To Increase the Housing Supply, Focus on ADU Financing

Laurie Goodman

April 2024

With the nation facing an acute supply shortage, there has been much discussion about how to "fix" the issue. More intensive land use is the obvious answer, as land costs have risen far more than the costs of building structures themselves (Davis et al. 2020). This suggests an emphasis on increasing all less land-intensive housing types: multifamily housing (five or more units), two-to-four-unit construction, single-family attached construction, manufactured home shipments, and accessory dwelling units (ADUs). ADUs are small second housing units on the same lot as a single-family home; they can be attached (e.g., basement apartments or garage conversions) or detached (e.g., backyard cottages). In California, state ADU legislation removed almost all zoning and process barriers to ADU housing across all 450 cities and counties, creating uniform standards and permitting that has unlocked demand and deliveries.[1] The results clearly demonstrate that state-level zoning and regulatory changes that effectively remove barriers to a targeted variety of housing forms have tremendous potential to transform housing supply.

It is no accident that California and other states and localities that have tried to increase supply have championed ADUs. Building them is less controversial than more intensive land-use alternatives, as many homeowners can see themselves wanting the right to add an income-generating unit or a unit that can accommodate a relative. In addition, it keeps the neighborhood look and feel intact while often allowing for more affordable construction.[2]

Continuing to expand the potential of ADUs to help renters and owners of all incomes, however, requires improving access to financing that has been designed to serve primarily and only single-family home deliveries and transactions. Financing remains a real obstacle to the success of this product, even in states and localities where zoning and regulatory barriers have been largely eliminated.

In this brief, I document the success of the ADU product in California. Then, I discuss how to break down the regulatory barriers to ADUs nationwide; California has done a good job breaking down these

regulatory barriers and provides a blueprint to the rest of the nation. Third, I discuss the obstacles to finance new ADU construction, which I believe is a major barrier to increasing supply using this product. Finally, I discuss the potential for this product if we could break down the regulatory and financing barriers.

To put the supply shortage into perspective, there are about 140 million housing units in the US, of which 130 million are occupied. Of the 140 million, about 97 million are single-family homes. Parrott and Zandi (2021) peg the housing supply shortage at 1.5 million units, as that would bring vacancy rates to historical levels. Khater, Kiefer, and Yanamadra (2021) peg the shortage at 3.8 million units, accounting for both the number of units necessary to bring vacancies to historical level as well as pent-up household formation. Rosen and coauthors (2021) show that there have been 5.5 fewer housing units produced cumulatively from 2000 to 2020 than would be extrapolated from the prior three-decade averages. Alexandrov and Goodman (2024) show that there were 5.0 housing units built per 1,000 population in 2022. Although that is up from the low levels after the financial crisis, it still stands well below levels from the 1990s and early 2000s. Starts for multifamily units—though much lower than in the 1960s, 1970s, and early 1980s—have accelerated to their highest levels since the passage of the 1986 Tax Act.

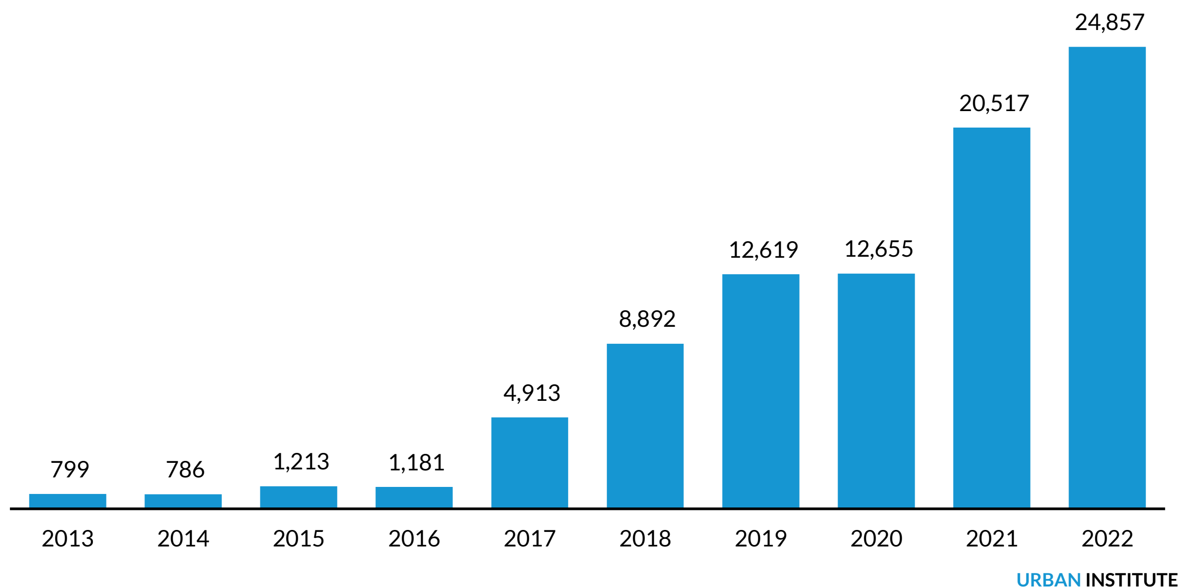
Why Are We So Optimistic about the Future of ADUs?

The California experience has been eye-opening. Since California started eliminating ADU restrictions with 2016 legislation, effective in 2017, the number of units permitted has increased dramatically, from 1,181 units in 2016 to 24,857 units in 2022 (figure 1). From 2017 to 2022, more than 84,000 new units have been permitted. Completion data are available from 2018; there have been close to 80,000 permits, and 56 percent (or 45,000 units) have been completed. The share of completions relative to the number of permits has increased, from 35 percent in 2018 to 72 percent in 2022.

These numbers could be overstated, as some of these units were unpermitted ADUs; the legislative expansion allowed for their conversion into permitted ADUs. But if this were the primary driver, we would have expected the activity to taper off, and it has not.

FIGURE 1

Accessory Dwelling Units Permitted in California



Sources: Bipartisan Policy Center (2013–17) and the California Department of Housing and Community Development (2018–22).

How does this compare with other types of construction? Table 1, using data from the California Department of Housing and Community Development, shows that in 2022, the number of ADUs permitted exceeded all other categories except traditional single-family detached homes and multifamily buildings with five or more units. In fact, the number of ADU permits, 24,857, exceeded all three other categories put together (single-family attached homes, two-to-four-unit multifamily buildings, and manufactured housing). This is even more striking given that ADUs are typically built one at a time, by single owners with little if any experience in home building, with whatever financial resources they can cobble together, whereas most multifamily products are built by professional owners and developers with greater access to professional services and a wider range of capital sources.

ADUs constituted 18 percent of total permits and total production in 2022. This is up considerably from earlier years. In 2018, ADUs constituted 8 percent of permits and 5 percent of completions.

These units are big contributors to the affordable supply. The California Department of Housing and Community Development asks whether these units are affordable to high-income borrowers (earning at least 120 percent of the area median income, or AMI), middle-income borrowers (earning 80 to 120 percent of the AMI), low-income borrowers (earning 60 to 80 percent of the AMI), and very low–income borrowers (earning less than 60 percent of the AMI). ADUs constitute 23 percent of the new completions available to middle-income families (1,998 / 8,541) and 28 percent of the new completions available to low-income families (1,677 / 5,922). But they constitute only 11 percent of the limited production available to very low–income families. Even so, these are huge increases from 2018 (figure 2).

TABLE 1

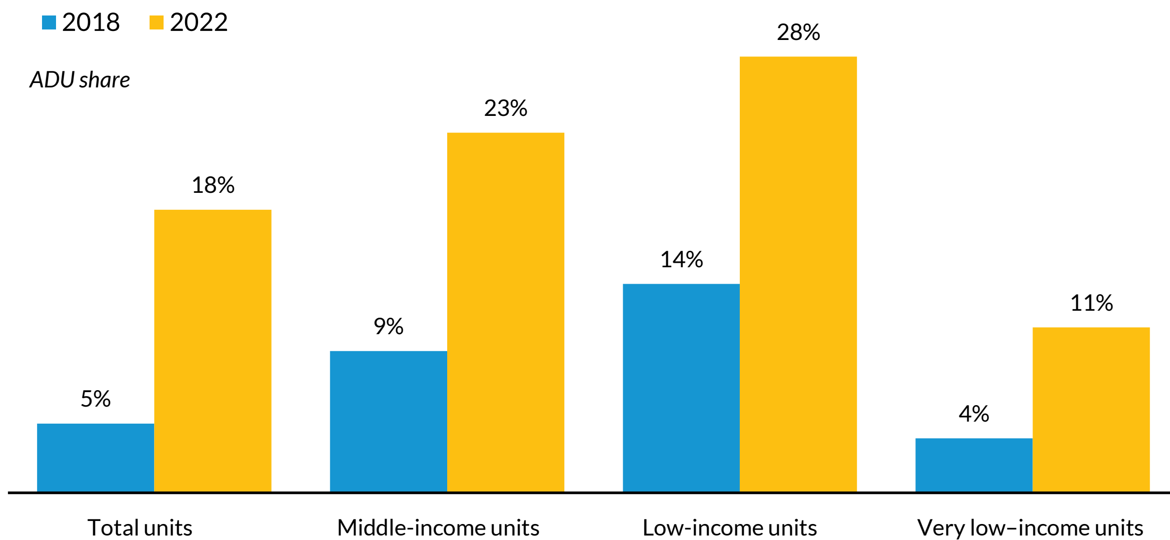
New Housing Units in California, 2022

Type	Units permitted	Units Completed: Total	Middle-income units	Low-income units	Very low–income units
ADU	24,857	18,011	1,998	1,677	519
Single-family detached home	39,550	35,180	2,694	269	34
Five-or-more-unit home	61,287	35,496	2,745	3,311	4,129
Single-family attached home	3,578	3,888	457	31	1
Two-to-four-family home	3,569	3,178	286	227	20
Manufactured home	1,703	2,226	361	407	129
Total	134,544	97,979	8,541	5,922	4,832
ADU share of the total	18%	18%	23%	28%	11%

Source: California Department of Housing and Community Development.
Note: ADU = accessory dwelling unit.

FIGURE 2

ADU Completions as a Share of All Residential Completions in California, by Unit Affordability



Source: California Department of Housing and Community Development.
Note: ADU = accessory dwelling unit.

California's Success Is No Accident but Rather the Result of Legislative Actions

The growing importance of ADU production in California is no accident. Increased production has been the direct result of deliberate legislation meant to increase the supply of ADUs. In 2016, California passed legislation, effective in 2017, to give property owners the ability to add ADUs to their property

as a matter of right, removing all zoning barriers for conversions of existing spaces (obstacles included requirements on parking, lot size, open space, and density) and moving these units straight to building permit with a short local approval deadline. The 2016 legislation immediately delivered large increases in ADU permitting (Garcia 2017) without generating huge public backlash, encouraging state officials to continue removing barriers to a greater variety of ADUs. Parking requirements were eliminated for most new-construction ADUs in 2017. Setback requirements and minimum lot size for new-construction ADUs were addressed in 2019 and again in 2022. Each obstacle was chipped away by subsequent legislation, contributing to the large number of ADUs. Table 2 shows the legislative history of California ADU bills. There are two major takeaways from this analysis. First, many obstacles required several rounds of legislation to eliminate the obstacles, as we saw above with parking and setbacks. Second, these rules could be a blueprint for the rest of the nation, which has been far less successful at ADU creation—that is, remove all zoning barriers, allow every lot in the state to have at least one ADU, subject to only state size and locational standards, and more on multifamily parcels, with just a building permit.

TABLE 2

Summary of California ADU Legislation

Year	Bills	Summary of legislation
2016	AB 2299 SB 1069	ADU conversion of existing spaces (e.g., garages and areas of the primary homes) as a matter of right, state preemption, prohibited preventive zoning requirements, reduced parking requirements, prohibited water and utility fees
2017	AB 494 SB 229	Further reduction in parking requirements, ADUs must be permitted for new construction, prohibited local bans on renting out ADUs
2019	AB 68 AB 881 AB 587 AB 670 AB 671 SB 13	Prohibited preventive zoning requirements for conversion and for detached ADUs (minimum lot size, floor area, capped setback requirements), reduced timelines for permitting, by-right approval for junior ADUs (effectively allowing three separate units per single-family lot), prohibited occupancy requirements, limited restrictions on garage conversions, allowed multiple ADUs on multifamily properties, allowed ADU sales for nonprofits, prohibited HOA restrictions on new or conversion ADUs, provided incentives for ADU construction
2021	AB 3182	Prohibited HOA restrictions on rentals
2022	AB 2227 SB 897	Further relaxed height restrictions and front setbacks, required denial reports to explain what is necessary for ADU construction to proceed
2023	AB 671 AB 1033 AB 1332	Allows cities and counties to permit ADU condos; cities and counties must have preapproved ADU plans

Sources: Owen Minott, "Accessory Dwelling Units (ADUs) in California," Bipartisan Policy Center blog, September 12, 2023, https://bipartisanpolicy.org/blog/accessory-dwelling-units-adus-in-california/; and the Urban Institute.

Note: ADU = accessory dwelling unit; HOA = homeowner's association.

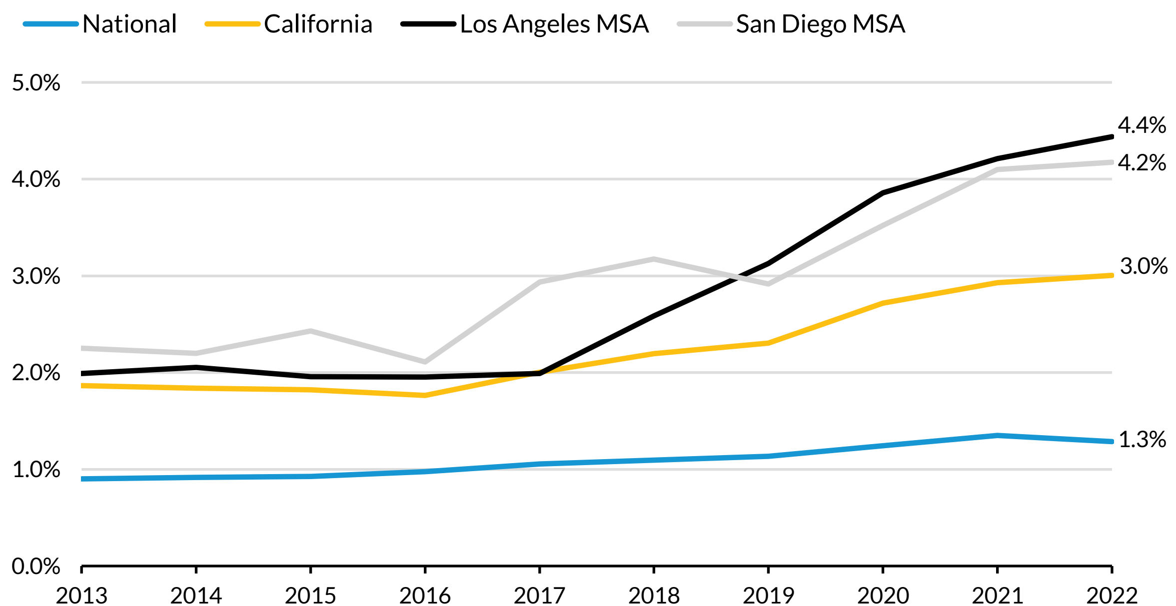
To put this success into perspective, figure 3 compares ADU production nationally with California, as well as two areas of California where new ADU construction has been particularly successful: the Los Angeles and San Deigo metropolitan statistical areas. I used the Federal Housing Finance Agency uniform appraisals database to determine the share of homes with an ADU. The nationally share is 1.3 percent, the California share is 3.0 percent, the Los Angeles share is 4.4 percent, and the San Diego

share is 4.2 percent. This database is not perfect, and appraisers are not always consistent in how they document ADUs, but the results are certainly indicative.

California is not the only state to relax zoning restrictions to encourage ADU production. Oregon, Washington, Montana, and Maine have also recently passed statewide zoning reforms, as have several cities. But California has made a deliberate effort to break down additional obstacles as they emerge, statewide, in one of the largest and most diverse states in the US, and it measures and publicizes the results. California has not been as aggressive legislatively in removing barriers for other types of high-density housing, hence the lower numbers for new single-family attached properties and two-to-four-unit properties. The same aggressive legislative approach to other higher-density housing as has been applied to ADUs would likely result in large increases in the production of those housing types as well.

FIGURE 3

Share of Appraisals with an ADU



Sources: Federal Housing Finance Agency uniform appraisals database and Urban Institute calculations.
Note: ADU = accessory dwelling unit; MSA = metropolitan statistical area.

ADU construction could be even more successful and available to low- and moderate-income families if financing were easier for ADU construction. In the next section, I review the state of ADU financing at the federal level and discuss what more can be done. Considering federal finance reform for a housing policy that delivered few homes would never have been a priority. But as California and other states unlock policy and practice reforms to ADUs, it is important to realize that changes to federal finance rules that limit the availability of ADU financing tools are critical to unlock ADU production. In fact, improving ADU financing is one of the few actions that can be taken at the federal level.

ADU Financing

ADU financing is mostly geared toward financing units with existing ADUs, not facilitating the construction of new ADUs, with recent changes to Federal Housing Administration (FHA) rules the exception to the statement above. Most of the current financing for ADUs occurs through the use of savings and other liquid assets, personal loans, and short-term loans, with home equity extraction vehicles (e.g., home equity loans, lines of credit, and cash-out refinancing) and renovation financing playing a more subdued role. Green and coauthors (2022) show the results of a 2021 University of California, Berkeley, study of more than 800 homeowners in California who built a permitted ADU. They show that 62 percent of all ADUs were financed through liquid assets, 10 percent through unsecured debt and other financing arrangements, and 43 percent through mortgage products. These shares add to more than 100 percent because some homeowners used more than one financing vehicle. Of the 43 percent of homeowners who used mortgage products to finance the ADU, 56 percent used a home equity line of credit or a home equity loan, 35 percent used cash-out refinancing, and only 6 percent used construction or renovation financing.

These results suggest that financing limits the expansion of ADUs. Homeowners who do not have the savings or liquid assets cannot use this channel, and personal loans have much higher interest rates than mortgage products. On the mortgage side, home equity extraction vehicles—home equity loans or lines of credit, and cash-out refinances—have limitations:

- These vehicles are generally capped at 80 percent of the property's current market value and do not consider the value of the improvements.
- For home equity lines of credit, the average FICO score is above 760.
- Cash-out refinances require borrowers to give up their current low-rate mortgage, which is an expensive prospect in today's high-rate environment.

In contrast, renovation financing is the most flexible option, as it allows for the consideration of the property's after-repair market value—that is, the property's value after adding the ADU. The question, then, is why in Green et al. (2022), less than 3 percent of those that added an ADU used renovation financing (6 percent of those that used a mortgage product times 43 percent of the participants who used a mortgage instrument).

Mortgage financing, where the loan's value is secured by the property, has three issues:

- it does not count rental income from an ADU or a prospective ADU
- difficulty finding comparable residences for appraisals
- renovation programs are inherently cumbersome, with high denial rates, and have other limitations aimed at ADUs

I look at each of these obstacles in turn. Green and coauthors (2022) also identified these obstacles; their article identified many of the constraints I discuss here.

Rental Income

Changes in government and government-sponsored financing over the past few years have made it possible to count rental income, but these changes are narrowly applicable. As a general matter, rental income cannot be used to qualify for financing on a new ADU; that income does make it easier to buy a home with an existing ADU. The only exception to this is FHA and VA loans. New FHA rules allow 50 percent of prospective ADU income to be used for qualification under its renovation financing program. The VA does allow for 75 percent of rental income to be used to qualify for cash-out refinancing and renovation loans, but additional requirements are such that actual use is limited. I review the rules for applying rental income for qualification to understand how narrowly applicable they are.

Freddie Mac counts 75 percent of the rental income from an existing ADU toward qualifying income for a purchase or a non-cash-out refinance mortgage, up to 30 percent of a borrower's qualifying income. The 25 percent haircut is an adjustment to compensate for vacancies, operating and maintenance costs, and other unexpected expenses. If the full year of net rental income is reflected in the previous year's tax returns (which would be applicable only on a refinance loan), the rental amount can be used without the haircut. If the full year of use is not reflected in tax returns, the rental income will be determined from the lease, complemented by an ADU rental analysis to support the rental income. If no lease is available, the ADU rental analysis will be used to support the rental income. The rental analysis consists of a rent appraisal of three comparable properties. Freddie Mac requires at least one of the properties to be an ADU. The borrower must have landlord experience or take a landlord training course. Importantly, rental income does not count for prospective ADUs or for cash-out refinances on properties with existing ADUs.

Fannie Mae is even more limited. It does not, in general, count rental income from an ADU. The only exception to this is for its HomeReady program, its affordable housing program that serves borrowers with incomes up to 80 percent of the AMI. Under this program, Fannie Mae will count 75 percent of rental income from an existing ADU toward qualifying income for a purchase or a rate-term refinance mortgage, up to 30 percent of a borrower's qualifying income. The program requires one year of tax return information; if the borrower has owned the property for less than a year, the rental income benefit is minimal. This effectively makes the program applicable to HomeReady rate-term refinances only.

The FHA revamped its rules to count rental income in October 2023. These new rules are similar, albeit slightly more generous, than Freddie Mac's. In particular, the FHA now counts 75 percent of rental income from an existing ADU to count toward qualifying income, up to 30 percent of a borrower's qualifying income for a purchase loan or non-cash-out refinance loan. Rental income does not count if the borrower has selected a cash-out refinancing. But the FHA will also allow 50 percent of the prospective income to "count" under its 203(k) renovation financing program. The choice of 50 percent of rental income rather than 75 percent likely reflects that the owners of an unconstructed unit may choose not to use it as a market rental. Chapple, Ganetsos, and Lopez (2021) found that 51 percent of the new ADUs in California were used for rental, and another 16 percent were used to provide no-cost

housing to a relative of the owner. Most of those who do not plan to use the ADU for a rental would not seek to count rental income, but the owner of the credit risk on the loan cannot guarantee that will be the case.

The FHA 203(k) renovation financing program has additional restrictions. The rental income from new construction can be counted for the addition or renovation of an attached unit but only the renovation of a detached unit. That is, new detached units cannot be financed under this program; allowing their financing requires congressional action. The FHA's rent determination is similar to Freddie Mac's: if the rental income from an existing ADU can be determined from the previous two years' tax returns, or however long the borrower has owned and rented the ADU, there is no 25 percent haircut. If this information is not available (and it generally will not be for either a purchase loan or a renovation loan), the FHA requires an ADU rental analysis plus the lease, if available. The FHA will use the lower of the lease amount or the rental analysis and apply the 75 percent or 50 percent against that number.

The VA will generally allow 75 percent of the rental income or prospective rental income to count toward qualifying the borrower for a mortgage, though the lender has the discretion to determine whether the rental income is sustainable. Although the VA guidelines are silent about whether this is applicable for prospective ADUs, the lenders I spoke to indicated it would apply to prospective units (VA, n.d.). But the lenders indicated they would likely seek VA guidance on a case-by-case basis. Thus, it appears rental income could count for cash-out refinances and renovation loans, as well as for purchase and refinance loans. The borrower must, however, have six months' reserves on hand and have documentation of previous landlord experience. The VA allows for cash-out refinances up to 90 percent of the property's appraised value, versus 80 percent for FHA and VA mortgages. Thus, a borrower could use the VA's cash-out refinance program to add the ADU, but the combination of the 90 percent of the before-renovation limit plus the six months' reserves is likely so binding, few borrowers can take advantage of it. The VA's renovation program is even more limited. The maximum dollar amount that can be taken out is low (up to $50,000), the repairs cannot be structural, and all repairs must be completed within 120 days. Few ADUs can be completed in this time frame.[3] These restrictions limit the program's utility for adding an ADU.

Appraisals

Appraisals are critical in supporting the home's value. An ADU will generally increase the home's value, but the appraisal must reflect this. Appraisals are important in securing financing for a home, where the owner plans to use a renovation or construction loan. That is, in renovation or construction financing, the appraisal is based on the property's after-repair market value. The appraisal is not relevant for obtaining financing for ADU construction when the borrower is using a cash-out refinance, home equity loan, or home equity line of credit, where the appraisal is based on the property's value without the addition of the ADU.

But appraisals are also critical to the homeowner's decision to add an ADU, as that homeowner will eventually be a home seller. Adding an ADU is generally costly, and most homeowners will want to know that their home will increase in value by at least the cost of adding the ADU.[4] They will often talk to others who have added an ADU, or real estate agents with knowledge in this area, to assess how much the ADU will add to the sales price.

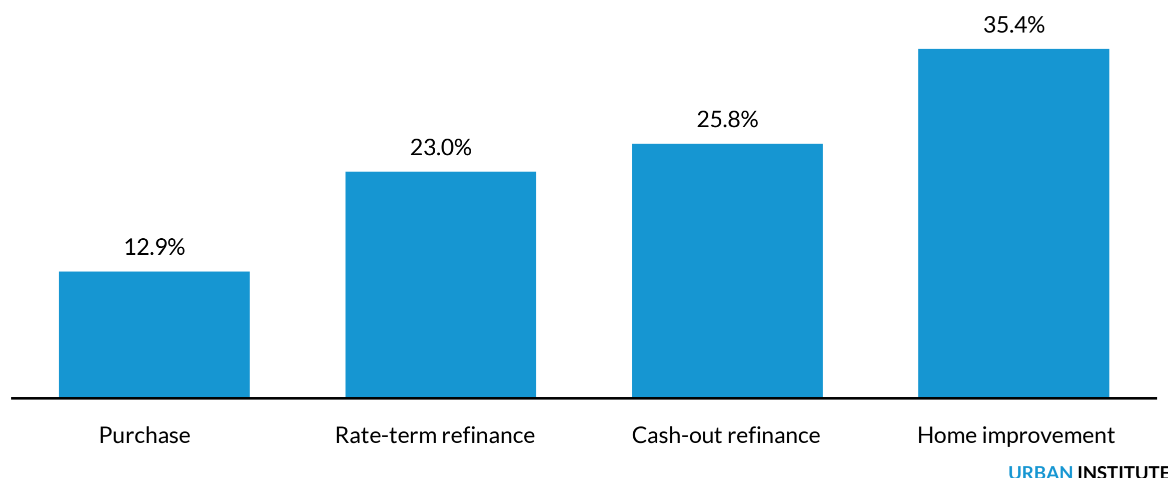
Appraisals can often be a problem for properties with ADUs, particularly in areas with few ADUs, where it can be difficult to assess the value-add. Even where there are other ADUs, there is no universal "flag" designating an ADU, making it difficult for appraisers to find comparable properties.

The Uniform Appraisal Dataset, maintained by the Federal Housing Finance Agency, contains an ADU field. But the database, as currently structured, does not allow a user to compare a unit with an ADU against another unit with similar characteristics without an ADU. That is, the ADU field is available only at the metropolitan statistical area level, and the data cannot be structured to allow the ADU variable to interact with other variables (e.g., square footage). These data could be made more user friendly to help appraisers calculate the increase in value produced by adding an ADU.

Renovation Financing Is Cumbersome

Figure 4 shows denial rates by loan purpose, calculated from 2022 Home Mortgage Disclosure Act data. Home improvement loans (denied 35.4 percent of the time) have by far the highest denial rate, much higher than the 12.9 percent for purchase loans or the 25.8 percent for cash-out refinancing. This reflects the fact that in many cases, the appraisal (based on the property's after-repair market value) does not support the loan request. The high denial rate makes it difficult to rely on renovation financing for ADU construction (Kaul, Goodman, and Neal 2021).

FIGURE 4
Denial Rates, by Loan Purpose, 2022



Sources: 2022 Home Mortgage Disclosure Act data and Urban Institute calculations.

Federal programs for renovation financing include the FHA's 203(k) program, the VA's renovation program, and the government-sponsored enterprises' (GSEs') renovation programs (Fannie Mae's HomeStyle Renovation and Freddie Mac's CHOICERenovation programs). The FHA's 203(k) program has two forms: a limited form that permits nonstructural repairs up to $35,000 (or $50,000 in high-need areas) and a standard form that requires the use of a US Department of Housing and Urban Development consultant. The FHA is in the process of raising the threshold for the use of the limited program to $50,000 (or $75,000 in high-cost areas). It is also proposing to extend the completion window for the limited program from 6 months to 7 months and for the standard program from 6 months to 10 months. The VA allows the homeowner to borrow up to $50,000 but does not allow structural renovations or additions. Moreover, repairs must be completed within 120 days. Fannie Mae and Freddie Mac's home renovation lending programs do not require the borrower to hire a consultant, but the GSEs have recourse to the lenders for the risk of cost overruns and poor-quality repairs.[5] Although this rule clearly reduces the risk to the GSEs, it limits lender participation and keeps the program from reaching its potential. The issue could be mitigated by eliminating the recourse requirement and by giving borrowers a limited menu of GSE-approved contractors that have agreed to maintain a certain level of quality, efficiency, and cost control. The prospect of losing US Department of Housing and Urban Development– or GSE-approved status should give contractors a strong incentive to carry out the work on schedule and within budget.

In addition to the general problems with renovation financing, there are specific problems when applied to ADU financing:

- The FHA does not allow the financing of detached units. The VA does not allow for structural repairs, and all repairs must be completed within 120 days.[6]
- The FHA and Fannie Mae do not finance ADUs on two-to-four-unit properties.
- None of the government agencies will finance more than one ADU per property, even if state laws allow it. For example, California allows an ADU and a junior ADU. And in San Diego, if a homeowner adds a deed-restricted ADU, they are entitled to add one additional unrestricted ADU. If the property is within the Transit Priority Area, there is no limit on the number of bonus ADUs, subject to space.[7] If the property is not within the Transit Priority Area, two bonus ADUs, one restricted and one unrestricted, can be added, for a total of four.
- Freddie Mac and Fannie Mae do not count rental income in their renovation financing programs.

Some states and localities are doing innovative financing programs, where those that want to create ADUs do not face the same obstacles present in many federal programs. But most of these programs entail some type of subsidy, which limits the ultimate scalability. Some of these financing programs also allow for a lower-than-market interest rate, others have a grant component, and still others have a shared appreciation feature. ADUs, nationwide at scale, will ultimately require the widespread use of federal government (or government-sponsored) programs—namely FHA, VA, and GSE programs.

What Is the Potential for ADUs?

We have seen that changes in California legislation have unleashed considerable ADU production. In 2022, ADUs constituted 18 percent of total new residential construction in the state (figure 2). This is no accident, as California has systematically enacted new legislation to knock down barriers to the prohibition of ADUs. This offers a playbook to the rest of the nation.

If this California playbook became the nationwide playbook, ADUs nationwide could increase considerably. We know that there are 89 million detached single-family homes in the US. If the share of homes with an ADU increased from the nationwide level of 1.3 percent to the California level of 3.0 percent, this would produce 1.5 million additional units (figure 3). For a more conservative estimate, even if we use the California improvement from 2016 to 2022, we get 1.1 million additional units. And further gains are likely if financing can be improved. Indeed, the California experience shows that ADUs can be the single most promising way to increase supply. These zoning, policy, and process reforms are one of the most exciting developments nationally to expand housing supply for households at a range of incomes. We hope that promise can be achieved, as it would go a long way toward closing the supply-demand housing imbalance across the United States.

Notes

1 California has not been as aggressive in removing barriers for other types of housing.

2 Daniel Herriges, "If You're Going to Allow ADUs, Don't Make It So Hard to Build One," Strong Towns, September 11, 2018, https://www.strongtowns.org/journal/2018/9/11/if-youre-going-to-allow-adus-dont-make-it-so-hard-to-build-one; and "Accessory Dwelling Units," Local Housing Solutions, accessed April 18, 2024, https://localhousingsolutions.org/housing-policy-library/accessory-dwelling-units/.

3 The consensus seems to be that the total time to construct an ADU is six months to a year. Even excluding the permitting and design phases, it is unlikely that the site preparation, building, utility hookups, and final inspection and finishing touches can be completed in 120 days (four months). See "How Long Does It Take to Build an Accessory Dwelling Unit (ADU)?" SKS blog, July 28, 2023, https://sksconstruction.com/how-long-does-it-take-to-build-an-accessory-dwelling-unit-adu/; and "How Long Does It Take to Build an ADU?" Villa Homes, accessed April 18, 2024, https://villahomes.com/blog/how-long-to-build-adu/. Utility approvals are often a source of significant delay. See Lisa Boone, "You Do ADU, Part 6: Advice from Your Neighbors Who Have Already Done This," *Los Angeles Times*, May 3, 2023, https://www.latimes.com/business/real-estate/newsletter/2023-05-03/lessons-from-people-who-have-built-adu-in-la-you-do-adu.

4 Chapple, Ganetsos, and Lopez (2021) surveyed those who obtained a permit to construct an ADU or received a certificate of occupancy for an ADU in California in 2018 and 2019. Respondents indicated the cost of adding an ADU in California was $150,000, or $250 per square foot. This is much cheaper than adding a new unit of another type.

5 Freddie Mac's CHOICERenovation Express, in which repairs are limited to 10 percent of the property's purchase price (or 15 percent in high-need areas), does not have lender recourse.

6 The FHA is in the process of allowing for higher loan limits in its Title I program for home-only mortgages. Detached manufactured housing units may be able to qualify for this program once the changes are approved.

7 Moderate-income deed-restricted ADUs must have affordability restrictions in place for 15 years, and low-income deed-restricted ADUs must have affordability restrictions in place for 10 years (SDHC, n.d.).

References

Alexandrov, Alexei, and Laurie Goodman. 2024. *Place the Blame Where It Belongs: Lack of Housing Supply Is Largely Responsible for High Home Prices and Rents*. Washington, DC: Urban Institute.

Chapple, Karen, Dori Ganetsos, and Emmanuel Lopez. 2021. *Implementing the Backyard Revolution: Perspectives of California ADU Owners*. Berkeley: University of California, Berkeley, Center for Community Innovation.

Davis, Morris A., William D. Larson, Stephen D. Oliner, and Jessica Shui. 2020. *The Price of Residential Land for Counties, ZIP Codes and Census Tracts in the United States*. Working Paper 19-01. Washington, DC: Federal Housing Finance Agency.

Garcia, David. 2017. "ADU Update: Early Lessons and Impacts of California's State and Local Policy Changes." Berkeley: University of California, Berkeley, Terner Center for Housing Innovation.

Gerecke, Sarah, Joseph Schilling, Jung Hyun Choi, Linna Zhu, John Walsh, and Peter J. Mattingly. 2022. *Low-Rise Infill Housing in Los Angeles: Can SB 9 Meet the City's Housing Needs?* Washington, DC: Urban Institute.

Green, Richard K., Ben Metcalf, David A. Garcia, and Eric Valchuis. 2022. "ADU Construction Financing: Opportunities to Expand Access for Homeowners." Los Angeles: University of Southern California Lusk Center for Real Estate; Berkeley: University of California, Berkeley, Terner Center for Housing Innovation.

Kaul, Karan, Laurie Goodman, and Michael Neal. 2021. "The Role of Single-Family Housing Production and Preservation in Addressing the Affordable Housing Supply Shortage." Washington, DC: Urban Institute.

Khater, Sam, Len Kiefer, and Venkataramana Yanamadra. 2021. "Housing Supply: A Growing Deficit." McLean, VA: Freddie Mac.

Parrott, Jim, and Mark Zandi. 2021. "Overcoming the Nation's Daunting Housing Supply Shortage." Washington, DC: Urban Institute.

Rosen, Kenneth T., David Bank, Max Hall, Scott Reed, and Carson Goldman. 2021. "Housing Is Critical Infrastructure: Social and Economic Benefits of Building More Housing." Berkeley, CA: Rosen Consulting Group.

SDHC (San Diego Housing Commission). n.d. "City of San Diego Accessory Dwelling Unit (ADU) Bonus Program Application Process: San Diego Housing Commission (SDHC)." San Diego: SDHC.

VA (US Department of Veterans Affairs). n.d. "Credit Underwriting." In *Lender's Handbook: VA Pamphlet 26-7, Revised*, 4-1–55. Washington, DC: VA.

About the Authors

Laurie Goodman is an Institute fellow and the founder of the Housing Finance Policy Center at the Urban Institute. The center provides policymakers data-driven analyses of housing finance policy issues they can depend on for relevance, accuracy, and independence. Before joining Urban, Goodman spent 30 years as an analyst and research department manager at several Wall Street firms. From 2008 to 2013, she was a senior managing director at Amherst Securities Group LP, a boutique broker-dealer specializing in securitized products, where her strategy effort became known for its analysis of housing policy issues. From 1993 to 2008, Goodman was head of global fixed income research and manager of US securitized products research at UBS and predecessor firms, which were ranked first by *Institutional Investor* for 11 straight years. Before that, she held research and portfolio management positions at several Wall Street firms. She began her career as a senior economist at the Federal Reserve Bank of New York. Goodman was inducted into the Fixed Income Analysts Hall of Fame in 2009. Goodman serves on the board of directors of MFA Financial and Arch Capital Group Ltd. and is a consultant to the

Amherst Group. Goodman has published more than 200 journal articles and has coauthored and coedited five books. She has a BA in mathematics from the University of Pennsylvania and an AM and PhD in economics from Stanford University.

Acknowledgments

This brief was supported by the Housing Finance Innovation Forum, a group of organizations and individuals that support high-quality independent research that informs evidence-based policy development. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission.

The views expressed are those of the author and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute's funding principles is available at urban.org/fundingprinciples.

The author would like to thank Susan Brown, Richard K. Green, Jonathan Lawless, Noerena Limón, Denise Pinkston, and Janneke Ratcliffe for helpful comments, and Matthew Pruitt and Katie Visalli for superb research assistance.

500 L'Enfant Plaza SW
Washington, DC 20024

www.urban.org

ABOUT THE URBAN INSTITUTE

The Urban Institute is a nonprofit research organization that provides data and evidence to help advance upward mobility and equity. We are a trusted source for changemakers who seek to strengthen decisionmaking, create inclusive economic growth, and improve the well-being of families and communities. For more than 50 years, Urban has delivered facts that inspire solutions—and this remains our charge today.

Copyright © April 2024. Urban Institute. Permission is granted for reproduction of this file, with attribution to the Urban Institute.