



# OAKLAND ADU INITIATIVE

## EXISTING CONDITIONS AND BARRIERS REPORT

JANUARY 2020





# Oakland ADU Initiative

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The objectives of the City of Oakland Accessory Dwelling Unit (ADU) Initiative are to expand the availability of housing that is affordable to tenants, reduce displacement risk for lower-income homeowners and families to stabilize neighborhoods, and reduce racial disparities related to ADUs.

These objectives build off the City of Oakland’s previous efforts related to housing and equity. In 2016, Mayor Libby Schaaf convened the Oakland Housing Cabinet, a working group of housing experts and community stakeholders, to develop a strategy to address the housing affordability crisis. The working group’s 2016 report, *Oakland at Home*, identified the construction of accessory dwelling units (ADUs) (referred to as “Secondary Units” in Oakland’s Municipal Code) as one piece of the solution. ADUs are commonly recognized as an opportunity to:

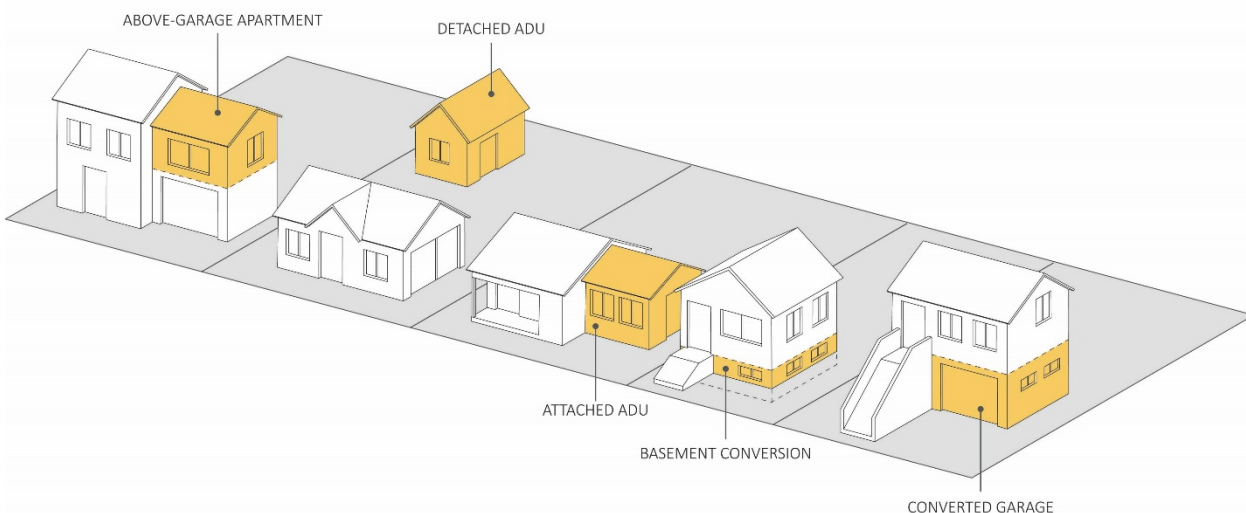
- Increase housing supply and the range of housing types available to tenants.
- Provide cost-effective, “affordable-by-design” housing in predominately single-family neighborhoods, many of which have immediate access to transit and amenities.
- Stabilize existing single-family neighborhoods by creating rental income for homeowners to help subsidize the cost of home ownership.
- Allow families to support each other across generations while maintaining independent households and opportunities to age in place.

### What is an ADU?

An Accessory Dwelling Unit (ADU), also called a granny flat or in-law unit, is a residential unit that can be added to a lot with an existing single-family home (or, starting in 2020, a multi-family building). To be considered an ADU, the unit must have its own kitchen, bathroom, living area, and entrance. ADUs are typically occupied by a rent-paying tenant, the property owner’s friends or family, or the property owner themselves.

As shown in **Figure 1** below, ADUs can take different forms, including a freestanding backyard cottage; a garage that has been turned into an apartment; or a part of the main house, such as a first floor or basement, that has been converted to an apartment.

Figure I. Forms of ADUs



By encouraging ADU construction through new regulations, policies, and practices, the City can incentivize addition of housing affordable to moderate incomes in neighborhoods that have more restrictive lower density and single-family zoning. In 2017, the City launched a racial equity initiative to integrate the principle of “fair and just” into all City policies and practices to achieve equitable outcomes for all people and communities. Consistent with these efforts, this project applies an equity lens to study existing racial disparities in the context of housing in Oakland and considers how changes in City ADU policies and programs could further the City’s goals related to racial equity.

To facilitate the construction of more ADUs throughout the city, we must understand the barriers that deter property owners from considering an ADU and the barriers experienced by those who do construct ADUs. This report identifies these barriers, some that are directly related to City processes and regulations, and others that are less directly tied to the City, such as problems finding a contractor or financing.

Recognizing the effects of redlining<sup>1</sup> in Oakland and the City’s commitment to combatting the wealth disparities redlining and racial segregation created, this report also details the racial makeup of homeowners, renters, and cost-burdened households. By understanding the current landscape of housing options related to income and race, the City can be in a better position to craft equity-driven policies and programs so that ADUs can be used to reduce racial disparities related to housing and wealth.

After this report, the project team will continue to the next phase of the project: Solutions Identification. As part of the Solutions Identification phase, the high-level solutions included in this

<sup>1</sup> Redlining refers to the practice of denying mortgages based on race and ethnicity. The term redlining comes from marking neighborhoods in red when they were predominately occupied by minorities and thus considered high-risk or “hazardous” for mortgage lenders. Historic redlining maps of Oakland can be found at <https://dsl.richmond.edu/panorama/redlining/#loc=12/37.81/-122.269&city=oakland-ca>.

report will be further defined and prioritized. After solutions are identified, they will be reviewed by the City and strategies and a schedule for implementation will be developed. A public campaign will complement the policy and program changes to inform homeowners and promote the possibility of constructing an ADU with knowledge of the resources available.

This project is funded by a One Bay Area Technical Assistance grant from the Metropolitan Transportation Commission (MTC)/Association of Bay Area Governments (ABAG). Technical assistance is being led by Urban Planning Partners (UPP), with support from Economic & Planning Systems, Inc. (EPS) and Debra Sanderson.

This report begins with an Executive Summary. It is then divided into six sections, listed below, based on our different research methods. **Each of the prongs of research identified different barriers, which are included in each section and summarized at the end of the report.**

- **Section 1, Background and Literature Review.** Summarizes existing literature and the characteristics of Oakland's current permitted and unpermitted ADUs.
- **Section 2, Oakland Demographics and Housing.** Provides contextual data on housing tenure, race, and income and explores the prevalence of demographic indicators of ADU demand in Oakland.
- **Section 3, Regulatory Review.** Describes the policies and programs that regulate ADUs and tenant protections.
- **Section 4, ADU Potential.** Presents spatial analyses that uncover how zoning and development standards impact Oakland's ADU development potential.
- **Section 5, Financial Considerations.** Analyzes construction costs and rent yields to evaluate the financial feasibility of ADU construction in Oakland neighborhoods. Existing financing options for ADUs are summarized.
- **Section 6, Stakeholder Experiences.** Describes the results of an online survey, focus groups, and interviews.

The report ends with an overview of Solution Focus Areas. These potential solutions are high-level concepts to guide and inform areas where the City can focus resources on potential solutions. Feedback received on the report and Oakland's specific circumstances will dictate which solutions are appropriate for Oakland to move forward.



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# Executive Summary

This Executive Summary provides an overview of the research methods used and the barriers to ADU construction identified in the research. By understanding the barriers to ADU construction, we can identify and implement process, policy, and program solutions to overcome these barriers so that more moderate-income housing can be built more cost-effectively. To that end, this report also introduces potential solution focus areas. After this report, the project team will identify and assess more detailed solutions for prioritization and implementation.

## RESEARCH METHODS

The research methods used in this report include the following:

- Reviewing and synthesizing existing literature.
- Compiling and analyzing project characteristics of permitted ADUs in Oakland.
- Analyzing demographic data on housing, race, and income in Oakland and demographic indicators of ADU demand.
- Reviewing the financial and regulatory environment related to ADU construction and tenant protections.
- Estimating Oakland's ADU development potential and the number of existing unpermitted units.
- Conducting stakeholder outreach, including an online survey, four focus groups, and 12 interviews.

## BACKGROUND AND LITERATURE REVIEW

Existing research has identified several barriers to ADU development, including barriers related to cost and financing, the permitting process and fees, and becoming a landlord. Despite these barriers, according to City data from 1990 to 2019, there are at least 522 permitted ADUs in Oakland. The City has seen a dramatic uptick in ADU applications since 2016. The City's data on permitted units indicate that permitted ADUs are geographically and socioeconomically spread in a manner that is reflective of Oakland at large. Based on a limited sample of survey takers, garage conversions are the most popular type of ADU in Oakland (including both permitted and unpermitted units). The average Oakland ADU is approximately 540 square feet and costs between \$175,000 and \$263,000 to build. On average, ADU homeowners report that it took four months to complete the permitting process with payment of \$14,000 to \$15,000 on average in fees. Many homeowners have bypassed the permitting process; we estimate that between 11 and 20 percent of single-family homes in Oakland likely have an unpermitted ADU, totaling between 7,500 and 13,600 existing unpermitted ADUs citywide.

## OAKLAND DEMOGRAPHICS AND HOUSING CHARACTERISTICS

There are racial disparities in Oakland related to income, homeownership, cost burden of housing (for homeowners and renters), loan denial, and underwater mortgages. Demographic indicators of ADU demand are prevalent in Oakland, with space underutilization and the presence of seniors occurring in over half of households, and the presence of a person with disability occurring in over one third of households. However, for all three of these factors that indicate ADU demand, lower income

households experience them the most. The majority (73 percent) of single-family residences are owned with at least 50 percent equity. Category I ADUs built within the footprint of the existing house may be a promising focus area for lower-income households, since over half (51 percent) of households with underutilized space and incomes under \$49,000 own their home free and clear.

## REGULATORY REVIEW

There are a variety of local and State laws that regulate where ADUs can be constructed, what design and development standards apply, and how they can be used. State law has progressively made ADU development easier by requiring local jurisdictions to loosen requirements around parking, utility connections, fire sprinklers, setbacks, lot coverage, minimum lot size, replacement parking, owner occupancy, setbacks, and impact fees. One of the State laws passed in 2019 requires jurisdictions to allow ADUs up to 800 square feet and 16 feet high with 4-foot side and rear setbacks. The 2019 State laws became effective January 1, 2020. The City is currently working to bring its regulations into compliance with these new laws.



*An approximately 400-square foot detached ADU in Oakland designed by Inspired Independence. This ADU is home to a grandmother who downsized after helping her adult son (who now has a son of his own) buy the main house. Photo courtesy of Carrie Shores.*

In addition to State and local requirements on where ADUs can be built and the development standards they must meet, many ADUs in Oakland are subject to tenant protection laws. Oakland's Rent Adjustment Ordinance restricts how often and how much landlords may raise rents. The City's Just Cause for Eviction Ordinance prohibits landlords from evicting a tenant unless the tenant breaches one of eleven allowed causes for eviction. The applicability of these protections to ADUs depends on when the ADU was built and the type of ADU:

- Units subject to **rent control** include (1) all units created before January 1, 1983 and (2) units created after January 1, 1983 through the conversion of existing habitable space (such as a bedroom or home office).
- Units subject to **just cause for eviction rules** include (1) all ADUs constructed before December 31, 1995 and (2) ADUs created after December 31, 1995 through the conversion of existing residential space.

## OAKLAND'S ADU POTENTIAL

Based on the City's existing regulations on which existing land uses and zoning districts allow ADUs (i.e., not considering the 2019 State laws), spatial analyses indicate that Oakland has approximately 52,480 parcels that could accommodate a Category One ADU (i.e., an ADU created through the conversion of space within an existing building). When the City's existing development standards related to maximum lot coverage, floor area requirements, and setbacks were applied to a random sample parcels, only 30 to 50 percent of the parcels could accommodate a compliant Category Two ADU (i.e., an ADU built outside of an existing building), indicating there are approximately 18,000 lots in Oakland that can accommodate a Category Two ADU. East Oakland and Deep East Oakland were the areas that could more easily accommodate Category Two ADUs, while the Oakland Hills are the most restrictive area for Category Two ADUs.

## ADU FINANCIAL CONSIDERATIONS

The cost to develop an ADU varies significantly based on a range of factors, such as building age and condition (in case of remodel or attached ADUs), ADU size, level of finishes, and other factors. Construction of a new detached unit is generally the most expensive on a spectrum of ADU options, with development cost ranging from \$300 per square foot to \$500 per square foot. For new detached units, costs may be driven up by the extent of utility connections required, school fees, and associated fees, estimated to average over \$15,000 for a detached 720 square foot-unit. Where practicable, the lowest cost option is conversion of space in an existing home, such as a basement or an attic, with total development costs potentially as low as \$50 per square foot. Indeed, conversions have been the most common ADU type in Oakland, with over 50 percent of survey respondents reporting conversions of existing space to an ADU.

The ADU financing industry is in the startup phase with no established loan product, legal documentation, or consistent valuation criteria established on a large scale among national lenders. Research from the Pacific Northwest and the results of the online survey of Oakland homeowners indicate that most ADUs are self-financed through cash savings or utilize a home equity line of credit or home equity loan. For homeowners that do have access to capital and intend to put their ADU on the rental market at prevalent local rates, ADU development is generally financially feasible for both relatively low-cost partial home conversions and more costly new detached unit types. This is based on several tested ADU prototypes in various neighborhoods of Oakland. Conversions generate higher returns than detached construction because they cost less while achieving comparable rents. Development in the city's higher rent neighborhoods like North Oakland or Downtown is more financially feasible than in East Oakland, but ADU construction still appears to be feasible in East Oakland.

## STAKEHOLDER EXPERIENCES

Stakeholder outreach was conducted, including an online survey, four focus groups, and over ten interviews. Outreach indicated that construction costs, the complexity of the permitting process, and permitting fees are all barriers for homeowners that completed the process, while cost, City zoning and development regulations, and concerns about just cause tenant protections were bigger barriers for homeowners without ADUs. Outreach with low- and moderate-income homeowners indicated the need for more project management guidance and support throughout the whole process to support these homeowners (in addition to financial help). Focus group participants with low and moderate

incomes were less likely to support restrictions on the income of ADU occupants compared to their higher income peers.

## BARRIERS IDENTIFIED

The research methods summarized above consistently revealed the following barriers to ADU development:

- **City procedures and practices** are daunting to the typical homeowner, especially those with limited resources. Even savvy applicants express frustrations over conflicting information, limited transparency, and a lack of upfront understanding on what to expect.
- **Unpermitted units** are prevalent, but there is little incentive to bring these units into the official housing stock.
- **Rules and requirements are overly restrictive** and hinder ADU development.
- The **applicability of tenant protections** is a source of fear and confusion for homeowners.
- Low- and moderate-income homeowners are less likely to support **restrictions on the income of ADU occupants** compared to higher-income homeowners.
- The **cost of construction and permitting** is very expensive, and especially challenging to low-income homeowners. Financing products are still emerging, and many homeowners, particularly low-income homeowners, are reluctant to expose themselves to the risk of using their home equity to fund ADUs.

## SOLUTION AREAS

The City could focus on several potential solution areas to overcome these barriers. The potential changes could focus on the following aspects of the ADU development process:

- Make the City's **process more manageable** to homeowners by focusing on accessibility, consistency, clarity, and being customer-friendly.
- Change **regulations** to encourage ADUs.
- Develop **applicant and landlord resources** to demystify rules and regulations.
- Create **standardization** for plan check comments and planning and building code interpretations.
- Develop **financial tools and other programs** to assist homeowners in funding an ADU, particularly for low- and moderate-income homeowners.
- Provide an **incentive to legalize** unpermitted units.



# Background and Literature Review

This section synthesizes previous research on barriers to ADU construction and outlines the characteristics of existing, permitted ADUs in Oakland.

## LITERATURE REVIEW

The existing literature identifies a number of barriers households face when pursuing ADU construction:

- **Development, school, utility connection, and permitting fees.** ADUs impact neighborhood infrastructure differently than larger scale development and often house individuals without school-aged children. However, property owners building an ADU are oftentimes subject to the same fees as large-scale developers.<sup>2</sup>
- **Project delays.** Surveys of ADU owners in the Pacific Northwest suggest that the vast majority of homeowners (~70 percent) experienced unexpected delays during the ADU construction process. Homeowners reported that the most common cause of delay was the permitting process and delays often lead to increases in project costs.<sup>3</sup>
- **Financing.** Limited loan products are available to those looking to construct ADUs and many lenders perceive the ADU market as presenting additional risk to lenders. Given that lending institutions do not allow appraisals to factor in future rental income as standard practice, current financial options favor higher-income households with existing home equity. Public financing or

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<sup>2</sup> Garcia, David. “ADU Update: Early Lessons and Impacts of California’s State and Local Policy Changes.” Turner Center, December 2017. [http://turnercenter.berkeley.edu/uploads/ADU\\_Update\\_Brief\\_December\\_2017.pdf](http://turnercenter.berkeley.edu/uploads/ADU_Update_Brief_December_2017.pdf).

<sup>3</sup> Chapple, Karen, Jake Wegmann, Farzad Mashhood, and Rebecca Coleman. “Jumpstarting the Market for Accessory Dwelling Units: Lessons Learned from Portland, Seattle, and Vancouver.” Turner Center for Housing Innovation and Center for Community Innovation, April 2018. [http://turnercenter.berkeley.edu/uploads/ADU\\_report\\_4.18.pdf](http://turnercenter.berkeley.edu/uploads/ADU_report_4.18.pdf).

other public – private partnerships may be necessary to allow a wider range of households to benefit from ADU construction.<sup>4</sup>

- **Use restrictions.** Surveys of ADU owners in the Pacific Northwest suggest that homeowners value their ability to use ADUs flexibly as their needs change over time. Research also suggests that only a small fraction of homeowners (~12 percent) intend to use their ADU as a short-term rental. Accordingly, restrictions on the future use of ADUs may discourage homeowners from pursuing ADU construction due to concerns that they will not be able to use their ADU as they see fit as their needs change over time.<sup>5</sup>
- **Rent control and “just cause” eviction policies.** In the City of Oakland, there are a variety of tenant protection ordinances and policies, and additional regulations have been adopted in the past couple years. These policies and regulations may apply to ADU rentals depending on a variety of factors, including the year the ADU was constructed and whether the ADU is a new detached structure or being converted from existing space within the main home. For a lay homeowner attempting to rent an ADU for extra income, it can be daunting to navigate the maze of restrictions regulating the relationship between tenants and landlords.<sup>6</sup>
- **Homeowner building and landlord inexperience.** Interviews with low-income households in Seattle reveal that homeowners need help navigating the permitting process, learning about what building options would work on their property, understanding the costs, financing the project, understanding zoning regulations and inspection process, and managing rental issues and overseeing tenants after becoming a landlord.<sup>7</sup>
- **Development standards.** Zoning restrictions on parking, number of allowable floors, lot size, lot coverage, allowable floor area, and setbacks can make ADUs impossible to build on some lots, although California State and local governments have taken steps to reduce these restrictions.<sup>8</sup> California localities with less restrictive regulations receive more frequent applications to build ADUs.<sup>9</sup>

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<sup>4</sup> Chapple, Karen. “Technical Report: ADU Financing Issues in Unincorporated San Mateo County.” Center for Community Innovation, University of California Berkeley, July 28, 2017. [https://housing.smcgov.org/sites/housing.smcgov.org/files/2nd\\_Unit\\_Financing\\_IssuesReport.pdf](https://housing.smcgov.org/sites/housing.smcgov.org/files/2nd_Unit_Financing_IssuesReport.pdf).

<sup>5</sup> Chapple, Karen, Jake Wegmann, Farzad Mashhood, and Rebecca Coleman. “Jumpstarting the Market for Accessory Dwelling Units: Lessons Learned from Portland, Seattle, and Vancouver.” Turner Center for Housing Innovation and Center for Community Innovation, April 2018. [http://turnercenter.berkeley.edu/uploads/ADU\\_report\\_4.18.pdf](http://turnercenter.berkeley.edu/uploads/ADU_report_4.18.pdf).

<sup>6</sup> Garcia, David. “ADU Update: Early Lessons and Impacts of California’s State and Local Policy Changes.” Turner Center, December 2017. [http://turnercenter.berkeley.edu/uploads/ADU\\_Update\\_Brief\\_December\\_2017.pdf](http://turnercenter.berkeley.edu/uploads/ADU_Update_Brief_December_2017.pdf).

<sup>7</sup> Levy, Susie. “A Racial Equity Toolkit on Policies for Accessory Dwelling Units.” Councilmember Mike O’Brien’s Office, October 2018. <http://seattle.legistar.com/View.ashx?M=F&ID=6669924&GUID=CC73E51B-84BB-478F-B325-93BA05E03F2B>.

<sup>8</sup> Chapple, Karen, Jake Wegmann, Farzad Mashhood, and Rebecca Coleman. “Jumpstarting the Market for Accessory Dwelling Units: Lessons Learned from Portland, Seattle, and Vancouver.” Turner Center for Housing Innovation and Center for Community Innovation, April 2018. [http://turnercenter.berkeley.edu/uploads/ADU\\_report\\_4.18.pdf](http://turnercenter.berkeley.edu/uploads/ADU_report_4.18.pdf).

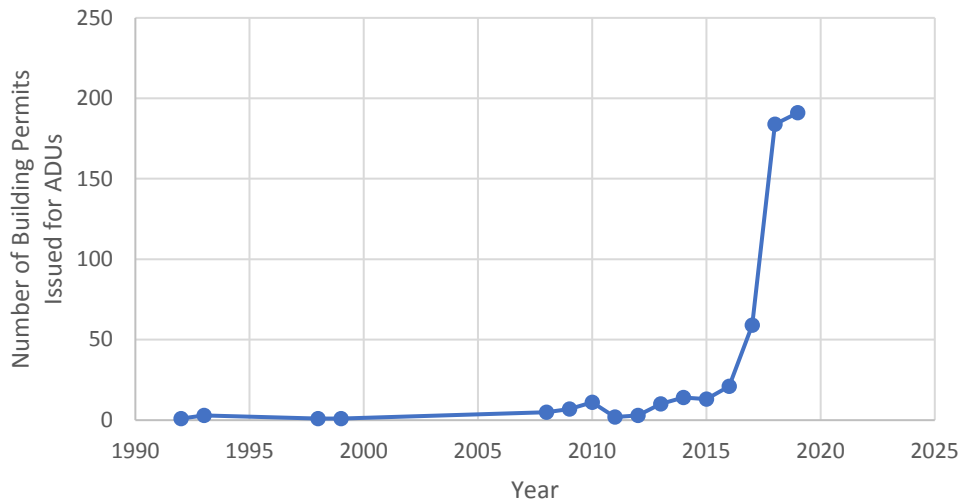
<sup>9</sup> Pfeiffer, Deirdre. “Regulating ADUs in California: Local Approaches and Outcomes.” Turner Center for Housing Innovation and Center for California Real Estate, May 16, 2019. [http://californialanduse.org/download/Pfeiffer\\_Regulating\\_ADUs\\_in\\_California.pdf](http://californialanduse.org/download/Pfeiffer_Regulating_ADUs_in_California.pdf).

## CHARACTERISTICS OF EXISTING ADUS IN OAKLAND

### TRENDS IN ADU DEVELOPMENT

City of Oakland building permit data collected since 1990 indicate that there are at least 522 permitted ADUs in Oakland. **Figure 2** shows the increase in ADU building permits issued by the City of Oakland since 1990. The graph is based on Accela data provided by the City of Oakland and shows a clear uptick in building permits following the passage of State legislation in 2016 that relaxed restrictions on ADUs.

Figure 2. Number of ADU Permits Issued in Oakland



### GENERAL CHARACTERISTICS



*Photos of a detached ADU in Oakland’s Rockridge neighborhood. The owner purchased and installed a prefabricated ADU from Studio Shed and rents it out as corporate housing for supplemental income. Photo courtesy of Stuart Fishman.*

**Table I** shows the general characteristics of the ADUs in our survey sample of Oakland homeowners and financial characteristics based on the results of EPS’ financial analysis. Survey responses may contain data on both permitted and unpermitted units. These estimates have the same limitations as the survey results in that we have disproportionately captured white, female, and highly affluent Oakland residents. See Section 5, Outreach Results, for more information.

**Table I. Survey Respondents' ADUs**

<b>Breakdown of ADU Types<sup>1</sup></b>	<ul style="list-style-type: none"> <li>• Converted attached/detached garage: 28%</li> <li>• Converted basement: 25%</li> <li>• Detached ADU: 17%</li> <li>• Attached ADU: 11%</li> <li>• Converted room: 6%</li> <li>• Above garage apartment: 5%</li> <li>• Converted attic: 1%</li> <li>• Other: 9%</li> </ul>
<b>Average Size</b>	540 sf
<b>Time to Receive Building Permits</b>	4 months
<b>Average Fees<sup>2</sup></b>	<ul style="list-style-type: none"> <li>• Survey average: \$13,782</li> <li>• EPS calculation: \$15,000</li> </ul>
<b>Average Construction Cost</b>	<ul style="list-style-type: none"> <li>• Survey Average: \$174,530<sup>3</sup></li> <li>• EPS calculation: \$263,000<sup>4</sup></li> </ul>

Notes: Construction costs, size of ADU, and time to receive permits were all collected by the survey in ranges, not exact numbers (e.g., \$50,000 to \$99,999 or 400-499 square feet). Therefore, construction cost, ADU size, and permitting time presented in this table are rough estimates based on the median of each category.

<sup>1</sup> Numbers do not add up to 100% due to rounding

<sup>2</sup> Includes all government permits and fees, such as City approval/permit fees, school impact fees, and utility hook-up fees.

<sup>3</sup> The construction cost presented here is an amalgamation of all survey responses, irrespective of year of construction, type of ADU, whether professional labor was used, whether the unit is permitted, or any other variable.

<sup>4</sup> This calculation is an average of the median price of each ADU type studied (i.e., conversion of home, conversion of existing accessory structure, addition to home/accessory structure, detached new construction, and prefab detached). Calculations assumed construction costs during the time period from mid-2017 through mid-2019. Cost estimates are reflective of a full kitchen, one bathroom per ADU, standard interior quality fixtures and furnishings, and normal site conditions. For conversions of part of an existing home, it is assumed that heating, plumbing, and electrical are set up to be separately metered (as compared to a connected meter wherein the owner pays utilities), which increases construction costs.

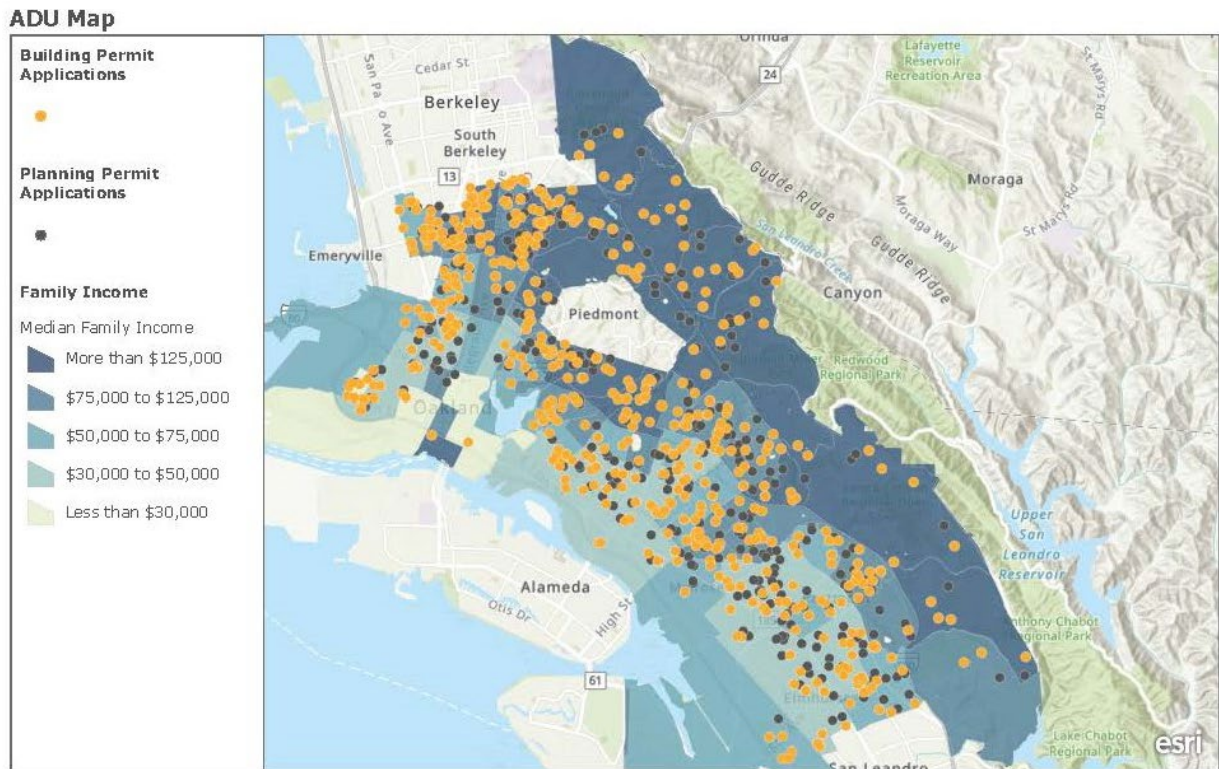
## LOCATIONS

To understand how permitted ADUs are spatially distributed across Oakland, UPP mapped the location of properties that have received either a planning or building permit to construct an ADU.<sup>10</sup> As can be seen in **Figure 3**, although ADU building permits are widely distributed in the city, property owners in North Oakland have the highest concentration of ADU building permits while property owners in the Oakland Hills have the lowest concentration. There are 655 planning permit applications and 522 building permit applications for ADUs in Oakland.

<sup>10</sup> The City of Oakland provided data on building permits issued since 1992 and planning permits issued since 2014.



Figure 3. Oakland’s Permitted ADUs



Esri, NASA, NGA, USGS | Esri, HERE, Garmin, METI/NASA, USGS, Bureau of Land Management, EPA, NPS, USDA

UPP also created an online map so that readers can see the location of ADU permits in context of American Community Survey (ACS) 2017 demographic data on race, income, poverty, and homeownership information. The online map can be found at this address: <https://arcg.is/1HyrPP>. **Table 2** compares the demographics of census tracts where permitted ADUs are located to the demographics of Oakland.

These findings indicate that ADUs are currently distributed across the city in a manner that is reflective of the community at large, a finding that contradicts previous research that it is wealthy, primarily White homeowners that have the resources to construct ADUs.<sup>11</sup> However, the data found on the webmap display the demographics of the *census tract*, not the *homeowner*. Demographics and housing in Oakland are further analyzed in the following section. There is an additional observation when considering where the greatest ADU potential is (discussed thoroughly in Section 3, Regulatory Review and Impacts on ADU Potential), there is an incongruity between the areas of greatest potential and the areas where ADUs have been built. Despite the large ADU potential in the East and South sub-areas of Oakland, there is a greater density of ADU permits in North Oakland. Moreover, the analysis of Oakland’s ADU potential shows that existing regulations make it hard to build ADUs in the Oakland Hills, yet the map of existing ADU permits above indicates that homeowners in the Hills have been able to build ADUs.

<sup>11</sup> Levy, Susie. “A Racial Equity Toolkit on Policies for Accessory Dwelling Units.” Councilmember Mike O’Brien’s Office, October 2018. <http://seattle.legistar.com/View.ashx?M=F&ID=6669924&GUID=CC73E51B-84BB-478F-B325-93BA05E03F2B>.

Although there are fewer ADUs in the Oakland Hills compared to other parts of Oakland, the number of ADUs in the Oakland Hills is surprising given the strict land use regulations that preclude development of detached ADUs in hillside areas.

**Table 2. Census Tract Demographic Information and Permitted ADUs**

Demographic Characteristic	Percent of building permits that fall in census tracts with...	Percent of planning permits that fall in census tracts with...	Percent of census tracts citywide
<b>Black homeownership.</b> Black/African American-headed household homeownership <sup>1</sup> rate of over 50%.	26%	27%	28%
<b>Non-white neighborhoods.</b> Over 80% of neighborhood residents are non-white	31%	35%	34%
<b>Renter neighborhoods.</b> At least half of residents are renters.	62%	61%	66%
<b>Per capita income.</b> Per capita income is more than 100 percent of the Area Median Income (AMI).	12%	13%	11%
<b>Median family income.</b> Median family income is more than \$125,000.	30%	30%	25%
<b>Poverty rate.</b> More than 30% of residents are below the poverty line.	7%	7%	13%

<sup>1</sup> The 2017 ACS data for this metric has large margins of error due to the sampling methods and the small number of Black/African American headed households in some census tracts. Use of 2010 Census data would have provided more precise estimates of the Black/African American homeownership rates in each census tract (at that point in time). However, due to the rapid rate of demographic change in Oakland, especially relating to the Black/African American community, the 2017 ACS data was used in lieu of the more precise 2010 data.

Source: U.S. Census Bureau American Community Survey (ACS), 2017 and City of Oakland ADU permit data.

## UNPERMITTED UNIT PROJECTIONS

To estimate the number of unpermitted ADUs on single-family residential properties in Oakland, a sample of homes was pulled from Redfin’s listing of homes for regular sale during Summer 2019. (See **Appendix A** for more information on the methodology used for this analysis.) We then reviewed Redfin listings to look for signs of an ADU, defined as an attached or detached structure with a bathroom, kitchen, and separate entrance. We found that **22 percent of single-family homes in Oakland likely have an ADU** (58 of the 269 single-family residences in our sample). This figure is raw; it does not account for when such a unit might have been built and under what circumstances.

After reviewing permit data (i.e., building permits, planning permits, and complaints) for each property with a suspected ADU, we found that **91 percent of suspected ADUs are likely unpermitted**. Overall, this suggests that between 11 and 20 percent of single-family homes likely have an unpermitted ADU and that **between 7,500 and 13,600 unpermitted ADUs exist on single-family lots in**

**Oakland.**<sup>12</sup> This does not include unpermitted ADUs that may be present on multi-family properties, including duplexes and triplexes. There has been limited research on unpermitted ADUs in other cities; however, a similar study in Los Angeles found that only 11 percent of single-family homes included unpermitted ADUs, indicating that Oakland may have a higher percentage of unpermitted units.

Legalizing unpermitted units can have benefits for tenants and homeowners. Most importantly, legalization ensures that ADUs are habitable and can improve the health and safety of unit occupants if ADUs are not currently up to code. Legalization can also improve property values and give homeowners peace of mind. On the other hand, legalizing unpermitted units will likely increase homeowners' property taxes and could displace tenants if they are required to vacate ADUs while the units are brought up to code.

## CONCLUSION

Existing research shows that homeowners constructing ADUs face barriers related to the financing and management of the building permit and construction processes, as well as obstacles deciphering and complying with use restrictions and tenant protections.

Building permit data provided by the City of Oakland and data collected for this research report indicate that there are at least 522 permitted ADUs in Oakland and that they are geographically spread out in a manner that is reflective of Oakland at large. The City has seen an uptick in ADU applications since 2016. ADUs in Oakland typically cost \$175,000 to \$263,000 to construct, in addition to approximately \$14,000 to \$15,000 in permit fees. The permitting process in Oakland averages four months. Our research indicates that many homeowners are bypassing the permitting process and fees. We estimate there are between 7,500 and 13,600 unpermitted ADUs in Oakland.

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<sup>12</sup> The methodology we used is based on Vinit Mukhija's research on unpermitted second units in Los Angeles, described in *Outlaw In-Laws: Informal Second Units and the Stealth Reinvention of Single-Family Homes*. However, our methodology differs in a few key ways that may have resulted in a slightly higher ADU estimate. For an in-depth description of our methodology, see Appendix B.



# 2

## Oakland Demographics and Housing

The following analysis reviews the research on existing racial disparities in Oakland, including those related to housing tenure, access to financing, housing cost burden, and income, that may impact the equitable design and implementation of ADU policies, procedures, or practices. This section also looks at demographic indicators of ADU demand identified in previous research and evaluates their prevalence in Oakland.

### PURPOSE

In 2017, the City of Oakland launched a racial equity initiative and created the Department of Race & Equity, in part to encourage City staff to apply pro-equity tools to change structures, policies, practices, and procedures to promote racial equity. To align this City-wide focus on equity, the Oakland ADU Initiative has applied an equity lens to its analysis with the goal that any ADU policies, procedures, or practices that emerge from this project will reduce, rather than compound, racial disparities related to housing security and neighborhood stability.

### EXISTING DEMOGRAPHICS

The following analysis relies on the *Oakland Equity Indicators Report* and the *Oakland At Home Report* to assess the demographics of Oakland households.<sup>13</sup>

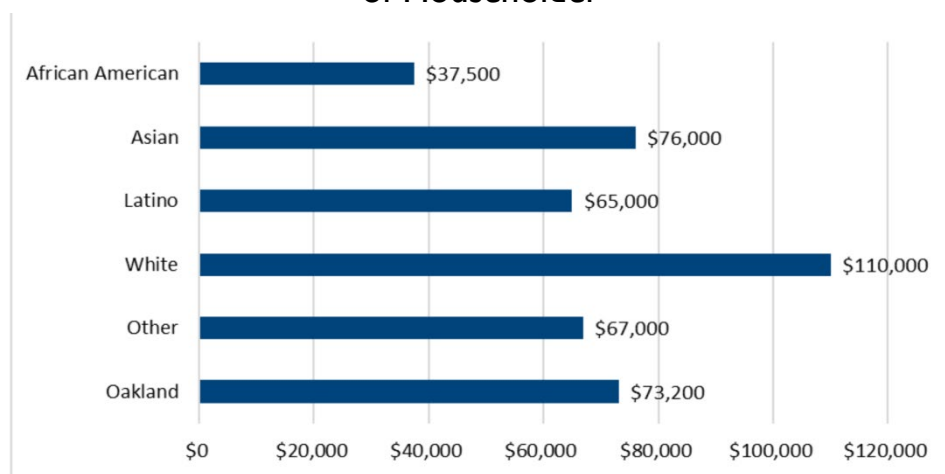
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<sup>13</sup> The Oakland Equity Indicators report uses Census Bureau Public Use Microdata Areas (PUMAs) 102, 103, and 104, which do not perfectly overlap with the City of Oakland's jurisdictional boundary. PUMA 102 includes Northwest Alameda County, including Northwest Oakland and Emeryville. PUMA 103 includes North Central Alameda County, including East Oakland and Piedmont. PUMA 104 includes North Central Alameda County, including South Central Oakland.

## MEDIAN INCOME

As shown in **Figure 4**, the median income in Oakland for White households is almost three times the median income of African American households. While White households have a median income of \$110,000, the median income for African American households is only \$37,500. The median income for Asian households (\$73,200) and Latino households (\$65,000) is closer to the citywide median.<sup>14</sup> This disparity highlights the importance of developing loan products that take into consideration future rental income, given that residents of color will likely have limited cash savings to draw from.

Figure 4. Median Household Income by Race/Ethnicity of Householder



Sources: Oakland Equity Indicators, American Community Survey, 1-year PUMS, 2016 (Oakland PUMAs extend beyond the city boundaries).

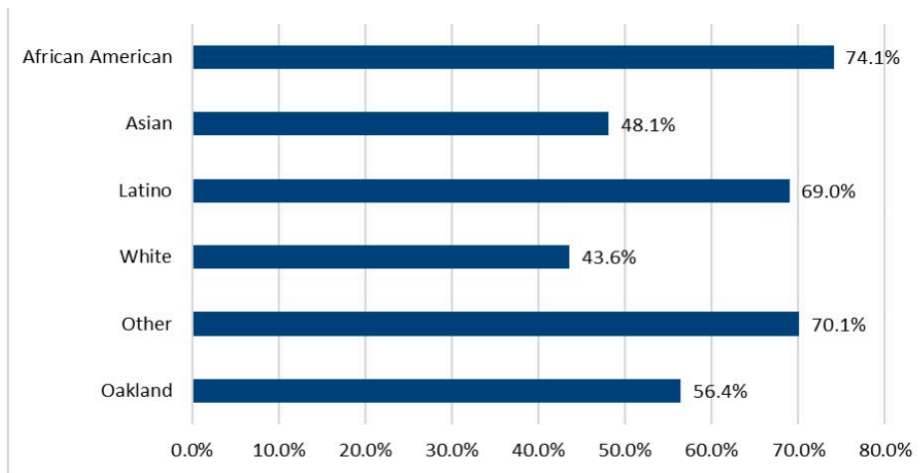
## HOMEOWNERSHIP

In Oakland, White households are almost twice as likely to own their homes as African American households. While approximately 44 percent of White households do not own their homes, the vast majority of African American (74 percent) and Latino householders (69 percent) are not homeowners (see **Figure 5**).<sup>15</sup> Given the homeownership and income gaps in Oakland, any program encouraging ADU construction among current homeowners could disproportionately benefit White households over other households unless it is designed in a way to increase access to ADU development among homeowners of color.

<sup>14</sup> "Oakland Equity Indicators." City of Oakland, July 9, 2018. <https://cao-94612.s3.amazonaws.com/documents/2018-Equity-Indicators-Full-Report.pdf>.

<sup>15</sup> Ibid.

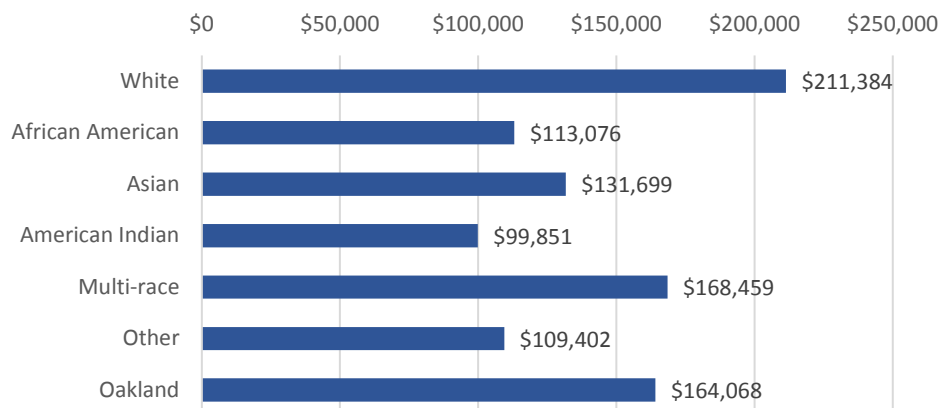
**Figure 5. Percent of Householders Who Do Not Own Their Homes**



Sources: Oakland Equity Indicators, American Community Survey, 1-year PUMS, 2016 (Oakland PUMS extend beyond the city boundaries).

**Figure 6** breaks down the median household income for Oakland homeowners by race. The median household income among White homeowners (\$211,384) is approximately 190 percent of the Area Median Income (AMI) for a four-person household. White homeowners make almost 90 percent more than African American homeowners and 30 percent more than the average Oakland homeowner. This finding illustrates that White homeowners are better prepared economically to build an ADU compared to their homeowner peers of other races and that income-based loans are likely to also help alleviate racial disparities.

**Figure 6. Median Household Income by Race of Oakland Homeowners**



Source: American Community Survey, 1-year PUMS, 2016 (Oakland PUMS extend beyond the city boundaries).

## COST BURDEN

While African Americans represent 26 percent of all homeowners, they comprise 35 percent of homeowners with severe cost burden<sup>16</sup> as shown in **Figure 7**.<sup>17</sup> This indicates that African American homeowners in Oakland could benefit greatly from ADU ownership, given that it could provide an additional source of income and/or an opportunity to stably house family members at risk of displacement. However, because African Americans disproportionately experience severe cost burden, it would likely be harder for them to afford the initial cost of constructing an ADU or ongoing maintenance costs.

Figure 7. Severely Cost-Burdened Owners (2008-2012 est.)

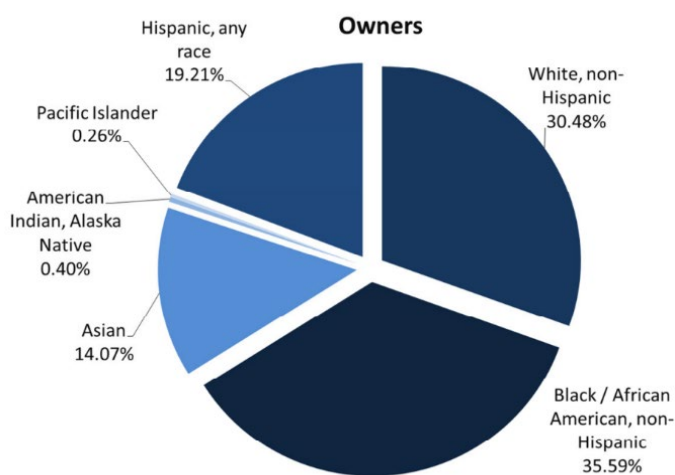


Figure 3 Source: Oakland At Home, Oakland Consolidated Housing Needs Assessment 2015 Analysis of HUD CHAS Data.

## RENT BURDEN

As shown in **Figure 8**, almost half of Oakland renters are considered rent burdened, meaning that they spend more than 30 percent of their income on rent. Approximately 58 percent of African American households and 53 percent of Latino households are rent burdened, while only 35 percent of White households paid more than 30 percent of their income on rent.<sup>18</sup> Given that ADUs often represent naturally occurring affordable housing, a City-sponsored program encouraging ADU development could be particularly beneficial for low-income renters of color.

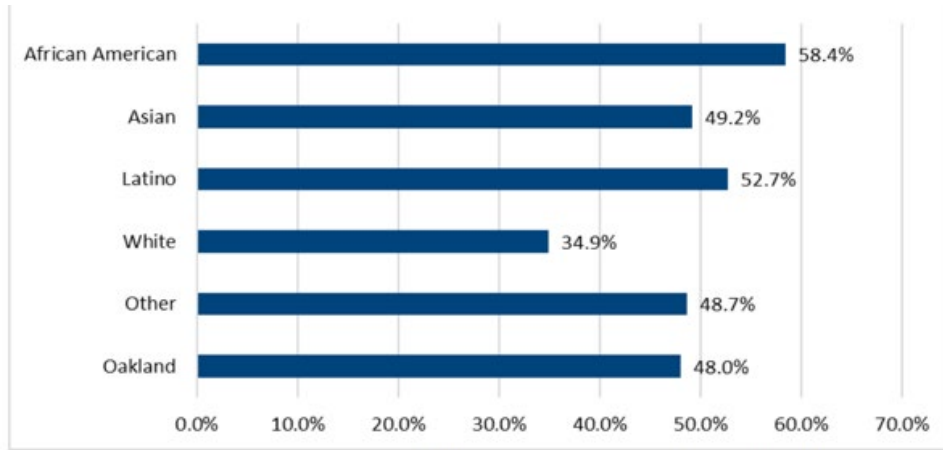
<sup>16</sup> Severely cost burdened homeowners are homeowners who are spending more than 50 percent of their income on housing.

<sup>17</sup> "Oakland At Home: Recommendations for Implementing A Roadmap Toward Equity from the Oakland Housing Cabinet." City of Oakland and Enterprise, March 2, 2016. [https://static1.squarespace.com/static/55b90b8de4b060a0d84fcbd0/t/56d8bd6d7da24f6b24f5dd77/1457044857929/Oakland+At+Home\\_FINAL\\_3.2.16+.pdf](https://static1.squarespace.com/static/55b90b8de4b060a0d84fcbd0/t/56d8bd6d7da24f6b24f5dd77/1457044857929/Oakland+At+Home_FINAL_3.2.16+.pdf).

<sup>18</sup> "Oakland Equity Indicators." City of Oakland, July 9, 2018. <https://cao-94612.s3.amazonaws.com/documents/2018-Equity-Indicators-Full-Report.pdf>.



Figure 8. Percent of Renter Households Spending More Than 30% of Income On Rent

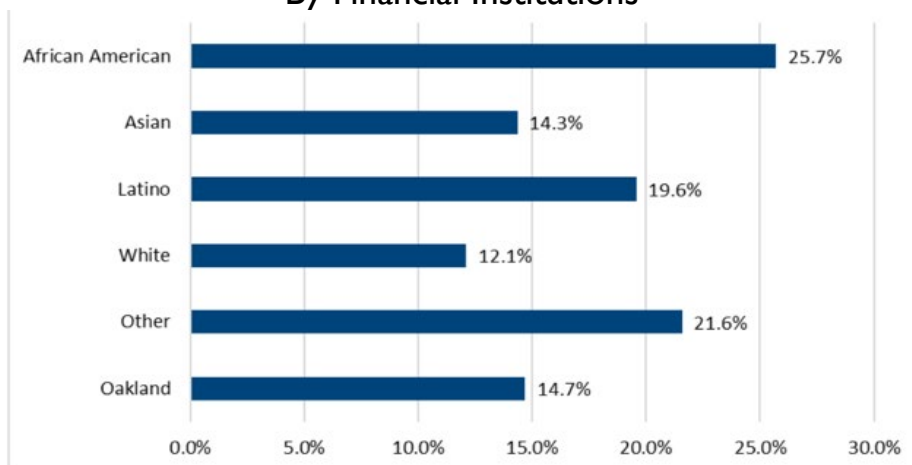


Sources: Oakland Equity Indicators, American Community Survey, 1-year PUMS, 2016 (Oakland PUMAs extend beyond the city boundaries).

**LOAN DENIAL**

In Oakland, African American loan applicants are more than twice as likely to have their applications denied by financial institution compared to White applicants, as illustrated in **Figure 9**. While only 12 percent of White applicants’ loans are denied, approximately 26 percent of African American applicants’ and 20 percent of Latino applicants’ loans are denied.<sup>19</sup> This racial disparity suggests that offering public financing for ADUs could promote more equitable outcomes.

Figure 9. Percent of Loan Applications Denied By Financial Institutions



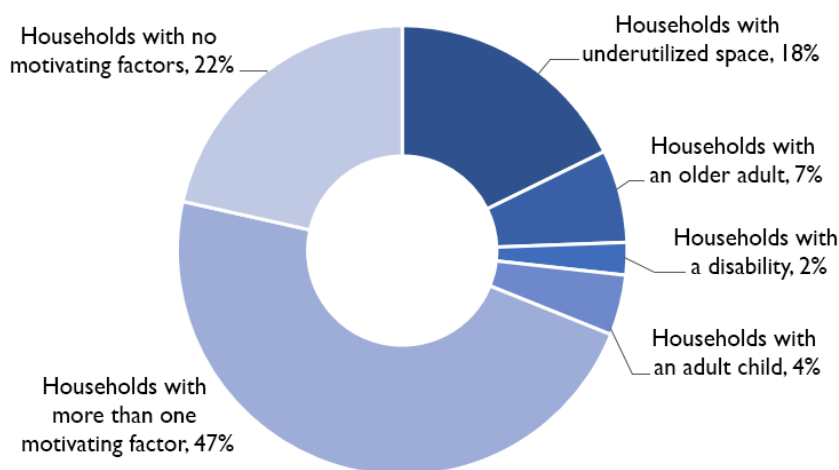
Source: Oakland Equity Indicators, Home Mortgage Disclosure Act, 2016.

<sup>19</sup> Ibid.

## DEMOGRAPHIC INDICATORS OF ADU DEMAND

Previous research has demonstrated that households with underutilized space, persons over the age of 60, adult children, and persons with disabilities may be more likely to benefit from ADU construction. The following analysis relies on 2013-2017 American Community Survey (ACS) data to assess the extent to which these motivating factors are present among Oakland households. Overall, we found that 78 percent of households have at least one of these four ADU construction motivation factors. As shown in **Figure 10**, almost half of Oakland households have multiple motivating factors.

Figure 10. Breakdown of Motivating Factors



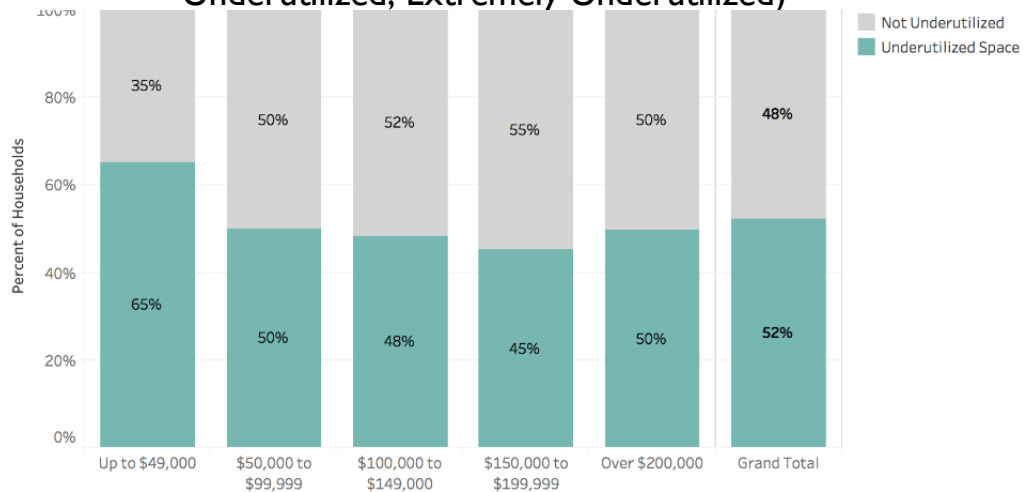
## HOUSING SPACE UTILIZATION

Homeowners may decide to build an ADU if they either live in houses that are overcrowded or live in houses with excess space. The following definitions have been used to measure the utilization of physical space:

- Overcrowded: Greater than two occupants per bedroom
- Adequate: Less than or equal to two occupants per bedroom
- Underutilized: Number of occupants is less than the number of bedrooms (i.e., two occupants in a 3-bedroom home)
- Very Underutilized: Number of occupants plus one is less than the number of bedrooms (i.e., two occupants in a 4-bedroom home)
- Extremely Underutilized: Number of occupants plus two is less than the number of bedrooms (i.e., two occupants in a 5-bedroom home)

In Oakland, over half (52 percent) of homeowners living in single-family residences have some level of underutilization. Homeowners in the lowest income group have the largest level of underutilization (65 percent). This could be due to several factors, including high rates of senior citizens on fixed incomes living alone in single-family homes or instances of lower-income individuals banding together to create larger household sizes and larger household incomes. As shown in **Figure 11**, the proportion of underutilized space decreases as income levels rise before reversing in the highest income group. This indicates that there may be many households in Oakland interested in adding an attached, interior ADU.

Figure 11. All Underutilized Houses (Underutilized, Very Underutilized, Extremely Underutilized)



Universe: Owner-occupied, 1-family detached housing units  
 n = 3,371  
 Overall estimate (underutilized, very underutilized, extremely underutilized): 1,767 (unweighted), 1,754.51 (weighted)  
 PUMS Variable(s): BEDROOMS; NUMPREC; HHINCOME

Source: ACS 2013-2017.

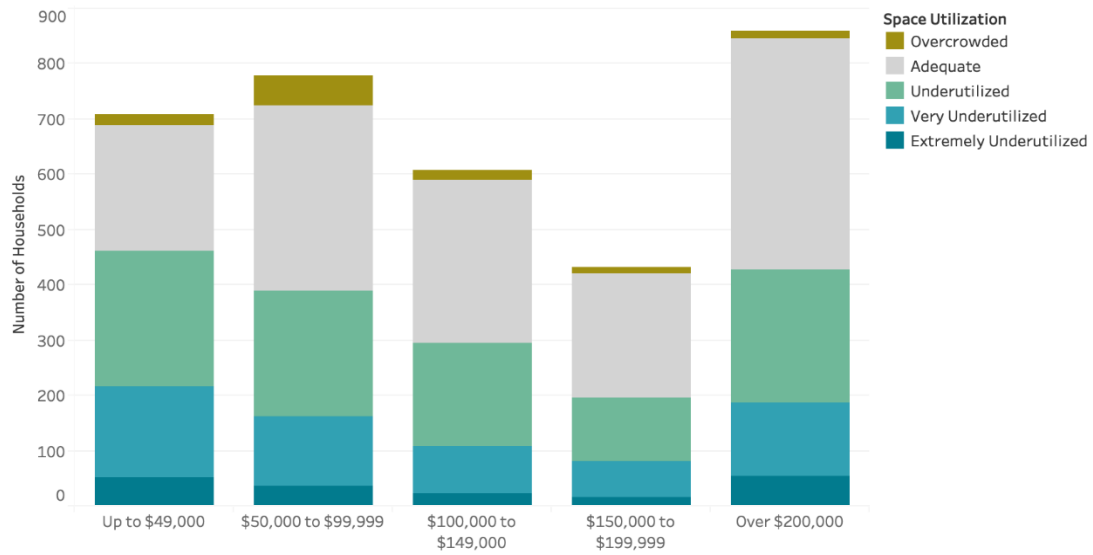
**Figure 12** illustrates the levels of utilization by income level. Except for homeowners in the lowest income group, the majority of Oakland households in each income category are living in homes that are not overcrowded or underutilized.<sup>20</sup> For the lowest income group, underutilization is the most common level of utilization. The extreme highest and lowest income groups have the greatest levels of very underutilized and extremely underutilized space. For the middle three income groups, the frequency of each level of underutilization (underutilized, very underutilized, and extremely underutilized) decreases as incomes increase.

## SENIORS

Adults over 60 may be motivated to build an ADU for a variety of reasons, such as providing additional income or housing an in-home caretaker. As shown in **Figure 13**, 50 percent of Oakland households include at least one adult over the age of 60; low-income households (up to \$49,000) have the highest percent of households with a least one person over age 60 (69 percent). This indicates that the households with the most demand for aging in place ADUs would likely have difficulties affording the initial cost of constructing an ADU or ongoing maintenance costs.

<sup>20</sup> It is anticipated that rates of overcrowding would be larger if incomes below \$49,000 were parsed down into additional categories and/or if certain neighborhoods were studied individually.

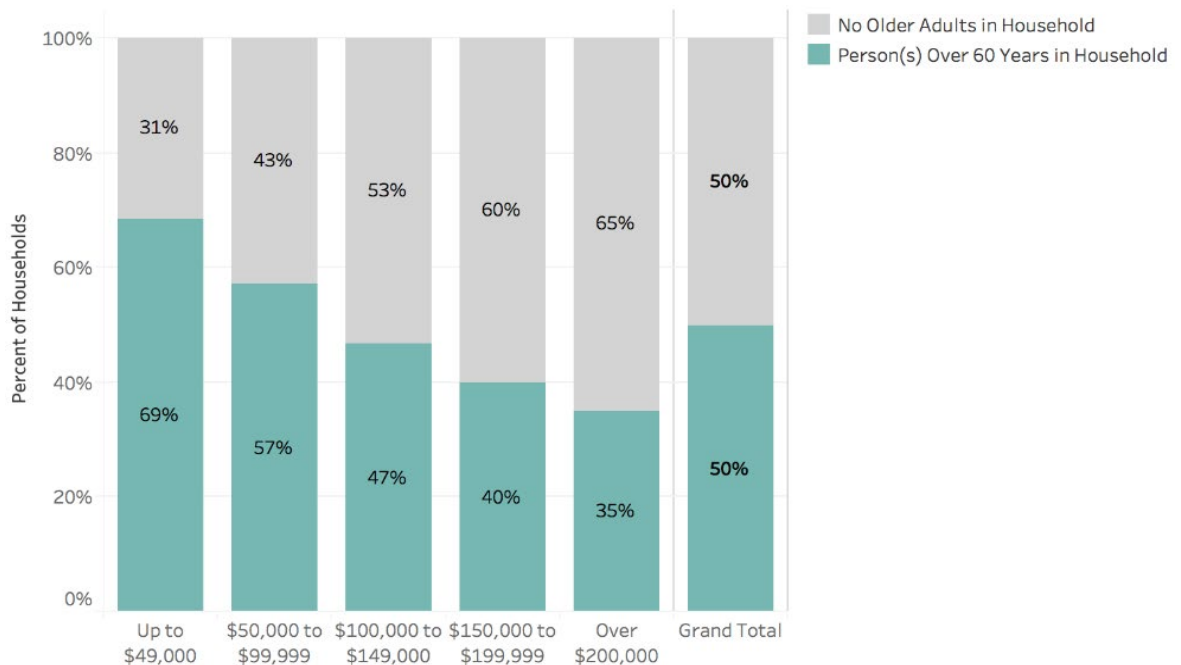
Figure 12. Housing Space Utilization by Income Level



Universe: Owner-occupied, 1-family detached housing units  
n=3,371  
PUMS variable(s): BEDROOMS; NUMPREC; HHINCOME

Source: ACS 2013-2017.

Figure 13. Presence of Person(s) Over 60 Years in Household



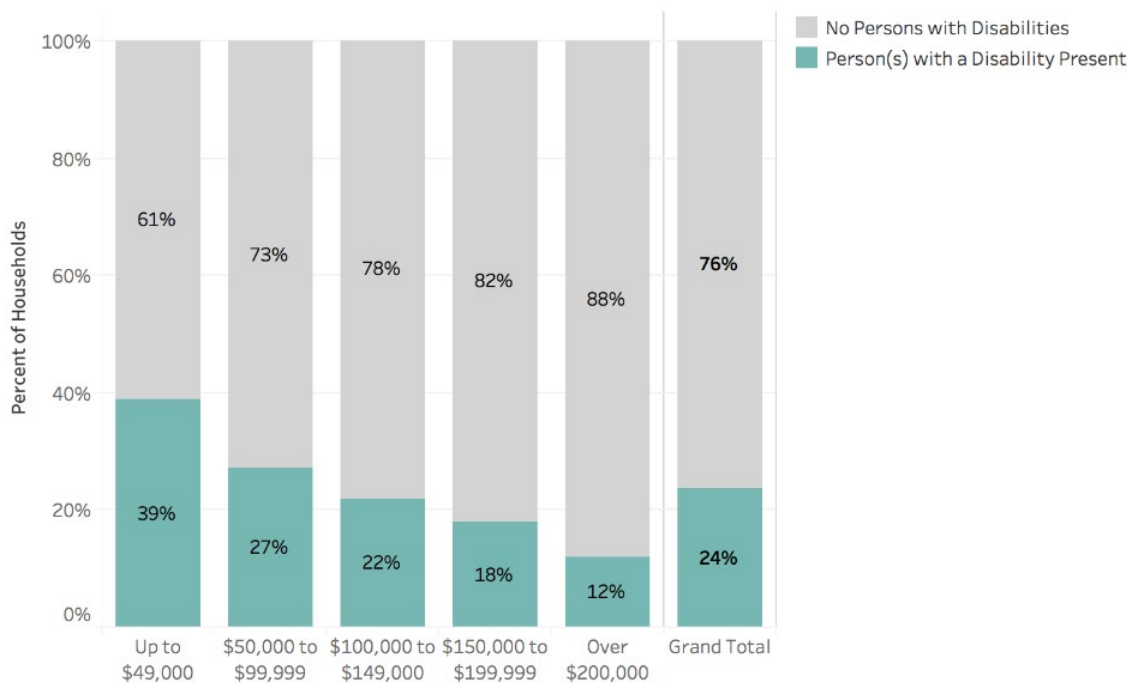
Universe: Owner-occupied, 1-family detached housing units  
n = 3,387  
Overall estimate (households with adults over 60): 1,691 (unweighted), 1,638 (weighted)  
PUMS Variable(s): AGE

Source: ACS 2013-2017.

## DISABILITY

A household that includes persons with disabilities may be motivated to build an ADU to house a caretaker or house a disabled adult child. The ACS classifies six different types of disability: cognitive difficulty, ambulatory difficulty, independent living difficulty, self-care difficulty, vision difficulty, and hearing difficulty. For this analysis, a person has been considered to have a disability if they have any of these six disability types. In Oakland, 24 percent of households include at least one person with a disability. As shown in **Figure 14**, low-income households (up to \$49,000) have the highest percent of households with a least one person with a disability (39 percent). This again indicates that the group with the greatest demand for an ADU based on the presence of a person with a disability will likely face the greatest financial barriers.

Figure 14. Presence of Person(s) with a Disability in Household



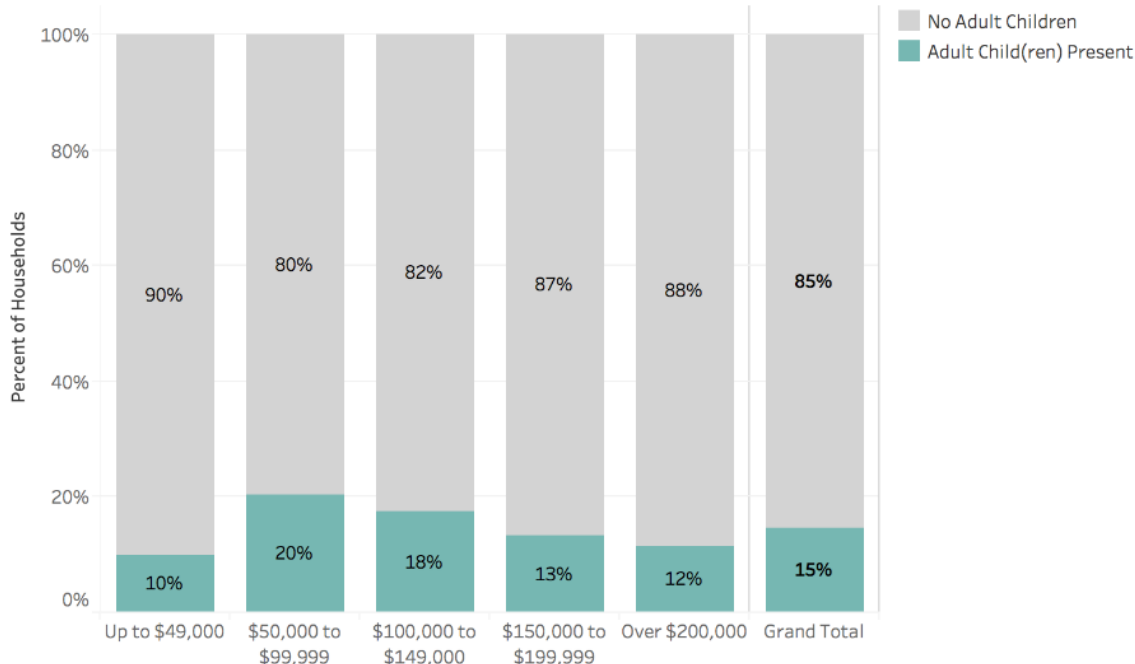
Universe: Owner-occupied, 1-family detached housing units  
 n = 3,387  
 Overall estimate (households with person(s) with disabilities): 803 (unweighted), 780 (weighted)  
 PUMS Variable(s): DIFFREM; DIFFPHYS; DIFFMOB; DIFFCARE; DIFFEYE; DIFFHEAR

Source: ACS 2013-2017.

## ADULT CHILDREN

Adult children may choose to live with parents to provide support to aging parents or save on housing costs, and an ADU provides a more private and affordable living option. In Oakland, 15 percent of households living in single-family homes include adult child(ren). This makes presence of adult children the least common demographic indicator for ADU demand in Oakland. As shown in **Figure 15**, low-middle income (\$50,000 to \$99,999) and middle income (\$100,000-\$149,999) households have the highest percent of households with adult children, at 20 percent and 18 percent, respectively. Adult children are defined as adults age 18 to 34 residing in a household where they are considered either the child or grandchild of the head of household.

Figure 15. Presence of Adult Child(ren) in Household



Universe: Owner-occupied, 1-family detached housing units  
n = 3,387  
Overall estimate (households with adult children): 493 (unweighted), 510 (weighted)  
PUMS Variable(s): AGE; RELATED: 301, 302, 303, 401, 901, 1242

Source: ACS 2013-2017.

## HOME EQUITY

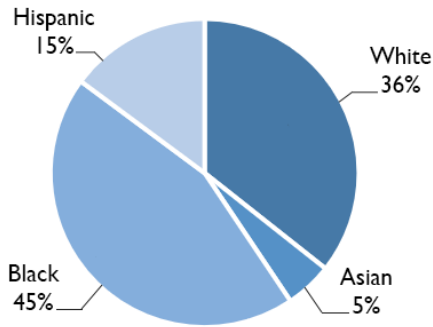
Homeowners with substantial equity in their homes may be able to leverage it to access financing for ADU construction, including home equity loans, home equity lines of credit, or cash-out refinance. In Oakland, the majority (73 percent) of single-family residences are owned with at least 50 percent equity, with 15 percent of homes owned outright. See **Table 3** below.

**Table 3. 2019 Home Equity Levels in Oakland, CA**

	Number	Percent of Total
Total Single-Family Residences*	68,022	
In Foreclosure	231	0%
Equity <0% (Underwater)	1,053	2%
Equity 0%-24%	3,770	6%
Equity 25%-49%	13,123	19%
Equity 50%-74%	22,601	33%
Equity 75%-99%	17,258	25%
Equity 100% (Owned Outright)	9,986	15%

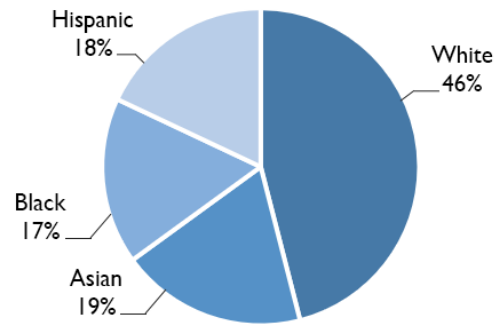
\* All owner- and renter-occupied single-family detached units.  
Source: PropertyRadar for Oakland, CA equity levels.

Figure 16. Racial Breakdown of Households Underwater on Mortgage



Source: PropertyRadar for Oakland, CA.

Figure 17. Racial Breakdown of Households with 75-99% Equity

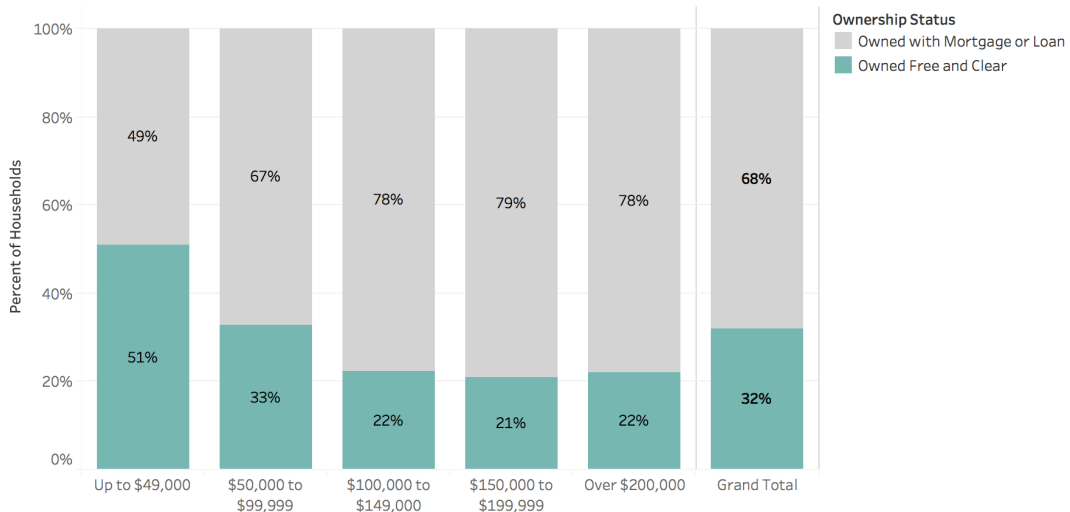


Source: PropertyRadar for Oakland, CA.

However, as shown in **Figures 16 and 17**, there are significant racial disparities between those with more or less than 50 percent equity in their homes. For instance, while 60 percent of those underwater on their mortgage are Black/African American or Hispanic, only 35 percent of those with 75 percent to 99 percent equity in their homes are Black/African American or Hispanic (totaling approximately 5,180 homes). Almost half (45 percent) of homeowners underwater on their mortgages are Black/African American (approximately 475 homes).

Among underutilized households in Oakland, approximately one-third (32 percent) own their homes free and clear. Additionally, just over half (51 percent) of low-income households with underutilized space own their homes free and clear (see **Figure 18**). These individuals may be able to use the equity in their home to pay for the cost of constructing an ADU and would benefit from the additional rental income. However, accessing this equity could put the homeowner at risk of losing the home in the event of a loan default.

Figure 18. Tenure Type among Underutilized Households (Underutilized, Very Underutilized, Extremely Underutilized)



Universe: Owner-occupied, 1-family detached housing units  
PUMS Variable(s): BEDROOMS; NUMPREC; HHINCOME, OWNERSHPD  
Source: ACS 2013-2017.

## CONCLUSION

The majority (73 percent) of single-family residences are owned with at least 50 percent equity, which indicates that there is a large pool of homeowners who may be able to leverage home equity to access financing for ADUs. However, there are clear racial disparities in Oakland related to income, homeownership, cost burden of housing (for homeowners and renters), loan denial, and underwater mortgages. This indicates that targeted policies and programs, especially related to financing, will be necessary for people of color and lower-income households to benefit from ADUs. Category I ADUs may be a promising focus area for lower-income households, since over half (51 percent) of households with underutilized space and incomes under \$49,000 own their home free and clear.

Demographic indicators of ADU demand are prevalent in Oakland, with space underutilization and the presence of seniors occurring in over half of households and the presence of a person with disability occurring in over one third of households. However, for all three of these factors that indicate ADU demand, it is lower income households that experience them the most. This reiterates the need for financial considerations.



# 3

## Regulatory Review

This section summarizes State and local regulations that determine where ADUs can be built, as well as tenant protection regulations that apply to certain ADUs. Many of these regulations were identified as barriers to developing more ADUs.

### REGULATORY FRAMEWORK

There are a variety of local and State laws that regulate where ADUs can be constructed, what design and development standards apply, and how they can be used. This subsection starts with a high-level summary of State and local ADU requirements followed by a discussion of the applicability of tenant protections and homeowner association’s regulations to ADUs.

### STATE LEGISLATION

State legislation sets different standards for ADUs constructed within the existing building envelope, ADUs located in new free-standing structures, and additions to existing buildings. These standards include requirements around minimum square footage, separate entrances, and street access, as well



*Interior and exterior renderings of a detached ADU under construction in Oakland. Designed by Inspired Independence, this approximately 650-square foot ADU will house the main property’s adult son who owns his own business. Photo courtesy of Carrie Shores.*

limitations on what standards local jurisdictions can impose. In 2016, the State passed several bills that required local jurisdictions to loosen requirements around parking, utility connections, fire sprinklers, and setbacks. In 2019, the State passed another round of bills that further ease local barriers to ADU construction. The new legislation requires that jurisdictions allow any ADU up to 800 square feet and 16 feet high with 4-foot side and rear setbacks, and also restricts local jurisdictions' ability to set requirements around lot coverage, minimum lot size, replacement parking, owner occupancy, setbacks, and impact fees. The bills increase the number of ADUs allowed on both single-family and multi-family properties. Senate Bill (SB) 13 also prevents jurisdictions from applying code enforcement on unpermitted units for five years. Lastly, the new bills require jurisdictions to approve ADUs administratively within 60 days and increase the State's ability to enforce compliance. It is our understanding that City staff are working to bring Oakland's ADU Ordinance into compliance with recent State legislation by early 2020.

## LOCAL LAND USE REGULATIONS

In Oakland, ADUs are called Secondary Units and are split into two types: Category One ADUs are those within the building envelope of a single-family home or existing detached accessory structure and Category Two ADUs involve construction of a new detached structure or exterior addition. ADUs are not allowed in industrial zones (e.g., M, CIX, IG, and IO zones) or in the D-CO Coliseum Area District Zones in Oakland. Category One ADUs can be



### Oakland ADU Types

The City of Oakland categorizes ADUs into two types.

**Category One** ADUs are located entirely within the envelope of a single-family home or a detached (separate) accessory structure (e.g., shed, garage) that was legally in existence prior to January 1, 2017. They involve no expansion of the existing building envelope.

**Category Two** ADUs involve construction of a new structure or an exterior addition to an existing structure.

*Older ADU in the Fruitvale neighborhood of Oakland. This unit was previously unpermitted and then legalized with permits. Photo courtesy of Rolf Bell.*

constructed in any other zoning district on lots with an existing single-family residence. The City prohibits Category Two ADUs on properties in the S-9 Fire Safety Protection Combining Zone and properties accessed by a street that is a) less than 20 feet wide or b) a dead-end street longer than 600 feet.<sup>21</sup>

The City of Oakland does not require that the property owner live in either the primary or secondary unit, but it does require that the secondary unit be occupied on a 30-day or longer basis. The City also requires certain design and development standards related to parking, architectural compatibility, height, floor area, emergency

<sup>21</sup> Oakland Municipal Code Section 17.103.080 – One-Family Dwelling with Secondary Unit Residential Facilities.  
[https://library.municode.com/ca/oakland/codes/planning\\_code?nodetid=TIT17PL\\_CH17.103SPREFICEUSCL\\_ARTVIR\\_EFA\\_17.103.080MIDWSEUNREFA](https://library.municode.com/ca/oakland/codes/planning_code?nodetid=TIT17PL_CH17.103SPREFICEUSCL_ARTVIR_EFA_17.103.080MIDWSEUNREFA)

access, setbacks, and utility connections. **Table 4** below summarizes how these standards apply to Category One and Category Two ADUs.

As with the rest of California, ADUs are allowed by right. If the proposal meets stated standards and requirements, it is issued an approval by the Planning Department, along with what is known as a Design Review Exemption. No public notice is required, and public input cannot be considered as part of the review process. Once the Planning Department has signed off, the ADU plans can be submitted for review and approval by the Building Department. A building permit is then issued for construction.

**Table 4. Oakland ADU Development Standards Summary**

Development Standard	Category One (ADU contained within the main house or existing accessory structure)	Category Two (ADU involves construction of a new, detached structure or exterior addition to the main house)
Minimum lot size	No minimum size; must be legal lot	
Setbacks	None required except to meet fire safety standards	Detached ADU may extend up to 4 ft. from rear and side lot line
Height	No height restriction	If ADU extension or separate structure is within required setbacks – must meet zone height requirements. If within required setback – 14-foot roof height
Maximum floor area	No size restriction	800 sq. ft. or 75 percent of the existing single-family dwelling
Exterior design	No compatibility requirements	Separate structure must be subordinate and exterior materials must be visually compatible
Off-street parking	No additional parking required	No additional parking required near transit or in historic districts; otherwise 1 additional parking space typically required
Occupancy requirements	No owner occupancy requirement for either main dwelling or ADU	
Rental and sale of unit	ADU may be rented but may not be sold separately	
Utility connections	No new or separate utility connections are required	New utility connections may be required

Source: City of Oakland Zoning regulations for Secondary Units handout. May 2017.

**TENANT PROTECTIONS**

When homeowners put their ADU on the housing market, they become business owners and must be aware of rules that apply to them. Residential rental properties in the City of Oakland are subject to regulations that establish and protect tenant rights of Oakland renters. These tenant protections include rent control, eviction (just cause and Ellis Act) restrictions, and tenant relocation funding assistance. While such protections help tenants, these were also identified as a major barrier to developing and adding ADUs to the rental market. In particular, survey respondents and focus group participants were concerned about being able to evict problem tenants.

**Rent Adjustment Ordinance**

The State Costa-Hawkins Rental Housing Act allows a landlord to set initial rents for new tenants without restriction, except under a few circumstances. In Oakland, landlords of rent controlled

properties can only increase their tenant’s rent according to the annual Consumer Price Index (CPI) Rent Adjustment, using available Banking (i.e., unclaimed annual allowable CPI increases that can be applied up to 10 years later), or by filing a petition to increase rent in excess of that amount. Further, rent increases cannot exceed 10 percent in any 12-month period and 30 percent in any 5-year period. Landlords can only raise rents once within a 12-month period. Much of Oakland’s rental unit inventory is subject to rent control.

**Table 5** illustrates the applicability of Oakland’s rent control ordinance to ADUs. In Oakland, newly constructed units that received a certificate of occupancy on or after January 1, 1983 are not subject to rent control.<sup>22</sup> To qualify as a “newly constructed” dwelling unit, the unit must have been created after January 1, 1983 either (1) from entirely new square footage (such as an addition or new detached building), or (2) from floorspace that was formerly entirely non-residential (such as an unfinished garage or basement). Therefore, units subject to rent control include (1) all units created before January 1, 1983 and (2) all units created by converting existing habitable space (such as a bedroom or home office).

**Table 5. Applicability of Rent Control to Oakland ADUs**

	ADU Created Before 1983	ADU Created After 1983
<b>Within a Main House</b>		
from <b>non-habitable</b> space (i.e., unfinished attics, basements, garages)	Applies	Exempt
from <b>habitable</b> space	Applies	Applies
<b>Attached to a Main House</b>		
using new square footage	Applies	Exempt
<b>Within an Existing Accessory Building</b>		
from <b>non-habitable</b> space (garage, shed)	Applies	Exempt
from <b>habitable</b> space (bedroom)	Applies	Applies
<b>Freestanding Dwelling Unit</b>	Applies	Exempt

Given that a 2012 study found that only 14 percent of East Bay ADUs had been constructed in the previous five years, many existing ADUs in Oakland are likely subject to rent control.<sup>23</sup> Furthermore, a new change by the Oakland City Council made more ADUs subject to rent control than were previously. In June 2019, the City Council unanimously adopted an ordinance that would extend rent control to tenants of owner-occupied duplexes and triplexes. Given that many ADUs are located on

<sup>22</sup> Oakland, California. Municipal Code Ord. No. 13418, § 1(Exh. A), 2-7-2017; Ord. No. 13391, § 1, 9-20-2016; Ord. 12781 § 1 (part), 2007; Ord. 12538 § 1 (part), 2003; Ord. 12399 (part), 2002. [https://library.municode.com/ca/oakland/codes/code\\_of\\_ordinances?nodeld=TIT8HESA\\_CH8.22REREADPR\\_ARTIREREADPR\\_8.22.030EX](https://library.municode.com/ca/oakland/codes/code_of_ordinances?nodeld=TIT8HESA_CH8.22REREADPR_ARTIREREADPR_8.22.030EX).

<sup>23</sup> Chapple, Karen, Jake Wegmann, Alison Nemirow, and Colin Dentel-Post. “Yes in My Backyard: Mobilizing the Market for Secondary Units.” Center for Community Innovation, June 2012. [https://communityinnovation.berkeley.edu/sites/default/files/yes\\_in\\_my\\_backyard\\_mobilizing\\_the\\_market\\_for\\_secondary\\_units.pdf?width=1200&height=800&iframe=true](https://communityinnovation.berkeley.edu/sites/default/files/yes_in_my_backyard_mobilizing_the_market_for_secondary_units.pdf?width=1200&height=800&iframe=true).

properties where the main residence is owner-occupied, this exemption from rent control previously applied to many ADUs in Oakland.<sup>24,25</sup>

Oakland's Rent Adjustment Ordinance defines a covered unit as "any dwelling unit," and therefore nonpermitted units are also subject to rent control. Additionally, given that nonpermitted units do not have certificates of occupancy, significantly fewer nonpermitted units qualify as new construction and, therefore, fewer are exempt from this ordinance.<sup>26</sup>

### Just Cause for Eviction Ordinance

The first Just Cause for Eviction Ordinance was approved by Oakland voters in November 2002 as Measure EE. The ordinance was codified in January 2003 and set forth specific limitations on the reasons that landlords could use to evict tenants. Several exemptions were also included, among them owner-occupied duplexes and triplexes. In November 2016, as a response to the growing housing crisis, Oakland voters approved Measure JJ. This measure amended the Just Cause for Eviction Ordinance by extending its jurisdiction to rental units initially occupied between October 1980 and December 31, 1995. In November 2018, Oakland voters again passed amendments to the ordinance by removing the exemption for owner-occupied duplexes and triplexes, as well as giving the City Council the authority to amend for specific reasons without returning to the voters.

Under Oakland's Just Cause for Eviction Ordinance today, there are 11 allowed causes of eviction: (1) the tenant has not paid their rent, (2) the tenant has continued to violate a provision of the lease after written notice to stop, (3) the tenant refused to sign a new lease that is identical to the old one (when the old one expires), (4) the tenant has substantially damaged the unit and refused to stop damaging it or pay for repairs after written notice, (5) the tenant has continued to disturb other tenants and neighbors after written notice to stop, (6) the tenant uses the unit for something illegal, (7) the tenant will not let the owner into the apartment, even with a two hours' written notice, (8) the owner wants to move back into the unit, if allowed by a written agreement with the tenant, (9) the owner or family member wish to move into the unit, except if the tenant is 60 years or older, disabled, or catastrophically ill, (10) the owner wants to remove the unit from the market through the Ellis Act, and (11) the owner wants to perform substantial upgrades to the unit which cannot be completed with the tenant living there.<sup>27</sup>

**Table 6** illustrates the applicability of Oakland's just cause ordinance to ADUs. Like rent control, units qualifying as "new construction" are exempt from just cause eviction. Under the Just Cause for Eviction Ordinance, units are exempt if either (1) the owner of record occupies a unit in the same property and regularly shares the use of kitchen or bath facilities, or (2) the building has a certificate of occupancy or final building permit for new construction issued on or after December 31, 1995. To be considered "new construction," the rental unit must have been constructed from the ground up; the exemption

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<sup>24</sup> Tadayon, Ali. "Oakland Scraps Rent Control Exemption for Owner-Occupied Duplexes." East Bay Times, May 23, 2019. <https://www.eastbaytimes.com/2019/05/23/oakland-scraps-rent-control-exemption-for-owner-occupied-duplexes/>.

<sup>25</sup> Carson, Lynda. "Oakland 'Closes the Loophole' on Tenant Inequality." Indybay, June 5, 2019. <https://www.indybay.org/newsitems/2019/06/05/18823749.php>.

<sup>26</sup> Williams, Steve C. "Illegal Units (Oakland)." Fried & Williams LLP, 2017. <https://www.friedwilliams.com/single-post/2017/12/27/Illegal-Units-Oakland>.

<sup>27</sup> "Read the Just Cause for Eviction Ordinance." City of Oakland. <https://www.oaklandca.gov/resources/read-the-just-cause-for-eviction-ordinance>.

does not apply to units created as a result of rehabilitation, improvement, or conversion of existing commercial space or residential space.

**Table 6. Applicability of Just Cause to Oakland ADUs**

	ADU Created Before 1995	ADU Created After 1995
<b>Within a Main House</b>		
from <b>non-habitable</b> space (i.e., unfinished attics, basements, garages)	Applies	Exempt
from <b>habitable</b> space	Applies	Applies
<b>Attached to a Main House</b>		
using new square footage	Applies	Exempt
<b>Within an Existing Accessory Building</b>		
from <b>non-habitable</b> space (i.e., unfinished attics, basements, garages)	Applies	Exempt
from <b>habitable</b> space	Applies	Applies
<b>Freestanding Dwelling Unit</b>	Applies	Exempt

Given the findings of the 2012 study mentioned above, this indicates that most existing ADUs in Oakland are likely subject to just cause eviction. Measure Y, approved by Oakland voters in 2018, also expanded the number of ADUs subject to just cause eviction. As previously mentioned, this measure extended protection to tenants living in owner-occupied duplexes and triplexes.<sup>28</sup> Nonpermitted units are also subject to just cause eviction restrictions. As previously explained, Oakland takes a broad definition of a unit to be any dwelling unit, permitted or not.

Single-family properties are exempt from rent adjustment, but the California Tenant Protection Act of 2019 (AB 1482) applies a rent cap to single-family homes that are owned by a corporate entity. Single-family properties are subject to just cause protections.

**Ellis Act Ordinance**

All rental units are subject to the Ellis Act Ordinance, which dictates the process for permanently removing a rental unit from the market. The Ellis Act cannot be used to withdraw a rental unit during a fixed term lease and cannot be used to retaliate or discriminate against a tenant.<sup>29</sup>

**Uniform Tenant Relocation Ordinance**

All tenants displaced by no-fault evictions are subject to a relocation payment. This payment ranges from \$6,000 to \$13,000 depending on the size of the unit and the circumstances of the household, such as

<sup>28</sup> “Measure Y.” City of Oakland, 2018. <https://elkemerchant.com/wp-content/uploads/2018/11/21-Measure-Y-City-of-Oakland.pdf>

<sup>29</sup> “Ellis Act Ordinance.” City of Oakland. <https://www.oaklandca.gov/resources/read-the-ellis-act-ordinance>.

income level or disability.<sup>30</sup> Tenants displaced under the Ellis Act Ordinance are also eligible for a relocation payment. The payments increase each year with inflation.

## HOMEOWNERS ASSOCIATIONS

In California, homeowner's associations have historically regulated ADUs through their Covenants, Conditions, and Restrictions (CC&Rs).<sup>31</sup> In Oakland, the majority of homeowners' associations that list their CC&R regulations online bar the construction of ADUs. However, the State recently passed legislation (AB 670) that prevents homeowner associations from barring ADUs outright, while still allowing reasonable conditions for construction.<sup>32</sup> See **Appendix B** for information on homeowners' associations in Oakland.

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<sup>30</sup> Oakland, California. Municipal Code Ord. No. 13468, § 1, 1-16-2018.

[https://library.municode.com/ca/oakland/codes/code\\_of\\_ordinances?nodet=TIT8HESA\\_CH8.22REREDEV\\_ARTVI\\_IUNRETEREOR\\_8.22.820AMREPA](https://library.municode.com/ca/oakland/codes/code_of_ordinances?nodet=TIT8HESA_CH8.22REREDEV_ARTVI_IUNRETEREOR_8.22.820AMREPA).

<sup>31</sup> "Accessory Dwelling Unit Ordinance." City of Newport Beach.

<https://www.newportbeachca.gov/trending/projects-issues/accessory-dwelling-unit-ordinance>.

<sup>32</sup> Lombardo, Eric. "East Bay for Everyone Endorses ADU Streamlining Bills." East Bay for Everyone, May 3, 2019. <https://eastbayforeveryone.org/2019/05/03/east-bay-for-everyone-endorses-adu-streamlining-bills/>.





# 4

## Oakland's ADU Potential

This section analyzes the implications of the regulatory environment described above by quantifying how many parcels could accommodate a Category One and/or Category Two ADU in Oakland. For information on the ADUs in Oakland with planning approvals and/or building permits and an estimate of the number of unpermitted units in Oakland, please see Section I, Background and Literature Review.

### POTENTIAL DEVELOPMENT

To estimate the potential buildout of ADUs in Oakland within the current regulatory environment, spatial analyses were conducted to assess what parcels in Oakland could likely accommodate an ADU based on the City's existing zoning regulations.<sup>33</sup> Starting with the 98,340 parcels within the city, parcels with ADU potential were isolated. Zoning and existing land uses were analyzed to estimate the Category One ADU potential and then a random sample was selected to test how frequently the imposition of development standards would preclude Category Two ADU development. See **Appendix C** for a detailed explanation of the methodologies used and findings.

### CATEGORY ONE ADU POTENTIAL

Based on Alameda County Assessor Parcel existing land use data, Oakland has approximately 66,249 parcels with existing single-family homes in zones that allow ADUs. The City of Oakland grants ministerial approval to Category One ADUs (i.e., ADUs entirely within the building envelope of a single-family residence or existing accessory structure) and exempts them from nonconformity regulations related to setbacks and height. If we assume that each of the single-family homes were legally in existence before January 1, 2017, it is estimated that 52,477 parcels<sup>34</sup> could accommodate a Category One ADU in Oakland. See **Table 7** below and **Appendix C** for more information.

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<sup>33</sup> This analysis does not consider the effect of the 2019 State housing legislation.

<sup>34</sup> Total was found by reducing the total number of parcels with single-family homes (66,249 parcels) by 20% to account for estimated unpermitted units and subtracting an additional 522 parcels to account for the permitted units that have received building permits.

**Table 7. Oakland Category One ADU Potential**

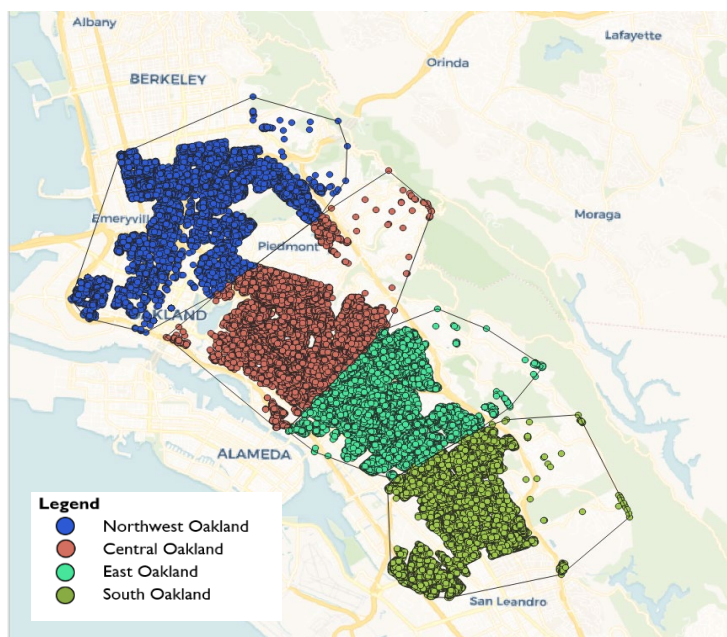
Parcels with existing single-family homes in zones that allow ADUs	66,249 parcels
Minus known permitted ADUs	- 522 parcels
Minus estimated unpermitted units	- 13,250 parcels
<b>Estimated Potential Category One Buildout</b>	<b>52,477 Parcels</b>

**CATEGORY TWO ADU DEVELOPMENT POTENTIAL**

Recognizing that there are further restrictions on Category Two ADUs (i.e., ADUs that involve new construction), parcels were removed from the Category One estimate if they were located on roads less than 20 feet wide, on a dead-end street longer than 600 feet, or in the Fire Safety Protection (S-9) Zone. Dead end streets, narrow streets, and heavy slopes increase the fire response times, and therefore Category Two ADUs are not allowed on these properties. These adjustments, shown in the visualizations on the following page, removed 18,218 parcels.<sup>35</sup>

Parcels were also removed when development standards made development of Category Two ADUs infeasible. To assess the impact of development standards on homeowners’ ability to construct a Category Two ADU, UPP analyzed a random sample of lots outside of the fire severity zone. First, UPP defined five sub-areas within Oakland from which to pull stratified samples.<sup>36</sup> The first area was intended to capture the Oakland Hills and included all lots in Hillside Residential (RH) zones and properties with a slope greater than 20 percent. The remaining parcels were split into four sub-areas using k-means clustering:<sup>37</sup> Northwest Oakland, Central Oakland, East Oakland, and South/Deep East Oakland. **Figure 19** shows the distribution of parcels within these last four sub-areas. UPP randomly selected 10 parcels from each of the five sub-areas, resulting in a total sample of 50 lots. See **Appendix C** for a detailed methodology of this analysis.

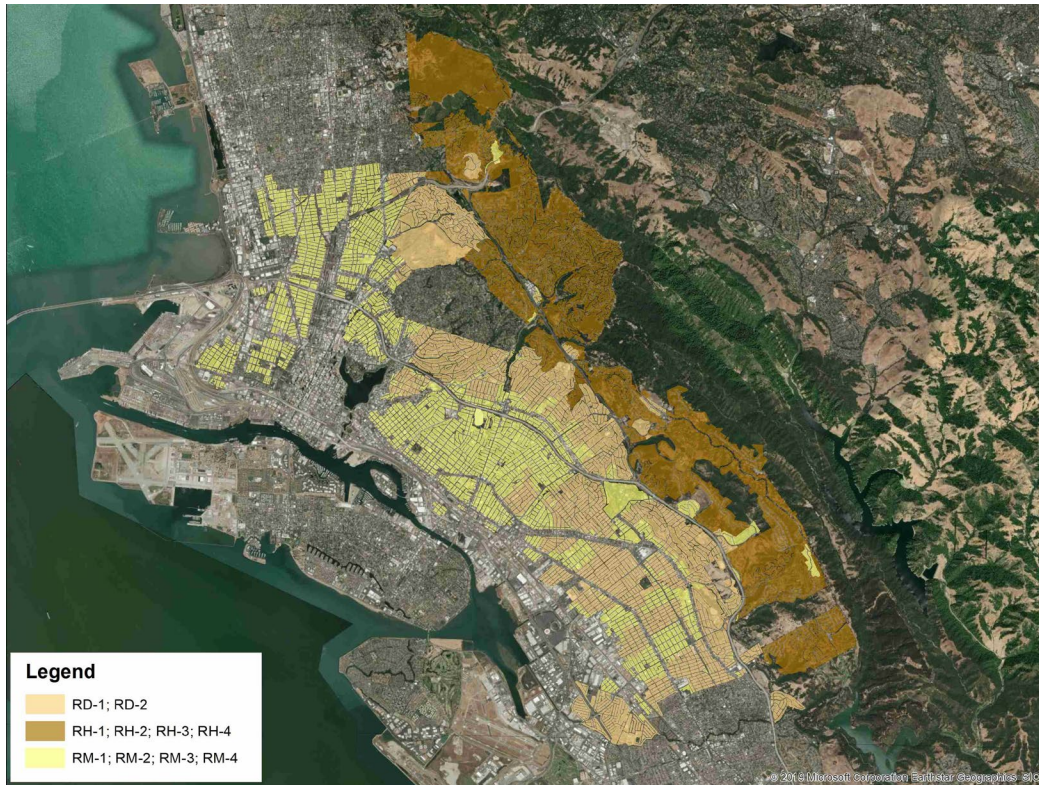
**Figure 19. ADU Potential Sub-Areas**



<sup>35</sup> This analysis was only performed in zones with single-family zoning (i.e., RM, RH, and RD zoning districts).

<sup>36</sup> The sub-areas used here are different than the subareas used in the financial considerations section of this report. For the spatial analysis, sub-areas were created based on geographic and zoning characteristics, including the geo-spatial spread of existing single-family homes, the level of slope, and RH zoning. The sub-areas found later in this report were created based on economic characteristics.

<sup>37</sup> K-means clustering is an algorithm designed to cluster a set of points into a specified number of groups with the goal of minimizing the total distance between a group's members and that group's centroid.



*Visual comparison of parcels in zoning districts that allow single-family dwellings compared to parcels in these zones that are developed with single-family homes and are not located on narrow roads, on dead-end streets, or a high fire severity area. Parcels that were removed are unable to build a Category Two ADU.*

On lots in RH zones and lots with building footprint slopes greater than 20 percent, Category Two ADUs cannot be built if they exceed floor area ratio and lot coverage maximums. Accordingly, for each lot in the Oakland Hills sub-area, UPP used the existing building footprint and lot size to calculate existing lot coverage. UPP then assessed which lots could not build ADUs due to maximum lot coverage and floor area requirements. Detached ADUs also cannot be built in Oakland if they encroach on required rear and side setbacks, as well as a six-foot setback rule from the existing single-family home. For all lots within the sample, UPP used Google Earth to confirm whether a Category Two ADU could be built without encroaching on the required setbacks.

As can be seen in **Table 8**, UPP found that Category Two ADUs were feasible on approximately 30 to 50 percent of the lots sampled, depending in which sub-area they were located. The Oakland Hills subarea allowed the fewest ADUs after the imposition of development standards. After deductions from estimated existing ADUs, the random sampling indicates that there are approximately **18,000 lots in Oakland that can accommodate a Category Two ADU**. As previously noted, this spatial analysis does not consider the impacts of the 2019 State legislation.

**Table 8. Category Two ADU Potential by Sub-Area**

Subarea	Percent of lots that allow a Category Two ADU	Estimated number of lots that allow an ADU
Northwest Oakland	40%	3,864 lots
Central Oakland	40%	3,994 lots
East Oakland	50%	5,403 lots
South/Deep East Oakland	50%	4,637 lots
Oakland Hills	30%	102 lots
<b>Estimated Category Two Buildout Potential</b>		<b>18,000 lots</b>

# 5

## ADU Financial Considerations

Demographic data presented above indicate that many Oakland homeowners exhibit characteristics that may cause them to be interested in adding an ADU to their property. However, many of those same homeowners face constrained incomes that may present a challenge in securing the financial capital required to take on a construction project. Below, the UPP team summarizes the financial considerations and discusses potential policy responses that may facilitate ADU construction.

### ADU FINANCIAL FEASIBILITY FOR OAKLAND HOMEOWNERS

A primary question regarding ADU construction is whether it is financially feasible for homeowners. Like any investment, an informed homeowner will consider whether the rent from their tenants in an ADU is likely to justify the costs of constructing the unit. The answer will depend on how much tenants are willing to pay for the unit type in its location, and the cost of developing the unit. Where market-rate rents are high, the value of the unit can cover its construction costs and homeowners will have a financial incentive (if not the financial resources at hand) to construct an ADU. Where rents are lower, it may be necessary to offer some sort of financial incentive to cover the costs of construction and yield a financial return that makes the investment attractive.

### DEVELOPMENT COSTS

The cost for new construction generally has been increasing over the past several years due to improvements in the economy, revival of new development activity, and growth in demand for construction services and materials. Typically, development costs for new residential construction consist of land, entitlement, direct construction cost for labor and materials (assumed to include site cost and utility hook ups), and “soft” costs that include architecture and engineering professional services, taxes, insurance, closing costs, developer fee, financing costs, development fees, and contingency. One of the advantages of ADUs is provision of a lower cost housing option as some of the traditional line items, like land cost (or opportunity cost of conversion of existing space) and developer fee is reduced or eliminated. While ADUs can provide an “affordable-by-design” housing option on a per unit basis due to their smaller size relative to traditional housing, they often cost more on a per square

foot basis to build than new homes.<sup>38</sup> This can be because some of the fixed costs, like kitchen, bathroom, or utility hook ups are spread over a smaller building size, because building a single unit lacks “economies of scale” achievable in larger multi-unit projects, and/or because a typical homeowner undertaking such a project lacks the project and construction management skill relative to a more experienced developer.

ADU development costs can range significantly based on the ADU type. A range of typical ADU types and sizes is shown in **Table 9**; it includes the conversion of a portion of an underutilized home into a separate unit, the conversion of an existing “accessory” structure such as a garage, the addition of space as an add-on to an existing home or accessory structure, the ground-up construction of a stand-alone detached structure, and the assembly or placement of a prefabricated or modular unit on a portion of the homeowner’s property.

**Table 9. Typical ADU Types and Sizes**

ADU Type	Typical Size Range (SF)	
	Low	High
Conversion of part of existing home	300	800
Conversion of existing accessory structure	350	700
Addition to existing home or accessory structure	350	900
Detached new construction	400	1,200
Prefabricated/modular	150	1,200

Note: SF = square feet  
Source: EPS, 2019.

EPS summarized a range of development costs for various ADU types in Oakland and the broader region with estimates presented in **Table 10**. As shown, construction of a new detached unit is generally the most expensive on a spectrum of ADU options, with development cost ranging from \$300 per square foot to \$500 per square foot. Larger ADUs can provide economies of scale with lower per square foot costs relative to smaller units. Converting an existing accessory structure can be as costly as building a new detached unit, and the costs from one property to another can be very site-specific. In the case of remodels, local building codes require fire walls with the main residence, which are costly. For new detached units, costs may be driven up by the extent of utility connections, school fees, and associated fees, estimated to average over \$15,000 for a detached 720 square foot-unit.<sup>39</sup> Conversions of existing space are assumed to be exempted from these special district fees; additionally, all ADUs are exempt from the City’s development impact fees. Where practicable, the lowest cost option is conversion of space in an existing home, such as a basement or an attic, with total development costs

<sup>38</sup> Center for Community Innovation – University of California, Berkeley. 2017. Technical Report: ADU Financing Issues in Unincorporated San Mateo County. Accessed July 15, 2019. [https://housing.smcgov.org/sites/housing.smcgov.org/files/2nd\\_Unit\\_Financing\\_IssuesReport.pdf](https://housing.smcgov.org/sites/housing.smcgov.org/files/2nd_Unit_Financing_IssuesReport.pdf)

<sup>39</sup> The East Bay Municipal Utility District (EBMUD) imposes a System Capacity Charge of \$10,530 per dwelling unit for multifamily properties and a Wastewater Capacity Fee of \$2,750 per unit with the fee schedule effective of 7/1/2019. Other EBMUD charges depend on meter size, existing infrastructure, geography, and other specifics. A School Impact Fee is assessed during the building permit stage, for all residential property the fee is \$3.48 per square foot.

potentially as low as \$50 per square foot. However, this option excludes the “opportunity cost” of foregone space as a homeowner ends up with a smaller primary residence after the ADU conversion.

While these estimates provide a general order of magnitude for comparison purposes, note that costs vary significantly based on a range of factors such as building age and condition (in case of remodel or attached ADUs), site conditions, ADU size, code compliance and local regulatory environment, geography, level of finishes, and other factors. Some jurisdictions also require payment of development impact fees for new ADUs, which can add significant costs (though remodels and conversions of existing space are typically exempted).<sup>40</sup> In Oakland, ADUs are specifically exempted by the City from transportation, capital improvements, and affordable housing development impact fees, but are subject to Oakland’s School Impact Fees. However, the School Impact Fee is charged on a per square foot basis, so the cost is adjusted for the smaller ADU sizes.

**Table 10. Estimated Construction and Development Costs by ADU Type**

ADU Type	Total Development Costs			
	Lower per SF	Lower per Unit	High per SF	High per Unit
Conversion of part of existing home	\$50	\$20,000	\$250	\$200,000
Conversion of existing accessory structure	\$300	\$110,000	\$650	\$460,000
Addition to existing home or accessory structure	\$250	\$90,000	\$400	\$360,000
Detached new construction	\$300	\$120,000	\$500	\$600,000
Prefabricated/modular	\$300	\$70,000	\$500	\$600,000

Notes: These data reflect construction costs during the time period from mid-2017 through mid-2019. Cost estimates are reflective of a full kitchen, one bathroom per ADU, standard interior quality fixtures and furnishings, and normal site conditions. For conversions of part of an existing home, it is assumed that heating, plumbing, and electrical are set up to be separately metered (as compared to a connected meter wherein the owner pays utilities), which increases construction costs. In some cases, the municipal fees included in the total development cost calculation are the actual fees paid and in other cases, estimates are based on average local fees. Sources: San Mateo County Second Unit Center; Santa Cruz County ADU Financing Guide; New Avenue Homes Inc., EPS secondary research, 2019.

Innovative solutions, like prefabricated construction (prefab), modular construction, and 3D printing have been gaining popularity in the residential development industry and in the development of ADUs. Prefab options in particular have grown in popularity and have evolved to be fully compliant with local ADU-specific building requirements and offer a wide selection of unit sizes and orientations. Discussions with stakeholders indicate that while cost savings achieved through these innovative means are not particularly significant compared to traditional onsite construction, the prefab industry offers other benefits like a shorter timeframe of development and certainty in cost with upfront specifications of finishes. As prefab continues to gain traction on a larger scale, innovation and economies of scale may reduce construction costs in the future.

**MARKET-BASED RENTS**

ADU owners compete with other landlords to attract and retain tenants, so the rents they charge must be comparable to other apartments or ADUs that tenants may consider. EPS reviewed 2019 (year to

<sup>40</sup> Garcia, David. December 2017. ADU Update: Early Lessons and Impacts of California’s State and Local Policy Changes. Accessed July 15, 2019. [https://ternercenter.berkeley.edu/uploads/ADU\\_Update\\_Brief\\_December\\_2017\\_.pdf](https://ternercenter.berkeley.edu/uploads/ADU_Update_Brief_December_2017_.pdf)

date, as of July) residential market rate rents in Oakland for several submarket areas as summarized in **Table 11**. The three submarkets are large areas with distinct market dynamics and are nominally referred to here as North Oakland (Rockridge, Temescal, Shafter, and Piedmont Avenue neighborhoods), Downtown (as bounded by I-980, Grand Avenue, the eastern edge of Lake Merritt, and Embarcadero), and East Oakland (the remaining city area east of Park Boulevard). West Oakland was not included due to data limitations. East Oakland is the largest of the three subgeographies, with approximately 86,700 households, over half of the city’s total (see **Table 12**). East Oakland and North Oakland both have higher than average shares of homeowners for the city overall, whereas downtown is largely comprised of renters due to its predominantly multifamily housing base. Unit sizes and rents are generally comparable between North Oakland and Downtown while unit sizes and rents in East Oakland are notably lower. Currently, East Oakland average rents appear to be affordable to households earning roughly 80 percent of Area Median Income (AMI) based on the income and rent criteria (\$78,850 for a two-person household), as defined for the City of Oakland Housing Program,<sup>41</sup> whereas average rents in North Oakland and Downtown are only affordable to households well above the City’s median income threshold. Due to the similarity in market potential and rents between North Oakland and Downtown, the two geographies are discussed together in the subsequent sections.

**Table 11. Average Residential Market Rate Monthly Rent**

Item	North Oakland			Downtown			East Oakland		
	Unit Size (SF)	Rent per Unit	Rent per SF	Unit Size (SF)	Rent per Unit	Rent per SF	Unit Size (SF)	Rent per Unit	Rent per SF
Studio	510	\$2,670	\$5.24	550	\$2,650	\$4.82		NA	NA
1-BDR	680	\$2,880	\$4.24	760	\$3,020	\$3.97	580	\$1,830	\$3.16
2-BDR	1,090	\$3,800	\$3.49	1,110	\$3,480	\$3.14	850	\$2,430	\$2.86

Sources: Costar; Zillow, 2019.

**Table 12. Owner Occupied Households**

	Total Households	Owner Occupied Households	% Owner Occupied Households
North Oakland	16,100	7,700	48%
Downtown	25,200	4,300	17%
East Oakland	86,700	38,200	44%
Remaining Oakland	31,400	13,200	42%
<b>Total</b>	<b>159,400</b>	<b>63,400</b>	<b>40%</b>

Sources: American Community Survey 2017 5-Year Estimates; PropertyRadar, 2019.

<sup>41</sup> California Department of Housing and Community Development. 2019. Official State Income Limits for 2019. Accessed July 20, 2019. <http://www.hcd.ca.gov/grants-funding/income-limits/state-and-federal-income-limits/docs/Income-Limits-2019.pdf>



**FEASIBILITY ANALYSIS METHODOLOGY**

EPS assessed homeowner returns on investment of ADUs as a measure of feasibility. The analysis compares development costs to the value of finished 550- and 720-square foot units, respectively and includes a homeowner return. Two examples were developed, as shown in **Table 13**, with one at the lower end and one at the higher end of the typical cost range (i.e., the conversion of parts of existing homes and detached new construction, respectively). Four detailed pro formas or “book ends” of ADU development types are shown in **Appendix D**. The analysis also considers subgeographies in Oakland and approximated average monthly rents. Development costs for ADUs are assumed to be fixed regardless of the location within the city and are based on the midpoint of the cost range estimates described above and shown in **Table 9**.

**Table 13. ADU Monthly Rent Assumptions for “Book End” Scenarios**

ADU Type	Average Size	East Oakland		North Oakland/ Downtown	
		Per SF	Per Unit*	Per SF	Per Unit*
Conversion of part of existing home	550	\$3.81	\$2,100	\$5.10	\$2,800
Detached new construction	720	\$3.14	\$2,300	\$4.21	\$3,000

Note: \* Numbers are rounded  
Source: EPS, 2019.

**Financial Return and Feasibility**

Financial returns are market-based, with homeowners or investors facing a range of potential choices reflective of a wide range of risk factors and expected returns. Results for any given homeowner or property can vary based on a range of factors, like variance in rents and development costs. They do not reflect potential regulatory hurdles or the “opportunity cost” of giving up a portion of one’s backyard land or property or potential rent increase limitations.<sup>42</sup> Additionally, development-specific risk tolerance and access to capital, real estate market conditions, homeowner preferences, financial stability and strength of tenants, willingness to live in close proximity to renters, desire to share amenities, and other factors vary significantly among homeowners.

EPS found that **ADU development is estimated to be feasible for both relatively low-cost partial home conversions as well as more costly new detached unit types** in all evaluated subgeographies within the city. Conversions generate higher returns than detached construction because they cost less while achieving comparable rents. Development in the city’s higher rent neighborhoods like North Oakland or Downtown are likely to generate higher returns than those in East Oakland, but ADU construction still appears to be feasible in East Oakland as well, especially for ADU types that may have lower costs than building an entirely new structure. See **Appendix E** for more information on the methodology and results of this analysis.

Despite the potential financial benefits to homeowners, large-scale investment in ADU development has yet to occur in Oakland, suggesting that limited access to capital, a shortage of ADU-specific financing

<sup>42</sup> Select ADUs, if converted from residential space within an existing home that was constructed prior to 1983, may be subject to the City’s Rent Adjustment Program and therefore subject to rent increase restrictions.

vehicles, and potential lack of information may be limiting ADU growth. The next section identifies major constraints for ADU financing as well as policy and private-market solutions being explored to address those constraints.

## ADU FINANCING CHALLENGES AND POLICY ADVANCES

In contrast to the conventional mortgage and home equity loan industry, the ADU financing industry is in the startup phase with no established loan product, legal documentation, or consistent valuation criteria established on a large scale among national lenders.<sup>43</sup> Meanwhile, the perception of high risk and lack of clarity or track record of an established loan product is deterring many large lenders from entering the ADU lending market.<sup>44</sup>

Based on a 2017 survey of homeowners in Portland, Seattle, and Vancouver, 40 percent of homeowners with an ADU obtained a construction loan to build them.<sup>45</sup> This number is only about half of the proportion of home buyers relying on a loan to purchase their primary property. Some of the difference in fewer homeowners financing ADU development through debt may be explained by the notion that ADUs cost less than traditional homes and therefore require a smaller investment, while ADU development could also disproportionately appeal to the share of homeowners with equity and savings to self-finance construction. Additionally, homeowners with sufficient equity may be deterred, as any home equity loan product puts at risk the primary residence in the event of a default. However, it is also likely that homeowners potentially interested in ADU development financing were precluded from the loan market because of insufficient home equity to qualify.



*The interior of an approximately 300-square foot “aging in place” studio. Photo courtesy of McDunn ADUs.*

There are several laws and practices that contribute to the shortage of ADU-specific financing. The Truth in Lending Act (TILA) differentiates between major national lenders with more than \$10 billion in assets and smaller, local lenders with less than \$10 billion in assets. The TILA requires stricter mortgage qualification standards for large lenders. For large lenders exceeding the asset threshold, TILA prevents consideration of future rental income towards home value unless two years of rental income were already recorded. In effect, the requirement to demonstrate two years of rental income history limits the ability to obtain conventional financing for even those homeowners who have the means and interest

<sup>43</sup> HR&A Advisors, Inc. October 23, 2017. ADU Workshop. Accessed July 26, 2019.

<https://www.smartergrowth.net/wp-content/uploads/2017/11/ADU-Financing.pdf>

<sup>44</sup> Center for Community Innovation – University of California, Berkeley. 2017. Technical Report: ADU Financing Issues in Unincorporated San Mateo County. Accessed July 15, 2019.

[https://housing.smcgov.org/sites/housing.smcgov.org/files/2nd\\_Unit\\_Financing\\_IssuesReport.pdf](https://housing.smcgov.org/sites/housing.smcgov.org/files/2nd_Unit_Financing_IssuesReport.pdf)

<sup>45</sup> Chapple, Karen; Wegmann, Jake ; Mashhood, Farzad; and Coleman, Rebecca. April 2018. Jumpstarting the Market for Accessory Dwelling Units: Lessons Learned From Portland, Seattle and Vancouver. Accessed July 26, 2019. [http://turnercenter.berkeley.edu/uploads/ADU\\_report\\_4.18.pdf](http://turnercenter.berkeley.edu/uploads/ADU_report_4.18.pdf)

in obtaining ADU construction loans.<sup>46</sup> Additionally, future home value from an ADU addition cannot be appraised towards existing home valuation for loan securitization purposes.<sup>47</sup> Some loans require a deed restriction for a homeowner to live on the property, which complicates financing and limits the flexibility of future use.<sup>48</sup> Lastly, for non-compliant remodels (i.e., those not conforming to local building codes) of existing uses into ADUs, the non-compliance to building code complicates eligibility for remodel financing. These limitations significantly reduce the pool of potential borrowers to households with adequate incomes, home equity, and credit to self-finance.<sup>49</sup>

The TILA regulations bar the largest housing investors with ample capital from entering the ADU finance space. Despite these limitations, new ADU finance mechanisms have emerged, driven by increasing demand and ADU popularity. Under TILA, smaller lenders with less than \$10 billion in assets have regulatory flexibility to add loan offerings for ADU financing. A number of local credit unions, startups, non-profits, and public sector entities are also entering the market space for creative financing solutions targeting ADU-specific financing mechanisms. Some of these solutions are market-based while others recognize the public benefit of ADU development particularly in supply-constrained markets like the Bay Area. Several examples of these emerging and contemplated solutions are highlighted below.

## PRIVATE SECTOR FINANCE OPPORTUNITIES

Regulatory changes, financial startups, and other potential solutions related to private lending that have been established or are in motion are listed below.

- A change to the Federal underwriting criteria that allows private lenders to consider future rent revenues towards ADU construction loan value determination.
- A Turner Center report titled “Jumpstarting the Market for ADUs” identifies a market opportunity for a bridge loan, similar to a construction loan, over a 3- to 4-year period to provide upfront funds for ADU construction with subsequent conventional refinancing after the rental income from the ADU is documented over a 2-year period following completion.
- A second lien position for an ADU-specific home equity line of credit has been emerging into a viable solution for property owners who lack equity to get conventional financing.<sup>50</sup>
- Credit unions and local lending institutions are increasingly occupying the market for provision of ADU loans. For example, North Coast Financial has been active in California cities and counties including Los Angeles, San Diego, the San Francisco Bay Area, Orange County, Ventura, Riverside,

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<sup>46</sup> Peterson, Kol. May 14, 2019. 2019 is the Year of ADU Financing Innovation. Accessed July 26, 2019. <https://accessorydwellings.org/2019/05/16/2019-is-the-year-of-adu-financing-innovation/>

<sup>47</sup> Center for Community Innovation – University of California, Berkeley. 2017. Technical Report: ADU Financing Issues in Unincorporated San Mateo County. Accessed July 15, 2019. [https://housing.smcgov.org/sites/housing.smcgov.org/files/2nd\\_Unit\\_Financing\\_IssuesReport.pdf](https://housing.smcgov.org/sites/housing.smcgov.org/files/2nd_Unit_Financing_IssuesReport.pdf)

<sup>48</sup> Palo Alto Weekly. January 15, 2018. New accessory-dwelling units law brings hope, confusion. Accessed July 30, 2019. <https://www.paloaltoonline.com/news/2018/01/15/new-accessory-dwelling-units-bring-hope-confusion>; Naditz, Alan. June 18, 2019. The ADU Equation. Accessed July 30, 2019. <https://www.greenbuildermedia.com/blog/the-adu-equation>

<sup>49</sup> Center for Community Innovation – University of California, Berkeley. 2017. Technical Report: ADU Financing Issues in Unincorporated San Mateo County. Accessed July 15, 2019. [https://housing.smcgov.org/sites/housing.smcgov.org/files/2nd\\_Unit\\_Financing\\_IssuesReport.pdf](https://housing.smcgov.org/sites/housing.smcgov.org/files/2nd_Unit_Financing_IssuesReport.pdf)

<sup>50</sup> Peterson, Kol. May 14, 2019. 2019 is the Year of ADU Financing Innovation. Accessed July 26, 2019. <https://accessorydwellings.org/2019/05/16/2019-is-the-year-of-adu-financing-innovation/>

San Bernardino, and Sacramento. In addition, Umpqua Bank has developed ADU renovation loan offerings for markets in California, Oregon, Washington, Idaho, and Nevada.

- Several startups have entered the ADU market space, testing various business cases for shared equity and partnerships with homeowners. A few examples include:
  - **Point.** Co-invests up to \$250,000 into homes through purchasing a share of the future home appreciation (or depreciation). Proceeds are collected upon a homeowner exit or refinance or after a 10-year term. The company is based in Palo Alto, CA.<sup>51</sup>
  - **United Dwelling.** Provides funds for permitting and remodeling of homeowner garages for ADUs and offers property management services. They pay rental proceeds to homeowners net of amortized financing, operations and property management costs. United Dwelling is based in Los Angeles, CA.
  - **Dweller.** Finances, obtains permits, and manages a prefabricated one-bedroom ADU and pays the homeowner through a ground lease. Dweller also sells fully installed ADUs for about \$130,000. Dweller is based in Portland, OR.

## PUBLIC SECTOR AND NON-PROFIT SECTOR APPROACHES

ADU programs and funding opportunities in the non-profit and public sectors are listed below.

- Partnerships between cities and non-profits have been successful in driving ADU development. For example, San Mateo County has teamed up with a non-profit, Hello Housing, which is conducting a pilot program to educate homeowners, obtain ADU development financing against its balance sheet, manage construction, and provide property management assistance with operation.
- Partnerships between local jurisdictions or developers and State Agencies have also shown early success. For example, CalHFA runs a Conduit Issuer Program, which offers a way to partner with developers seeking affordable housing funding for multifamily projects. CalHFA provides bond funding for potential acquisition, rehabilitation, and/or development of existing projects or construction of new multifamily or ADU housing. CalHFA has also launched an initiative to partner with cities or counties that have worked to raise acquisition/rehabilitation funds specifically for ADU-related creation, rehabilitation, permitting, and preservation. CalHFA has also relaxed its lending guidelines to allow homeowners to use income from ADUs to qualify for CalHFA first mortgages.<sup>52</sup>
- Various counties and municipalities are exploring funding options through loans and grants to help homeowners fund both market rate and affordable ADU development.
  - **County of Santa Cruz.** Funding options are available that target affordable housing in particular. Programs include i) deferred and forgivable construction loans up to \$40,000 to homeowners who rent an ADU to a low-income household at an affordable rent for 20 years, as recorded in a deed restriction, and ii) partnering with Habitat for Humanity to offer matching loans to build ADUs on the properties of low-income senior homeowners. In exchange, the

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<sup>51</sup> Levine, Matt. September 14, 2016. Home Equity and Bad Apples. Accessed July 30, 2019. [https://www.bloomberg.com/opinion/articles/2016-09-14/home-equity-and-bad-apples?utm\\_campaign=buffer&utm\\_content=buffera2f9e&utm\\_medium=social&utm\\_source=twitter.com](https://www.bloomberg.com/opinion/articles/2016-09-14/home-equity-and-bad-apples?utm_campaign=buffer&utm_content=buffera2f9e&utm_medium=social&utm_source=twitter.com)

<sup>52</sup> Western City, September 1, 2017. State Launches Initiatives to Maximize Housing Resources With New ADU Financing and Other Tools. Accessed July 30, 2019. <http://www.westerncity.com/article/state-launches-initiatives-maximize-housing-resources-new-adu-financing-and-other-tools>

ADU or the primary home must be rented to a household with an income at or below 80 percent of AMI with a recorded deed restriction.<sup>53</sup>

- **Alameda County.** The Alameda County Home Preservation Loan Program provides loan financing up to \$150,000 to low-income (at or below 80 percent AMI) senior homeowners to make improvements to retain them in their homes, including the construction of an ADU to offset their housing cost by generating rental income.
- **San Mateo County.** An ADU development loan program is being tested in amounts ranging between \$60,000 and \$75,000.
- Various non-profits and foundations are increasingly looking into ADU-related loans and subsidies. For example, Silicon Valley Housing Trust is developing an ADU pilot program designed to increase homeowner awareness and provide loan opportunities for ADU development.
- Given the shortage of staff and ADU application processing delays in some communities, an idea of funding additional staff fully dedicated to ADU approvals has been contemplated by jurisdictions including San Mateo County. To the extent that regional funding or grants are allocated to these efforts, ADU-specific staff could help improve homeowner transparency, expedite ADU applications, and assist with other regulatory challenges.

These kinds of market interventions have the potential to significantly enhance the production of ADUs by providing information and access to capital, and by reducing the risks associated with planning, building, and operating an ADU.

## SUMMARY OF FINANCIAL CONCLUSIONS

Although ADU construction appears to be financially feasible for all subgeographies of Oakland, the construction and permitting costs are still very expensive. The low end of construction ranges from \$50 to \$300 per square foot depending on the type of ADU being constructed. On the high end, construction can cost up to \$650 per square foot.

Regional housing entities, the City of Oakland, MTC/ABAG, and other organizations can play a key role in minimizing the uncertainty and risk of undertaking an ADU project while increasing homeowner awareness. By working to encourage new financing mechanisms, more options could be available for ADU construction. These mechanisms can be combined with the objectives to clarify and streamline the entitlement process, and even provide direct construction funding in exchange for affordability restrictions and/or other policy-based goals. In this way these organizations can bridge the financial gaps with new tools for ADU construction at a larger scale than has been achieved thus far.



*Interior of a detached ADU in Oakland's Rockridge neighborhood. The owner purchased and installed a prefabricated ADU from Studio Shed and rents it out as corporate housing for supplemental income. Photo courtesy of Stuart Fishman.*

<sup>53</sup> Santa Cruz County. September 2018. Santa Cruz County ADU Cost and Financing Guide. Accessed July 30, 2019. <http://www.sccoplanning.com/Portals/2/County/adu/ADU%20Financing%20Guide.pdf?ver=2018-09-07-104409-913>



# 6

## Stakeholder Experiences

This section summarizes findings from an online survey, four focus groups, and 12 interviews.

### SURVEY RESULTS SUMMARY

UPP developed an online survey, found in **Appendix F**, to collect information on existing ADUs and barriers to ADU construction in Oakland. The survey was distributed through a variety of methods, including social media, email, event tabling, and a targeted postcard mailing. UPP mailed a total of 1,691 postcards to individuals who had applied for a permit to add a Secondary Unit as well as low- and moderate-income homeowners who had previously received residential financial assistance from the City. Of the postcards mailed, 102 were returned as undeliverable.

UPP collected responses from Oakland homeowners from July 12, 2019 to August 9, 2019. A total of 666 individuals responded to the survey; 576 owned a single-family residential property in the City of Oakland. Of these 576 homeowners, 127 (22 percent) already had an existing ADU on their property. The survey contained two tracks, one for homeowners who already had an ADU on their property and one for homeowners who were potentially interested in adding an ADU.



*UPP team members (from left to right) Lynette Dias, Meredith Rupp, and Annelise Osterberg promote the Oakland ADU Initiative survey at the Lakeshore Farmer's Market.*

## DEMOGRAPHICS OF RESPONDENTS

As **Table 14** shows below, homeowners that responded to the survey are disproportionately white, female, and highly affluent. There are also differences between the demographics of homeowners with and without ADUs; respondents with ADUs are disproportionately white and female compared to those without ADUs.

**Table 14. Demographics of Respondent Homeowners With and Without ADUs Compared to Oakland Residents**

	Oakland, CA Residents <sup>1</sup>	Oakland, CA Homeowners <sup>2</sup>	Respondent Homeowners With ADUs	Respondent Homeowners Without ADUs
American Indian/Alaska Native (%)	1%	0%	0%	1%
Asian/Pacific Islander (%)	17%	19%	9%	8%
Black/African American (%)	24%	17%	8%	13%
Latino/Hispanic (%)	27%	--	8%	7%
White/Caucasian (%)	27%	43%	66%	59%
Multi-race (%)	7%	9%	8%	9%
Female (%)	51%	--	66%	60%
Persons 65 years and over (%)	13%	--	14%	18%
Median household income	\$63,251	\$164,068	\$125,000 <sup>3</sup>	\$125,000 <sup>3</sup>

<sup>1</sup> Source: Census QuickFacts for Oakland City, California.

<sup>2</sup> Data only available for race. Source: American Community Survey, 1-year PUMS, 2016 (Oakland PUMAs extend beyond the city boundaries).

<sup>3</sup> Household income was collected by the survey in ranges, not exact numbers (e.g., \$50,000 to \$99,999). Therefore, these are rough estimates.

## HOMEOWNERS WITH ADUS

### Physical Characteristics and Construction History

The ADUs owned by homeowners in our sample were designed in a variety of configurations. Over half (51 percent) were either basement/first floor or detached garage conversions, while 17 percent were new accessory structures and 11 percent were attached structures. Most ADUs were either studios (46 percent) or one bedroom (40 percent) and had less than 500 square feet (57 percent). The vast majority of ADU property owners lived in the main house on the property (91 percent) rather than in the ADU or at a different property.

Based on the responses of the 91 homeowners with ADUs that responded, the median construction date of ADUs in our sample is 2016; 65 homeowners in our sample made the decision to create the ADU themselves (versus having bought the property with the ADU already present). Of those that constructed their own ADU, the vast majority (94 percent) hired a paid contractor to do the physical construction; 22 percent also did some or all of the work themselves or with the help of a friend or relative. Most respondents (75 percent) hired an architect or professional designer to design the ADU.

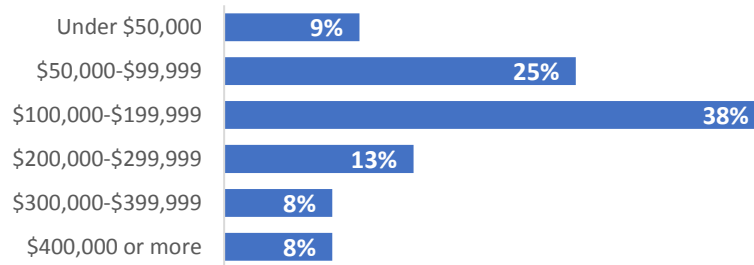
Respondents most commonly reported that that it took between three and twelve months to build the ADU (excluding time for permitting and design).



### Cost of ADU Construction

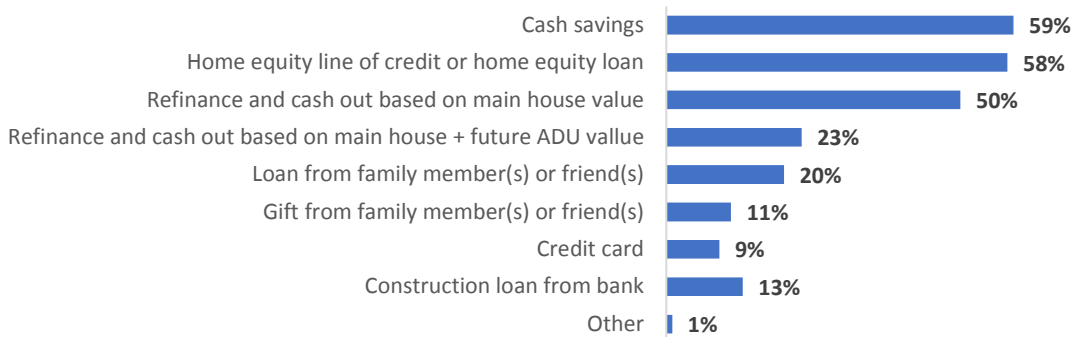
Excluding permit costs, the majority of homeowners (63 percent) reported that it cost between \$50,000 and \$199,999 to construct their ADU; 13 percent reported that ADU construction cost between \$200,000 and \$299,999. See **Figure 20**.

**Figure 20. How much did it cost to construct your ADU, excluding permitting costs?**



Homeowners used a variety of funding sources to finance the construction of their ADU. Each homeowner was asked to break down their ADU financing by percentage (e.g., 50 percent cash savings and 50 percent loan from family/friend). Cash savings represented the largest source of ADU financing, which on average homeowners used to finance 59 percent of their ADU. Almost 30 percent of respondents (14 out of 49) used cash savings to finance the entirety of their ADU. As can be seen in **Figure 21**, the next two largest sources of financing were home equity lines of credit/home equity loans and cash-out home refinance based on the main house value only.

**Figure 21. How much of the ADU was financed by each method?**



### Permitting Process and Cost

As shown in **Figure 22**, the vast majority of respondents (88 percent) received their permits within six months, with 49 percent having received their permit in less than three months. Based on the 36 ADU owners that responded, the average cost of government permits and fees (including utility hook-ups) was \$13,782.

Figure 22. How long did it take to receive all government permits/approvals to construct the ADU?

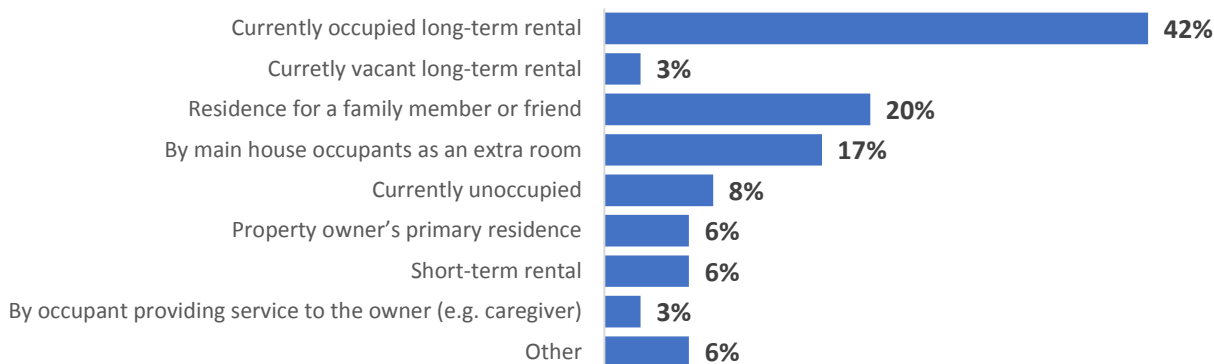


### ADU Current and Planned Usage

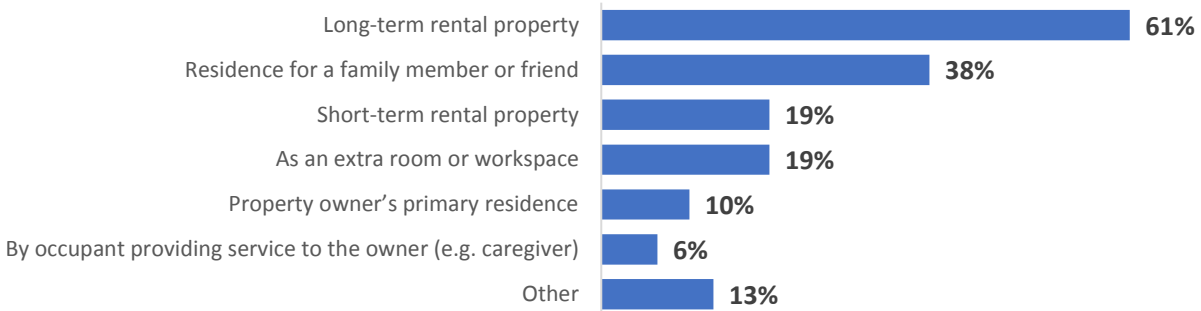
As can be seen in **Figure 23**, almost half of homeowners (45 percent) currently use their ADU as a long-term rental, 20 percent use the unit as a residence for a family member or friend, and 17 percent use the structure as an extra room for the occupants of the main house. When asked how they are planning to use their ADUs in the future, the percent of homeowners who would use their ADU as a long-term rental, residence for a family or friend, or short-term rental increased by about 15 percent for each category. The number who would use their ADU as an extra room, primary residence, or home for a service provider remained relatively the same. **Figure 24** shows predicted future uses, with the largest portion of homeowners (61 percent) still using their ADU as a long-term rental.

Figure 23. How is the ADU currently being used?

(Select all that apply.)



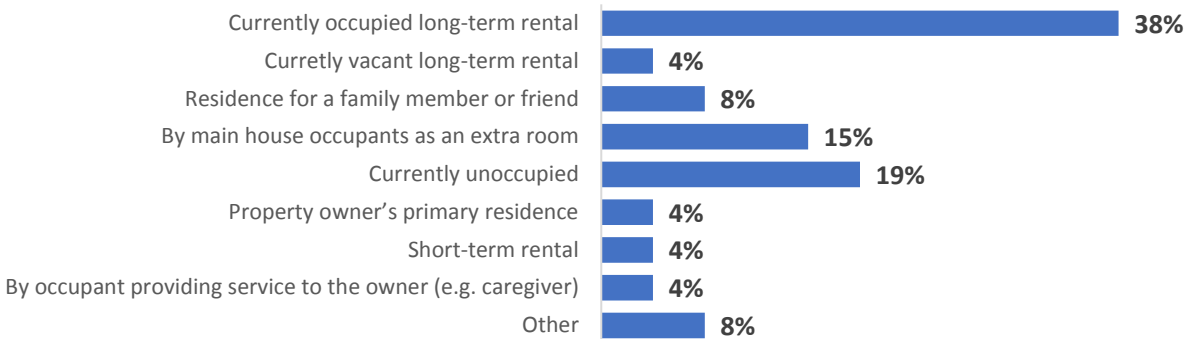
**Figure 24. How are you planning to use the ADU in the future?**  
(Select all that apply.)



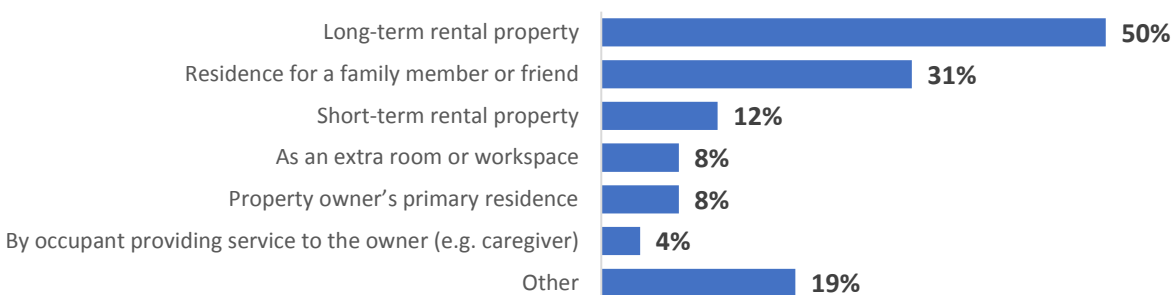
**ADU Current and Planned Usage Among Low- and Moderate-Income Homeowners**

As can be seen in **Figure 25**, the current use of ADUs among low- and moderate-income homeowners (those with household incomes less than \$100,000) is fairly similar to that of all homeowners in the sample. The main differences in usage include: (1) only 8 percent of low-income households report using their ADU as a residence for a family member or friend (compared to 20 percent of all homeowners), and (2) 19 percent of low-income homeowners report that their ADU is currently unoccupied (compared to 8 percent of all homeowners). As can be seen in **Figure 26**, the main differences in planned usage include: (1) a slightly lower percentage of low-income homeowners report plans to use their ADU as a long term rental (50 percent compared to 61 percent); and (2) a slightly lower percentage report plans to use their ADU as an extra room (8 percent compared to 19 percent). However, it should be noted that the sample of low-income homeowners with ADUs was fairly small (26 respondents), and some of these differences could simply be a result of having a smaller sample size.

**Figure 25. How is the ADU currently being used?**  
(Select all that apply.)



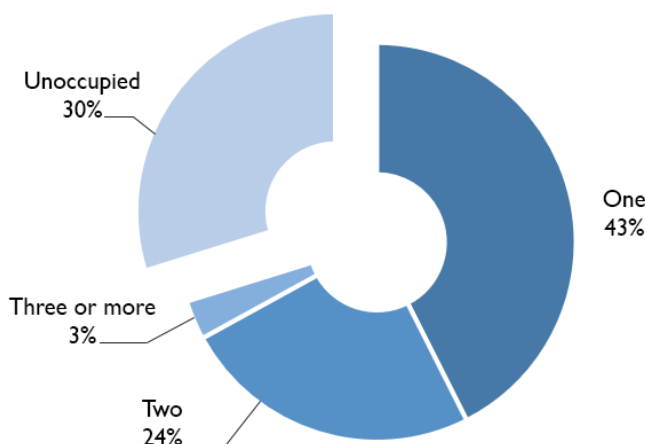
**Figure 26. How are you planning to use the ADU in the future?**  
(Select all that apply.)



### ADU Occupants

As shown in **Figure 27**, the majority of homeowners' ADUs are occupied by either one (43 percent) or two (24 percent) tenants. Almost a third of homeowners (30 percent) reported that their ADUs were currently unoccupied. Part of this is due to the 17 percent of respondents who reported using their ADU as an extra room to their main house (see Figure 23). Other factors for this high vacancy rate could be related to homeowners' concerns about becoming a landlord or their desire to maintain flexibility. The high rate of ADU vacancies (30 percent compared to Oakland's effective vacancy rate of 8.5 percent for renter housing<sup>54</sup>) could be lessened by implementing strategies like tenant matching or landlord education to encourage more homeowners to use these units for housing.

**Figure 27. How many persons currently occupy the ADU?**



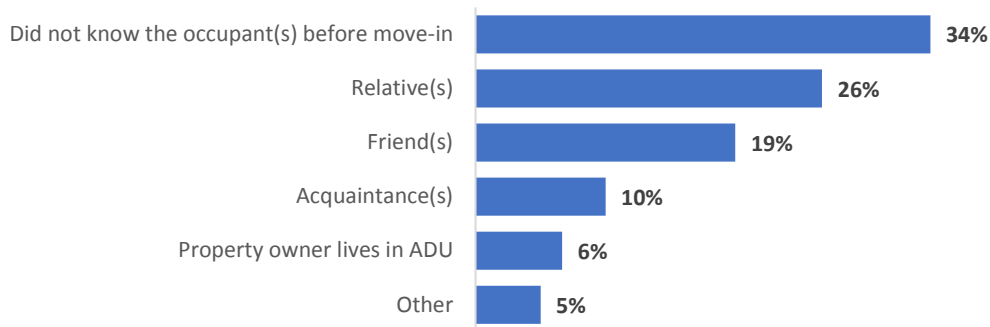
Based on the answers of the 56 survey takers who responded, the average rent charged for ADUs in our sample is \$1,112 which would be affordable for a single-person household making 60 percent of the AMI). However, over a third of the 56 respondents (34 percent) reported that they did not charge rent for their ADU.

<sup>54</sup> City of Oakland, 2014. Housing Element 2015-2020. Adopted December 9, 2014. P. 7.

Approximately 23 percent of the ADU tenants in the sample do not have a car, compared to 7 percent of the larger Bay Area population. In the San Francisco-Oakland-Hayward metropolitan area, most households (35 percent) have two cars. The majority of ADU tenants have one car (66 percent) and park their car on the street (65 percent).

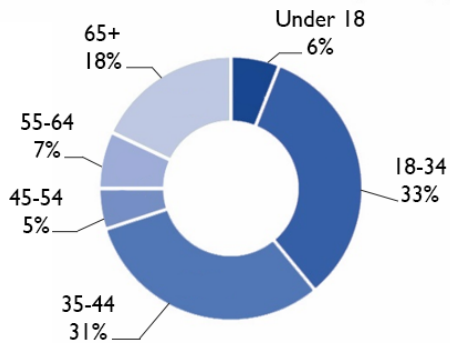
As shown in **Figure 28**, the majority of homeowners (55 percent) knew their tenants at the time of move-in: 26 percent reported renting their ADU to a relative, 19 percent to a friend, and 10 percent to an acquaintance. About a third of respondents (34 percent) rented out their ADU to individuals they did not have a relationship with at the time of move-in.

**Figure 28. What was your relationship with the current occupant(s) of the ADU at the time of move-in?**

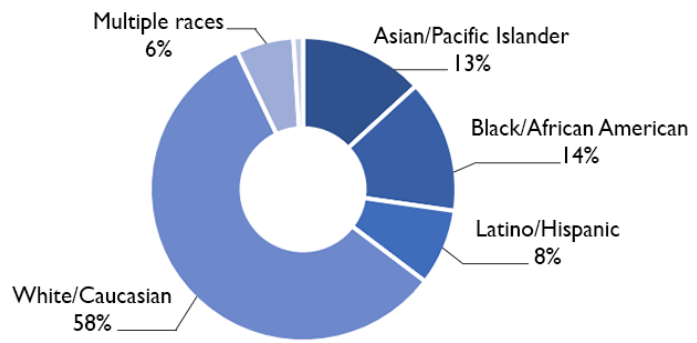


As can be seen in **Figures 29 and 30**, the majority of homeowners in our survey rent out their ADU to tenants who are 18-34 years or older (33 percent), female (63 percent), and white (59 percent).

**Figure 29. What is the age of the current ADU occupant(s)**



**Figure 30. What is the race of the current ADU occupant(s)?**



**Barriers to ADU Construction**

Respondents were asked to rate challenges they faced while building their ADU on a scale of one (being the least challenging) to five (being the most challenging), and **Table 15** shows the results. The three biggest challenges homeowners reported were the: (1) cost of construction, (2) complexity of the permitting process, and (3) cost of permit fees. The small number of low-income individuals who

answered this question (11), as well as the number of people of color (15), is too small to find patterns within racial or income groups. However, the responses of these individuals were fairly similar to the overall group.

**Table 15. What were the biggest challenges you faced in building the ADU?**

	Least Challenging			Most Challenging		Weighted Average
	1	2	3	4	5	
<b>Construction cost</b>	2%	6%	32%	28%	32%	3.82
	1	3	16	14	16	
<b>Complexity of permitting process</b>	8%	16%	22%	24%	30%	3.52
	4	8	11	12	15	
<b>Permit fees</b>	6%	23%	17%	36%	17%	3.34
	3	11	8	17	8	
<b>Building safety codes and requirements</b>	12%	18%	26%	24%	20%	3.22
	6	9	13	12	10	
<b>Physical design constraints or challenges</b>	12%	16%	29%	33%	10%	3.12
	6	8	14	16	5	
<b>Zoning rules (e.g., setbacks, height limits)</b>	14%	22%	18%	30%	16%	3.12
	7	11	9	15	8	
<b>Length of permitting process</b>	12%	32%	22%	16%	18%	2.96
	6	16	11	8	9	
<b>Utility connections</b>	20%	31%	25%	24%	20%	2.61
	10	15	12	8	4	
<b>Finding a contractor</b>	36%	14%	18%	22%	10%	2.56
	18	7	9	11	5	
<b>Green building code and requirements</b>	24%	28%	32%	12%	4%	2.44
	12	14	16	6	2	
<b>Obtaining financing</b>	40%	13%	28%	15%	4%	2.30
	19	6	13	7	2	

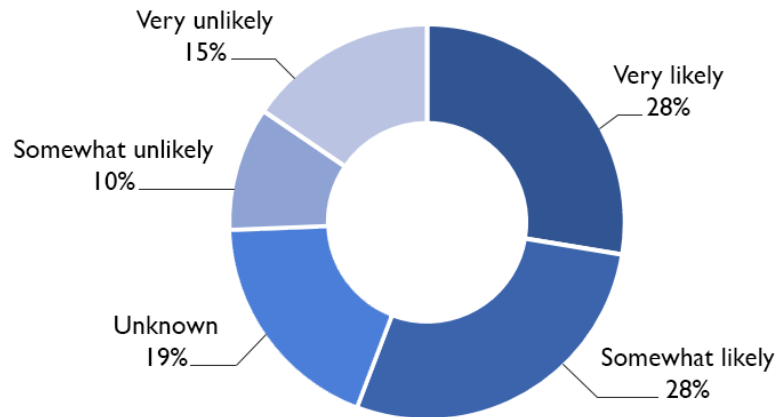
## HOMEOWNERS WITHOUT ADUS

### Interest in ADU Development

The majority of homeowners in our sample (56 percent) reported that they are very or somewhat likely to pursue constructing an ADU on their property (see **Figure 31**). This indicates that our survey might have oversampled those that were already interested in ADU development; research by the Bay Area

Council found that overall 25 percent of homeowners in the Bay Area would consider adding an ADU.<sup>55</sup> However, even if the number of homeowners who are interested in adding an ADU in Oakland is less than what was found in our survey, increasing ADU development could still have a considerable impact on the housing crisis. Additional research from the Bay Area Council found that if just 10 percent of homeowners added an ADU, the region would gain 150,000 housing units.<sup>56</sup>

Figure 31. How likely are you to pursue constructing an ADU on your property?



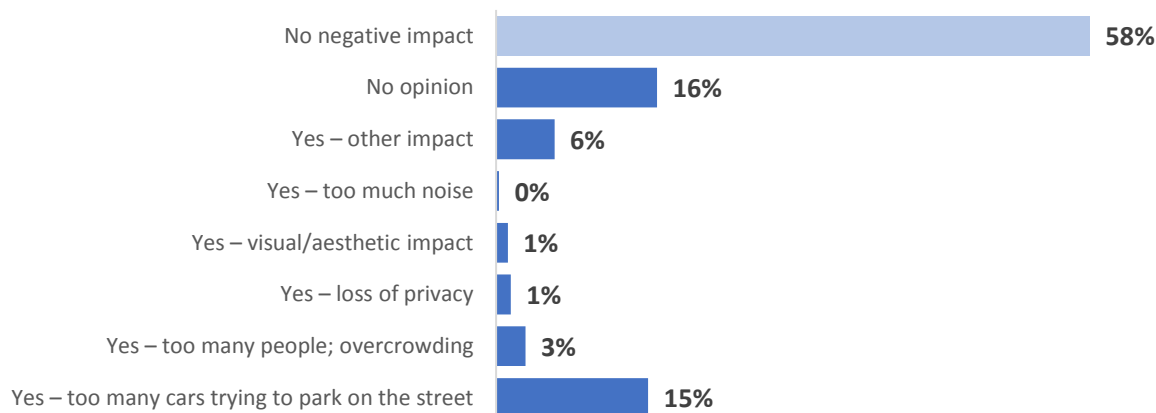
**ADU Neighborhood Impact**

As shown in **Figure 32**, The majority of survey respondents (58 percent) reported that ADUs on their street have no negative impact on the neighborhood. Those that did perceive a negative impact were most concerned with the lack of street parking on their block (15 percent).

<sup>55</sup> “New Poll Finds That 25% of Homeowners Would Add An In-Law Unit, Creating 400,000 New and Affordable Housing Units.” Bay Area Council, April 12, 2017, [https://www.bayareacouncil.org/community\\_engagement/new-poll-finds-that-25-of-homeowners-would-add-an-in-%C2%ADlaw-unit-creating-400000-new-and-affordable-housing-units/](https://www.bayareacouncil.org/community_engagement/new-poll-finds-that-25-of-homeowners-would-add-an-in-%C2%ADlaw-unit-creating-400000-new-and-affordable-housing-units/)

<sup>56</sup> “New San Francisco ADU Reforms Signal Success of Council Advocacy.” Bay Area Council, July 19, 2019. <https://www.bayareacouncil.org/housing-and-sustainable-development/new-san-francisco-adu-reforms-signal-success-of-council-advocacy/>

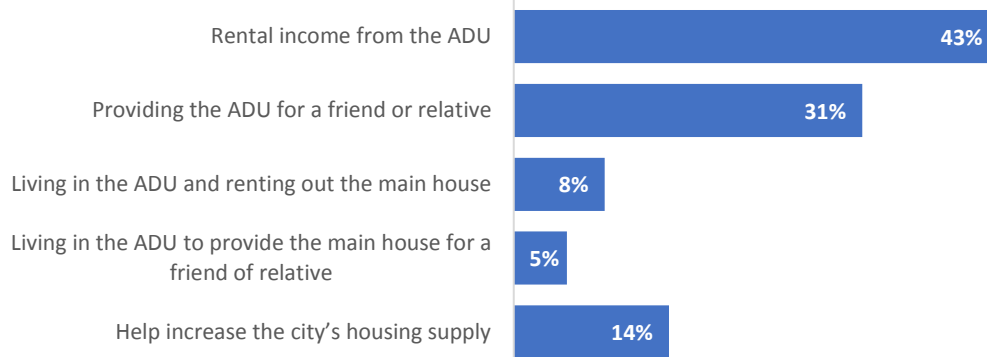
Figure 32. Do you think ADUs on your street have a negative impact?



### ADU Planned Usage

Of the homeowners surveyed who were likely to construct an ADU, 43 percent reported that they would primarily build the ADU to gain rental income, 31 percent reported that they would build the ADU to provide housing for a friend or relative, and 14 percent reported that they would build an ADU to help increase the City’s housing supply (see **Figure 33**). Low- and moderate-income homeowners reported that they would construct an ADU for similar reasons. The main difference between low- and moderate-income homeowners and the broader sample was that a larger percentage (11 percent) stated that they would live in the ADU to provide the main house for a friend or relative.

Figure 33. If you are likely to construct an ADU, what would be the primary purpose?



### Barriers to Building an ADU

Homeowners were asked to rank the barriers to ADU construction they expected to face on a scale of one (being the least challenging) to five (being the most challenging), and the results are shown in **Table 16**. The three biggest challenges that homeowners without ADUs reported were the: (1) cost and lack of financing, (2) zoning rules or other city code requirements, and (3) “Just Cause” regulations that state tenants may only be evicted for specific reasons. Both homeowners of color and low/moderate-income



homeowners indicated that (1) cost and lack of financing, (2) zoning rules or other city code requirements, and (3) legal issues and costs related to a tenant would be the top three barriers.

**Table 16. What’s the biggest barrier to constructing an ADU on the property?**

	Least Challenging			Most Challenging		Weighted Average
	1	2	3	4	5	
<b>Too expensive; financing not available</b>	14%	10%	15%	21%	40%	3.61
	50	35	53	71	137	
<b>Zoning rules or other city code requirements</b>	10%	13%	20%	20%	36%	3.60
	34	43	69	69	122	
<b>“Just Cause” regulations that state tenants may only be evicted for specific reasons (e.g., failure to pay rent, violating the lease)</b>	23%	13%	14%	12%	37%	3.25
	80	60	53	47	126	
<b>Potential legal issues/costs related to a tenant</b>	20%	18%	16%	14%	33%	3.21
	68	60	53	47	110	
<b>Too complicated and/or not enough time to manage planning for and constructing the ADU</b>	21%	19%	20%	20%	19%	2.97
	72	65	68	69	65	
<b>Rent control regulations that specify how much rent can be raised for existing tenants</b>	30%	16%	15%	12%	27%	2.91
	101	54	52	40	93	
<b>Too complicated and/or not enough time to manage the ADU once it’s complete</b>	48%	24%	17%	7%	4%	1.94
	163	82	56	25	12	
<b>One or more of my neighbors would oppose the ADU</b>	54%	24%	10%	6%	6%	1.88
	180	79	34	21	21	
<b>No need for an ADU</b>	65%	10%	13%	4%	8%	1.80
	198	30	41	13	23	

**Potential Policy Solutions**

Homeowners were also asked to assess which policy interventions would make them more likely to construct an ADU, ranking each on a scale of one (being the least important) to five (being the most important). As shown in **Table 17**, homeowners without ADUs stated that the top three changes that would impact their decision to build an ADU on their property would be: (1) financial assistance from the City or other source, (2) waiver or reduction of permit fees, and (3) relaxed zoning rules (e.g., lot setbacks). Low- and moderate-income homeowners indicated that (1) waiver or reduction of permit fees, (2) relaxed zoning rules (e.g., lot setbacks), and (3) financial assistance from the City would most impact their decision.

**Table 17. What would make you more likely to construct an ADU?**

	Least Important		Most Important			Weighted Average
	1	2	3	4	5	
<b>Relaxed zoning rules (e.g., lot setbacks, height limits)</b>	6%	5%	13%	17%	58%	4.17
	20	18	45	59	198	
<b>Waiver or reduction of permit fees</b>	5%	7%	13%	21%	54%	4.12
	17	23	44	71	181	
<b>Financial assistance from City or other source</b>	12%	6%	15%	22%	45%	3.83
	40	22	50	74	155	
<b>Faster permit process</b>	10%	7%	21%	22%	41%	3.76
	34	22	69	72	135	
<b>Access to preapproved plans</b>	11%	8%	20%	23%	38%	3.70
	36	26	67	78	126	
<b>Better access to information on City codes and permit process</b>	9%	11%	21%	29%	31%	3.62
	30	36	70	96	105	
<b>Exemption from “Just Cause” regulations that state tenants may only be evicted for specific reasons (e.g., failure to pay rent, violating the lease)</b>	19%	10%	13%	16%	42%	3.53
	62	34	44	54	141	
<b>Project management services or professional support during the planning and construction process</b>	16%	9%	21%	27%	27%	3.40
	53	32	70	93	91	
<b>Exemption from rent control regulations that specify how much rent can be raised for existing tenants</b>	21%	12%	19%	16%	33%	3.27
	70	39	65	52	109	
<b>Ability to rent the ADU as a short-term rental (e.g., Airbnb)</b>	24%	9%	18%	20%	29%	3.20
	82	30	62	66	98	
<b>Extended hours for City permit counter (e.g., evenings and/or weekends)</b>	18%	15%	23%	18%	25%	3.17
	60	51	78	60	83	
<b>Contractor referral</b>	28%	16%	24%	17%	14%	2.72
	94	53	80	57	46	
<b>ADU built off-site and shipped to you</b>	33%	13%	21%	15%	17%	2.71
	110	42	71	51	57	
<b>Education on managing the ADU and tenant-landlord relationship</b>	28%	18%	22%	17%	14%	2.70
	94	60	73	56	47	

## SURVEY RESULTS CONCLUSION

Overall, the survey results help us to better understand who in Oakland currently owns an ADU, what motivates homeowners to build ADUs, what the ADU permitting and construction process is like, and what policy changes could help reduce the barriers to ADU construction. Our survey results suggest that ADU owners in Oakland are disproportionately white and affluent; however, it is hard to assess the extent to which this reflects the oversampling of this demographic group. Most commonly, homeowners reported it took less than three months to receive their permits and an additional three to six months to build the ADU. Homeowners most commonly reported that it cost between \$100,000 to \$200,000 to construct their ADU and that cash savings was the largest source of financing. Homeowners most often reported using their ADU as a long-term rental and renting to friends, relatives, and acquaintances, however, a large percentage (30 percent) of ADUs are also unoccupied.

Both homeowners with and without existing ADUs reported the following barriers to ADU construction: a lack of access to financing, the high cost of construction, permit fees, the complexity of the permitting process, restrictive zoning rules, and “just cause” regulations. The three policy solutions that homeowners believed could do the most to reduce barriers were: relaxing zoning code restrictions, reducing or waiving permit fees, and financial assistance from the City or other sources. These results suggest there is much the City could do to promote more widespread ADU construction, as well as more equitable access to the benefits of ADU ownership. In addition, implementation of State legislation passed in 2019 will help ease zoning code restrictions cited as a barrier.

## FOCUS GROUP RESULTS SUMMARY

We held four focus groups during Summer and Fall of 2019. The themes of each group are listed below. The Acknowledgements section at the end of this report identifies focus group participants that elected to have their identities shared.

- **ADU Development Professionals.** Developers, contractors, advocates, and architects involved in Bay Area ADU development and policy.
- **Homeowners with ADUs.** Homeowners who have completed or are in the process of constructing an ADU. Participants were randomly selected from the population of survey takers who were open to participating in a focus group, and then screened to ensure a variety of neighborhoods, races, ADU types, and motivations for building were represented.
- **Low-/Moderate-Income Homeowners without ADUs.** Homeowners with varying levels of interest in constructing an ADU. Participants were randomly selected from the population of survey takers with incomes under \$99,999<sup>57</sup> who were open to participating in a focus group, and then screened to ensure a variety of neighborhoods, races, and motivations for building were represented.

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<sup>57</sup> AMI for a three-person household (which is the average Oakland household size) is \$100,550. Moderate income (up to 120 percent AMI) for a one-person household is \$104,100. Our survey did not ask for household size, but any household with an annual income below \$99,999, regardless of household size, is considered low- or moderate-income according to the City of Oakland Housing and Community Development Department’s 2019 Income Limits.

- **City Advisory Group.** City staff who had previously been identified to serve on the advisory group. All phases of the development process were represented.

The focus groups provided valuable feedback on current barriers to ADU development and ideas on how to improve the process. Broad barriers that were identified are listed below.

1. **Utilities.** Working with outside utility companies (e.g., EBMUD, PG&E) is burdensome and costly, and the path is not clear. There appear to be inconsistent practices with regard to requirements for ADU hook-ups and fees are an additional and often unanticipated expense.
2. **Labor.** Finding a trusted and available contractor is difficult. In addition, many homeowners lack experience with contracts, construction lien procedures, and necessary project management oversight.
3. **Financing.** There are limited ADU financing products currently offered in the private market and many homeowners, especially low-income homeowners, are reluctant to expose themselves to the risk of using their home equity to fund ADUs.
4. **Cost.** The cost of building an ADU (e.g., construction, fees, plans) is very expensive, and insurmountable to many low-income homeowners.
5. **Process.** Many homeowners report confusion and frustration over a permitting process perceived to be long, unclear, and not user-friendly.
6. **Regulatory.** Some regulations are regarded as unreasonable and/or overly burdensome such as the requirement for a property line survey and building and fire code requirements for converting an existing structure.
7. **Information Dissemination.** Homeowners reported receiving inconsistent information and did not have transparency on fees or project approval timelines.
8. **Tenant Protections.** The applicability and implications of just cause and rent control ordinances have created confusion and concern about being able to maintain flexibility in the use of an ADU over time and whether the costs of financing and maintenance will be supported by the rent. Additionally, there was a perception that these regulations could change at any time, creating greater uncertainty about their applicability. Just cause was a greater concern than rent control.
9. **Income Restrictions.** Higher-income homeowners were more likely to support restrictions on the income of ADU occupants in exchange for financial assistance to construct the ADU, while lower-income homeowners were less likely to support such restrictions.

## INTERVIEWS

Stakeholder interviews and site visits were also conducted to learn about barriers to ADU development and previous research methodologies and findings. Interviews revealed the breadth and depth of existing ADU research and solutions. Property owner stakeholders shared their tenant protection concerns and their desires to build ADUs on multi-family properties. Stakeholders also expressed financial and project management concerns for older and/or lower-income homeowners who could benefit from an ADU.

# 7

## Barriers Summary and Solution Focus Areas

We found that the barriers to ADU development in Oakland are primarily consistent with the barriers revealed in previous research:

- **Financial barriers** related to high costs of construction and permitting fees and difficulties finding financing
- **Barriers related to the permitting and building processes**, including experiencing delays, navigating processes with which homeowners have little familiarity, applying development standards, and finding a trusted contractor
- **Regulatory barriers**, including application submittal requirements, use restrictions, and the applicability of tenant protections

We have categorized the barriers to ADU development identified in our research and present solution focus areas to address these barriers below. In the next stage of the ADU Initiative, we will explore possible solutions further to prioritize which solutions Oakland should implement given its unique opportunities and constraints.

**Table 18. Barriers and Solutions to ADU development**

Barriers to ADU Development	Potential Solution Areas
<p><b>City procedures and practices</b> are daunting to the typical homeowner, especially those with limited resources. Even savvy applicants express frustrations over <b>conflicting information, limited transparency, and a lack of upfront understanding</b> on what to expect.</p>	<p>Create <b>applicant resources</b> that guide homeowners through the process. These could include:</p> <ul style="list-style-type: none"> <li>• Graphic-heavy step-by-step guide</li> <li>• FAQs on common planning and building issues</li> <li>• Catalog of approved ADUs and the architects and contractors who worked on them</li> <li>• Project management assistance</li> <li>• Public/private partnership or in-house program to assist low-income homeowners to build ADUs</li> <li>• Non-profit partnership to provide list of recommended contractors</li> <li>• Templates of contractor agreements</li> </ul>

Barriers to ADU Development	Potential Solution Areas
	<ul style="list-style-type: none"> <li>• Dedicated website</li> <li>• Online tool to test ADU feasibility, including financial tool</li> </ul> <p>Create <b>resources</b> to facilitate a smoother permitting process. These could include:</p> <ul style="list-style-type: none"> <li>• Standardized checklist to be used during plan review</li> <li>• Clear and consistent information and procedures about utility connections: power, water, sewage</li> <li>• Clear and consistent information and procedures on Fire Department requirements</li> <li>• Consolidate required fees into a standard package for consistency and ease of administration</li> <li>• Establish and track universal project characteristics data so that information is available in a uniform manner</li> </ul> <p>Implement <b>process changes</b> to improve accessibility, consistency, and customer service. Changes could include:</p> <ul style="list-style-type: none"> <li>• Standardized checklist to be used during plan review</li> <li>• Appointment system to meet with Planning and Building staff</li> <li>• One Stop Shop model for homeowners to get everything they need in one place</li> <li>• Travelling One Stop Shop to low-income communities of color</li> <li>• Designated ADU program coordinator</li> <li>• Increasing staff expertise on ADUs</li> <li>• Allowing pre-approved plans</li> <li>• Creating leadership and incentives around ADU approvals and customer interactions</li> <li>• Commitment to specific processing timeframes upon complete application</li> </ul>
<p><b>Unpermitted units</b> are prevalent.</p>	<p>Develop a <b>legalization program</b> to improve the safety of unpermitted ADUs. The following components of a successful ADU legalization program should be considered:</p> <ul style="list-style-type: none"> <li>• Compliance with basic health and safety building standards</li> <li>• Allowance of nonconformity/alternative compliance for factors unrelated to basic health and safety</li> <li>• Clear messaging to homeowners about obligations and consequences of legalization</li> <li>• Clear commitment to prioritize keeping tenants in the unit and avoiding displacement</li> </ul>

Barriers to ADU Development	Potential Solution Areas
<p><b>Rules and requirements are overly restrictive</b> and hinder ADU development.</p>	<ul style="list-style-type: none"> <li>• Specific policies on the applicability of fees required for legalization and the amount of back fees due</li> <li>• Finite end to the legalization program with clear communication as to homeowner responsibilities if illegal unit discovered in the future</li> <li>• Incentives to encourage legalization</li> </ul> <hr/> <p>Make <b>regulatory changes</b> to increase flexibility and encourage ADU development. Changes could include:</p> <ul style="list-style-type: none"> <li>• Waiving property survey requirements and/or providing an alternative to a full boundary and topographic survey</li> <li>• Allowing lower ceiling heights for basement conversions</li> <li>• Increasing allowable building heights</li> <li>• Providing an exception procedure rather than a variance for development standard modifications</li> <li>• Allowing ADUs to be sold and conveyed separately from primary residences</li> </ul> <p>We understand the City is already updating its codes to implement <b>State law</b> to liberalize where ADUs are allowed. These changes include:</p> <ul style="list-style-type: none"> <li>• Allowing one Category One and one Category Two ADU on each property</li> <li>• Allowing ADUs on multi-family properties</li> <li>• Eliminating minimum lot size and lot coverage requirements</li> <li>• Increasing allowable ADU heights to 16 feet if ADU is 800 square feet or less and has 4-foot rear and side yard setbacks</li> <li>• Allowing demolition of existing structures and rebuilding as ADUs in the same footprint</li> </ul>
<p><b>The applicability of tenant protections</b> is a source of fear and confusion for homeowners.</p>	<p>Create and share <b>informational resources</b> to help homeowners understand these ordinances and when and how they apply to ADUs.</p> <p>Provide <b>resources for landlords</b>. These could include:</p> <ul style="list-style-type: none"> <li>• Tenant-landlord matching services</li> <li>• Money to cover legal fees</li> <li>• Landlord-Tenant mediation services</li> <li>• Training on how to be a landlord</li> <li>• Templates of rental agreements</li> </ul> <p>Consider a limited <b>exemption from the Just Cause for Eviction Ordinance</b> for ADUs in certain situations. This would require voter approval and should be balanced with the need to protect tenants and reduce displacement.</p>

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### Barriers to ADU Development

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The **cost of construction and permitting** is very expensive, and insurmountable to many low-income homeowners. Financing products are still emerging, and many homeowners are reluctant to expose themselves to the risk of using their home equity to fund ADUs.

### Potential Solution Areas

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Explore and develop **loan solutions**, including:

- Pre-development loans (payable either upon sale of property or within a time certain after unit is rented)
- Construction or permanent financing for qualified low-income homeowners
- Revisions to the City's homeownership loan program to allow ADU construction as part of income qualification
- A local financial assistance program to construct ADUs or bring existing ADUs into compliance through the City's existing home improvement loan program

Explore and **establish financial partnerships and funding assistance opportunities**, such as:

- Develop a City or sub-regional subsidy, loan guarantee or other financial assistance programs with large private corporations that have recently committed funding to the housing crisis such as Kaiser, Gates, Apple, Facebook, Laura Powell Jobs
  - Provide a mechanism to meet the City's in-lieu housing fee requirement through funding the creation of ADUs for qualified low-income homeowners
  - Reach out to private, local banks to form a consortium in order to distribute the financial risk of a home loan program for ADUs
  - Reach out to CalHFA and the State Treasurer's office to explore new State sponsored programs for ADU financing, including loan programs
  - Assess feasibility of Opportunity Zone funding for ADU development
-



# Acknowledgements

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# Appendix A – Unpermitted Unit Estimate Methodology

**Data source:** Real estate sales listings from Redfin for the City of Oakland (includes sales information from MLS and public property records from the County Assessor); Accela permit records for the City of Oakland.

Pulled a sample of all single-family homes for regular sale on July 18, 2019. Filtered Redfin listings to pull current sales only, removed foreclosures, pulled houses (not apartments), and removed HOAs.

Cleaned data to remove any listings outside of the City of Oakland. Removed from analysis listings for vacant lots with no plans to develop a single-family residence. Therefore, some vacant lots are included in the analysis where plans exist for a new single-family residence. Listings were also removed that were described as duplexes in their Redfin descriptions and either were listed as multi-unit buildings in Redfin’s “Public Facts” section or in Accela’s “County Number of Units.”

Read through listings to look for signs that an ADU was present. Looked for terms like: ADU, accessory unit, in-law, second unit, income potential, bonus room, studio apartment, converted garage, and granny flat. Also reviewed photos to look for signs of detached/attached structures with kitchens and separate entrances.

## Definition of ADU

- Bathroom AND kitchen
- Separate entrance

## Categories of ADUs

*ADU present:* Almost certain that ADU is located on property. For instance, description makes clear that property includes second unit or photos show separate space with kitchen.

*ADU presence possible:* There is strong evidence that a space is being used as an ADU. For instance, photos may be taken in such a way to conceal sections of a detached structure that looks recently built.

*ADU presence unlikely:* The property has the potential to construct an ADU (e.g., a large ground level floor or detached garage, but there is no evidence indicating they are using the space as an ADU. This may include rooms being used as work spaces or guest rooms that do not have a kitchen.

*No ADU:* There is no evidence of an ADU on the property. This includes listings where almost no information was provided (listing may only have photo of front of house and no description). This categorization is based on the assumption that if an owner has an ADU they will make it clear in order to increase potential resale value.

Next, properties where either an ADU was present or ADU presence was possible were reviewed on the City’s online Accela database to determine whether units had been permitted.

## Categories of permit status

- Definitely permitted
- Definitely unpermitted
- Likely unpermitted
- Originally unpermitted – legalizing

## Steps for determining permit status

1. Search for APN in “parcel info” click on “associated record list.”
2. If complaint shows up, review description and comments to see if related to unpermitted unit; also check whether complaint was verified or abated. Mark as either:
  - a. Definitely unpermitted
  - b. Originally unpermitted – legalizing
3. If building/planning permits show up related to suspected ADU, read description to assess whether permits allowed adding square footage to SFR or adding a second unit. Check that both building and planning permits were approved. Mark as either:
  - a. Definitely unpermitted
  - b. Definitely permitted
4. If no relevant building/planning permits show up, look at the most recent building permit to check the existing/proposed number of units and building use. If the permit indicates the property is a SFR with one unit and no permits have been filed since, then mark as:
  - a. Definitely unpermitted
5. If no records show up, review associated records and city/county number of units. If number of units on record does not match Redfin listing, mark as:
  - a. Likely unpermitted

## Notes

- If an owner appeared to have received permits to add new square footage to the house but not a second unit, the ADU was categorized as unpermitted. Therefore, there may be unpermitted units that are fully up to code but not permitted as a separate unit.
- In some instances, City officials discovered that an unpermitted ADU was present and recommended the owner take steps to legalize. These have been categorized as “originally unpermitted – legalizing.” However, it is difficult to confirm that the owner actually plans to go forward with the City’s recommendation, and therefore it may be better to count these as unpermitted.
- To be categorized as definitely permitted, the owner had to have received both a building and planning permit.
- The Accela database did not include records from before the 1980s. For this reason, it was problematic to assume that any properties that did not have permits for a second unit were definitely unpermitted. If no permits showed up to add a second unit, we looked for the most recent general building permit, which recorded the building’s use (e.g., single-family dwelling) and number of units. If the property was recorded as a SFD with one unit, and no subsequent permits allowed the addition of a second unit, the property was categorized as definitely unpermitted.

# Appendix B – Oakland Homeowners’ Associations

In Oakland, there are at least six homeowners’ associations that comprise approximately 2,000 homes. Five of these associations have listed their CC&R regulations online. As listed below, four of these five associations ban ADUs in their CC&R regulations. Under new state law (AB 670), homeowner association bans on ADUs will become unlawful on January 1, 2020.

- *Lakeshore Homes Association*. This association includes 1,055 properties covering almost 200 acres. The Lakeshore Homes Association requires each lot to be “used as a residence for a single-family and for no other purpose.”<sup>1</sup>
- *Sequoyah Hills Homeowners*. This association includes 264 lots in the Oakland Hills. The association’s CC&R states that, “no building or structure shall be constructed, erected, altered, or maintained or any part of the property...for any purpose other for a detached single-family dwelling.”<sup>2</sup>
- *Chabot Park Highlands Homeowners’ Association*. This association is comprised of approximately 165 homes and homesites located in the hills of Oakland, California. The association bars the use of any building “for any purpose except that of a detached single-family house.”<sup>3</sup>
- *Homeowners of Crestmont Association*. The Homeowners of Crestmont Association restricts the construction of any “building other than a detached single-family dwelling house and appurtenant garage for private use.”<sup>4</sup>
- *Oakmore Home Association*. This association is one of the oldest homeowners’ organizations in California and has over 230 member homes. The Oakmore Home Association does allow attached ADUs; the CC&R states that owners can, “rent a portion of a Dwelling provided that no more than two (2) bedrooms or sleeping spaces within a Dwelling are separately rented.”<sup>5</sup>

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<sup>1</sup> “CC&R’s: Lakeshore Highlands Declaration of Restrictions.” Lakeshore Homes Association. <http://lakeshorehomes.net/wp-content/uploads/2011/07/CCRs-050610.pdf>.

<sup>2</sup> “SHHA Collected Rules” Sequoyah Hills Homeowners Association, 2004. [http://www.sequoyahhome.org/wp/wp-content/uploads/2011/04/Collected\\_Rules\\_8march2005.pdf](http://www.sequoyahhome.org/wp/wp-content/uploads/2011/04/Collected_Rules_8march2005.pdf).

<sup>3</sup> “Chabot Park Highlands 1993 Covenants, Conditions, & Restrictions.” Chabot Park Highlands Homeowners Association, 1993. <http://chabotparkhighlands.com/media/101bba802fc9a8c4ffff81a1ffaf2815.pdf>.

<sup>4</sup> “CC&Rs: Declaration of Restrictions, Covenants, Conditions, and Agreements Affecting Real Property Commonly Known as Crestmont No. 1 and Crestmont No. 2.” Homeowners of Crestmont Association, 2003. <http://www.crestmont94619.org/files/41984854.pdf>.

<sup>5</sup> “Declaration of Restrictions of Oakmore Highlands, A Planned Development.” Oakmore Homes Association. [http://oakmorehomes.com/wp-content/uploads/2015/04/OHA\\_CCRs.pdf](http://oakmorehomes.com/wp-content/uploads/2015/04/OHA_CCRs.pdf).



# Appendix C – ADU Inventory Methodology

## BASE ESTIMATE

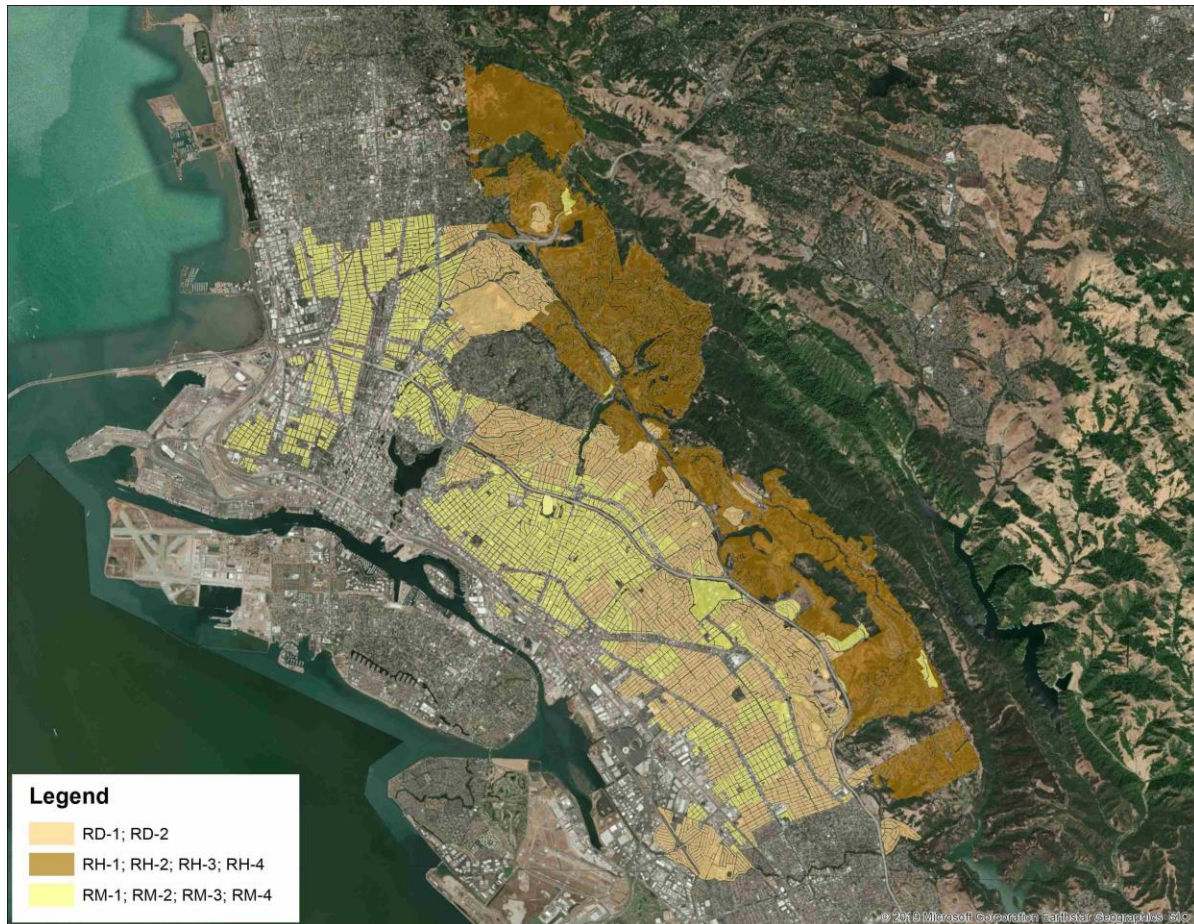
**Data source:** City of Oakland GIS data, Alameda County existing land use data, and Cal Fire (as specified in the steps below)

1. **Total Oakland Parcels: 98,340 (after removing condominium duplicate parcels)**



2. Merged two sets of data
  - a. Zoning information
  - b. Oakland Parcels
3. Removed all roads and right-of-way by removing polygons with no associated APN
4. Removed all parcels that were not under the designation of:
  - a. RD-1, RD-2
  - b. RH-1, RH-2, RH-3, RH-4
  - c. RM-1, RM-2, RM-3, RM-4
5. **Total Oakland Parcels with Single-Family Residential zoning designation: 84,601**
  - a. RD-1: 25,544
  - b. RD-2: 8,283
  - c. RH-1: 354
  - d. RH-2: 557
  - e. RH-3: 2,449

- f. RH-4: 11,377
- g. RM-1: 7,107
- h. RM-2: 19,222
- i. RM-3: 7,352
- j. RM-4: 2,356



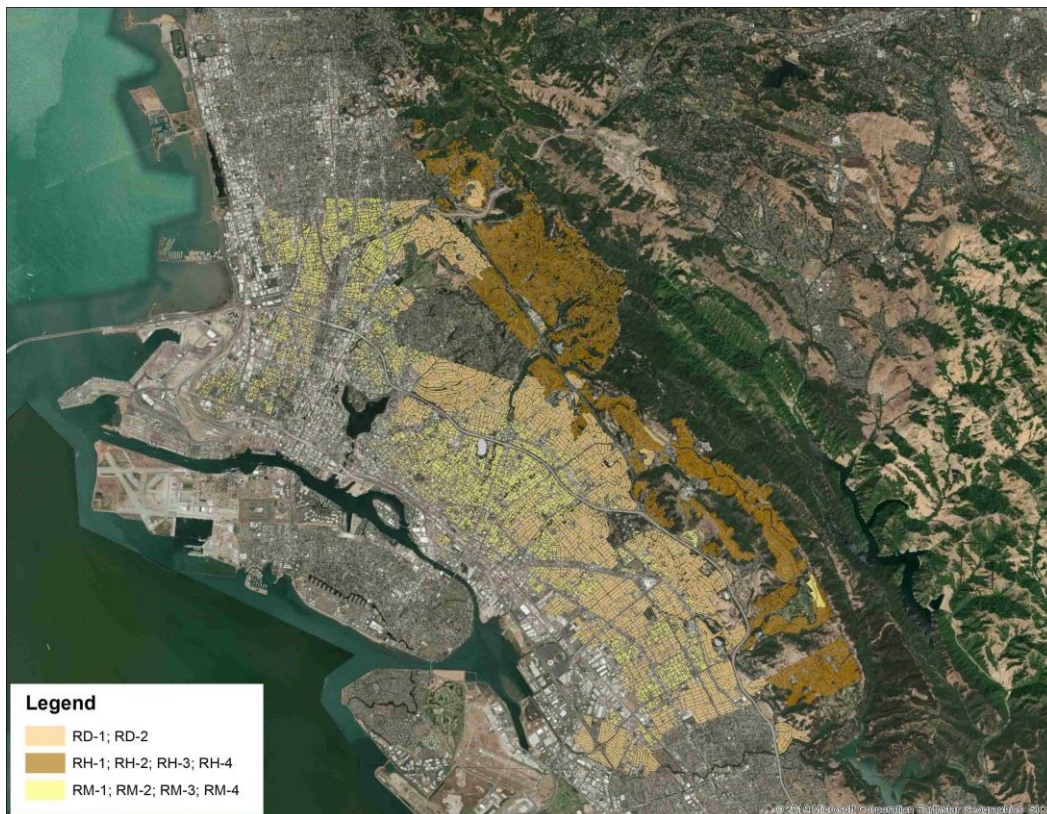
6. Using Alameda County Parcel data (<http://data.openoakland.org/dataset/assessors-secured-roll>), removed all uses which did not fall under a “single-family home” use codes. Following use codes for Oakland included:
- a. I 100 – Single-family residential homes used as such
  - b. I 101 – Medical-Residential Care Facility (SFR) <7 patient
  - c. I 120 – Residential Imps on Commercial Land
  - d. I 140 – Single family residential home, R&T 402.1
  - e. I 150 – Historical Residential
  - f. I 190 – Single family residential (tract) common area
  - g. I 200 – Single family res home with non-economic 2nd unit
  - h. I 300 – Single-family res home with slight commercial use
  - i. I 400 – Single Family Res - Duet Style
  - j. I 440 – N/A
  - k. I 500 – Planned development – townhouse
  - l. I 505 – Townhouse Style - Condominium



- m. I540 – Planned development - Townhouse, R&T 402.1
- n. I590 – Planned Development - Townhouse, Common Area
- o. I595 – N/A

**7. Total Oakland Parcels with Single Family Residential zoning designation and with an existing single-family home: 64,395**

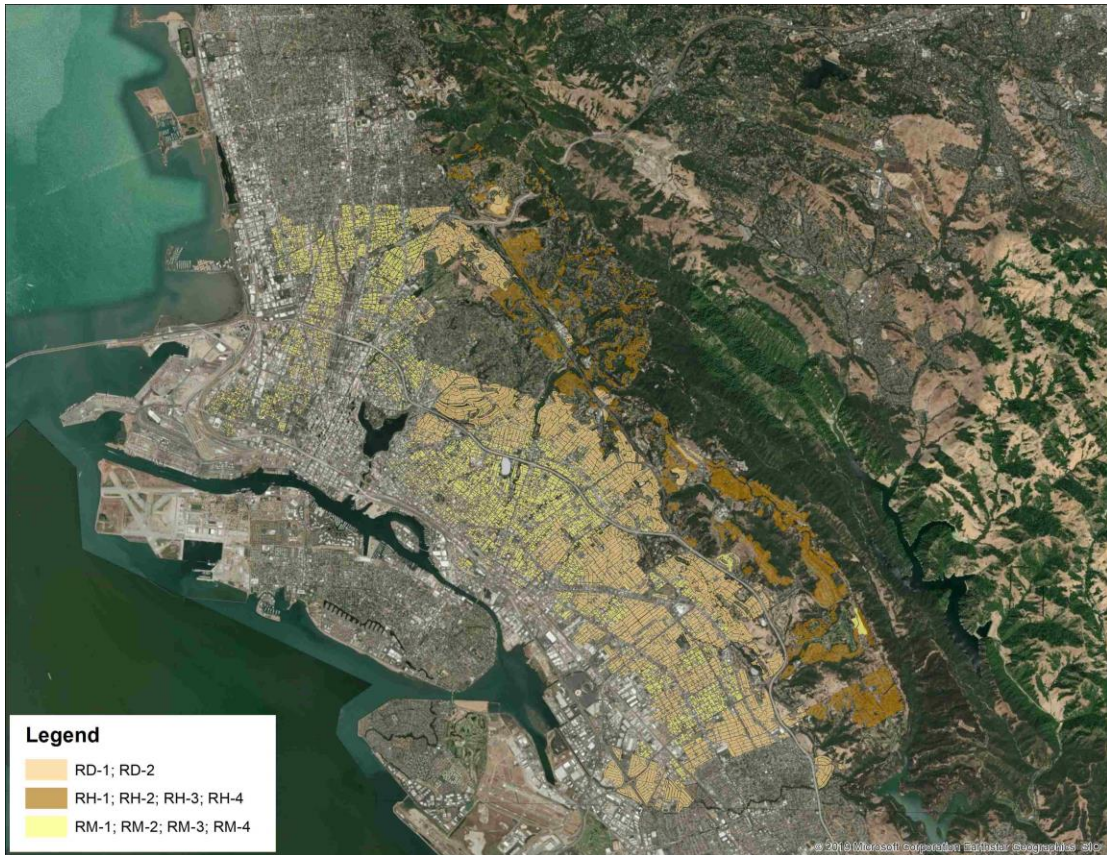
- a. I100: 62,030
- b. I101: 0
- c. I120: 1
- d. I140: 224
- e. I150: 45
- f. I190: 10
- g. I200: 796
- h. I300: 46
- i. I400: 22
- j. I440: 27
- k. I500: 1,028
- l. I505: 8
- m. I540: 76
- n. I590: 78
- o. I595: 4



8. Using data provided by the City of Oakland that includes roads that are less than 20 ft wide or by a dead-end street longer than 600 ft, created a 40 ft buffer (from centerline). All parcels that were within this 40 ft buffer, were removed from the data set.

**Total Oakland Parcels with Single Family Residential zoning designation, with an**

existing single-family homes, and not within 40 ft of a street with pavement less than 20 ft wide or by a dead-end street longer than 600 feet: 56,150



- Using data provided by the CalFire ([http://www.fire.ca.gov/fire\\_prevention/fhsz\\_maps\\_alameda](http://www.fire.ca.gov/fire_prevention/fhsz_maps_alameda)). All parcels that were within a Very High Severity Zone were removed from the data set. **Total Oakland Parcels with Single Family Residential zoning designation, with an existing single-family homes, not within 40 ft of a street with pavement less than 20 ft wide or by a dead-end street longer than 600 feet, and not within a Very High Fire Severity Zone: 46,177**



10. Using Alameda County Parcel data, add single-family homes (same use codes from step 6) that are in other zoning districts. Removed parcels in in CIX, IG, IO, M, D-CO, or S-3 zones because ADUs are prohibited in these zones.
11. **Total Oakland Parcels with single-family uses and not in RM, RH, or RD zoning designations (because were captured in previous steps) or in CIX, IG, IO, M, D-CO, or S-3 zones (where ADUs are prohibited): 1,854**
- a. C-40: 9
  - b. CBD: 76
  - c. CC: 81
  - d. CN: 141
  - e. HBX: 622
  - f. D-KP: 2
  - g. OS: 10
  - h. RU: 893
  - i. S-1: 2
  - j. S-15: 9
  - k. Wood Street: 9

Note: the single-family homes in other zoning districts were not screened for road widths or high fire severity zones because it is primarily low-density residential zoning districts that occur in these areas.

## TESTING DEVELOPMENT STANDARDS

Population: Parcels in previous analysis that had single-family uses, were **not** in a Very High Fire Severity zone, and were **not** within 40 ft of a street with pavement less than 20 ft wide or by a dead-end street longer than 600 feet.

A random sample was pulled from this population to test how the imposition of certain development standards would affect the feasibility of constructing a Category Two ADU.

### Phase 1: Select Sample

1. Determined Sub-areas.
  - a. One sub-area for all parcels that are in RH zone OR with slope greater than 20% (RHSlope20.shp)
  - b. The remaining parcels were separated into 4 areas using k-means clustering, which attempts to create continuous clusters, with each cluster containing an equal number of parcels)
    - i. Northwest Oakland
    - ii. Central Oakland
    - iii. East Oakland
    - iv. South Oakland (Deep East Oakland colloquially)
2. Randomly picked 10 parcels from each sub-area in GIS, for a total of 50 parcels to sample
  - a. Use QGIS tool “Random Extract”
3. Exported these 50 parcels to an Excel sheet, with data including:
  - a. Parcel Number
  - b. Address
  - c. Zoning Designation
  - d. Parcel square feet
  - e. Building footprint square feet
4. Created 2 new columns in Excel sheet for manual input:
  - a. Category 2 ADU Possible?
  - b. If no, why not?

### Phase 2: Determine ADU Feasibility

5. Confirmed Lot/Property Size
  - a. Searched property on Redfin, or another similar site to confirm
  - b. For 2-story buildings, measured building footprint in Google Earth to determine Building Footprint
6. If site is in a Hillside slope zone, determined if ADU is permitted via Maximum Lot Coverage
  - a. Note: Driveway does not count as building area

Regulation	Lot Size in Square Feet					Additional Regulations
	<5,000	>5,000 and <12,000	>12,000 and <25,000	>25,000 and <43,560	>43,560	
Maximum FAR	0.55	0.50	0.45	0.30	0.20	1
Maximum Lot Coverage (%)	40%	40%	30%	20%	15%	2

7. Using Google Earth, confirmed rear setback requirements for ADUs per the individual properties zoning designation
  - a. There is always a 6 ft setback from the existing single-family structure
  - b. Per Oakland Code, an ADU setback from rear and side lot lines is 4 feet, as long as the ADU does not occupy 50% of the zones INTENDED horizontal setback area  
*Example:*
    - i. 25 feet long from rear lot line to structure, 20 feet wide lot = 500 sf backyard.
    - ii. The intended set back zone is 15 feet from rear lot line, with a 20 foot wide lot = 300 sf of setback area.
    - iii. As long as the ADU does not occupy 150 sf of the 300 sf setback area, the ADU is permitted.
    - iv. The ADU can be greater than the 150 sf, but anything beyond 150 sf must be out of the determined setback area.
8. If rear yard setbacks are acceptable, draw a polygon of at least 120 square feet that can fit within the setback confinements
9. If non-acceptable, logged in Excel and note why. (Used judgement here – with 6 foot fire separation between ADU and primary unit and 4 foot rear setback required from rear property line for ADU, even houses with existing 20 foot setback from rear PL will be squeezed for space).
10. If acceptable, logged into Excel

### Phase 3: Extrapolate Data

1. Determined the number of total parcels for each Subarea
2. From the sample selection, determined the percentage of properties ADUs would be feasible for each Subarea
3. Applied percentages to respective Subareas to extrapolate total ADU feasible properties



# Appendix D – Sample Pro Formas

**Table E-1  
Option A Conversion ADU Development Pro Forma**

**Downtown/North Oakland**

<b>DEVELOPMENT PROGRAM ASSUMPTIONS</b>			
Gross Building Area (Square Feet)			550
<b>BUILDING VALUE</b>			
Gross Potential Rent	\$5.10	per SF/Month	\$33,660
Losses to Vacancy	5.0%	of GPR	(\$1,683)
Operating Expenses	30%	per SF/Month	<u>(\$10,098)</u>
Net Operating Income			\$21,879
<b>Total Project Value</b>	5.0%	cap rate	<b>\$437,580</b>
<b>Value per sq.ft.</b>			<b>\$796</b>
<b>DEVELOPMENT COSTS</b>			
<b>Land Value</b>			\$0
<b>Construction Costs</b>			
Site Work	\$0.00	per building sq.ft.	\$0
Building Direct Cost	\$94	Cost/SF (GBA)	\$51,700
Parking Direct Cost	\$0	per Space	\$0
Other Direct Cost	5.0%		<u>\$2,585</u>
<i>Total Construction Cost</i>			<b>\$54,285</b>
<b>Soft Costs</b>			
Architecture and Engineering	10.0%	of Construction Cost	\$5,429
Entitlement	\$10.00	Cost/SF (GBA)	\$5,500
Other Professional Services	5.0%	of Construction Cost	\$2,714
Development Impact Fees		<i>exempt</i>	\$0
Other Permits and Fees	2.0%	of Construction Cost	\$1,086
Taxes and Insurance	1.5%	of Construction Cost	\$814
Tenant Improvements/Up to Code	\$50	per building sq.ft.	\$27,500
Contingency	10.0%	of Hard and Soft Costs	<u>\$9,733</u>
<i>Total Soft Costs</i>			<b>\$52,775</b>
<b>Total Development Costs</b>			<b>\$107,060</b>
<b>Cost per sq.ft.</b>			<b>\$195</b>
<b>Return</b>			
<b>Yield</b>			<b>20.4%</b>
<b>Return on Cost</b>			<b>308.7%</b>

**Table E-2  
Option B New Freestanding ADU Development Pro Forma**

**Downtown/North Oakland**

**DEVELOPMENT PROGRAM ASSUMPTIONS**

Gross Building Area (Square Feet) 720

**BUILDING VALUE**

Gross Potential Rent	\$4.21	per SF/Month	\$36,336
Losses to Vacancy	5.0%	of GPR	(\$1,817)
Operating Expenses	30%	per SF/Month	<u>(\$10,901)</u>
Net Operating Income			\$23,618
<b>Total Project Value</b>	5.0%	cap rate	<b>\$472,368</b>
<b>Value per sq.ft.</b>			<b>\$656</b>

**DEVELOPMENT COSTS**

**Land Value** \$0

**Construction Costs**

Site Work	\$10.00	per building sq.ft.	\$7,200
Building Direct Cost	\$277	Cost/SF (GBA)	\$199,440
Parking Direct Cost	\$0	per Space	\$0
Other Direct Cost	5.0%		<u>\$10,332</u>
<i>Total Construction Cost</i>			<i>\$216,972</i>

**Soft Costs**

Architecture and Engineering	10.0%	of Construction Cost	\$21,697
Entitlement	\$5.00	Cost/SF (GBA)	\$3,600
Other Professional Services	5.0%	of Construction Cost	\$10,849
Development Impact Fees		<i>based on school and utility fee schedule</i>	\$15,786
Other Permits and Fees	2.0%	of Construction Cost	\$4,339
Taxes and Insurance	1.5%	of Construction Cost	\$3,255
Tenant Improvements/Up to Code	\$5	per building sq.ft.	\$3,600
Contingency	10.0%	of Hard and Soft Costs	<u>\$28,010</u>
<i>Total Soft Costs</i>			<i>\$91,135</i>

**Total Development Costs** **\$308,107**  
**Cost per sq.ft.** **\$428**

**Return**

**Yield** **7.7%**

**Return on Cost** **53.3%**



**Table E-3  
Option A Conversion ADU Development Pro Forma**

**East Oakland**

<b>DEVELOPMENT PROGRAM ASSUMPTIONS</b>			
Gross Building Area (Square Feet)			550
<b>BUILDING VALUE</b>			
Gross Potential Rent	\$3.81	per SF/Month	\$25,133
Losses to Vacancy	5.0%	of GPR	(\$1,257)
Operating Expenses	30%	per SF/Month	<u>(\$7,540)</u>
Net Operating Income			\$16,336
<b>Total Project Value</b>	5.0%	cap rate	<b>\$326,727</b>
<b>Value per sq.ft.</b>			<b>\$594</b>
<b>DEVELOPMENT COSTS</b>			
<b>Land Value</b>			\$0
<b>Construction Costs</b>			
Site Work	\$0.00	per building sq.ft.	\$0
Building Direct Cost	\$94	Cost/SF (GBA)	\$51,700
Parking Direct Cost	\$0	per Space	\$0
Other Direct Cost	5.0%		<u>\$2,585</u>
<i>Total Construction Cost</i>			<i>\$54,285</i>
<b>Soft Costs</b>			
Architecture and Engineering	10.0%	of Construction Cost	\$5,429
Entitlement	\$10.00	Cost/SF (GBA)	\$5,500
Other Professional Services	5.0%	of Construction Cost	\$2,714
Development Impact Fees		<i>exempt</i>	\$0
Other Permits and Fees	2.0%	of Construction Cost	\$1,086
Taxes and Insurance	1.5%	of Construction Cost	\$814
Tenant Improvements/Up to Code	\$50	per building sq.ft.	\$27,500
Contingency	10.0%	of Hard and Soft Costs	<u>\$9,733</u>
<i>Total Soft Costs</i>			<i>\$52,775</i>
<b>Total Development Costs</b>			<b>\$107,060</b>
<b>Cost per sq.ft.</b>			<b>\$195</b>
<b>Return</b>			
<b>Yield</b>			<b>15.3%</b>
<b>Return on Cost</b>			<b>205.2%</b>

**Table E-4  
Option B New Freestanding ADU Development Pro Forma**

**East Oakland**

**DEVELOPMENT PROGRAM ASSUMPTIONS**

Gross Building Area (Square Feet) 720

**BUILDING VALUE**

Gross Potential Rent	\$3.14	per SF/Month	\$27,131
Losses to Vacancy	5.0%	of GPR	(\$1,357)
Operating Expenses	30%	per SF/Month	<u>(\$8,139)</u>
Net Operating Income			\$17,635
<b>Total Project Value</b>	5.0%	cap rate	<b>\$352,702</b>
<b>Value per sq.ft.</b>			<b>\$490</b>

**DEVELOPMENT COSTS**

**Land Value** \$0

**Construction Costs**

Site Work	\$10.00	per building sq.ft.	\$7,200
Building Direct Cost	\$277	Cost/SF (GBA)	\$199,440
Parking Direct Cost	\$0	per Space	\$0
Other Direct Cost	5.0%		<u>\$10,332</u>
<i>Total Construction Cost</i>			<i>\$216,972</i>

**Soft Costs**

Architecture and Engineering	10.0%	of Construction Cost	\$21,697
Entitlement	\$5.00	Cost/SF (GBA)	\$3,600
Other Professional Services	5.0%	of Construction Cost	\$10,849
Development Impact Fees		<i>based on school and utility fee schedule</i>	\$15,786
Other Permits and Fees	2.0%	of Construction Cost	\$4,339
Taxes and Insurance	1.5%	of Construction Cost	\$3,255
Tenant Improvements/Up to Code	\$5	per building sq.ft.	\$3,600
Contingency	10.0%	of Hard and Soft Costs	<u>\$28,010</u>
<i>Total Soft Costs</i>			<i>\$91,135</i>

**Total Development Costs** **\$308,107**  
**Cost per sq.ft.** **\$428**

**Return**

**Yield** **5.7%**

**Return on Cost** **14.5%**

# Appendix E – Financial Feasibility Methodology and Findings

Financial returns are market-based, with homeowners or investors facing a range of potential choices reflective of a wide range of risk factors and expected returns. With 10-year treasury yields (largely perceived as the safest and minimal risk investment that mirrors inflation) offering returns of below 2.0 percent a year, other investments with higher risk require a higher return in the capital market. In order to justify investment, ADU development must offer significantly higher stabilized yields and risk-adjusted return on cost. However, even then, the decision is homeowner specific and will be based on a range of personal preferences and the financial circumstances of a household.

This analysis is based on two types of returns, each described below.

- **Stabilized yield**, also known as cash-on-cash return, is net operating income divided by total cost. This is a common return measure for property development that captures performance from the perspective of a long-term operator of a cash-flow asset. For a development to be considered feasible, the ADU must generate annual revenues that exceed what the homeowner/investor could otherwise expect to receive for placing the same amount of money in an investment with a similar risk profile. In real estate, the risk profile of a development is reflected in its “capitalization rate,” which is used to calculate the amount that an informed buyer would pay today for a property that is expected to produce a certain annual cash flow over time. For an ADU development in the expensive and fast-growing Bay Area, EPS assumes that this return threshold would be based on a typical rental residential stabilized capitalization rate (assumed at 5.0 percent in this analysis) plus an additional “spread” of 70 basis points or more to reflect a blend of development risk premium and a longer term operating risk associated with a homeowner (or a contractor managing a small project).<sup>6</sup> As such, this analysis assumes a threshold yield of at least 5.7 percent or above would be needed to make ADU development feasible. It reflects development and operating risk (e.g., the potential for unexpected costs associated with entitlement processes, site conditions, and fluctuations in the markets for materials and labor costs and potential issues with future tenants), which adds a layer of uncertainty to homeowners. Even small fluctuations in stabilized yields can significantly affect homeowner decisions.
- **Return on cost** is the net building value based on the capitalization of the net operating income (NOI) at stabilization (stabilized NOI divided by the cap rate) divided by the total development cost. This is another typical return threshold that effectively compares what a development is worth once built to what it costs to build, and asserts that the difference (which can be considered the “profit margin”) must be attractive relative to other potential investments the homeowner could make. EPS

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<sup>6</sup> The “spread” or difference between the cap rate and stabilized yield accounts for the return on profit reflective of the risk that development values at project stabilization may significantly differ from current conditions. This analysis assumes the 70 basis point spread (0.7 or more) as the minimum threshold of feasibility for a typical ADU development. If a property has a higher risk profile, such as a less desirable location, challenging residential market, or limited amenities and quality of life factors in the neighborhood, the required spread would need to increase.

assumes a return on cost of 14 percent or above is required for ADU development based on capital market dynamics, real estate trends, and other factors.

**Table A** shows that ADU development is estimated to be feasible for both relatively low-cost partial home conversions as well as more costly new detached unit types in all evaluated subgeographies within the city. It is assumed that ADU development is feasible with a yield of at least 5.7 percent and/or a ROC of at least 15 percent. Conversions generate higher returns than detached construction because they cost less while achieving comparable rents. Development in the city’s higher rent neighborhoods like North Oakland or Downtown are likely to generate higher returns than those in East Oakland, but ADU construction still appears to be feasible in East Oakland as well, especially for ADU types that may have lower costs than building an entirely new structure.

**Table A. Financial Feasibility Results of ADU Development Options**

ADU Type	East Oakland		North	
	Yield	ROC	Yield	ROC
Conversion of part of existing home	15.3%	205%	20.4%	309%
Detached new construction	5.7%	14%	7.7%	53%

Notes: ROC = return on cost.

It is assumed that ADU development is feasible with a yield of at least 5.7 percent and/or a ROC of at least 15 percent.

Source: EPS, 2019.

# Appendix F – Online Survey

**The City of Oakland is conducting research on Accessory Dwelling Units (also known as “ADUs,” “secondary units,” and “in-law units”) to learn more about ADUs in Oakland, why Oakland homeowners do (and don’t) build ADUs, who builds ADUs, who lives in them, and what the barriers are to more widespread ADU development in Oakland. This information will help the City make better decisions when it updates the City’s ADU programs and regulations.**

**This survey is intended to be completed by owners of single-family homes in Oakland, both those with and without existing ADUs, and should be filled out by the property owner(s) themselves. It should take about 15 minutes to complete. If a property owner owns more than one single-family home in Oakland, they should choose one property for the survey. Survey takers who complete the survey and provide contact information (at the end of the survey) will be entered into a raffle with the chance to win one of three \$100 gift certificates to their choice of Farmer Joe’s Marketplace, the New Parkway Theater, or tickets to the Oakland A’s. Any contact information provided will be kept separate from survey responses to ensure survey-taker anonymity (unless permission is given at the end of the survey).**

**If you’d prefer to take this survey by hand (no computer required) or if you need this survey translated into a different language, please contact the City’s consultant, Urban Planning Partners, at 510-251-8210 or at [OaklandADU@up-partners.com](mailto:OaklandADU@up-partners.com).**

**Si prefiere tomar esta encuesta sobre papel (sin uso de computadora), ó si necesita que se le traduzca la encuesta a otra idioma, por favor contacte al consultor de la Ciudad de Oakland, Urban Planning Partners, al número 510-251-8210 ó por correo electrónico al [OaklandADU@up-partners.com](mailto:OaklandADU@up-partners.com).**

**如果您希望手動進行此項調查（無需電腦），或者您需要將此調查翻譯成其他語言，請聯繫城市顧問 Urban Planning Partners，電話：510-251-8210，或聯繫 [OaklandADU@up-partners.com](mailto:OaklandADU@up-partners.com)。**

## **What is an ADU?**

An Accessory Dwelling Unit (ADU) is a dwelling unit (typically smaller than the main dwelling) on the same property as a single-family home. ADUs can take different forms, including part of a main house such as a first floor or basement that has been converted to an apartment, a freestanding backyard cottage, a garage that has been turned into an apartment, and others. ADUs are typically occupied by a rent-paying tenant, the property owner’s friends or family, or the property owner themselves.

## Introductory Questions for All Survey Takers

\* 1. Do you own a single-family residential property in the City of Oakland?

Yes

No

## Introductory Questions for All Survey Takers

\* 1. Does the property have an existing ADU?

Yes

No



## About Your ADU

If there is more than one existing ADU on the property, please choose the unit that was built most recently to base your responses on.

1. How would you best describe the physical layout of your ADU?

- Part or all of the basement or first floor of the main house converted to an apartment
- Stand-alone/detached garage converted to an apartment
- Garage attached to the main house converted to an apartment
- Apartment above a stand-alone/detached garage
- Other (please describe)
- Attic in the main house converted to an apartment
- Rooms inside the main house converted to an apartment
- Apartment outside of the main house and attached to the main house
- Apartment outside of the main house and in its own separate structure

2. What is the approximate size of the ADU?

- Under 400 sq. ft.
- 400-499 sq. ft.
- 500-599 sq. ft.
- 600-699 sq. ft.
- 700-799 sq. ft.
- Over 800 sq. ft.

3. To the best of your knowledge, what year was the ADU built?

4. How many bedrooms does the ADU have?

- Studio
- 1 bedroom
- 2 bedrooms
- Other (please specify)

5. Where is the current primary residence of the property owner?

- Main house
- ADU
- At a different property (off-site)

6. How is the ADU currently being used? (Select all that apply.)

- As a long-term rental property (paying tenant(s) staying for 30 days or more), and is currently occupied
- As a long-term rental property (paying tenant(s) staying for 30 days or more), but is currently vacant (i.e., currently has no tenant)
- As the property owner's primary residence
- As a residence for a family member or friend
- By the main house occupants as an extra room or workspace
- As a short-term rental (paying guest(s) staying less than 30 days)
- By an occupant that provides a service to the property owner in exchange for housing (e.g., nanny, caregiver)
- Not currently occupied
- Other (please specify)

7. How have you used the ADU in the past? (Select all that apply.)

- As a long-term rental property (paying tenant(s) staying for 30 days or more)
- As the property owner's primary residence
- As a residence for a family member or friend
- Other (please specify)
- By the main house occupants as an extra room or workspace
- As a short-term rental property (paying guest(s) staying less than 30 days)
- By an occupant that provides a service to the property owner in exchange for housing (e.g., nanny, caregiver)

8. How are you planning to use the ADU in the future? (Select all that apply.)

- As a long-term rental property (paying tenant(s) staying for 30 days or more)
- As the property owner's primary residence
- As a residence for a family member or friend
- Other (please specify)
- As a short-term rental property (paying guest(s) staying less than 30 days)
- As an extra room or workspace
- By an occupant that provides a service to the property owner in exchange for housing (e.g., nanny, caregiver).

9. Does a property management company or agency manage the ADU and rental process for you?

Yes

No

\* 10. Who made the decision to create the ADU on the property?

Current property owner(s)

Previous property owner(s)

## ADU Developer Section

1. Who did the physical construction work to build the ADU on the property? (Select all that apply.)

- A paid contractor
- Myself or another co-owner of the property
- A paid friend or relative
- An unpaid friend, relative, or volunteer
- Other (please specify)

2. Who designed the ADU? (Select all that apply.)

- A paid architect/designer
- An unpaid architect/designer
- A paid contractor
- Other (please specify)
- Myself or another co-owner of the property
- A paid friend or relative
- An unpaid friend, relative, or volunteer

3. If you or someone else paid to have the ADU constructed, to the best of your knowledge, how much did it cost (excluding permitting costs)?

- Under \$50,000
- \$50,000-\$99,999
- \$100,000-\$199,999
- \$200,000-\$299,999
- \$300,000-\$399,999
- \$400,000 or more

4. Please estimate how much of the ADU was financed by each method (by percentage).

Cash savings

Home equity line of credit  
or home equity loan

Refinance and cash out  
option based on main  
house value only

Refinance and cash out  
option based on main  
house + future ADU value

Loan from family  
member(s) or friend(s)

Gift from family member(s)  
or friend(s)

Credit card

Construction loan from  
bank

Other

5. Approximately how much did the government permits and fees cost for the ADU, including city permits/approvals and utility hook-up fees?

6. How long did it take to receive all government permits/approvals to construct the ADU (excluding the initial design process prior to applying for permits)?

- Less than 3 months
- 3-6 months
- 6-12 months
- Over 12 months

7. How long did it take to build the ADU (excluding time for permitting and design)?

- Less than 3 months
- 3-6 months
- 6-12 months
- Over 12 months

8. What were the biggest challenges you faced in building the ADU? (Rank each on a scale of 1 to 5, with 1 being the least challenging and 5 being the most challenging.)

	1 (Least challenging)	2	3	4	5 (Most challenging)
Finding a contractor	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Complexity of permitting process	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Length of permitting process	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Permit fees	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Obtaining financing	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Physical design constraints or challenges	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Construction cost	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Utility connections	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Building safety codes and requirements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Green building code and requirements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Zoning rules (e.g., parking requirements, lot setbacks, height limits, size restrictions)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

If you selected "other," please specify.

## About the Site

1. What is the zip code of the property?

2. What is the approximate size of the main house in square feet (not including the ADU)?

3. What is the approximate size of the property/lot in square feet?

4. How many cars do the occupants of the main house own/lease?

- None
- 1 car
- 2 cars
- 3+ cars

5. Where do the occupants of the main house usually park their car(s)? (Select all that apply.)

- Off the street, on the property (in a garage, uncovered parking space, or driveway)
- On the street
- Other
- Does not own/lease car

## About the ADU Occupant(s)

\* 1. How many persons currently occupy the ADU?

- 1
- 2
- 3+
- Currently unoccupied





5. How would you best describe the ethnicity or race of each of the current ADU occupant(s)? (Complete for up to four occupants.)

	American Indian/Alaska Native	Asian/Pacific Islander	Black/African American	Latino/Hispanic	White/Caucasian	Multiple races	Other
Occupant 1	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Occupant 2	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Occupant 3	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Occupant 4	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

6. How would you best describe the gender of each of the current ADU occupants? (Complete for up to four occupants).

	Female	Male	Non-binary	Not listed
Occupant 1	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Occupant 2	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Occupant 3	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Occupant 4	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

7. How many cars do the current ADU occupants own/lease?

- None
- 1 car
- 2 cars
- 3+ cars

8. Where do the current ADU occupants usually park their car(s)? (Select all that apply.)

- Off the street, on the property (in a garage, uncovered parking space, or driveway)
- On the street
- Other
- Does not own/lease car

## About You (Property owner)

If more than one person owns the property, please respond for yourself only.

1. What gender do you most identify with?

- Female
- Male
- Non-binary
- Not listed

2. What is your age?

- 21-34
- 35-44
- 45-54
- 55-64
- 65+

3. What race/ethnicity do you most identify with?

- American Indian/Alaska Native
- Asian/Pacific Islander
- Black/African American
- Other (please specify)
- Latino/Hispanic
- White/Caucasian
- Multiple races

4. What is your approximate gross annual household income? Please include all income, including salaries, wages, investments, government benefits, etc. before taxes.

- Less than \$10,000
- \$10,000 to \$14,999
- \$15,000 to 24,999
- \$25,000 to \$34,999
- \$35,000 to \$49,999
- \$50,000 to \$74,999
- \$75,000 to \$99,999
- \$100,000 to \$149,999
- \$150,000 to \$199,999
- \$200,000 or more

## Property Owners with no ADU

1. What is the zip code of the property?

2. How likely are you to pursue constructing an ADU on the property?

- Very likely
- Somewhat likely
- Unknown
- Somewhat unlikely
- Very unlikely

3. If you are likely to pursue constructing an ADU, what would be the primary purpose?

- Rental income from the ADU
- Providing the ADU for a friend or relative
- Living in the ADU and renting out the main house
- Living in the ADU to provide the main house for a friend or relative
- Help increase the city's housing supply
- N/A – not interested in constructing an ADU

4. What's the biggest barrier to constructing an ADU on the property? (Rank each of the following reasons on a scale of 1 to 5, with 1 being the least important and 5 being the most important.)

	1 (Least Important)	2	3	4	5 (Most Important)
Too expensive; financing not available	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
One or more of my neighbors would oppose the ADU	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Too complicated and/or not enough time to manage planning for and constructing the ADU	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Too complicated and/or not enough time to manage the ADU once it's complete	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Zoning rules or other city code requirements	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Rent control regulations that specify how much rent can be raised for existing tenants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
"Just Cause" regulations that state tenants may only be evicted for specific reasons (e.g., failure to pay rent, violating the lease)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Potential legal issues/costs related to a tenant	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
No need for an ADU	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other reason	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

If you selected "other reason," please specify.

5. What would make you more likely to construct an ADU? (Rank each of the following on a scale of 1 to 5, with 1 being the least important and 5 being the most important.)

	1 (Least Important)	2	3	4	5 (Most Important)
Financial assistance from city or other source	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

	1 (Least Important)	2	3	4	5 (Most Important)
Project management services or professional support during the planning and construction process	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Better access to information on city codes and permit process	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Extended hours for city permit counter (e.g., evenings and/or weekends)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Faster permit process	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Waiver or reduction of permit fees	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Access to preapproved plans	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Relaxed zoning rules (e.g., parking requirements, lot setbacks, height limits, size restrictions)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
ADU built off-site and shipped to you	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Contractor referral	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Education on managing the ADU and tenant-landlord relationship	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Exemption from rent control regulations that specify how much rent can be raised for existing tenants	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Exemption from "Just Cause" regulations that state tenants may only be evicted for specific reasons (e.g., failure to pay rent, violating the lease)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Ability to rent the ADU as a short-term rental (e.g. Airbnb)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Other reason	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

If you selected "other reason," please specify.

6. Is there at least one residential property on your street with an existing ADU?

- Yes
- No
- Unknown

7. Do you think ADUs on your street have a negative impact on the neighborhood?

- No opinion
- No – there is no negative impact
- Yes – too many cars trying to park on the street
- Yes – too much noise
- Yes – too many people; overcrowding
- Yes – loss of privacy
- Yes – visual/aesthetic impact
- Yes – other impact (please specify)

8. What is the approximate size of the house in square feet (not including garage or unfinished basement/attic)?

9. What is the approximate size of the garage in square feet?

10. Does the house have an unfinished basement or attic space?

- Yes
- No

11. What is the approximate size of the property/lot in square feet?



12. If you live on the property, how many cars do you own?

- None
- 1 car
- 2 cars
- 3+ cars
- N/A – I don't live on the property

13. If you live on the property, where do you currently park your car(s)?

- Off the street, on the property (in a garage, uncovered parking space, or driveway)
- On the street
- Other
- N/A – I don't own/lease a car
- N/A – I don't live on the property

14. What gender do you most identify with?

- Female
- Male
- Non binary
- Not listed

15. What is your age?

- 21-34
- 35-44
- 45-54
- 55-64
- 65+

16. What race/ethnicity do you most identify with?

- |   |                                       |
|---|---------------------------------------|
| <input type="radio"/> American Indian/Alaska Native | <input type="radio"/> Latino/Hispanic |
| <input type="radio"/> Asian/Pacific Islander        | <input type="radio"/> White/Caucasian |
| <input type="radio"/> Black/African American        | <input type="radio"/> Multiple races  |
| <input type="radio"/> Other (please specify)        |                                       |

17. What is your approximate gross annual household income? Please include all income, including salaries, wages, investments, government benefits, etc. before taxes.

- Less than \$10,000
- \$10,000 to \$14,999
- \$15,000 to 24,999
- \$25,000 to \$34,999
- \$35,000 to \$49,999
- \$50,000 to \$74,999
- \$75,000 to \$99,999
- \$100,000 to \$149,999
- \$150,000 to \$199,999
- \$200,000 or more

## Concluding Questions for All Survey Takers

1. If there is anything else about your experience or opinions with ADUs or housing on your property or in your neighborhood that you would like to tell us about, please write it below.

## Focus Group Participant Solicitation

**We are conducting focus groups of homeowners willing to share more information about their experience with ADUs and their interest in developing an ADU. Please indicate below if you are interested in participating in a focus group (lasting one to two hours). Survey takers selected to participate in a focus group will receive a \$15 gift certificate to Modern Coffee or Awaken Cafe. If you choose to participate in a focus group, we will link the contact information provided below to your survey responses to ensure that we have adequate representation on the focus group.**

1. Is it okay if we contact you to schedule a follow-up interview or to participate in a focus group at a later date?

Yes

No

2. If yes, what is your contact information?

**Name**

**Email Address**

**Phone Number**

## Raffle/Email Distribution List Sign Up

Survey takers who complete the survey and provide contact information below will be entered into a raffle with the chance to win your choice of a \$100 gift certificate to Farmer Joe's Marketplace, the New Parkway Theater, or tickets to the Oakland A's. Survey takers can also sign up to receive future information about the City of Oakland's ADU regulations and programs. Any personal contact information provided below will not be linked to your previous survey responses.

To sign up for the raffle or email distribution list, please follow this link:

<https://www.surveymonkey.com/r/TYKMTHJ>