Increasing Housing Supply in High-Cost Cities,” 6.}

Much like the forces that led to the development of DC’s alley housing in the nineteenth century, the current pace of population growth in DC is putting immense pressure on the city’s land and infrastructure. According to the DC Office of Planning, DC’s population is expected to grow to 800,000 by the year 2030, and to nearly 1 million by 2045.\footnote{District of Columbia Office of Planning, “Comprehensive Plan for the National Capital: District Elements,” November 3, 2016, \url{http://plande.dc.gov/sites/default/files/dc/sites/Comprehensiveplan/page_content/attachments/Comp%20Plan%20Citywide%20Meetings_Nov%202016_FINAL.pdf}} This projected population growth will place additional upward pressure on the area’s housing costs.\footnote{Blumenthal, McGinty and Pendall, “Strategies for Increasing Housing Supply in High-Cost Cities,” 9.} In order to meet the forecasted demand, D.C. must add 105,240 units to its housing supply by 2032 (5,262 per year).\footnote{Ibid.} Despite D.C.’s relatively high level of housing production (4,956 units were permitted
in 2015), the current rate of housing production will produce a gap of 306 units per year, or 9,180 units by 2032.\(^{51}\)

Table 3

<table>
<thead>
<tr>
<th>Jurisdiction</th>
<th>Total units needed</th>
<th>Single-family</th>
<th>Multifamily</th>
<th>Units needed per year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Washington, DC MSA</td>
<td>548,298</td>
<td>344,624</td>
<td>203,675</td>
<td>27,415</td>
</tr>
<tr>
<td>District of Columbia</td>
<td>105,240</td>
<td>38,012</td>
<td>67,229</td>
<td>5,262</td>
</tr>
<tr>
<td>Arlington County</td>
<td>19,717</td>
<td>6,546</td>
<td>13,171</td>
<td>986</td>
</tr>
<tr>
<td>Fairfax County</td>
<td>83,069</td>
<td>62,095</td>
<td>20,974</td>
<td>4,153</td>
</tr>
<tr>
<td>Montgomery County</td>
<td>83,829</td>
<td>51,316</td>
<td>32,514</td>
<td>4,191</td>
</tr>
<tr>
<td>Rest of MSA</td>
<td>256,443</td>
<td>186,655</td>
<td>69,787</td>
<td>12,822</td>
</tr>
</tbody>
</table>


**Potential Benefits of Accessory Apartment Development in DC**

Accessory Apartments present an opportunity fill this gap, increase the stock of housing, and create affordable housing. At the household level, secondary units can affect housing affordability in two ways: by providing an income stream to homeowners, and by providing relatively low-cost rental housing. To be clear, absent additional incentives or regulations, the ADUs that are developed as a result of the zoning change will not be “designated” (i.e. income restricted) affordable housing, rather they may contribute to housing affordability by increasing the stock of housing available. The following table shows the comparative affordability of non-income restricted ADUs in Portland, as determined during 2013 study. These findings imply that, absent other incentives or regulations, the majority (80%) of accessory apartments are likely to rent at levels equal to or higher than rents for comparable, non-accessory units.\(^{52}\)

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\(^{51}\) Ibid.  
Financial Risks Serve as Barriers to ADU Production at Individual Level

As previously mentioned, the literature on ADUs provides perspective on the many benefits that ADUs can have at the neighborhood and city level. However, Accessory Apartment production will ultimately be a product of homeowners’ decision to construct an accessory dwelling. Understanding the real and perceived risks and benefits to ADU development at the individual level will help inform strategies that will encourage production. Figure 16 shows the prevalence of concerns related to financial risk among ADU developers in Portland. Similar individual-level obstacles could limit the development of Accessory Apartments in DC, including lack of available financing, disproportionately high development fees, and problems determining their market value. A closer look at these challenges is especially relevant in the

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53 Lazaro, Christopher Ray, “From Allowance to Acceptance: Changing the Role of Accessory Dwelling Units in America’s Housing Landscape” (Masters Thesis, Texas A&M University, 2013).
context of DC. Understanding these challenges and identifying solutions will maximize the potential for ADU development under the existing zoning regulations.

*Figure 15*

![Bar Chart: Challenges reported by ADU developers.]

Source: Martin Brown

**Challenge 1: ADU development costs**

Generally speaking, ADUs typically cost 25 to 40% less to build than new, comparably-sized housing units since they do not require development of new land, and because construction costs are lower.\(^{54}\) While this is a good thing in terms of the potential for ADUs to serve as a low-cost option for increasing the supply of housing, costs related to the development of ADUs can be a significant barrier from the individual’s perspective.\(^{55}\)

There are two types of up-front costs associated with ADU development: development costs and construction costs. Development costs include costs required to design, permit, finance, and build an ADU. Non-construction development costs include: design, building permits,


\(^{55}\) Ibid.
financing, and other professional services including surveys, engineering, etc. Construction costs include hard costs related to building the ADU. These primarily include construction materials and labor. Figure shows a sample breakdown of these costs for a 500 square foot ADU.

While the cost to develop an ADU is likely to be lower than the cost to develop other types of housing, ADU development is often more expensive on a square-footage basis. There are several reasons for this. First, the small size of ADUs reduces efficiency of scale for labor, coordination, and materials. Second, ADUs often contain proportionally more kitchen and bathroom space, which is more expensive to build, and less bedroom and hallway space, which is less expensive to build. Third, the location of ADUs relative to back yards and alleys may create costly challenges related to access for machinery and material delivery. Finally, ADUs are often

likely to be built upon small footprints where protection of existing structures and landscaping can drive up costs.\textsuperscript{57}

A 2014 evaluation of survey data collected from owners of ADUs in Portland, Oregon provides insight into ADU development costs. The costs for detached ADUs and attached ADUs were reported separately, since the development scope for each ADU type can have significant impacts on construction costs. According to the survey data, the range of development costs for detached ADUs was $9,000-$300,000, with the mean cost being $98,000. On a square footage basis, the range of costs for detached ADUs was $13-$438, with the mean being $151/sq. Ft. For attached ADUs, the range of development costs was $3,500-$200,000, with the mean being $52,000. On a square footage basis, the range of costs for attached ADUs was $6-$308, with the mean being $82/sq. ft.\textsuperscript{58} The following graphs present a visual representation of the range of development costs for detached ADUs and attached ADUs in Portland.

\textit{Figure 17}

\begin{figure}[h]
\centering
\includegraphics[width=0.5\textwidth]{construction_costs.png}
\caption{Construction cost of detached ADUs in Portland, Oregon, USA}
\end{figure}

\begin{flushright}
Source: Martin Brown
\end{flushright}

\textsuperscript{57} Ibid.

This data suggests several conclusions about development costs related to ADUs. First, the cost to develop ADUs is significant, which means that homeowners who choose to develop an ADU are taking a significant financial risk. Second, detached ADUs tend to be more expensive to develop than attached ADUs. As the data from Portland shows, the median cost to develop an attached ADU is $44,500 more than the median cost to develop a detached ADU. While the costs to develop accessory apartments in the District will similarly fall into a range based on design specifications, early industry stakeholders who have begun to work towards accessory unit construction have indicated that homeowners in the District can and should expect to incur a cost of $100,000 to develop an accessory apartment.59

Figure 18

Construction cost of attached ADUs in Portland, Oregon, USA
(number of ADUs per cost category)

Source: Martin Brown

**Challenge 2: Financing ADU development**

Historically, access to capital to develop ADUs has been very limited, creating one of the most significant barriers to ADU development nationwide. This limited access to capital results from the rareness of ADUs as a housing type and the limited familiarity with ADUs as a product among financial institutions. Historically, loan originators and appraisers have struggled with topics such as HUD’s distinction between a “secondary unit” and an ADU, an ADU’s contributory value, and whether the income from rent can be included in qualifying the borrower for lending. As a result of these dynamics, appraisers and originators are likely to be extremely conservative with contributory values for legal ADUs, to the point where the accuracy of valuations may be compromised. In addition, it is difficult to appraise the value of properties with ADUs, which further complicates the environment in which homeowners must seek capital to develop ADUs. Because of these challenges, data has shown that 60% of homeowners who have developed ADUs on their property have used cash to cover development costs. Increased financing options need to be made available in order for ADUs to be developed by a broader population of homeowners and increase the development potential of ADUs.

Currently, there are three types of conventional loan products that can be used to finance the construction of an ADU; first mortgage cash out refinance, second mortgage with a fixed or home equity line of credit, and renovation refinancing.

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61 Ibid.


Cash-out Refinance

A cash-out refinance allows a homeowner to receive a loan to replace an existing mortgage. By using the buildup of equity as leverage, the amount of a new mortgage is more than the amount the homeowner owes on the house, allowing the borrower to take the difference in cash. In the case of an existing homeowner who wishes to build an ADU on their property, this option provides the homeowner an opportunity to access capital needed to make the improvements. For example, a homeowner who owes $80,000 on an existing mortgage and wishes to build an ADU that is estimated to cost $20,000 may be able to refinance their mortgage for $100,000. The difference between the new mortgage amount and the preexisting mortgage amount can be taken by the homeowner as cash to put towards the development of an ADU.

There are some risks and barriers associated with this option. First, homeowners must have a certain amount of equity in their homes in order to access this option, which means that this option might not be available to some homeowners. Additionally, there are transaction costs related to this option (i.e. closing costs) that should be considered when a homeowner is evaluating whether or not this option makes sense. In some cases, the cost of the refinance plus transaction costs may require a return on investment that ADU-generated income is insufficient to cover. For these reasons, a cash-out refinance does not provide an option to all homeowners.

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Second Mortgage

A second mortgage is a second loan that is secured by a property with an existing first mortgage. There are two types of second mortgages: home equity loans and home equity lines of credit. For homeowners seeking to access capital to build an ADU, a second mortgage with a home equity line of credit could be an option. As with a cash-out refinance, homeowners must have sufficient equity in their homes to access this option and must meet requirements associated with the property’s loan-to-value. Usually, lenders will not lend more than 75 to 80% of the loan-to-value of a first and second mortgage combined. In addition, there are transaction costs that could limit the cost-effectiveness.

Renovation Financing

Renovation financing is a loan that can cover costs related to improvements to an existing property. Unlike other financing products, renovation financing is sized based on the post-improvement value of the property and the cost of the proposed renovation. Because existing equity does not need to be leveraged for renovation financing, this option presents an opportunity for homeowners who do not have sufficient equity in their homes to access capital for the construction of an ADU. However, because the loan is sized based on the future value of the property, the application and underwriting process for renovation financing can be very difficult. In many cases, fully permitted drawings must be presented during the application process in order to help convey future value of the property. This creates risk, given that the process by

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which permitted drawings are procured requires significant investment itself. If a loan is not
granted, these will become sunk costs. Table 4 shows financing methods used by developers of
ADUs in Portland.

Table 4

<table>
<thead>
<tr>
<th>Financing methods used by Portland developers of ADUs.</th>
<th>Percent of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid with cash</td>
<td>62</td>
</tr>
<tr>
<td>Paid with home equity line of credit</td>
<td>29</td>
</tr>
<tr>
<td>Paid with cash-out refinancing based on main home value</td>
<td>12</td>
</tr>
<tr>
<td>Paid with cash-out refinancing based on future value of home and ADU</td>
<td>1</td>
</tr>
<tr>
<td>Purchased primary home and constructed ADU with cash out option based on future value</td>
<td>0</td>
</tr>
<tr>
<td>Paid with loan from family</td>
<td>13</td>
</tr>
<tr>
<td>Paid with credit card(s)</td>
<td>11</td>
</tr>
<tr>
<td>Paid with construction loan from bank</td>
<td>2</td>
</tr>
<tr>
<td>Paid with personal loan from bank</td>
<td>5</td>
</tr>
<tr>
<td>Paid with trade of services</td>
<td>4</td>
</tr>
<tr>
<td>Paid with other method</td>
<td>10</td>
</tr>
</tbody>
</table>

Note: respondents could choose more than one answer.

Source: Martin Brown

Fannie Mae’s HomeReady Program

Generally, many of the challenges related to financing ADU construction stem from the
fact that there is not a standard financing product available. However, a mortgage product
introduced in 2016 by Fannie Mae provides specific guidance for lenders and borrowers seeking
to finance ADU construction. The program, called HomeReady, is described as being designed
for low- and moderate-income borrowers. Not only does the product identify ADUs as an
eligible use of financing, but the product allows for future income generated by an ADU to be
considered as income for underwriting purposes.67

There are location-based income limits that determine loan eligibility (properties in "low income" areas have no income limit, properties in "high-minority" areas restrict borrowing eligibility at 100% AMI, properties outside of these designated areas restrict eligibility at 80% AMI). As the following map shows, areas in DC are either unrestricted or restricted at 100% of AMI.68

Through the cash-out refinance option, the HomeReady mortgage product could be an excellent option to help existing homeowners in ADU-permitting zones to access the capital needed to build them.

68 Ibid.
Challenge 3: Appraisal complications

A third major barrier to ADU production from a homeowner’s perspective is the lack of clarity that exists regarding the impact of an accessory dwelling on property value. Literature on the appraisal challenges associated with ADUs suggests that appraisers appraise properties with ADUs much as they do single-unit residences, using the sales comparison approach to value, and they are struggling against the limitations of this method.69 The sales comparison approach requires multiple recent sales of very similar properties. However, this kind of data is difficult to find for properties with ADUs. With few comps, the comparison approach is less reliable. The result is a high degree of variation and perhaps subjectivity. For example, one permitted ADU in Portland had estimates of contributory value that ranged from $10,000 to $100,000.70

Most single-unit residential appraisals do not use the income capitalization approach, however this approach might be much better-suited to appraising properties with ADUs and determining an accessory dwelling’s contributory value. Income-based valuations are a cornerstone of commercial and investment real estate, even for smaller properties such as duplexes. Using this approach, an appraiser derives a value indication for an income-producing property by converting its anticipated benefits (i.e. future cash flow) into property value. Income-based valuations rely on the relationship of market rents to sale prices, data which can be relatively abundant and tractable since there is less need to find exact sales comparables.71

While the income capitalization approach and other more fundamental analyses may fit within appraisal industry best practices, there remain institutional barriers to their use on

70 Brown and Watkins, “Understanding and Appraising Properties with Accessible Dwelling Units,”300.
71 Ibid.
properties featuring ADUs. The majority of US mortgages are for single-unit properties and are originated by banks whose intent is to quickly resell the loans to government-sponsored enterprises (GSEs) such as Fannie Mae and Freddie Mac. Oftentimes, these loans are supported by agencies such as the US Department of Housing and Urban Development (HUD), which administers the FHA mortgage insurance program. These institutions have their own vocabulary for ADUs and standards for properties, which the mortgage originator must respect for the loan to be marketable on the secondary market. These standards significantly have a significant effect on appraisals.\textsuperscript{72}

Until recently, Fannie Mae did not use the term “accessory dwelling unit” in its Single-Family Selling Guide. The 2016 guide does define ADUs and provides some guidance for conditions under which a mortgage for a property with an ADU would be eligible for purchase. Per the 2016 guide, “whether a property is a one-unit property with an accessory unit or a two-unit property is based on the characteristics of the property, which may include, but are not limited to, the existence of separate utilities, a unique postal address, and whether the unit is rented. The appraiser is required to provide a description of the accessory unit, and analyze any effect it has on the value or marketability of the subject property.”\textsuperscript{73} In addition, the guide provides the following conditions for eligibility:

1. The property is one unit
2. The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use.

\textsuperscript{72} Ibid.
\textsuperscript{73} Fannie Mae, “HomeReady Fact Sheet”, accessed on December 17, 2016, https://www.fanniemae.com/singlefamily/homeready.w_fanniemae.com/content/guide/sel022316.pdf
3. The borrower qualifies for the mortgage without considering any rental income from the accessory unit (the HomeReady program is identified as an exception to this condition).\textsuperscript{74}

Freddie Mac says that “a property may have an incidental accessory unit that is incidental to the overall value and appearance of the subject property.”\textsuperscript{75} The US Department of Housing and Urban Development uses the term “accessory dwelling unit” and emphasizes the subordinate nature of ADUs; if the ADU is too similar in size, it is a “secondary unit”, requiring a different appraisal form and likely a different lending program.\textsuperscript{76}

Together, these guidelines create a strong suggestion for loan originators and the appraisers that work with them: if an ADU is encountered, it is likely to be ineligible, and it may (and perhaps should) be given only insignificant or incidental contributory value.\textsuperscript{77} The case of a legal ADU, where an owner can receive market rent and contributory value might be estimated with the income capitalization approach, is barely addressed. Freddie Mac states, “appraisals that rely primarily on the income or cost approaches to value in order to estimate market value are unacceptable.”\textsuperscript{78} As research as shown, financial benefits, including benefits related to increased home value, are among the strongest motivators for developers of ADUs. However, the appraisal complication may prevent homeowners from capturing the true value of an ADU, and therefore, may serve as a barrier to production.

\textsuperscript{74} Ibid.
\textsuperscript{77} Brown and Watkins, “Understanding and Appraising Properties with Accessible Dwelling Units,” 305
Financial Benefits as Motivating Factors

Just as financial considerations can serve as barriers to ADU development, so too can they serve as motivating factors. Many studies have concluded that the most common motivators for ADU development were financial benefits. In 2001, researchers conducted a study to determine the factors that led to ADU production in Seattle. The study found that the most common reason for adding an accessory apartment in the Seattle sample was related to affordability: 64% of survey respondents reported that they had developed an ADU to provide extra income, 53% reported that their ADU had been built to make house payments more affordable, and 47% reported that their decision to build an ADU was tied to the belief that it would increase their property value. This evidence that financial motivation is a primary driver of ADU development was found in similar studies completed between 1984 and 1990. Rudel (1984) found that “although the households considering the creation of an accessory apartment do not differ substantially from other home owners in their incomes, 83% cited the economic return from the apartment as the primary reason for creating it. Financial motives were cited by 78% of the converters in Boulder (Hare & Williams, 1988), 76% of those in Toronto (Murdie & Northrup, 1990 as cited in Canada Mortgage and Housing Corporation, 1990)79

Local Incentives that can Encourage ADU Production

In cities that allow ADUs, local banks and credit unions are more likely than national banks to understand the market value of ADUs, and thus, they are more likely to have loan products that help homeowners build an ADU on their property.80 This local intervention can significantly incentivize the development of ADUs by removing many of the financing barriers.

that exist with national programs. For example, a Portland-based credit union called Advantis developed a rehabilitation mortgage product designed to provide local borrowers with access to capital needed to build an ADU. The program can be used to finance the purchase of a home and the addition of an ADU. It can also be used to refinance an existing mortgage and to build an ADU. The product allows homeowners to borrow up to 90% of the improved value of the home and includes the addition of an ADU as an eligible use of financing.81 There are at least 13 other financial institutions in the Portland area that have programs that can be used to finance ADUs.82 These programs can serve as a model for DC-based financial institutions interested in developing similar financing products. Doing so would not only increase access to capital for homeowners, but it would also present a business opportunity to local financial institutions.

Local governments can incentivize ADU production, as well. A recent study conducted by researchers at the University of California at Berkeley concluded that there was strong evidence to suggest that there is an emergent market for secondary units that would likely respond to regulatory streamlining.83

Santa Cruz, California has made a substantial and well-documented effort to encourage ADUs. Santa Cruz is a seaside city with a population of 54,600, and is one of the most expensive cities in the country in which to live. Like DC, one of the factors that contributes to Santa Cruz’s affordability crisis is the limited amount of land allowed for development within the city’s greenbelt.84 In 2003, Santa Cruz embraced ADUs as a means to increase the supply of affordable housing, supplement homeowner’s mortgage payments, discourage the development

81 Kol Anderson, “Finally, a Loan Product that Works for Constructing ADUs.”
83 Chapple, Wegmann, Nemirov and Dentel-Post, “Yes In My Backyard: Mobilizing the Market for Secondary Units,” 1.
84 “Accessory Dwelling Units: Case Study,” 1-3.
of illegal units, and promote sustainable infill development. There, ADUs can be developed on lots of at least 5,000 square feet in designated residential zones as long as the property owner inhabits either the main house or the ADU.\textsuperscript{85}

In addition to adopting the ordinance that regulates the development of ADUs, Santa Cruz has established an ADU development program that has removed many of the barriers associated with ADU development and vastly increased ADU production. The development program has three major components: technical assistance, a wage subsidy and apprentice program, and an ADU loan program.\textsuperscript{86}

As part of the technical assistance program, the city published an ADU Plan Sets Book that contains design concepts developed by local and regional architects. Homeowners can select one of these designs and receive permits in an expedited manner. In addition, the city offers an ADU Manual, which provides homeowners with information on making their ADU architecturally compatible with their neighborhood, zoning regulations relevant to ADUs, information on the ADU permitting process, and guidance for homeowners who wish to lease their ADU, including a draft lease that can be used as a model.\textsuperscript{87}

In addition, Santa Cruz has created an incentive to create designated affordable housing through their ADU program. Designated affordable housing is housing that is rented at a reduced rent to households who meet income requirements. Through a partnership with a local credit union, the City has developed a loan program that provides loans of up to $100,000 for


\textsuperscript{86}“Accessory Dwelling Units: Case Study,” 1-3.

\textsuperscript{87}“Accessory Dwelling Unit Manual.”
borrowers who wish to build an ADU. In exchange, the borrower agrees to designate the ADU as affordable for at least 15 years. In this particular case, the units must be affordable to households earning 80% of Area Median Income (AMI). In addition, the City has a progressive Fee Reduction/Waiver Program for homeowners who agree to make an ADU affordable for households making between 50%-60% of AMI. Units for which fees are reduced or waived remain designated as affordable housing in perpetuity.

As a response to Santa Cruz’s zoning ordinance, innovative ADU development guide, and progressive local incentives, Santa Cruz’s level of ADU production increased by 266% in the years following the adoption of the ordinance. In the ten years following the program’s introduction, more than 220 units were constructed, compared to just 120 units in the twenty years preceding the ordinance.

RECOMMENDATIONS

The provision for the development of accessory apartments in the 2016 Zoning Regulations is a critical step towards increasing the level of production of accessory apartments in the District of Columbia. However, the zoning provision will not independently encourage high levels of production. To develop a path towards scaling production of Accessory Apartments in DC it is important to recognize the parties involved, the potential benefits to each party, the interests of the parties involved, and then design a strategy that motivates each party to act. Ultimately, it will be the decision of the homeowner to construct an ADU, however, local

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89 Ibid.
officials, advocates, and industry stakeholders will all play an important role in creating an environment that encourages the production of ADUs. The following recommendations identify strategies that can encourage the production of accessory apartments in the District of Columbia.

**Steps to Encourage General Production of ADUs in DC**

Advocate for streamlined processes that encourage the production of ADUs

As mentioned, the macro-level benefits of ADUs (i.e. benefits related to smart growth, neighborhood diversification, aging-in-place, etc.) have been well documented. Just as many local advocacy groups were heavily involved in the process leading up to the zoning change that allowed for the development ADUs as a matter of right, so too will they need to be involved in the process that encourages their production. The most immediate need for advocacy is advocacy that leads to streamlined processes within District agencies that will have a role in the development of ADUs. Now that the required policy provisions exist, local practitioners must develop the complementary processes and procedures that will encourage accessory unit development. Building this capacity will require significant time and resources and will similarly require inter-agency cooperation within District government agencies who will be involved in the Accessory Apartment development process. Education and process development is needed in order to prepare offices like the Department of Consumer and Regulatory Affairs and the Office of Tax and Revenue to permit, inspect, and assess Accessory Apartments and the properties on which they exist.

Specific strategies that advocates can use to encourage action on the District’s part include highlighting the positive impact that ADUs will have on the District, including the aforementioned economic, fiscal, and social benefits. Using data from cities that have...
experienced these benefits (such as the data shown in Tables 1 and 2 and making projections for job creation and tax revenue related to Accessory Apartment production in the District would help to quantify and prove the potential impact. Because much of the action required within the District will take place in Executive Branch offices, strategies that target the Mayor’s agenda are necessary. As such, advocates should consider strategies that highlight the potential of ADUs to create “pathways to the middle class,” unsubsidized affordable housing, and increased tax revenue.

**Mobilize Industry Stakeholders**

Advocacy and education will also play an important role in mobilizing industry stakeholders who will be involved in various phases of ADU production, although the leverage points will be different than those that motivate action within the District government. Already, there is a group of early-adopter industry stakeholders that recognize the business opportunity that the by-right allowance of ADUs present. Supporting and growing this group of stakeholders will be an important step in creating an environment that encourages the production of Accessory Apartments because this group will motivate ADU production through the natural pursuit of business opportunities. This group is also likely to join advocates in encouraging the city to streamline the processes related to Accessory Apartment development. These industry stakeholders include the architects who will and design accessory apartments, the contractors who will build them, and the lenders who will finance them. The intended outcomes of this strategy are industry expertise that reduces risk to the homeowner, economies of scale created by a robust pipeline of ADU production, and local loan programs that remove many of the aforementioned barriers related to financing ADU development.
Build demand through community education and outreach

Ultimately, the production of accessory apartments in DC will lay in the hands of individual homeowners, who will choose whether to construct an ADU on their property. The factors that motivate this action will be as much about education and outreach as it will be about removing the barriers related to ADU construction. First, homeowners will need to understand what an ADU is and the individual-level benefits that ADUs present. Highlighting benefits including income potential, increased property value, and aging-in-place is likely to be particularly effective. The household-specific factors that motivate the construction of an ADU will be diverse and may vary by household demographics and neighborhood. It is important to keep this in mind when conducting outreach intended to encourage the production of ADUs.

Create an Accessory Apartment Development Guide

The next step in motivating homeowners to develop ADUs is to provide them with the tools and resources needed to construct an accessory unit. Developing an Accessory Apartment Development Guide is a critical part of this process. Using Santa Cruz’s Accessory Dwelling Unit Manual as a model, planners and advocates in DC should prepare and distribute information that educates homeowners about the process by which they can construct an accessory apartment. The guide should include:

- An explanation of the zoning code, and resources for homeowners to obtain information about the specific design and use regulations that pertain to their lot
• An explanation of the planning, permitting, and building process for accessory apartments in DC\textsuperscript{91}

• A list of industry experts who have demonstrated knowledge of the zoning code, development standards, and District development practices

• A list of local financial institutions who have demonstrated knowledge of lending practices in the District of Columbia and who may have programs that target homeowners who wish to construct accessory apartments.

• A list of known development related costs for the construction of accessory apartments, including permitting fees, and a sample budget for ADU construction

• Prototypical designs for accessory apartments and guidance for modifying a prototype to meet property-specific needs

• Information about the process related to obtaining a business license for homeowners who wish to rent their accessory apartment

It is important to note that the parties, interests, and related strategies for encouraging the general production of ADUs are interrelated. Each party has a role to play in executing the strategy that will lead to the production of accessory apartments in DC and the benefits that they offer.

\textsuperscript{91} Note: it is critical that the streamlined processes recommended in step 1 are developed before this information can be communicated
Steps for Creating Designated Affordable Housing through the Production of Accessory Apartments

As previously mentioned, the accessory apartments that are developed as a result of the zoning change will not be “designated” (i.e. income restricted) affordable housing, rather they may contribute to housing affordability by increasing the stock of housing available. Additionally, in areas where tourism is a market, accessory apartments may not be used as housing at all, but as Airbnb-like hotel space, as the DC ADU law does not require a minimum lease term.

However, there is an opportunity to encourage homeowners to designate accessory units as affordable by providing local incentives. These incentives can take shape in several forms:

- Waivers for permitting fees for homeowners who agree to designate an accessory apartment as affordable
- Property tax abatements for homeowners who agree to designate an accessory apartment as affordable
- A low-interest loan product for homeowners who agree to designate an accessory apartment as affordable

While these incentives do have financial implications for the District, the financial impact of these incentives is far lower than the cost to subsidize affordable housing through other existing programs. Thus, these incentives present an opportunity for the District to increase the production of affordable housing at a relatively low cost. Additionally, by designating boundaries in which these types of incentives are allowed, they could be used to execute very targeted strategies that encourage ADU development in certain areas where the District has a
specific interest in encouraging accessory apartment production. It is important to note that providing and managing these incentives would require additional infrastructure within the District, specifically in regard to monitoring compliance with affordability restrictions.

**Steps for Preventing Displacement through the Production of Accessory Apartments**

As mentioned, ADUs present opportunities related to housing affordability for both the homeowner and the renter. While the aforementioned incentives for encouraging the designation of accessory apartment as affordable for the renter, there are additional programs that can increase access to the housing affordability-related benefits for targeted individuals. Just as ADUs can prevent the displacement of aging individuals, so too can they prevent the displacement of low- and moderate-income homeowners by producing a rental income stream that allows a homeowner to remain in place amidst increasing housing costs. However, low- and moderate-income households may have unique challenges related to accessing the capital required to unlock that revenue stream. A local grant program could be a very effective way to ensure that low- and moderate-income households are able to access the capital needed to construct an accessory apartment. DC’s program to help low-income homeowners with historic preservation is a possible model. This program offers full turnkey services, including the agreements, inspections, and approvals needed to preserve historic properties, which would be helpful to prospective Accessory Apartment developers.
FURTHER RESEARCH

Over time, it will be important to observe and evaluate the development of Accessory Apartments in DC, as doing so may help to optimize the level of accessory unit production. Opportunities for further research include:

1. An evaluation of the effectiveness of the zoning regulations, and recommendations for policy improvements

2. An evaluation of Accessory Apartments development patterns in order to understand:
   a. Where are accessory apartments being developed?
   b. How many units have been developed?
   c. Who are the units serving? What purpose are they serving?
   d. Are ADUs contributing to housing affordability?
   e. What additional incentives might be needed?

CONCLUSION

The adoption of the Zoning Regulations of 2016 marks a critical step towards the production of Accessory Apartments in the District of Columbia. As the adoption of ZR16 ends the long process that led to the zoning change, it also begins a process that moves the conversation about accessory units from policy to practice; a process by which advocates, planners, local officials, industry stakeholders and individuals begin to collectively work to create an environment that encourages the production of Accessory Apartments. Doing so provides a unique opportunity to adaptively address DC's evolving housing needs.
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