

DRAFT 20 February 2019

Meeting Minutes & Preliminary Report RE: The Incentivizing Investment in ADUs Initiative

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1. Executive Summary:

On January 3rd, 2019, eleven representatives from professional associations of bankers, builders, remodelers, real estate professions, and nonprofit organizations in Wisconsin met to strategize next steps for the “Incentivizing Investment in Accessory Dwelling Units (ADUs)” initiative. That initiative is part of a multi-state, multi-sector partnership originally founded in 2014 by Design Coalition Institute of Madison Wisconsin. The meeting focused on aspects of that initiative outlined in the document entitled “The Incentivizing Investment in ADUs Initiative: Background & Deliverables” (copy attached). Participants agreed to work with their respective colleagues to secure additional information needed to support the intentions of the initiative. We thank Jim Bradley, President of Home Savings Bank, and Sam Breidenbach, President of TDS Construction, both of Madison Wisconsin, for their leadership on this initiative.

2. Meeting Agenda

1. Sign in and Introductions
2. Review benefits of ADUs
3. Review barriers to ADUs
4. Review preliminary recommendations RE financing ADUs
5. Representatives from each stakeholder group shares insights, concerns, ideas
6. Discussion
7. Next steps

3. List of Participants:

Jim Bradley, President Home Savings Bank

Sam Breidenbach, President, TDS Construction

Kim DiMaggio, Executive Director, National Association of the Remodeling Industry, Madison

Chris Hacker, Representative from the National Association of the Remodeling Industry, Madison

Tyson Hall, Representative from the Wisconsin Chapter of the Appraisal Institute

Tisha Kurth, Vice President, Bank of Sun Prairie, Residential Lending Manager

Patrick Miles, Dane County Supervisor and President, Board of Directors Design Coalition Institute

Robert Proctor, Government Affairs Director, Realtors Association of South Central Wisconsin

Mike Semmann, Executive Director, Executive Vice President Wisconsin Bankers Association

Susan Thering Ph.D., Executive Director, Design Coalition Institute

Ben Weis, Representative from the Wisconsin Chapter of the Appraisal Institute

4. Meeting Minutes

4.1. Sign in and Introductions:

Participants signed in and picked up nametags and handouts (copies attached). Participants introduced themselves, their affiliations, and summarized their interest in ADUs.

4.2. Review the Benefits of ADUs:

Below is a list of the benefits of ADUs:

- a. Opportunities for aging homeowners to “age in place” (“age in place” means aging homeowners can continue to live in their homes as they manage the health and mobility issues that are often associated with aging, thereby avoiding the negative emotional, economic, social, and mental health impacts of displacement).
- b. Opportunities for homeowners to house vulnerable friends and family members (e.g. elders, veterans, adult children with disabilities, survivors of natural disasters, etc.).
- c. If aging homeowners build ADUs for themselves, their family size houses become available to their children and grandchildren or other young families (often a mutually beneficial multi-generational arrangement).
- d. ADUs are a type of “infill housing” that can decrease development pressures on agricultural land and greenspace.

- e. ADUs can contribute to sustainability goals (e.g. as a type of “infill housing” ADUs reduce commuter time and CO emissions; increase neighborhood “walkability,” with benefits to public health; increase walk-in patronage of neighborhood businesses; etc.).
- f. ADUs are investments in private property that increase assessments and generate additional property tax revenue.
- g. ADUs are an important component of a comprehensive approach to housing for the full spectrum of household types (e.g. millennials, empty nesters, baby boomers, young families, singles, couples, multi-generational families, etc.).
- h. ADUs promote equity of access to housing near employment centers, goods and services, schools, transportation, arts and cultural events, and recreation facilities for the full spectrum of household types.
- i. ADUs support the continuance of family farms by allowing aging farmers to transition into retirement and “age in place” as they hand off responsibilities to the next generation.
- j. ADUs enhance household economic security if the friends or family members who occupy the ADU contribute to housing costs, or if the occupant pays rent.
- k. ADUs are relatively small, compared to conventional housing, so energy costs for heating and cooling are proportionally smaller. If ADUs are built with attention to energy efficiency, the energy savings can be significant.
- l. ADUs may be an attractive housing option for workforce housing, expanding options for service sector employees with the potential to reduce their travel time to employment centers.
- m. ADUs may be an attractive housing option for those that prefer to rent rather than own their residence.

4.3. Review the Barriers to ADUs:

Below is a list of barriers to ADUs:

- a. Municipal ordinances that prohibit ADUs.
- b. Municipal ordinances that allow ADUs, but require onerous approval processes.
- c. Municipal ordinances that allow ADUs, but impose prohibitive fees.
- d. Lack of financing options for construction of ADUs.
- e. Prohibitive policies and protocols enforced by the secondary housing market/GSEs (Government Sponsored Enterprises that purchase mortgages, i.e. Fannie Mae, Freddie Mac, and Federal Home Loan Banks).
- f. Limited public awareness about ADUs.
- g. Public concerns about the potential impact of ADUs on neighborhood character, traffic, noise, and parking space.

- h. Lack of technical resources available to homeowners about ADU design, construction, costs, hiring professionals, navigating approval processes, etc.
- i. Limited number of properties with ADU to serve as appraisal comparables tends to reduce appraisal valuations and limits financing options.

4.4. Review preliminary recommendations RE financing ADUs

The group discussed the need for new loan products for homeowners who want to build an ADU. The preferred ADU loan product would be a combination construction loan/pre-approved mortgage or refinance. The construction loan would be a short-term interest-only loan to cover the cost of building the ADU. When the ADU is complete, the amount of that construction loan would roll into a pre-approved conventional fixed rate single-family mortgage, or refinance of an existing mortgage.

We also discussed the need to engage Fannie Mae in a dialogue about their prohibitive property valuation protocols (copy attached). The preferred language would be such that the estimated rental value is included in the mortgage qualification calculations, both for a homeowner who is building an ADU and for an individual who applies for a mortgage to buy a home that already has an ADU.

4.5. Representatives from each stakeholder group shares insights, concerns, ideas:

Participants were asked to share insights, concerns, and ideas about the topic of ADUs in general, and about the preliminary recommendations RE financing ADUs in particular:

- a. The term “incentivizing” is problematic for housing finance professionals. It can be interpreted as requesting subsidies from lenders. They recommend using other terms, e.g. “enabling,” when discussing housing finance issues. However, the term “incentivizing” is useful when discussing municipal policies, e.g. reducing or waiving development fees and streamlining permitting processes.
- b. Messaging on the role of ADU’s is key. For example, public concerns may be exacerbated if ADUs are presented as a type of “affordable housing” i.e. housing subsidized by public funds, rather than the market-driven strategy to ameliorate the housing shortage by incentivizing homeowners to invest in their own homes at the core of this initiative.
- c. Municipal code updates may ameliorate some of the barriers posed by the protocols enforced by the Government Sponsored Enterprise (GSEs, also known as the secondary housing market, which includes Fannie Mae, Freddie Mac, and the Federal Home Loan Banks), e.g. replacing existing single-family zoning with something like “single family plus one” zoning may qualify homes with ADUs for single-family mortgages when the GSE protocols require compliance with underlying zoning. The City of Minneapolis MN recently replaced all single-family zoning with “one to three” unit zoning, which may ameliorate that requirement.

- d. A compilation of case study “work arounds” from other states and municipalities that are promoting ADUs will help support the intentions of this initiative.
- e. Specific data about the market demand for ADUs in Madison and Dane County will help local banks prepare an appropriate response to this issue.
- f. Neighborhood and individual neighbor resistance to the addition of ADUs can discourage willing homeowners who want to add an ADU to their property.
- g. If required, the conditional use approval process can be onerous and allows for neighborhood resistance and the potential denial of the conditional use.

4.6. Discussion

All participants agree that there is a need for 1. New financial products and policies to enable homeowners to build ADUs; 2. professional education for municipal officials on the topic of ADUs; and 3. Technical assistance programs for homeowners who want to build an ADU.

Primary points of agreement:

- a. ADUs are an important component of a comprehensive approach to meeting housing needs in Wisconsin.
- b. Current municipal codes and policies pose barriers to homeowners who might otherwise build an ADU.
- c. Currently available loan products do not meet the needs of many homeowners who might consider building an ADU.
- d. Some policies and protocols enforced by the secondary housing market/GSEs pose barriers to meeting the market demand for ADUs.

4.7. Next steps:

The discussion focused on the need for additional information to support the preliminary recommendations about financing ADUs. Action items include:

- a. Kim DiMaggio, Executive Director of the Madison Chapter of the National Association of the Remodeling Industry will work with her members, and with the leadership of the Wisconsin Chapter of the Wisconsin Builders Association to survey their members on this topic. Dr Thering will assist as they deem appropriate.
- b. Jim Bradley, President of Home Savings Bank, Tisha Kurth, Vice President, Bank of Sun Prairie, and Mike Semmann, Wisconsin Bankers Association, will look into the possibility of fixed-rate financing alternatives to Fannie Mae (e.g., Federal Home Loan Bank MPF program, Freddie Mac).
- c. Dr Thering will contact the Dane County Department of Planning to determine if and how more specific data about the demand for ADUs in Dane County can be generated.

Fannie Mae Guidelines RE: Appraising ADUs

Retrieved 12 December 2018

from <https://www.fanniemae.com/content/guide/selling/b4/1.3/05.html>.

B4-1.3-05: Improvements Section of the Appraisal Report (10/24/2016)

Accessory Units

Fannie Mae will purchase a one-unit property with an accessory unit. An accessory unit is typically an additional living area independent of the primary dwelling unit, and includes a fully functioning kitchen and bathroom. Some examples may include a living area over a garage and basement units. Whether a property is defined as a one-unit property with an accessory unit or a two-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utilities, a unique postal address, and whether the unit is rented. The appraiser is required to provide a description of the accessory unit, and analyze any effect it has on the value or marketability of the subject property.

If the property contains an accessory unit, the property is eligible under the following conditions:

- The property is defined as a one-unit property.
- There is only one accessory unit on the property; multiple accessory units are not permitted.
- The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use.
- The borrower qualifies for the mortgage without considering any rental income from the accessory unit. (See [B3-3.1-08, Rental Income](#), for further information, and [B5-6-03, HomeReady Mortgage Underwriting Methods and Requirements](#), for an exception for HomeReady mortgage loans.)

If it is determined that the property contains an accessory unit that does not comply with zoning, the property is eligible under the following additional conditions:

- The lender confirms that the existence will not jeopardize any future property insurance claim that might need to be filed for the property.
- The use conforms to the subject neighborhood and to the market.
- The property is appraised based upon its current use.
- The appraisal must report that the improvements represent a use that does not comply with zoning.
- The appraisal report must demonstrate that the improvements are typical for the market through an analysis of at least three comparable properties that have the same non-compliant zoning use.

(See [B4-1.3-04, Site Section of the Appraisal Report](#), for subject property zoning information.)

The Incentivizing Investment in ADUs Initiative: Background & Deliverables

Susan Thering, Ph.D. Executive Director, Design Coalition Institute

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Excerpt from a grant proposal 1 November 2018

Background

For decades, advocates for seniors have argued that adding accessory dwelling units, or ADUs (AKA granny flats, in-law apartments, garage apartments, back yard cottages, etc.) to single-family and two-family homes will allow more people the option of aging-in-place. Research has found that aging-in-place offers mental and physical health benefits for individuals while yielding cost savings for families, governments, and health systems. More recently, researchers have generated data about the potential multiplier benefits of ADUs, including housing for entry-level millennials, people with disabilities, veterans, immigrants, refugees and others in need of small rental units near employment centers and health services (US Department of Housing and Urban Development, 2013; AARP, 2018; CMAP, 2014).

Over the years many municipalities have mounted ADU initiatives. None have produced enough ADUs to meet even a small fraction of the demand suggested by survey research and census data. For example, a national survey conducted by AARP found that 31% of homeowners would consider adding an ADU (AARP, 2018).

Researchers have repeatedly identified the same three barriers to successful ADU initiatives:

1. Municipal codes that discourage ADUs;
2. Lack of affordable financial products for construction of ADUs; and
3. Lack of technical resources useful to the average homeowner (Brown and Palmeri, 2014; Brown and Watkins, 2012; Wegman and Neimerow, 2011).

At the core of all three barriers is the fact that ADUs are investments in private property made by individual homeowners, and individual homeowners do not have the capacity to overcome these mutually reinforcing barriers. The frustration expressed by homeowners, by staff from municipal agencies and nonprofit housing organizations, and by leaders of professional associations across the residential construction industry, is exacerbated by the fact that, in addition to owning more than half of the single-family houses in the US, and having expressed a strong preference to age-in-place, homeowners age 55 and over have the highest average credit scores in the US (Li and Goodman, 2016; US Census, 2015; AARP Public Policy Institute, 2018), and yet they cannot overcome the barriers to ADUs. Combined, these facts suggest there is a significant unmet market demand for ADUs, with low-risk and fair return on investment for all sectors involved in housing.

The Incentivizing Investment in ADUs Initiative: Major Steps & Deliverables

In response to the three major barriers outlined above, we are:

#1: Developing a website with downloadable plans, construction details, and materials lists for a variety of safe, healthy, accessible, energy efficient ADUs that can be easily understood by homeowners and contractors and easily modified to meet specific needs and local codes. NOTE: this has been the focus of our research and practice over many years.

#2: Facilitating a series of roundtables with bankers, appraisers, contractors, nonprofits, and Fannie Mae. We will deliver a menu of financial products that will incentivize private investment in ADUs while assuring fair return on investment for the lenders, fair remuneration for the contractors, and quality results for the homeowner. NOTE: Our pilot roundtable identified the need for a "construction loan/refinance" product, where the construction loan rolls into a conventional fixed rate single-family mortgage, and where the appraisal includes the rental value of the ADU.

#3: Producing a professional development program for municipal officials. Participants from around the country will learn about the public participation, administrative, and legal processes involved in updating municipal codes and implementing policies that incentivize ADUs. We will hold six sessions per year for two years, with eighty participants representing forty municipalities in each session. NOTE: our team includes professionals who have participated in code update processes and academics who have extensive experience with development, delivery, and evaluation of professional education programs.

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