

## ADU Market Assessment-DRAFT-4/16/24

### Executive Summary

SB 382 assigned the Accessory Dwelling Unit Policy Task Force (Task Force) the responsibility to draft recommendations for Accessory Dwelling Units (ADUs) depending on the needs and thoughts from local communities and stakeholders. As part of that, the Task Force conducted the housing market analysis that will assess ADUs' need and acceptance in the local housing market. This report takes a qualitative approach to investigate local stakeholders' concerns regarding ADUs and their possible impact on the housing market primarily through focus groups and surveys. Existing literature from advocacy organizations, studies from cities and states where ADUs are popular, and peer reviewed academic articles reflect on the findings from focus groups and surveys analysis with evidence. Lack of preserved data or local study about existing ADUs makes it difficult to study the impact of ADUs quantitatively or qualitatively in the local market. Since quantitative data for analysis was unavailable, we conducted a qualitative Housing Market Assessment, despite the bill's request for a housing market analysis. So, we gathered data from other states and cities embracing ADUs and analyzed them from several definite perspective.

### Introduction

An Accessory Dwelling Unit (ADU) is a secondary housing unit located on the same property as a primary residence. Also known as granny flats, in-law suites, or backyard cottages, ADUs are typically smaller, self-contained living spaces with their own entrance, kitchen, bathroom, and living area. They can be attached to the primary residence, such as a basement apartment or converted garage, or detached, such as a standalone cottage in the backyard.

In recent years, ADUs have gained significant attention as a solution to housing shortages and affordability issues in challenging markets. They offer varied and flexible housing options, particularly in high-demand urban areas. ADUs, nestled within existing residential properties, address neighborhood context concerns by utilizing underused spaces and diversifying housing types. Their versatility makes them appealing to both homeowners and renters, facilitating the provision of affordable housing options. As cities strive to accommodate growing populations and enhance housing affordability, ADUs emerge as a considerable strategy to meet these pressing challenges.

Several states in the United States, such as California, Oregon, Washington, and Massachusetts, are actively reforming ADU regulations and policies to tackle housing challenges<sup>1</sup>. These measures include easing zoning restrictions, streamlining permitting processes, and offering financial incentives to encourage ADU construction. Historically, accessory dwelling units have been integral to the nation's

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<sup>1</sup> Expanding ADU Development and Occupancy: Solutions for Removing Local Barriers to ADU Construction, AARP (2023)

housing landscape, providing supplementary housing options that accommodated changing household needs and demographics. Today, ADUs have gained traction across a significant number of states in North America, including Canada, as a response to the acute housing crisis and soaring prices. Many communities grappling with housing shortages and affordability concerns are considering ADUs to bolster housing supply, offer affordable options, and foster sustainable urban development; prompting policymakers, housing advocates, and urban planners to study ADUs as an alternative housing option and implement strategies to promote their development further.

In Maryland, the Fair Market Rent (FMR) for a two-bedroom apartment stands at \$1,616, requiring a household to earn \$64,642 annually to afford housing without exceeding 30% of income on rent and utilities. However, the average renter wage in Maryland is \$22.71 per hour, significantly lower than the \$31.08 per hour needed to afford a two-bedroom apartment in the state.<sup>2</sup> In a survey of 807 adults in Maryland by American Strategies, 73% stated that housing options are inadequate for young people, people with low and moderate income, and senior populations. The respondents believed that denser ‘missing middle’ development is the solution to address the housing crisis and 74% responded favorably to enabling homeowners to build ADUs<sup>3</sup> This disparity accentuates the challenge faced by low-income populations in Maryland, highlighting the need for policies and initiatives to address housing affordability issues and investigate ADUs as a viable housing option.

### ADU Market Assessment

Examining the impact of ADUs on the housing market requires a detailed analysis of local housing dynamics and administrative procedures for ADU construction. Reviewing the ADU movement across states over the last decade reveals that states which reformed policies and regulations in response to local demand seem to have witnessed ADU growth, stressing the importance of adapting to evolving housing needs. Assessing the positive and negative effects of ADUs on property values is crucial for informed decision-making. Beyond regulatory considerations alone, evaluating if Maryland requires ADUs involves understanding local housing challenges and potential benefits of ADU implementation.

The ADU Market Assessment (Assessment) uses a combination of qualitative methods, such as focus groups, panel discussions, surveys, and a literature review of academic studies and advocacy organizations to gain insights into prevailing concerns about ADUs and to frame our understanding. The Task Force established a series of objectives and research questions to guide the Assessment, aiming to address these objectives through the literature review, survey responses, and focus group/panel participants. In focus groups and panel discussions, local stakeholders shared their experiences, concerns, and aspirations regarding ADUs, which was crucial for capturing the possible impact of ADUs on local communities. To address the objectives outlined by the Task Force, the literature review examined scholarly articles and studies sourced from advocacy organizations within North American cities experiencing a rise in ADU prevalence. ADU permitting data, shared by Anne Arundel County, Calvert County, Howard County,

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<sup>2</sup> National Low Income Housing Coalition

<sup>3</sup> National Association of REALTORS® MD – State of Housing January 2024

Montgomery County and the City of Rockville was used to better understand ADU construction at the local level.

The Task Force has outlined four research questions to guide the Housing Market Assessment. The first question investigates how state and local policies, regulations, and implementation efforts can either encourage or discourage ADU construction. This inquiry aims to understand the impact of local policies, community engagement, and the built environment on ADUs, as well as how ADUs influence these aspects in return. The second question focuses on how the construction of ADUs affects the viability and attractiveness of local housing markets. This includes examining the demographics of ADU renters, the motivations of homeowners building ADUs, and the neighborhoods where ADU construction is prevalent, along with its potential impact on property values. The third question examines the role of policy and market demand in driving ADU development. It aims to understand how local housing demand impacts ADU construction and whether different communities show varying levels of interest in ADUs. Additionally, it explores the extent to which policy can shape the demand for ADUs within different community contexts. Finally, the fourth question explores how ADUs impact neighborhood livability concerning the provision of public facilities, sustainability, affordability, and other related factors. This includes assessing quality of life aspects and identifying strategies to mitigate any negative impacts on neighborhoods while ensuring that ADUs contribute positively to increasing affordable housing supply.

#### How state and local policy, regulation, and implementation can facilitate or deter ADU construction.

The first question explores the obstacles interested homeowners face when building an ADU and how state and local policies shape ADU construction by analyzing factors that impede or foster their viability as housing options, including regulatory barriers and supportive measures. To answer this question, the Task Force organized focus groups, panel discussions, and surveys to gather stakeholder perspectives of complications faced during ADU construction from the perspective of policy, regulation, and implementation. Given Maryland's absence of state ADU policies, the literature review synthesizes insights from other states' regulations and appropriate studies to clarify the intricate relationship between policy, regulation, and ADU proliferation.

#### Focus Groups and Panel Discussions:

The Housing Organization Focus Group pointed out the complexity of ADU construction, citing challenges from permitting application to building construction, such as zoning and regulation enforcement, worsened by inadequate homeowner assistance programs. Participants from the ADU Owner, Resident, Accessibility, and Aging Advocates Focus Group (AORAA Focus Group) emphasized the importance of having accessible information and support at the local level for homeowners interested in building ADUs. They stressed the need for prompt answers to zoning and approval questions from local planning and permitting staff, as well as the avoidance of costly and time-consuming appeal processes. Both the AORAA and the Housing Organizations Focus Group suggested that jurisdictions should consider pre-approving certain ADU architectural models and actively promoting them to streamline the process. Participants in

the Planning Director Panel Discussion (Planning Directors Panel) echoed this sentiment, highlighting the potential for facilitating ADU production by allowing units by-right, streamlining local review processes, and providing pre-approved architectural plans along with staff assistance. Additionally, the Housing Organization Focus Group pointed out a current lack of marketing for ADU housing products.

The AORAA Focus Group pointed out that Homeowners Association (HOA) covenants can be confusing and prohibit ADU development. The Planning Directors Panel shared the same concern that HOA and Community Association covenant limitations act as barriers to ADU development and recommended that the Task Force address the issue.

Participants from the Housing Organization Focus Group and the Community Association Focus Group highlighted the importance of rental licensing and monitoring programs to enforce ADU regulations. The Planning Directors Panel also urged the Task Force to consider how communities can enforce ADU regulations within their jurisdiction, especially those without proper permits. The HOA and Community Association focus group highlighted challenges with HOA enforcement of covenant requirements, especially during real estate transactions. They stressed the need for robust enforcement of ADU ordinances to prevent evasion of regulations, both during and after the permitting process. They emphasize the importance of allocating resources for monitoring requirements, particularly for familial relationships or owner occupancy, to prevent exploitation by investors. The participants stressed that ADU ordinances are only as effective as a local government's ability to enforce them; and suggested that state ADU legislation should allow jurisdictions to enact stricter rules based on local context and necessities. Yet the Housing Organization Focus Group believes that extreme local control is harmful to housing development in general and unique ordinances deter the development of ADUs. They argued that initially local ordinances lock down the proliferation of ADUs because there are too many restrictions. But as the initial regulations are loosened over time through legislative amendments, the ADU ordinances become flexible and more ADUs are built. They mentioned California as an example, where one out of every four building permits is for ADUs.

A participant from the AORAA Focus Group highlighted the challenge of funding limitations and limited access to construction loans when building a new home with an ADU intended for rental purposes. This constraint can lead homeowners to consider short-term rentals as a more viable option. The group expressed the importance of incentives, such as tax breaks and funding resources, to encourage accessible housing products. Additionally, during the Planning Directors Panel discussion, it was suggested that waiving fees for utility connections, such as water and sewer, could promote the development of ADUs.

The Housing Organization Focus Group emphasized the significance of rental flexibility for ADUs, highlighting the need for homeowners to be able to rent to non-family members. They noted the rising foreclosure rates among homeowners struggling with mortgage payments, along with increased evictions due to the end of federal funding during COVID. They highlighted that familial requirements are an obstacle and hard to enforce; and suggested the Task force carefully consider the necessity of mandating familial connections.

## Survey Responses:

19 respondents provided feedback for the builder survey. The responses were from companies primarily engaged in residential development work, with a focus on Modular or Tiny homes, single-family residential construction and renovations, as well as ADUs and accessory structures. All 19 respondents unanimously indicated that, compared to housing market pressures and demand, the impact of state and local policy and regulation on the proliferation of ADUs ranged from moderately significant to highly significant. From their local experience the majority of policies regarding ADUs are restrictive, permitting them only in specific areas and under certain circumstances. The challenges in developing and constructing ADUs were primarily linked to the complexities of zoning and building codes particularly in the review processes, setback requirements, fire suppression system requirements, and owner occupancy mandates. Overly restrictive zoning regulations concerning permissibility, density, setback requirements, and lot size were cited as significant barriers to ADU proliferation.

Respondents also noted high permitting and development fees, parking requirements, and a lack of financial incentives and public awareness as additional challenges. Separate septic system requirements for ADUs, and access to local materials were mentioned to a lesser extent. The Builder Survey respondents also emphasized that allowing ADUs by-right accelerates the pace of construction. It provides certainty to property owners regarding their ability to build one on their property. On the other hand, when you must go through a community engagement process such as the special exception process, it destroys the momentum. According to the 19 respondents, the main barriers to constructing ADUs were as follows, ranked by impact: 83% identified zoning limitations, 67% cited the permitting process, 50% mentioned parking restrictions, 44% responded with insufficient financing, 39% noted construction costs and building codes, and 28% indicated local opposition. Regarding the cost of ADUs, 32% of respondents reported costs exceeding \$150,000, while 11% indicated costs ranging between \$100,000 and \$150,000. Additionally, 32% stated that costs were under \$100,000, with no consideration given to the size of the ADU, if the unit is wholly enclosed or an addition to an within an existing primary dwelling unit, or a conversion of another existing structure on the site.

The Builder Survey respondents also mentioned education on ADU construction policies is crucial. Many individuals genuinely support ADUs but may not fully comprehend housing and building innovation because they lack exposure to it. For instance, some may view converting shipping containers into an ADU as a reusable option of a steel structure. However, they may not be aware that these structures are not covered by insurance policies due to their non-traditional nature.

## Literature Review:

Single family residential homeowners function as ADU developers in most instances, and research shows that sufficient interest in ADUs exists within this demographic, alongside significant concerns about development complexity and uncertainties. An academic study conducted in 2023 of 502 single family household homeowners in the Sacramento area demonstrated a general openness to constructing ADUs. 43% of respondents indicated they were open to building an ADU, 8% already owned an ADU, and 49% reported not wanting an ADU on the same parcel as their homes. That study concluded that, of the

reasons for not wanting an ADU, 49.6% of respondents mentioned lack of space required by zoning regulations, 31% homeowners said they did not need an ADU, and 14.3% mentioned privacy concerns.<sup>4</sup> The American Association of Retired Persons (AARP) and the American Planning Association (APA) partnered to conduct surveys and studies across the nation; aimed at gauging public interest in ADUs and associated concerns, for the last two decades. Homeowners, as highlighted by AARP studies on ADUs, frequently cite challenges such as space and size restrictions, occupancy limitations, and off-street parking requirements when discussing the complexities associated with ADU development. Surveys also identify owner occupancy requirements, zoning and permitting barriers, excessive fees, financing challenges, lack of experience, lot sizes, primary dwelling sizes, and limitations on ADU size as obstacles<sup>5, 6</sup>. A study by AARP of US adults' neighborhood preferences reveals that 19% express hesitancy toward ADU implementation. Their concerns center around perceived complexities in the application process, securing financing, and obtaining rental permits. This hesitation reflects a broader uncertainty among the populace regarding the entire construction journey associated with ADUs, from initial application to financing and regulatory compliance.<sup>7</sup> Persistent concerns about regulatory complexities emphasize a broader uncertainty and hesitancy toward ADU implementation, highlighting the necessity of the Task Force considering these policy issues.

Evidence from several states and cities where ADUs have proliferated suggests that promoting the viability of ADUs has been an incremental process, with the reformation of ADU bills and the modification of regulations over time being essential for increasing their popularity.

ADU regulations from Vancouver, Portland, Seattle, Ashland, Austin, Denver, Oakland, and Washington, D.C. show notable incentives to promote ADU construction. For instance, as of 2017 Ashland, OR had 191 ADUs, while Oakland, CA boasted 404 ADUs, with incentives such as fee waivers and pre-packaged ADU designs. Interestingly, regulation allowing ADUs to be sold separately, if the property is a condominium association have led to 1,396 ADUs in Seattle.<sup>8</sup> A 2014 State of Oregon report shows that after a SDC (System Development Charge) waiver in 2010, the number of ADU permits increased yearly from 50 to 150 in the City of Portland.<sup>9</sup> By examining regulatory examples from cities with successful ADU programs, such as Portland, Seattle, and Vancouver, valuable insights emerge. Portland's approach, characterized by no owner occupancy requirement, streamlined processes, and fee waivers, showcases the effectiveness of supportive policies and proactive municipal support for ADUs. Seattle's encouragement of ADUs, informed by extensive study reports, underscores the importance of evidence-based policymaking. Vancouver's response to its housing crisis through density reforms and incentives for “laneway housing” in deep lots demonstrates the potential for policy innovation in underused spaces to address housing challenges.<sup>10</sup>

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<sup>4</sup> Jamey M. B. Volker & Susan Handy (2023) Exploring Homeowners' Openness to Building Accessory Dwelling Units in the Sacramento Metropolitan Area, *Journal of the American Planning Association*, 89:1, 45-60,

<sup>5</sup> Jumpstarting The Market for Accessory Dwelling Units: Lessons Learned from Portland, Seattle and Vancouver

<sup>6</sup> ABCs of ADU - A Guide to ADUs And How to Expand Them.

<sup>7</sup> Expanding ADU Development and Occupancy: Solutions for Removing Local Barriers to ADU Construction

<sup>8</sup> Accessory Dwelling Unit - a step by step guide to Design and Development, AARP (2019)

<sup>9</sup> Accessory Dwelling Unit (ADU) Development Trends, Oregon Dept of Environmental Quality

<sup>10</sup> Jumpstarting The Market for Accessory Dwelling Units: Lessons Learned from Portland, Seattle and Vancouver

These regulatory incentives appear successful in fostering affordable housing, as ADU rents are comparable to or slightly lower than those of one-bedroom apartments in these North American cities.<sup>11</sup> A 2019 study of exclusionary ADU zoning in Long Island shows how the prevalence of 90 thousand illegal units complicates ADU regulation and implementation, introducing issues related to housing undocumented immigrants. Parking shortages, concerns about overcrowding, and violations of housing codes further impede regulatory efforts, highlighting the imperative for comprehensive and coordinated approaches to ADU regulation. The study concludes that the complexity of exclusionary zoning contributes to the underutilization of ADUs.<sup>12</sup> The degree of ADU adoption demonstrates considerable variation influenced by location and local regulations. While cities like Los Angeles and Portland experienced a significant increase in ADU construction in response to housing challenges, this trend is not mirrored in cities such as Minneapolis.<sup>13</sup> Even though, substantial regional difference in ADU demand is evident, regulatory incentives seems to increase the number of ADUs.

### Conclusion:

State and local policies and regulations significantly influence the proliferation of accessory dwelling units (ADUs), with challenges stemming from the complexity of zoning and construction regulations. Despite homeowner interest in ADUs, uncertainty persists regarding the application process and regulatory requirements. Prompt responses to zoning inquiries are desired, highlighting the need for a streamlined application and review process, along with pre-approved design plans. Top concerns regarding ADU construction include owner occupancy and parking requirements, lot and unit size, financial challenges, such as excessive impact fees, and requirements for utility installation costs such as required fire suppression systems and water and sewer connections required from the main lines. These challenges are exacerbated by high permit application fees and development costs, and a lack of financial incentives, making financing ADU construction difficult. Moreover, obstacles such as HOA covenants, special exception review, and family members only rules are prevalent in many Maryland counties, further hindering ADU development. Evidence from various locations, including Oregon, California, Seattle, and Austin, underscores the effectiveness of streamlining restrictions in enhancing ADU construction rates.

Overly contextualized public involvement processes can impede the ADU development momentum, contrasting with the beneficial impact of by-right laws. As we see from examples, unique ordinances contribute to uncertainty between jurisdictions, increasing the underutilization of ADUs, notably in racially segregated neighborhoods affected by exclusionary zoning. Yet addressing concerns about regulatory enforcement suggests the need for state legislation granting local governments the authority to enact context-specific regulations. Striking a balance between statewide uniformity and local autonomy is essential to effectively navigate the complexities of ADU development and foster equitable housing solutions.

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<sup>11</sup> Accessory Dwelling Unit - a step by step guide to Design and Development, AARP (2019)

<sup>12</sup> Anacker, K.B., & Niedt, C. (2019). *Classifying Regulatory Approaches of Jurisdictions for Accessory Dwelling Units: The Case of Long Island*. *Journal of Planning Education and Research*, 43, 60 - 80.

<sup>13</sup> AARP ADU: Model State Act and Local Ordinance

## How construction of ADUs affect the viability and appeal of local housing markets

The Assessment examines how the construction of ADUs impacts the viability and appeal of local housing markets, particularly concerning property values. It examines the specific demographics of renters drawn to ADUs, the motivations of homeowners who build them, and the neighborhoods where ADU construction is prevalent. To tackle these inquiries, stakeholders participated in focus groups and panel discussions. Furthermore, the literature review explores findings from cities and states with active ADU construction to discern the income brackets of those constructing ADUs and their utilization patterns.

### Focus Groups and Panel Discussions:

Participants from the AORAA Focus Group voiced their concerns about segregated living situations for individuals with disabilities or aging family members, emphasizing the importance of fair housing. They drew attention to the urgency of creating housing options for the aging population by highlighting that ADUs can address long wait times for accessible affordable housing and bridge the demand for affordable housing options as registered rental properties. The HOA and Community Association Focus Group also emphasized the potential of ADUs to provide housing for vulnerable populations in Maryland, including the unhoused, seniors, and individuals with disabilities.

The Planning Directors Panel acknowledged the public demand for ADUs while pointing out their slow integration into the rental market, attributing this to the need for the market to develop cost efficient processes and ensure profitability. They noted the popularity of ADUs as short-term rentals in tourism-driven areas (Annapolis for example) but expressed concerns about their impact on long-term housing availability and affordability. They found that ordinances permitting ADUs to be used as short-term rentals may not effectively address and may negatively impact long-term housing needs and may contribute to transient populations in neighborhoods. They suggested that ordinances requiring the homeowner to reside in one of the two units on the property, along with prohibiting ADUs from being used as short-term rentals, are more successful in addressing long-term housing shortages. HOA and Community Association focus group mentions the potential of ADUs to offer additional income to homeowners while promoting a diversity in rental housing options. The Housing Organizations Focus Group considered licensing ADUs as rental units appropriate. However, they expressed concern about their potential use as short-term rentals (STRs), citing the example of Annapolis to highlight the potential major negative impacts on neighborhoods such as party houses, creating parking issues and contributing to noise pollution. They noted that STRs in ADUs may contradict the purpose of ADU ordinances, which aim to provide long-term housing options. However, they also noted that while STRs might pose challenges in some tourist areas, they can be highly desirable in locations with limited hotel accommodation, especially in areas where tourism is a relatively new economic force for the community.

Housing Organization Focus Group expressed that regulations pertaining to an ADU should continue to be enforceable upon sale of the property. Planning directors discuss the necessity of owner occupancy disclosures when selling properties with ADUs, as well as the prohibition of property subdivision in some jurisdictions containing ADUs. They highlight enforcement challenges related to family occupancy requirements and the potential for liability issues for jurisdictions.



## Survey Responses:

Among 19 respondents of the Builder/Developers Survey 58% reported having worked on projects that included ADUs. Respondents rated their familiarity with ADU development and construction on a scale from 1 (not familiar) to 5 (very familiar). 53% indicated the highest level of familiarity, while 11% stated they were not familiar with ADUs at all. 53% percent of the respondents said ADUs are considered an optional feature in association with new home construction.

From the survey, it was found that most respondents had experience with ADUs detached from the primary residential structure or as an addition to an existing residential structure. This was followed by work on an ADU internal to a residential structure, or what the bill refers to as a conversion of a single-family home.

The primary reason cited by 74% of respondents for property owners to consider an ADU was to provide additional living space for family or other individuals. The remaining responses were evenly distributed among categories such as long and short-term rental, aging in place, and semi-independent living for an aging parent. ADUs change the way we support aging in place and enhance living arrangements for families or individuals by optimizing space usage. Building ADUs enable seniors to remain in their neighborhoods and avoid being priced out. Additionally, in expensive neighborhoods, ADUs significantly enhance affordability by enabling homeowners of any age to afford their homes through rental income. Moreover, each person renting an ADU reduces the demand for other rental units, thus positively impacting the overall housing market by increasing supply.

## Literature Review:

Several studies provide insights into the composition of households that construct and reside in ADUs, demonstrating how they contribute to adapting to evolving neighborhood demographics. One of the earliest North American academic studies on ADUs was conducted in Maryland in 1988, specifically examining accessory apartments in Baltimore City. The study centered on the interest of middle-income elderly populations in accessory apartment conversion, speculating on the phenomenon of declining density in older suburbs as children relocate, leaving parents as 'empty nesters'.<sup>14</sup> The following citations are more recent relating to the composition of households who construct and reside in ADUs:

- In 2022 an ADU Annual Report from Seattle revealed that among ADU owners surveyed, 57% reported utilizing their units for houseguests, while 24% opted for long-term renters, and 15% for short-term renters.<sup>15</sup>
- In 2013 an Oregon report on Portland ADUs found that the average ADU household size was 1.45 people. The study also emphasized that 70% of the ADUs are non-owner occupied and 79.5% ADUs are being used as a long-term residence.<sup>16</sup>

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<sup>14</sup> Factors Affecting Middle-Income Elderly Interest In Accessory Apartment Conversion (1988)

<sup>15</sup> Accessory Dwelling Units, 2022 Annual Report, City of Seattle

<sup>16</sup> Accessory Dwelling Unit (ADU) Development Trends, Oregon Dept of Environmental Quality

- In a study published in 2010 synthesized data from academic studies conducted in Maryland, New York, Boulder, and Seattle, spanning the period from 1988 to 2010, aiming to assess the suitability of ADUs for aging in place. The study notes that ADUs are primarily created by owners aged between 40 and 60, constituting 50% of builders, while 13% are aged over 60. Interestingly, the majority of owners do not have children. The renters typically consisted of young adults under 30 living alone or individuals aged 65 and above. Reasons for adding ADUs vary, including younger adults seeking extra income and improved mortgage affordability, while older adults utilize them for housing family members.<sup>17</sup> In the Seattle context, ADUs are facilitating aging in place for the elderly population while contributing to a balanced density in neighborhoods. ADUs were found to be beneficial in maintaining multi-generational communities and achieving optimal density levels, thereby mitigating sharp fluctuations in demand for services.

Multiple studies reveal varying patterns of ADU construction from a neighborhood income perspective, relationship to job access, and the relationship between neighborhood ethno-racial composition as follows:

- The 2022 ADU Annual Report from Seattle shows a higher concentration of ADUs constructed in wealthier neighborhoods, defined by census tracts with a median household income exceeding \$85,000, which might indicate who can financially afford to build an ADU.
- A report on ADU production in California revealed that 20% of ADUs built between 2016 and 2019 were in census tracts with a median household income of less than \$61,000, while an additional 24% were completed in census tracts with incomes ranging from \$61,000 to \$84,000.<sup>18</sup>
- Another academic study conducted in 2023, analyzing ADU permitting data in California, revealed variations in ADU construction between Bay Area counties and Southern California counties, without any discernible pattern across regions or counties<sup>19</sup>. The study shows that ADU permits are predominantly in census tracts with favorable job access and moderate rent levels, rather than the lowest. Additionally, the relationship between neighborhood ethno-racial composition and ADU permitting varies by region and county, with the only relatively consistent observation being that tracts with higher proportions of Hispanic or Latino residents tend to have more ADUs.<sup>20</sup>

It is notable that despite similar ADU regulations statewide, the study suggests that ADU permits do not adhere to any specific pattern. These studies identify patterns by analyzing permitting data alongside

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<sup>17</sup> Accessory Apartments: Are They a Realistic Alternative for Ageing in Place?

<sup>18</sup> Chapple, Garcia, Valchuis, Tucker, Reaching California's ADU Potential: Progress to Date and the Need for ADU Finance, Terner Center for Housing Innovation, University of California, Berkeley, August 2020

<sup>19</sup> Marantz, N. J., Elmendorf, C. S., & Kim, Y. B. (2023). Where Will Accessory Dwelling Units Sprout Up When a State Lets Them Grow? Evidence From California. *Cityscape*, 25(2).

<sup>20</sup> Marantz, N. J., Elmendorf, C. S., & Kim, Y. B. (2023). Where Will Accessory Dwelling Units Sprout Up When a State Lets Them Grow? Evidence From California. *Cityscape*, 25(2), 107–118.

census tract data, although they do not delve into any definite causal relationships, making it challenging to use them to predict the potential neighborhood scale scenario in Maryland.

Understanding the dynamics of who builds, why they build, and where they build ADUs is significant in shaping the context of ADU proliferation in Maryland from a property valuation perspective relating to racial composition of the neighborhood. This issue is significant and influential is Maryland's history of redlining and racial discrimination has resulted in disparities in housing values based on neighborhood racial composition. A study done by the National Center for Smart Growth (NCSG) analyzed overall change or adjustment in property values across the entire state for Maryland Department of Housing and Community Development in 2022.<sup>21</sup> The study emphasized that while the statewide property value adjustment was 42.6%, whereas in BIPOC (Black, Indigenous, and Other People of Color) majority neighborhoods, it was a notably lower valuation at 33.2%. Moreover, the Federal Housing Finance Agency (FHFA) appraisal data reveals disparities, with the average property value in BIPOC majority areas significantly lower than the state average. In addition to this historical evidence of variations in property valuation, the addition of ADUs raises questions about their impact on housing values in BIPOC neighborhoods, considering factors such as construction costs, financing accessibility, loan availability, and investment returns through rent or appraisal values. A 2019 study focusing on Long Island's exclusionary zoning for ADUs found that affluent, predominantly white neighborhoods typically prohibit ADUs, while middle-income and diversifying suburbs impose varying restrictions. In areas with high rental housing rates, including several majority-minority communities on Long Island, ADUs are banned in many jurisdictions. The study highlights how jurisdictional fragmentation, especially in regions with a history of longstanding segregation, could slow down the use of ADUs as an affordable housing option. The study proposes the implementation of unified regulations as a potential solution to this challenge.<sup>22</sup> Considering the lack of existing studies or data, moving forward it is crucial to initiate the collection of ADU data in the state of Maryland as it will be essential for studying the impact of ADUs on racial diversity at the neighborhood level.

### Conclusion:

There's considerable concern about how properties with ADUs will be evaluated in the real estate exchange market. Discussions and surveys suggest the need for owner occupancy disclosures when selling such properties. However, many homeowners view adding an ADU during new home construction as a value-increasing feature, especially as a multigenerational housing option, rather than a burden. Local surveys confirm this, revealing that property owners primarily consider ADUs to house family members or other individuals, with a significant number also considering renting them out.

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<sup>21</sup> Examining Racial Disparities in Maryland's Housing Market, NCSG

<sup>22</sup> Anacker, K.B., & Niedt, C. (2019). *Classifying Regulatory Approaches of Jurisdictions for Accessory Dwelling Units: The Case of Long Island*. *Journal of Planning Education and Research*, 43, 60 - 80.

ADUs serve as a crucial solution to bridge the demand for affordable housing across various income levels and vulnerable populations. They particularly benefit the aging population and individuals with disabilities, allowing them to remain in their communities without being priced out. Additionally, ADUs contribute to stabilizing population density and fostering multigenerational communities, especially in areas experiencing aging populations and declining numbers. By maintaining optimal population density, they help mitigate sharp fluctuations in demand for services. Furthermore, each ADU rented reduces the demand for affordable rental units, although concerns remain about short-term rental ADUs potentially affecting the availability and affordability of long-term affordable ADUs.

In middle to high income census tracts across several states, ADUs are proliferating, particularly in areas with good job access and reasonable rent levels. However, these trends do not necessarily have a strong causal relationship. Understanding who is building ADUs and where they are being constructed is crucial, as different contexts react differently to regulations in housing development. This is particularly significant in Maryland, where insufficient data exists to map past ADU construction patterns, highlighting the need for comprehensive data collection to monitor development closely. Given the state's history of racial segregation, which continues to impact property values, ADU development requires careful examination, as jurisdictional fragmentation has the potential to exacerbate existing inequalities.

### Impact of policy versus market demand on the proliferation of ADU development

The third question explores the dynamic relationship between policy or ordinance changes and market demand in the expansion of ADUs. It delves into how these factors influence each other and whether specific policies or ordinances are more effective in different types of communities. Additionally, it considers the possibility that, despite streamlined policies, a region may not experience significant demand for ADUs. By examining these interactions, the aim is to understand how regulatory frameworks and market forces shape the proliferation of ADUs and identify strategies tailored to diverse community needs and preferences.

### Focus Groups and Panel Discussions:

The Housing Organization Focus Group highlighted that there is a demand in the housing market for multifamily generational housing, indicating that ADUs can be a specific type of housing option to meet those needs. AORAA Focus Group participants viewed ADUs as an excellent housing option, especially as land becomes scarcer, provided their design is harmonious with the community. They believed ADUs are particularly beneficial for owners of larger properties. Additionally, based on their experience, they emphasized the importance of educating the public about zoning regulations, as many people lack awareness and understanding of ADUs and best practices.

The HOA and Community Association Focus Group noted that the impact of ADUs and single-family to multi-family conversions on neighborhoods varies depending on factors such as housing market demand, prevailing lot sizes, housing and land costs, and neighborhood typology. They also highlighted that in high-cost communities, ADUs may not provide truly affordable housing options due to the high cost of

construction, resulting in rental prices that could burden low to moderate-income households. Fair housing advocates from the Housing Organization Focus Group echoed similar concerns. They noted that because landlords in ADU situations are often homeowners who may not be fully aware of rental regulations, they believe ADUs are not necessarily an affordable housing solution. The Housing Organization Focus Group believed that ADUs will be more affordable for moderate-income earners as opposed to low-income earners.

#### Survey Outcomes:

All respondents from the Builders Survey indicated that there is at least some current demand for ADUs in the regions and communities where they operate. Thirty-seven percent reported a high demand for ADUs in their respective areas. The respondents primarily work in Maryland, the DMV, and Pennsylvania. Because of the obstacles mentioned, only a few ADUs are constructed, leading people to believe there is no demand. If zoning codes do not facilitate the permitting of ADUs, their construction will remain limited. When asked about the types of markets where ADUs are most suitable housing products (e.g., urban, rural, suburban, rapidly growing, slowly growing, high-cost, medium to lower cost, etc.), the responses varied. Many respondents identified urban and suburban markets, including rapidly growing and low-cost markets, as suitable for ADUs. Additionally, many respondents expressed that ADUs are suitable for all markets. The survey also finds that having universal guidelines across counties would be beneficial. It is challenging for interested homeowners when they are confused by unique ordinances and guidelines.

#### Literature Review:

Studies indicate that communities with older adult populations are more inclined to pursue the construction of ADUs, highlighting the influence of a community's average age on ADU demand and proliferation. A 2018 AARP community preference survey of people aged 50 and older revealed that older adults with insufficient retirement savings are interested in staying in their community by either moving into an ADU or constructing one to generate income. The motivations for considering living in an accessory dwelling unit included the desire to be near others while maintaining personal space for 67% of respondents, receiving assistance with daily activities for 63%, and economic factors for 54%. In communities with large numbers of empty nesters the population density decreases as children move away, ADUs can invite 1-2 person households and increase the density. It also enables older adults to afford to live in their communities. This age group's interest in both purchasing or constructing a house with an ADU and moving into an ADU themselves suggests that ADUs may promote population stability in a community. The 2019 AARP study shows that despite similar regulations and incentives, the potential for ADU proliferation varies significantly depending on factors like the percentage of older adults in a neighborhood and lot size.<sup>23</sup> The examples show that neighborhoods with larger lot sizes (over 5000 square feet) and a higher percentage of older adults may have greater potential for ADU development, impacting neighborhood density and market proliferation. Further exploration into the age demographics of Maryland could provide valuable insights into local preferences and trends.

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<sup>23</sup> AARP ADU: Model State Act and Local Ordinance

Examples from Virginia, Oregon, and California show that community engagement and advocacy are significant factors for addressing the communication gap between policy makers and potentially interested homeowners. According to another AARP study, in 2017 Arlington County, VA established an ADU advisory committee comprised of community members to address local ADU concerns while revising ADU regulations.<sup>24</sup> The official numbers show that before 2017 only 19 ADU permits were issued over a 10-year period, After the ordinance revisions in 2019, 66 new ADUs permits were issued in 2.5 years. The same study also mentions that in 2019, during the ADU reform in Beaverton, Oregon, an initial email survey was conducted. However, during subsequent community conversations, participants raised additional issues regarding ADU needs and preferences that had not been addressed in the survey. Even though the study did not mention the 'additional issues', they focused on the importance of multi-layer community engagement such as survey and workshop to emphasize that community engagement works as advocacy by digging deeper into local barriers. This proves that in cities facing acute housing shortages, ADUs are gaining popularity, driven by active community engagement. Understanding market demand for ADUs can be achieved through community engagement in local jurisdictions, which helps identify the market demand for regulatory adjustments and ordinance revisions.

In its 2022 Annual ADU report, the City of Seattle findings indicated that 15% of owners have been renting their ADUs as short-term rentals while 24% renting their ADUs as long-term. However, there was significant uncertainty among these ADU owners about how they want to use ADUs in the future, with 21% considering short-term rentals and 31% willing to rent to family members or strangers. This suggests a potential trend, especially in tourist attraction cities, where ADUs as short-term rentals may become more prevalent. A 2021 academic study also noted that rent controls significantly impact the affordability of rent for ADUs, as their absence permits ADU owners to potentially increase market rents.<sup>25</sup> To address this, making ADU construction accessible to less affluent owners could offer a path to building wealth. The study suggested a solution involving providing development incentives to those in need, contingent upon implementing rent control for a specified duration. However, achieving this goal requires both financing mechanisms and regulatory reforms to streamline ADU construction processes, ultimately fostering equitable access to affordable housing.

### Conclusion:

Local discussions and surveys indicate that unique ordinances contribute to confusion and may inaccurately portray low demand for ADUs. Despite this, there is a clear local demand for multigenerational housing, and ADUs can serve as an excellent option to meet this need. According to respondents from a Builders Survey, there is a general demand for ADUs in Maryland, the DMV area, and Pennsylvania, with 37% of respondents indicating high demand. Older adults and owners of larger lots express greater interest in ADU construction. Urban and suburban markets, including those experiencing rapid expansion and affordability, are particularly suitable for ADUs.

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<sup>24</sup> Expanding ADU Development and Occupancy: Solutions for Removing Local Barriers to ADU Construction

<sup>25</sup> Less Is Not More: The False Promise of Accessory Dwelling Units for San Francisco's Lowest-Income Communities

ADUs offer a promising solution to address land scarcity, particularly when their design harmonizes with the neighborhood's characteristics. However, the impact of ADUs on neighborhoods, transitioning from single-family to duplexes, triplexes and multifamily, is influenced by various factors including housing demand, lot size, property value, and neighborhood typology and effective communication is essential to understand community demand accurately. Community engagement initiatives play a vital role in addressing contextual challenges that hinder ADU development, ultimately leading to an increase in the number of ADUs. In affluent neighborhoods, ADUs may be out of reach for low-income individuals and only feasible for middle-income earners. The escalating cost of development presents hurdles for ADU owners seeking to offer affordable rentals, potentially resulting in a rise in short-term ADU (if allowed in the jurisdiction) rentals, or worse, a foreclosure. To encourage affordable rentals, some suggest implementing rent control for a set period in long-term rentals, in exchange for financial incentives.

### Neighborhood Livability

As we examine the acceptance and impact of ADUs on local markets, it's crucial to consider their effects on quality of life. Due to various factors both physical (geographical or geological limitations) or political (growth policies or infrastructure investment), jurisdictions may only be equipped to accommodate a specific population size or rate of growth. The introduction of ADUs could potentially strain existing infrastructure and services, affecting residents' overall well-being. Balancing housing needs with maintaining the integrity of community resources is paramount in evaluating the broader impact of ADUs.

### How ADUs impact neighborhood livability in relation to the provision of public facilities, sustainability, affordability, and other related factors

The Task Force's fourth question explores the anticipated impact of ADUs on neighborhood livability concerning public facility provisions, sustainability, affordability, and overall quality of life. The inquiry delves into existing literature, panel discussions, and surveys to assess how ADUs have influenced neighborhood livability, considering concerns raised by local participants. To mitigate negative impacts and promote affordability, ADU policies and regulations can be crafted to address specific neighborhood needs, balancing housing expansion with sustainability measures and community well-being.

### Focus Groups and Panel Discussions:

Participants from the AORAA Focus Group noted that ADU legislation often mandates owner occupancy, which they see as a significant barrier to development. But they stressed that requiring landlords to reside on-site with ADUs can mitigate issues associated with absentee landlords and contribute to neighborhood stability. The Housing Organization Focus Group also agrees that having the owner living on-site is beneficial for ensuring a vested interest in the property and the neighborhood.

Additionally, the AORAA Focus Group highlighted the lack of affordable and accessible housing as a critical issue. They advocated for ADUs to be designed with accessibility in mind and added to a searchable database for accessible housing. They emphasized the importance of ADUs being adaptable for persons with disabilities, focusing on inclusive design elements such as entrance accessibility, lighting, and climate sensitivity.

Moreover, the ORAA Focus Group underscored the prevalence of unpermitted and illegal ADUs, which they believe could be substandard housing, posing risks to public health and safety. They suggested that implementing amnesty programs could help prevent tragedies associated with such structures. Planning Directors also discussed the potential for homeowners to address nonconforming ADUs and proposed considering grandfathering these legal uses as a solution.

The HOA and Community Association Focus Group expressed concerns about ADUs and single-family to multi-family conversions potentially contributing to urban blight and straining municipal services in communities with struggling housing markets. However, the Housing Organization Focus Group suggests that ADUs represent a form of slow densification. To ensure neighborhood stability, they mention that regulating lot coverage is an important issue. They suggest that the height of the ADU should be regulated and perhaps limited to one story; setbacks should be sufficient to avoid impacts on neighboring properties. Minimum lot size could be an effective way to manage these elements to avoid negative impacts on adjacent properties. The AORAA Focus Group emphasizes that properties with sufficient space for an additional unit and parking, while blending well with the neighborhood, are ideal for ADU development. They stress the importance of regulating appropriate sizing for both the property and the unit. The Planning Directors Panel also suggests considering the limitations of aging infrastructure when determining suitable locations for ADUs.

From focus group discussions, there's a recognition of the need to consider the impact of ADUs on community facilities and infrastructure, including municipal capacities, trash removal, and transportation in blue-collar communities. Planning Directors note that lot requirements have generally not been problematic in their communities, but parking issues vary between communities, with some still assessing the impact of recent ordinances. They stress the need for long-term studies to understand the full impact of ADU ordinances on the housing market, including parking considerations. Additionally, they suggest implementing annual statements from property owners regarding the status of ADUs to ensure compliance.

The AORAA Focus Group advocated for flexible parking requirements in ADU ordinances, tailored to the specific needs of different communities such as downtown areas versus suburbs, considering factors like transit access. They emphasized the importance of parking flexibility to accommodate various community types. The Housing Organization Focus Group suggested that if parking is the issue, then it should be addressed first rather than using the lack of parking to limit ADUs.

The HOA recommended limiting ADUs to areas served by public sewer and water to maintain water quality and protect the environment, particularly in regions with septic systems. They advocated for regulations



addressing public health, safety, stormwater management, and infrastructure impact, with enforcement through restrictive covenants if necessary. They also suggested that ADU owners may need to pay additional fees to offset their impact on services and infrastructure.

#### Survey Outcomes:

The Builders Survey respondents said there is a practice of renovating spaces, essentially creating ADUs in every aspect except a specific element of a household, (an example is a stove) to get around the strict rules around defining a dwelling unit in some counties. Then later a stove is added, and the SDU is not properly permitted, creating an illegal ADU. Making all ADUs legal is essential for ensuring health and safety. This is an issue of enforcement. ADUs seem to be most prevalent on large lots with spacious houses, but there are numerous reasons they are suitable for everyday homes as well.

In response to inquiries about neighborhood livability, all respondents from the Builders Survey indicated that ADUs support aging in place. Additionally, 84% believed that ADUs increase housing values in the neighborhood and contribute to housing affordability. Furthermore, 79% stated that ADUs diversify neighborhood demographics, while 74% expressed that ADUs support moderate densification. The respondents also believed that ADUs increase the likelihood of service workers residing in the community rather than commuting long distances to access jobs. This enables teachers, maids, vet techs, and others to live closer to their workplaces.

According to respondents from the builder survey, the most significant current impact of ADUs is creating affordable housing options in wealthier neighborhoods. More affordable rental units would be feasible in these areas if homeowners were not required to live in either the primary home or the ADU. However, this option may not be popular in some neighborhoods due to concerns about investors taking over.

#### Literature Review:

Comprehending the livability concerns of local communities regarding ADUs can inform the development of both local or unified state policies and regulations. Findings from the 2021 AARP survey of a representative sample of US adults aged 18 and above shows a notable 26% of individuals are open to integrating ADUs into their living arrangements, especially to address multigenerational and guest living needs.<sup>26</sup> In the book titled 'Remaking the American Dream: The Informal and Formal Transformation of Single-family Housing Cities', the author describes a 2012 California survey of neighborhood council members who expressed their top concerns about ADUs. 32% mentioned fear of the lack of parking spaces, 24% feared increased density, 9% were concerned about infrastructure capacity, and another 9% mentioned an increase in disorder and crime. From the neighborhood livability perspective, parking and density emerge as the most prioritized concerns. Conversely, while identifying positive attributes of ADUs, 26% of respondents mentioned housing for extended family, 15% believed ADUs would increase property value and rental income, 15% believed affordable housing supply would increase, and 6% thought of ADUs as a more effective approach to increasing density. The survey also underscored support for second units with strict design standards and community consent, highlighting their attractiveness as housing options.<sup>27</sup>

The implementation of ADU regulations can play a crucial role in mitigating the construction of illegal accessory housing units, offering oversight and guidance in their development. According to a 2017 academic study, in the ten largest major metropolitan statistical areas in the United States between 2000 and 2014, 37% percent of new single-family housing units were built illegally.<sup>28</sup> These unauthorized units often lacked proper safety measures, were constructed by unlicensed contractors, and may have incorporated hazardous recycled materials for affordability. Additionally, in a 2008 report, the Pratt Center highlighted that between 1990 and 2000, New York City acquired 114,000 apartments that were not accounted for in the official count of certificates of occupancy, yet they were instrumental in addressing the city's affordable housing shortage.<sup>29</sup> Regulations encouraging and guiding the conversion of undocumented units into ADUs can reduce the prevalence of illegally converted housing, promoting safer and healthier living conditions and overall neighborhood improvement in terms of living standards.

The density of neighborhoods is expected to be minimally affected by the addition of second units (detached ADUs) in Los Angeles, as highlighted by Mukhija in his book on ADUs. The author pointed out that LA's single-family properties typically have larger lots, and the addition of ADUs resulted in 'elegant density'. While the study acknowledged concerns about reduced privacy, it also identified positives, such as fostering community interaction and maintaining neighborhood density. Addressing privacy concerns through thoughtful ADU design can help mitigate any negative impacts on neighborhood livability and support them as a viable and acceptable housing solution.

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<sup>26</sup> Expanding ADU Development and Occupancy: Solutions for Removing Local Barriers to ADU Construction

<sup>27</sup> Mukhija, V. (2022). *Remaking the American Dream: The Informal and Formal Transformation of Single-family Housing Cities*. MIT Press.

<sup>28</sup> Brown, Anne, Mukhija, Vinit & Shoup, Donald. (2017). Converting Garages into Housing. *Journal of Planning Education and Research*

<sup>29</sup> New York's housing underground: a refuge and resource (2008), Pratt Center for Community Development

Data from cities where ADUs are successful because of different regulatory incentives show that renting an ADU is cheaper than renting a one-bedroom apartment. The 2017 data shows that in Seattle (WA) there were 1396 ADUs and the rent was \$1500 whereas the rent for one-bedroom apartment was \$1884. In Denver (CO) rent for an ADU was \$1250 while one-bedroom apartments were being rented for \$1400, at that time Denver has only 139 ADUs. In 2017 Washington DC, one-bedroom apartment rent was \$2000 yet ADU rent was \$1350.<sup>30</sup> From the rent comparison it seems that if ADU construction becomes easier for homeowners the rent stays cheaper than other comparable housing options and the proliferation of ADUs doesn't seem to have any effect on the rent.

Despite many concerns some studies show that ADUs have low impact compared to other housing options. The 2014 study from Portland shows that where other traditional single-family residences take up to 800 square feet living area per person while ADUs take only 470 square feet. Portland study shows that parking share of ADUs are 0.46 street parked car.

### Conclusion:

ADU construction could potentially increase if owner occupancy requirements were lifted; however, maintaining neighborhood stability is widely supported, leading to the preference for owner occupancy. Homeowners seek ADUs to accommodate family members, boost property value, and generate rental income. Results from the Builders Survey also indicate that ADUs support aging in place, enhance property value, and contribute to housing affordability. Evidence suggests that ADU rents are often cheaper than those of one-bedroom apartments in a multifamily structure in major US cities. Inclusive design elements make ADUs suitable for individuals with disabilities. Amnesty programs provide the opportunity to convert risky, unpermitted units into compliant ADUs to promote neighborhood safety and perhaps, expand affordable housing options.

Studies identify parking space availability and increased density as primary concerns regarding ADUs. Regulations on minimum lot and unit size are widely endorsed to prevent neighborhood overcrowding. While urban blight is a concern for the proliferation of ADUs, some argue that ADUs contribute to slow densification and appear to favor this form of densification over a new large multifamily structure near or in their neighborhoods. Evidence suggests that ADUs typically occupy fewer square feet per person compared to traditional multifamily housing options. Despite claims of ADUs causing parking issues, only Portland has conducted a study on ADUs' parking share, indicating it's not a significant problem. In specific areas of Maryland, environmental concerns about septic systems, particularly in relation to the conservation of the Chesapeake Bay, remain major areas of concern.

### Summarized Conclusion:

The main hindrance to ADU proliferation appears to be complications surrounding regulation and compliance. Drawing from examples in other cities and states where ADUs are on the rise, it's evident that

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<sup>30</sup> Accessory Dwelling Unit - a step by step guide to Design and Development, AARP (2019)

streamlining initial upfront development fees, providing quick zoning and regulatory answers, implementing a streamlined review process, and offering pre-approved plans can significantly boost ADU numbers. However, opinions on ordinances that set regulations vary, with valid arguments on both sides. While a unified ordinance with pre-approved plans could expedite the ADU building process and create a more readily attainable ADU market for property owners, the importance of local context cannot be overlooked. As local governments must address issues stemming from market demand for ADUs, they also indicate the need for flexibility to set regulations tailored to their specific needs. Therefore, a balance is necessary to determine the extent to which the state should mandate regulations and how much autonomy local governments should have in regulating ADU development. This delicate balance ensures efficient ADU construction while allowing for responsive regulation to address local concerns.

The concern surrounding the valuation (?) of properties with ADUs in the real estate market is significant, as homeowners perceive adding an ADU during new home construction as a valuable investment. However, discussions and surveys indicate the necessity for owner occupancy disclosures during the sale of such properties. While ADUs may be initially constructed to accommodate family members or other individuals, the possibility of renting out the one of the two units on the property arises once the immediate need subsides. ADUs play a vital role in addressing the demand for affordable housing across various income levels and vulnerable populations. Particularly beneficial for the aging population and individuals with disabilities, ADUs enable them to remain in their communities without facing displacement due to soaring housing costs. The question of whether ADUs will truly be affordable remains, but each rented unit helps alleviate the demand for affordable rental properties. Nonetheless, concerns persist regarding the potential impact of short-term rental ADUs on the availability and affordability of long-term affordable housing options. Achieving a balance between maximizing property value and ensuring affordability in the ADU market remains a key challenge moving forward.