

- e) Opportunities to ease constraints that limit the loan process for homeowners.
- 5) Requires the working group to finish developing recommendations by July 1, 2023.
- 6) Requires CalHFA to consider the working group's recommendations in the next update of its ADU guidelines.

This bill:

- 1) Requires CalHFA to conduct an analysis of its ADU Program and report its findings to the Legislature by January 1, 2025.

COMMENTS:

- 1) *Author's statement.* "As we all know, California has a housing crisis where a lack of housing supply has in turn increased rents and exasperated the cost of living. ADUs are the fastest way that we can grow housing but unfortunately many homeowners struggle to get financing to build ADUs. AB 932 requires that California Housing Finance Agency conduct an evaluation of its ADU Grant Program, which utilized \$100 million in grants to build up to 2,500 ADUs. This report will allow the Legislature to consider which programs provide the best value for the funding when it comes to ADU programs."
- 2) *Second Units as a Solution to the Housing Crisis?* California's high — and rising — land costs necessitate dense housing construction for a project to be financially viable and for the housing to ultimately be affordable to lower-income households. Yet, recent trends in California show that new housing has not commensurately increased in density. In a 2016 analysis, the Legislative Analyst's Office (LAO) found that the housing density of a typical neighborhood in California's coastal metropolitan areas increased only by four percent during the 2000s. In addition, the pattern of development in California has changed in ways that limit new housing opportunities. A 2016 analysis by BuildZoom found that new development has shifted from moderate but widespread density to pockets of high-density housing near downtown cores surrounded by vast swaths of low-density single-family housing. Specifically, construction of moderately-dense housing (2 to 49 units) in California peaked in the 1960s and 1970s and has slowed in recent decades.

Recently, there has been a national trend to allow for more "gentle density" (e.g., ADUs, duplexes, four-plexes, townhomes, and other moderately dense developments that were common before the imposition of zoning). In recent years, the Legislature has taken a more active role in facilitating such gentle

density. In 2016, AB 2299 (Bloom) and SB 1069 (Wieckowski), permitted ADUs by right on all residentially-zoned parcels in the state. By permitting an ADU as a second unit on all single-family lots, these laws effectively doubled their allowed density.

Prior to the Legislature requiring ministerial approval of ADUs in 2017, ADUs were less than one percent of permitted new construction. Now they are approximately 10%, at over 9,600 completed units in 2022. Additionally, because ADUs are typically smaller than the average home in a community, they tend to be more affordable than other market-rate units. A survey of ADU owners found that, in the Bay Area, ADUs rents were affordable to households making the median income.

- 3) *Financial Barriers to Creating ADUs.* Research has shown that property owners with a new ADU on their property are more affluent than the typical homeowner in California.¹ A recent survey of property owners who build ADUs revealed that 62% utilized cash and 43% utilized mortgage products that rely on the homeowner having equity in their primary unit.²

The 2019-2020 and 2020-2021 budgets collectively included \$100 million to CalHFA to help low- and moderate-income households finance ADUs. CalHFA's ADU Grant Program provided up to \$40,000 towards pre-development and non-reoccurring closing costs associated with the construction of the ADU.³ According to CalHFA, all of the \$100 million has now been deployed, and is expected to yield between 2,200 – 2,400 new ADUs.

This bill requires CalHFA to conduct an evaluation of this program and report its findings to the Legislature no later than January 1, 2025.

RELATED LEGISLATION:

AB 157 (Committee on the Budget, Chapter 570, Statutes of 2022) — created the ADU Dwelling Unit Program and the requirements for a working group to make recommendations to CalHFA on how to implement the program.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

POSITIONS: (Communicated to the committee before noon on Wednesday, June 14, 2023.)

¹ Ibid.

² USC Lusk Center for Real Estate and UC Berkeley Turner Center for Housing Innovation, "ADU Construction Financing: Opportunities to Expand Access for Homeowners," July 2022: <https://turnercenter.berkeley.edu/wp-content/uploads/2022/07/ADU-Paper-FINAL-July-7th.pdf>

³ CalHFA's ADU Grant Program: <https://www.calhfa.ca.gov/adu/index.htm>

SUPPORT:

Bay Area Council

OPPOSITION:

None received.

-- END --