

As we emerge from a tragic pandemic, let's catalyze action among professionals in the fields that shape the physical housing and communities where we live. This series of case studies shares innovations that are advancing a set of **guiding principles** for built environment professionals—from creative ways to redress inequities and engage the public in participatory planning, to unique housing and community models that enable every resident to thrive.



Building Equity through Shared Equity ADUs

Y-Help® and CLTplusOne

By Stephanie Firestone and Esther Greenhouse

Cities in the U.S., Canada, and elsewhere are increasingly using **accessory dwelling units (ADUs)**—or small houses or apartments that exist on the same property lot as a single-family residence—as an important part of the solution to their housing crises. In many communities, zoning and land-use restrictions prevent ADUs from being built. Where they can, building ADUs has largely been the provenance of homeowners who are wealthier, have good enough credit scores, or otherwise have access to capital. This case study spotlights how innovative programs are developing models that share equity in a home as a mechanism for building ADUs to support lower income households or specific populations such as veterans.

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Needs/Challenges

In many U.S. cities, a dearth of housing options that are affordable and appropriate for people of all ages and abilities stems from a number of sources. These include restrictions to development, increased costs, lack of inventory, a mismatch between housing supply and people's changing needs across the lifespan, and wages not keeping pace with inflation.

One way some municipalities are increasingly addressing these challenges is by making it easier, and in some cases less expensive, to build accessory dwelling units. Also known by other names such as in-law suites and carriage houses, ADUs are adjacent to or attached to a primary home and have their own kitchen, bathroom and living area. ADUs can relatively easily expand the options in a community's housing stock. By gradually adding density to established neighborhoods, **ADUs can help** retain long-term residents and keep people connected to supportive social networks, while also respecting the neighborhood's history and feel. And beyond incorporating design features that enable residents to live as independently as possible across the lifespan, ADUs can spur additional societal benefits such as providing space for caregiving or multigenerational living and building in energy efficiencies to help address climate change.

To stimulate the creation of a more affordable housing supply, many localities and states are looking to add “**gentle density**” in established low-density neighborhoods by allowing a variety of housing types like ADUs as well as **missing middle housing** (e.g., townhomes, two- to four-family homes, small-scale apartment buildings). By lifting land-use and zoning restrictions that effectively outlawed these in the past, localities create opportunities to yield more housing—particularly more affordable housing, while retaining the physical scale of a neighborhood. Some have also reduced or eliminated permit requirements and fees, as well as other

regulations such as parking and owner occupancy requirements. In 2019, the city of **Seattle**, Washington reduced minimum lot size requirements for detached ADUs, increased the limit for non-related people permitted to reside on a property, and allowed up to two ADUs per property. **Minneapolis** became the first U.S. city to end single-family zoning, such that additional housing options are now permitted in neighborhoods that previously only allowed single-family houses. And in 2020, new statewide standards went into effect in **California** that reduce requirements for ADUs and in some cases override municipal requirements.

Yet, it is largely more affluent, predominantly White households who are more likely to have the financial means to build ADUs, since they represent the highest percentage of home ownership and hold a disproportionate percentage of **housing wealth** in the U.S. White households are also more likely to benefit from relaxed ADU policies. Indeed, Seattle's **Racial Equity Toolkit** found that removing regulatory barriers absent other interventions would further race-based disparities.

Shared Equity Models²

We are witnessing increased creativity to help finance the construction of ADUs that can directly benefit people with low and moderate incomes. One approach is using a shared equity model, which is defined in this case study as a partnership between a homeowner and an entity such as a government agency, a not-for-profit organization, or a social benefit corporation (a for profit corporation with a social mission). Typically, the entity subsidizes construction costs and shares equity in the property and/or its use for a certain time period (such as ten or more years). The homeowner's contribution may be in the form of money, time, existing assets, or a commitment to rent the ADU or the primary residence at an affordable rate to a community member in need. In this case study, we describe how two U.S. organizations are using this model.

Y-Help® of YardHomes

INNOVATIONS

Minnesota-based **YardHomesMN** is a social benefit corporation started in January 2020 that designs and constructs ADUs for homeowners as well as businesses, such as resorts, looking to provide additional socially distanced lodging. **Y-Help®** is the philanthropic component of YardHomesMN; it is both a housing and social justice model aimed at housing U.S. military veterans.

Y-Help® provides a homeowner with a free ADU if they agree to rent it to a veteran for 10 years. The veteran pays the rent using a Veterans Affairs Supportive Housing (VASH) rental voucher, creating a guaranteed rent stream for both Y-Help® and the homeowner. The bulk of the rent reimburses Y-Help®'s Program-Related Investment and the homeowner receives a small portion. After roughly 10 years (depending in part on the amount of rent the homeowner receives each month), the homeowner owns the unit outright and is free to continue or discontinue renting to a veteran.

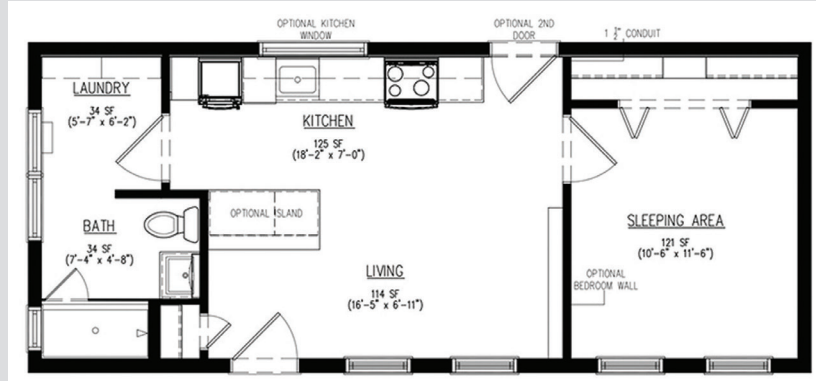
All YardHomesMN ADUs meet Universal Design standards,³ and units can also be built for a specific level of need with enhanced accessibility features upon request.



ADUs are constructed in two ways: (1) prefabricated complete units shipped to the site and then craned onto a foundation or slab; or (2) Structurally Insulated Panels (SIPs), in which the unit is shipped in panels that are then assembled on site. The SIPs have the advantage of ease of access on sites with constraints such as trees or overhead wires.

SUCCESSES TO DATE

To date, Y-Help® has provided funding for 11 ADUs to house veterans.



STILL TO COME

Y-Help® is collaborating with several municipalities across the state of Minnesota to create variations of this model to meet the needs of additional populations, including homeless youth and older adults. This emerging Y-Help® program is aimed at older homeowners who want to remain in their community but live in houses that are too large, lack accessibility features, or for some other reason no longer meet their occupants' needs.

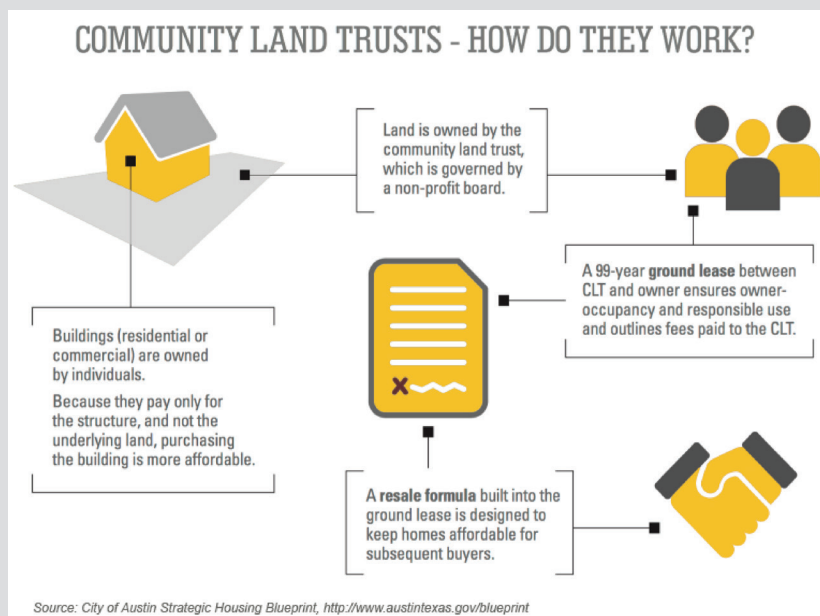
The program allows them to build an ADU on their property for themselves and then rent out the primary residence to a lower-income family that pays rent using a housing voucher. Once Y-Help has provided 100 ADUs attached to voucher programs, the organization will securitize the ADU loan notes and sell them to investors in the secondary market—a standard practice in the mortgage industry. This will free-up funding so they can fund another set of ADUs.

CLTplusOne of Durham Community Land Trustees

INNOVATIONS

Durham Community Land Trustees (DCLT) in North Carolina has created a new program that combines a land trust home sale with an ADU on the property. The CLTplusOne pilot program is in development thanks to a shared-equity innovation grant of \$50,000 from **NeighborWorks** in 2020. This program will increase the supply of affordable housing with two permanently affordable units on a property—the primary residence *plus* the ADU, while also generating rental income for the homeowner.

DCLT utilizes the land trust model of homeownership to ensure permanent affordability for low- to moderate-income households. To make homeownership a reality, only the structure is purchased and the nonprofit retains ownership of the land. Upon resale, both the home and ADU are sold to another low- or moderate-income buyer. The ADU must remain affordable to rental tenants at 60 percent or less of area median income (AMI), while the primary home will be sold to those at 80 percent or less of AMI. In addition to retaining ownership of the land to make the housing affordable, DCLT will provide property management services to ease the burden on the homeowner, who—DCLT has learned from experience—may need time to adjust to becoming a first-time homeowner.





CLTplusOne homes are designed for accessibility, wealth building and longevity of use; construction of the first home is scheduled to start in 2022. Both the primary residence and ADU are designed for multigenerational living and to support successful aging in place, using Universal Design standards, as will be standard for all the program's homes. They will feature zero step entry showers, wider doorways and hallways, and accessible hardware fixtures. The primary home was also custom designed to be fully accessible on the first floor and to allow for mobility devices such as wheelchairs or walkers to be used in all rooms. Owners will have the opportunity to rightsize⁴ on their own property by moving into the ADU

when they are ready, in which case they can gain rental income from the primary home. Thus the fully accessible ADU provides the homeowner a vehicle to build wealth during the entire lifetime of ownership.

SUCCESSES TO DATE

In 2021, DCLT hosted a virtual summit, **Buildable Backyards**, to learn from others in this space and to provide information and inspiration to participants. The summit featured national ADU experts, lenders, appraisers, designers, and other non-profit developers of ADUs. As the first national ADU summit focused on affordable units, the summit has resulted in the creation of a national support network of professionals. The summit also helped inform DCLT's CLTplusOne pilot program and kicked off a fundraising campaign for the pilot.

STILL TO COME

The CLTplusOne program will expand beyond the construction of new homes with ADUs to develop accessible ADUs on some of DCLT's existing single-family rental properties; the organization is currently conducting feasibility studies for select rental properties. Innovative building solutions such as modular construction and retrofitted shipping containers are being evaluated to keep construction costs down and rents as low as possible.

Replicability

Organizations should consider ADUs as a means of addressing many housing issues in communities: increasing density gradually, increasing affordable options, addressing homelessness, providing more accessible housing and housing to enable aging in place and aging in the community, increasing property values, creating a vehicle for income generation, and building wealth. Municipalities and non-profit housing developers can partner to create programs that utilize government vouchers for rent in conjunction with ADUs. Municipalities can also explore policies and funding programs to help developers and private homeowners by reducing the costs of building and permitting ADUs.

For more information:

www.dclt.org/about-dclt/projects/
www.yardhomesmn.com/y-help

¹ Refers to housing that is affordable for people at all income levels.

² Note that adequate consumer protections should be in place.

³ Universal Design is an inclusive approach to design that is not focused specifically on disabilities, but rather designing for the largest range of human sizes, abilities, needs, and behaviors.

⁴ Rightsizing entails converting one's existing home to its optimum size or moving to a different home of optimum size, to fit changing needs and/or circumstances.

ALSO NOTEWORTHY

Here are just a few among numerous types of additional efforts by governments and NGOs to incentivize or support the development of ADUs that benefit lower-income households.

The California State Housing Finance Agency is now offering an **ADU grant program** to help low-income households throughout the state develop ADUs. Working with an approved private lender, a homeowner who meets the income requirements (**less than 80 percent of Area Median Income plus relevant criteria**) can receive, in the form of a forgivable loan, up to \$25,000 of the costs to create an ADU on their property. The funds are provided prior to construction as part of the loan, thereby reducing the principal that must be repaid.

LA Más, an urban design non-profit organization in Los Angeles, is working to build initiatives that promote neighborhood resilience and give working-class communities of color across LA greater agency. In collaboration with nonprofit and public partners, their **Backyard Homes Project** supports Northeast Los Angeles homeowners in building an ADU in exchange for renting their unit affordably to a Section 8 voucher holder for a minimum of 5 years.

Canada Mortgage and Housing Corporation's **Residential Rehabilitation Assistance Program—Secondary/Garden Suite On-Reserve**, is a program to support eligible First Nations and First Nation members who own residential properties. A fully forgivable loan of up to \$60,000 Canadian (approximately \$47,300 USD) is provided to create an ADU for low-income seniors and adults with disabilities, who must have an income at or below an established income threshold.