Using Accessory Dwelling Units to Increase Housing Supply

Federal Housing Finance Agency

Listening Session
September 14, 2021

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To what extent could the increased availability of ADUs contribute to increases in housing supply?

- In California, SB 9 proposes to allow splitting any residential lot in two, and then to allow a duplex, or a main house plus an ADU, on each thusly-created lot.

- So, the answer to this question really depends on where you're at, and also the distinction between an ADU and any other form of second home on the same tax lot… or on a different tax lot… with another home on the same one… and another on the different one… becomes semantics.

- You can do the math on the potential increase in housing supply that could result. It's limited to perhaps four times the current supply within the single-unit-per-lot development type areas.

An ADU in Portland, OR

Are there parts of the country or segments of the housing market that would particularly benefit from increases in the number of ADUs?

- Any place with housing shortages would definitely benefit from ADUs
- Even locations without a general housing shortage, could receive benefits from ADUs in providing new homes in location-efficient neighborhoods
- Market segments that benefit from ADUs include empty nesters, multi-generational households, renters, and many others

In addition to increasing the supply of housing, what other policy goals should FHFA consider when thinking about ADUs – e.g., supporting homeownership, using rental income to build wealth, supporting intergenerational households, enabling seniors to stay in their homes, other goals?

- Enabling greywater-irrigated drought-resistant trees and shrubs with super-charged growth to more quickly deliver a landscape of mature landscaping for increasingly-important common outdoor areas that will be more shared and more used with an ADU on a property.

- Enabling housing cooperatives as another way to commonly hold multiple units on the same land, beyond condos.

- Supporting appraisals that properly value an ADU for the purposes of obtaining construction financing to build one, based on income potential.

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What are the major barriers to the creation of ADUs: funding to create the ADU, local land use regulations, NIMBYism, taxes on the improvements, etc.?

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- The answers to this question are all local, except for access to finance.
- Access to finance is inequitable: if you have it, you can get it, if you don't, you can't.
- FHFA needs to work with neighborhood-scale cooperatives to change this and provide equal access to the benefits of ownership and affordable occupant-owned rentals.

How can FHFA and the Enterprises help to address these barriers – e.g., through policy or programmatic changes such as a cash-out refinance, research, trainings and technical assistance, or other mechanisms?

- Widespread financing for new housing cooperatives, including whole-co-op loans that allow the co-op to itself offer unit financing using share loans, and to be fully responsible for underwriting new co-op members.

- Support for construction loans made wholly based on anticipated ADU rental income from local market averages


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ADUs are often added to existing homes, but they could also be built as part of a new development. To what extent is there interest in including ADUs with new homes among the builder/developer community?

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- Yes, there is interest
- Where it's legal, it happens
- It's a zoning hack to produce more units and thus, in theory, more income
- The problem is that appraisals often place an artificial lid on value, that does NOT equal the sum of the value of the main house plus the full value of the ADU
- This makes it difficult for this development model to be sustainable without using condos or co-ops to essentially force the system to assign a per-unit full valuation of the ADU

Both Fannie Mae and Freddie Mac currently purchase mortgage loans on properties with an ADU. Are there particular product flexibilities that the Enterprises should consider to increase support for ADUs?

- Support cooperatively held ADUs
- Support construction loans on spec based on the future revenue from a rental ADU, without needing to see a tenant contract signed in advance of construction, to provide benefits especially for historically disadvantaged community members

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What funding sources are commonly used to build ADUs?

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- Home Equity Line Of Credit (HELOC) loans
- Cash-out refinance
- Cash from the sale of other property

What other funding sources are available, including public, private, and non-profit sources?

- That's a good question
- There are very few innovative ADU financing programs available, anywhere
- Those that exist are often over-subscribed
- Or, are little more than a cash-out refinance re-branded as "ADU financing"

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How can these sources be expanded to create additional liquidity?

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- A secondary market for ADU-specific notes might allow existing ADU finance programs to scale
- Especially if it specifically catered to loans made on spec, based on future potential rental income

Do ADUs, or potential policy or programmatic changes that would support increases in the supply of ADUs, pose any particular risks to safety and soundness to the Enterprises?

- No more so than any other product type
- The greatest risk might flow from not creating an instrument that allows for the ADU to be valued independently from the primary residence, unless appraisal standards are updated

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Are there other concerns associated with ADUs that FHFA and the Enterprises should be aware of?

- Only if your concerns are preserving racial segregation and a system that is rigged to further enrich the 1%.

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