

The Accessory Dwelling Unit

Training material in this presentation was authored by Gary Harder and presented to the members of the Colorado Association of Real Estate Appraisers (CAREA) on January 19, 2022 (6:00pm). Total scheduled session time was approximately 110 minutes.

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Thank you giving me the opportunity to give this presentation. Hopefully, the presentation was a value-add experience and helpful to your members' appraisal practice

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Presented by Zoom: January 19, 2022



Complex Appraisal Assignment

The Accessory Dwelling Unit (ADU)

Prepared By: Gary Harder

The Accessory Dwelling Unit

PART I
INTRODUCTION
SESSION GOALS
COMPLEX PROPERTIES

The Accessory Dwelling Unit - Goals

- The focus of this course is to address a complex appraisal assignment that involves an accessory dwelling unit, or the ADU.
- Appraisal practice perspective
 - ADU has been given little importance
 - ADU analysis/discussion found to omit market support or reasoning
 - Growing movement to address affordable housing (political rather than economic approach to increase housing supply)
 - ADU becoming more in the forefront of many community development policies
- Session takeaways: Enhance appraisal knowledge toolbox; encourage more study on this topic; and help strengthen appraisal reports for our clients

The Accessory Dwelling Unit - Goals

Session Goals

- What is a complex property and why an ADU is cause to be considered a complex assignment
- History of what today is called an ADU
- Alternative ADU descriptive terms
- ADU design configurations
- Secondary mortgage market & the ADU
- ADU current trends
- Appraiser responsibility
- Defining factors/physical characteristics to determine the unit is/is not an ADU
- Demonstrate the use of an appraisal method / technique
 - Support the contributory value of the ADU
 - Support ADU adjustment on the adjustment grid
 - Common errors

The Accessory Dwelling Unit - Complex Property

There are many characteristics that can cause a property to be considered “Complex.”

- Another word for “Complex” would be “Atypical.”

The definition of “Atypical” is: “not typical: not usual or normal”

(Source: <http://www.merriam-webster.com/dictionary/atypical>)

”Complex appraisal for a residential real estate transaction means one in which the property to be appraised, the form of ownership, or market conditions are atypical” (FDIC, Sec. 323.2(f)).

Examples of Atypical Property or Issues

The neighborhood (due to size / zoning / property rights or location)

- Golf courses, mountain and resort areas,
- Gated Communities
- Unique design / architectural style / construction
(dome home, log or timber homes, berm or subterranean homes, 3D printed homes)
- Historic in age or new construction in an area of older construction
- Larger than usual site size
- Property located adjacent to bodies of water (lake front, ocean/beach, river)
- Luxury - homes / large estates

The Accessory Dwelling Unit - Complex Property

- Non-conforming or illegal use
- Significantly damaged improvements
- Zoning (highest & best use, grandfathering)
- Conservation easements / Deed Restriction (affordable housing programs)
- Flood zone issues
- Environmental issues
- Legal (form of ownership - leasehold, ground lease, life estates, partial interest), litigation
- Depreciating market / economic impacts
- Transitional area (urban renewal, gentrification)
- Major employer closing or moving in
- Near to significant adverse external influence (rail yards, heavy industrial, land fill, subsidence)
- Pandemic – (Federal, State, Community, Regulatory Agency orders/policies)

The Accessory Dwelling Unit - Complex Property

ADU Potential Complexities

- The neighborhood (due to size/zoning/property rights or location)
 - Is there market acceptance for a property with an ADU?
 - Non-conforming or illegal use
 - Zoning (highest & best use, grandfathering, City or County master plan or zoning changes)
 - Appreciating or depreciating market
 - Supply/demand for ADU (long term rental or family member use) aka market conditions
 - Transitional area (urban renewal, gentrification)
- Unique design / architectural style / construction
 - Functional obsolescence (superadequacy)
 - Negative impact on property

The Accessory Dwelling Unit - Complex Property

Appraisal assignments / reports will require greater attention

- Scope of work (refer to USPAP)
- Highest & best use (determines the selection of comparable data)
- Limited or absence of comparable properties to analyze
- Cost approach (Sources for RCN figures)
 - Site value
- Income approach
- Narrative content that explains any issues and the appraisal methods used that lead to the conclusions

The Accessory Dwelling Unit

PART II
ADU HISTORY
CONFIGURATIONS & SCENERIOS
TRENDS

The Accessory Dwelling Unit - ADU History?

- The ADU concept is not new
- Original perception of the ADU (1980s and early 1990s focus on 2nd unit - not an infill concept)
- 2008 when the first baby boomers reached 65 years old (retirement and health care)
- Other descriptions that may be used
 - Multigenerational housing
 - Basement apartment
 - Laneway house (Canada & west coast)
 - Accessory family unit
 - Casitas (Spanish for cottage)
 - Granny-flat, granny-unit
 - Secondary suite / Second home

The Accessory Dwelling Unit - ADU History?

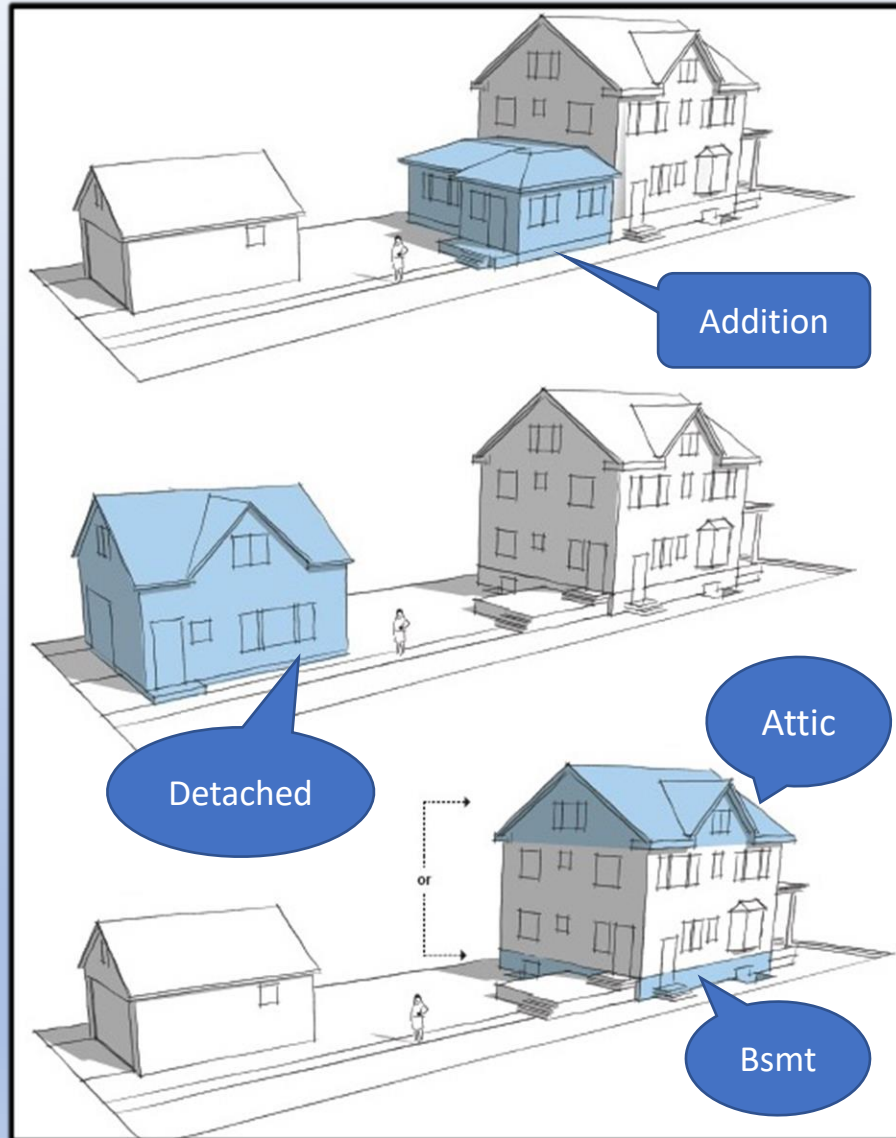
➤ Other descriptions used

- In-law unit
- English basement (east coast – single room occupancy)
- Small house
- Studio shed
- Junior ADU (<500sf contained within a single-family residence)
- Domestic help or caretaker units (Excluded)

➤ CLARIFICATION: Guest House

- Accessory building - Used for the purpose of providing temporary living accommodation (no kitchen)
- ADU - A dwelling unit intended for permanent accommodations.

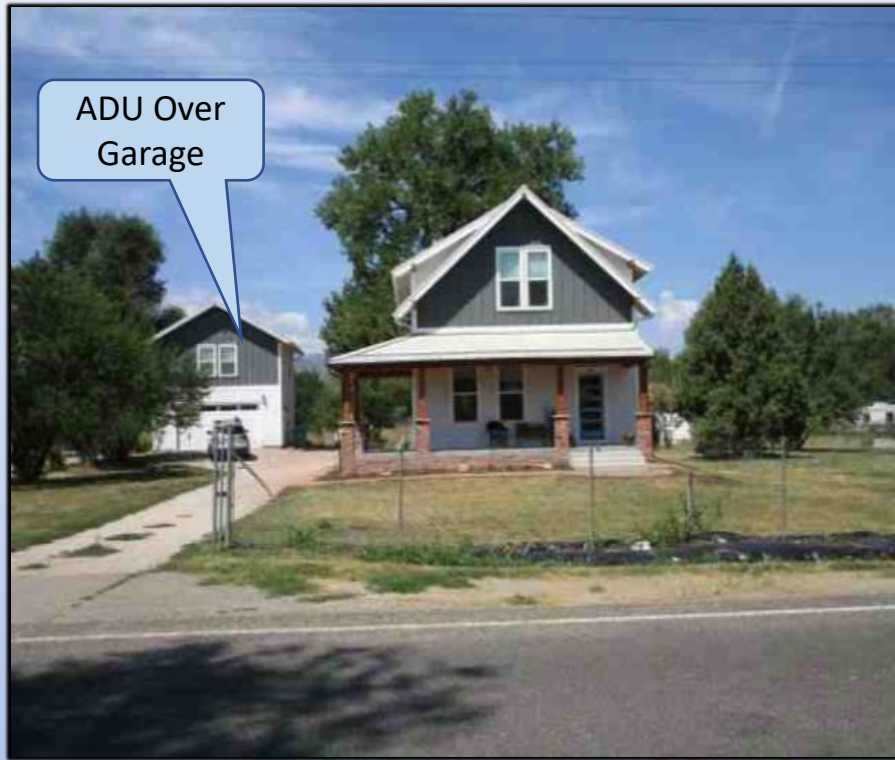
The Accessory Dwelling Unit - ADU Configurations & Scenarios



ADU Configurations

- Build a new house and an ADU (integrated or detached) simultaneously
- Existing one-unit detached residence (primary residence)
 - Integrated – A portion of the existing one-unit residential structure
 - Detached – A structure separate and independent from the primary residence
- Integrated
 - Attic conversion
 - Basement / lower-level conversion
 - Carve-out: Repurpose / redesign several rooms of existing house to serve as an ADU.
 - Addition to the existing house

The Accessory Dwelling Unit - ADU Configurations & Scenarios



Property Location: Fort Collins, CO

ADU Configurations

➤ Detached

- Garage conversion
 - Over the entire, or part, of the garage foundation footprint
- Conversions (Other)
 - Carriage house
 - Barn (Semi-rural or rural markets)
 - Mix use building (Living quarters + shared space for commercial, equestrian, or hobby space)

The Accessory Dwelling Unit - ADU Configurations & Scenarios

➤ New build ADU

- Detached garage (at grade side-by-side or over garage space)
- New on-site build
- Community Master Plan: Accommodations made in a city development plan to allow ADUs
- Mix-use building (semi rural or rural areas)
(Living quarters + shared commercial storage, equestrian or hobby use. Typically, family member use)

➤ Type of construction

- Traditional construction (wood or metal frame, block, log)
- Prefab manufactured ([prefabADU](#), [Abodu](#) and [California Modulares](#))
- 3D printed homes ([Apis Cor](#), Mighty Buildings, Haus.me and ICON)

The Accessory Dwelling Unit - Trends (3D Printing – One-Unit Residential)



Source: *FloridaRealtors* 03/18/2021 & CBS News (03/16/2021). Photo Credit: ICON

<https://www.floridarealtors.org/news-media/news-articles/2021/03/quiet-real-estate-revolution-3d-printed-homes>

The Accessory Dwelling Unit - Trends (3D Printing – One-Unit Residential)



3Strands Announces Country's First 3D-Printed Homes for Sale

Multi-home Mainstream Housing Development Leverages ICON's Proprietary 3D Printing Technology to Construct Two to Four Bedroom Homes in Austin, TX.

Source: Icon (03/04/2021)

<https://www.iconbuild.com/updates/3strands-announces-countrys-first-3d-printed-homes-for-sale-Austin>

The Accessory Dwelling Unit - Trends (3D Printing - ADU)



Source: *Mighty Buildings*
<https://mightybuildings.com/>

700 sq. ft model (28' x 25')
1-bedroom & 1-bathroom
Kitchen cabinetry (fully equipped)
HVAC
Customization packages
Price start at \$186,750

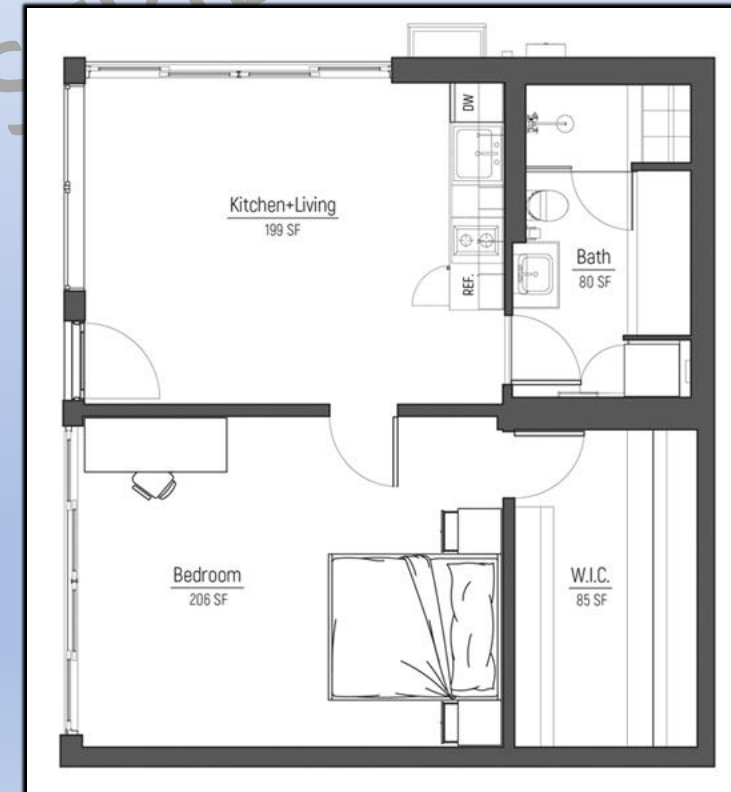
3D Printing

Building panels & volumetric modules

Manufactured in factory

Shipped to location

Lifted by crane onto the site's assigned footprint.



The Accessory Dwelling Unit - Trends

➤ *Realtor Magazine* January – February 2021:

A property owner parents had health issues and could not find an affordable housing condominium. In place of building a swimming pool, a 640 square foot, wheelchair accessible, one-bedroom house for \$160,000 was built, which is affordable housing for the Bay Area.⁽¹⁾

➤ *Forbes* – December 30, 2019:

Accessory dwelling units (ADUs) should get a new lease on life in 2020 due to a heavy push for affordable housing perfectly timed with state regulation and advancements in construction technology. The ADU housing approach is a fast and creative way to address affordable housing.⁽²⁾

➤ Factors - increased interest the ADU

- Sharing economy: (AirBNB & VRBO - depends on zoning regulations)
- Demographics: Aging population, tiny living (popularity of the tiny home and minimalism)
- Passive Income: (Long-term renters looking for an alternative – get away from communal high-density spaces - especially during COVID-19).
- Work from Home: Increasing number of employees working from home (2020). ADUs turned into a home office space or home schooling (especially during COVID-19).
- Multigenerational / extended family (“Sharing Arrangements”)

(1) <https://magazine.realtor/home-and-design/feature/article/2018/07/the-rise-of-the-accessory-dwelling-unit>

(2) <https://www.forbes.com/sites/aaronnorris/2020/12/30/2020-the-year-of-the-adu/?sh=553336a16952>

The Accessory Dwelling Unit - Trends

Economic – Housing Supply / Demand: The rate of new household formation outpaced housing production, leading to a gap of 850,000 units in 2018⁽¹⁾

Urban Planning - Residential Infill Projects: Change zoning codes from 1-ADU to allow 2-ADUs on a single site (City of Portland)⁽²⁾

Housing Accessibility: Create affordable housing in “vulnerable” areas

Local Governmental Policies⁽³⁾

- “Revise the zoning code to allow ADUs as accessory to more uses than only single-unit homes.”
- “Study and implement a citywide program to expand access to ADUs as a wealth-building tool for low- and moderate-income homeowners.”

Municipal Codes – Rules & Regulations⁽⁴⁾

- “The property owner on record must occupy the principal dwelling or accessory unit, one parking space must be provided for the unit, and no more than three persons shall occupy an accessory dwelling unit.”

(1) *Five Facts about Our Housing Supply Explain High Rents and Home Prices*, Urban Institute, Jan. 29, 2020

(2) *Accessory Dwellings* web site <https://accessorydwellings.org>

(3) *Blueprint Denver | A Blueprint for an Inclusive City*, Adopted by Denver City Council Apr. 22, 2019

(4) *City of Golden Municipal Codes*, Sec. 18.28.240. <https://www.cityofgolden.net/city-services/accessory-dwelling-units/>

The Accessory Dwelling Unit

PART III

Secondary Mortgage Agencies

The Accessory Dwelling Unit - Secondary Mortgage Agencies

Fannie Mae (FNMA)

An accessory dwelling unit (ADU) is typically an additional living area independent of the primary dwelling unit that includes a fully functioning kitchen and bathroom. ADUs are usually subordinate in size, location, and appearance to the primary unit and may or may not have separate means of ingress or egress. FNMA Selling Guide Published February 02, 2021, B2-3-04, Special Property Eligibility Considerations (12-16-2020) ⁽¹⁾

Whether a property is defined as a one-unit property with an accessory unit, or a two- to four-unit property, will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utility meter(s), a unique postal address, and whether the unit can be legally rented. The appraiser must determine compliance with this definition as part of the **analysis in the Highest and Best Use** section of the appraisal. See [B4-1.3-05, Improvements Section of the Appraisal Report](#) for additional ADU appraisal requirements.

(1) <https://selling-guide.fanniemae.com/Selling-Guide/Origination-thru-Closing/#Number.20of.20Units>

The Accessory Dwelling Unit - Secondary Mortgage Agencies?

FHA

An accessory dwelling unit (ADU) is defined as a habitable living unit added to, created within, or detached from a primary single-family dwelling and contained on one lot. ADU's are commonly understood to be a separate additional living unit, including kitchen, sleeping, and bathroom facilities. ADU's are subordinate in size, location, and appearance to the primary home and may or may not have separate means of ingress or egress. An attached unit contained within a single-family home, also known as a "mother-in-law apartment," or a "garage apartment" that may or may not be attached to the primary residence are the most common types of accessory dwelling unit. An accessory dwelling unit sometimes involves the renovation of a garage, basement, or a small addition to a primary residence. The determination of whether an ADU is a second dwelling unit is to be made by the appraiser and indicated in the site analysis section of the report where zoning, highest and best use, and legal use are addressed. The fact that an ADU is rented or generates income should not categorically result in a determination that the property contains two dwelling units.

Source: FHA APPENDIX D: VALUATION PROTOCOL

The Accessory Dwelling Unit - Secondary Mortgage Agencies

Standards Rule 1-2

“An appraiser must analyze the relevant legal, physical, and economic factors to extend necessary to support the appraiser’s highest and best use conclusion(s).”

- USDA: “The appraiser will determine if the ADU represents a second single family housing dwelling unit. The Agency defers to the appraiser’s professional review of the property and expert opinion of the highest and best use of the subject property as a primary residence”.
- FNMA: “The appraiser must determine compliance with this definition as part of the analysis in the Highest and Best Use section of the appraisal”.
- FHA: “The determination of whether or not an ADU is a second dwelling unit is to be made by the appraiser and indicated in the site analysis section of the report where zoning, highest and best use, and legal use are addressed”.

The Accessory Dwelling Unit

PART IV

Identify an ADU

Property Examples

Appraisal Requirements

The Accessory Dwelling Unit - Identifying an ADU

- Is the unit an attic, basement, or garage conversion for the purpose of providing additional living space to a family member or use as rental income?
- If detached, is the unit built that may characteristically mimic the primary structure's architectural style and design?
- If detached, is the unit subordinate in size to the primary residence?
- The ADU have separate features from the primary residence: Ingress/egress, kitchen, sleeping area and bathroom facilities.
 - Not considered an ADU if access requires going through the primary dwelling or the area is open to the primary dwelling with no expectation of privacy.
- Does the kitchen contain cabinets, a countertop, a sink with running water, a stove or stove hook up?
 - Per FNMA, "hotplates, microwaves, or toaster ovens are not acceptable stove substitutes. A second independent kitchen by itself does not constitute as a kitchen."

The Accessory Dwelling Unit - Identifying an ADU

- How is the unit used and what is the permitted use? Long term rental income, family residence, has not been occupied for an extended period.
- Does the subject's zoning, or development conditions, require the primary residence be occupied by property owner? (depends on jurisdiction zoning, planning & development agreements)
- Property is zoned for one-unit residential detached use yet permits an ADU. Zoning does not allow for two-unit duplex. (Depends on jurisdiction zoning regulations).

The Accessory Dwelling Unit - Identifying an ADU

- Does ADU meet zoning regulations (size, setbacks. Grandfathered, etc.)?
- ADU may or may not have separate utility metering (depends on the jurisdiction zoning & building code regulations)
- May or may not have a separate USPS mailing address (USPS address assigned to the ADU does not make it a legitimate or legal second unit).
- Consider & discuss how the assessor reports the ADU.
 - Some counties might consider any secondary structure/unit as a second unit despite its size or contributory value. Just because the assessor declares something is a second unit does not mean it should be appraised as a duplex or having an ADU.
- Is the property conforming to the neighborhood, or greater market area, as a single-family with an ADU?
- ADU or Use: Structure or use incidental and subordinate to the main structure or use.
- BIG ITEM: To determine whether we have an **ADU, or second unit comes down to its contributory value.** It is critical for the appraiser to summarize the market evidence where the reader can understand the reasoning that leads to the conclusion.

The Accessory Dwelling Unit - Identifying an ADU

Example of a short conclusion from an appraisal report

Accessory unit: - has been rented for \$x,xxx per month, does not have separate utilities or mailing address, there is no interior access between the subject and accessory unit, accessory unit is detached, the accessory unit is legal and can be rented out, accessory units common and typical in this market, permits appear to have been obtained for ADU, ADU is noted in public records complies with local zoning requirements and can be rebuilt if destroyed.

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The Accessory Dwelling Unit - Identifying an ADU

Example 1 (One-Unit Detached w/ Transformed Basement)

- One-unit detached house (2-story)
- × Basement w/ outside access used as rental
- × Stairwell access between basement level & main level
- × Planned Unit Development (PUD) zoning (illegal use)
- Basement: Fam. Rm. w/ FP, full bath, 2-bedrooms
- Kitchen: R/O, refrigerator, dbl. sink, DP, oak cabinets
- Bsmt. finish quality: Same as upper levels
- No separate utility services or metering
- No separate address or mailbox
- Public street parking & off to the side of the garage
- × No other houses with similar basement use



Photo by Gary Harder

Property Location: Colo. Sprgs., CO

Not an ADU. Second unit use not allowed under zoning code. With the basement stairwell remaining, returning to a one family occupancy can be done with little effort.

Solution: Property valued as a one-family house with a walkout basement.

The Accessory Dwelling Unit - Identifying an ADU

Example 1 (One-Unit Detached w/ Transformed Basement)

Appraiser may be asked to appraise the property, known to have a leased basement area, under the hypothetical condition that the property is free of the basement lease and the property returns to one family occupancy when,

- the client has been informed,
- the resulting appraisal report is not misleading, and
- all requirements of USPAP's Ethic Rule have been satisfied.

Per Federal Regulations: The lender cannot lend on a hypothetical condition. Federally related transactions require an appraisal to include the current market value (As-Is market value) of the property in its “actual physical condition and subject to the zoning in effect as of the date of the appraisal”.



Property Location: Colo. Sprgs., CO

The Accessory Dwelling Unit - Identifying an ADU

Example 2 (Older Home & Detached HUD Code Home)

- Original house: 1,050 sq. ft. YOC- 1949
 - Occupied by property owner
- Original house remodeled in 2007 (Good Condition)
- HUD Home: 1,548 sq. ft. YOC – 1979
 - Rented
- HUD home condition: Average
- Zoning (commercial) permits residential and 2-unit use
- Highest & best Use: Current use
- Cannot split the lot to form separate legal ownership
- On street & alley parking
- Separate utility metering
- Separate mailing addresses assigned



Property Location: Rifle, CO

Appraiser used the FNMA 1004 although a case can be made for a small income property (2-Unit). Two house properties and sales are rare. With available HUD code homes sales, the old house treated as the primary residence and an analysis develops the contributory value of the HUD home.

The Accessory Dwelling Unit - Identifying an ADU

Example 3 (Historic Home w/ Over Garage ADU)

- Located in a designated Historical District
- Homes built between the 1880s and 1950s
- Good to very-good quality home – extensive remodel
- Primary house YOC: 1922
 - Owner occupied
- ✓ Zoning: Conditional Use granted
 - ADU added to garage under older zoning regulations & before historical designation
- ✓ Highest-best use: Current use
- No separate utility services or meters
- No separate USPS street number assigned
- ✓ ADU used for long term rental
- ✓ High rental demand
- ✓ Garage, carriage house, cottage ADU conversations in the area



Property Location: Colo. Sprgs., CO

A detached ADU. Primary residences not used for rental income. This property is a short distance to a college campus and hospital. ADUs maintain steady long-term occupancy from visiting professors and medical professionals.

The Accessory Dwelling Unit - Identifying an ADU

Example 4 (Steel building & House on 50 acres)

- Located in rural area
- Good quality Butler steel building with finished interior
- 1,860 sq. ft. GBA
- Approx. 650 sq. ft. finished 1 room living space
 - HVAC in living space and garage area
 - Full kitchen facilities
 - Full bathroom
 - Finished to live in. No privacy except bathroom
- Separate well and septic tank
- Electrical from nearby power source shared with house
- Could be used as a rental (unlikely) or family member

NOT an ADU or 2nd rental. The arrangement is suitable for entertainment, or occasional guests. The appraiser treated this building as an outbuilding based on highest best use analysis, market perceptions of similar uses of these buildings.



Property Location: Edgerton, MO

The Accessory Dwelling Unit - Identifying an ADU

Example 4 (House & New Detached ADU on 16 Acres)

- Short distance to an internationally known ski resort
- Primary House GLA: 1,884 sq. ft.
- Primary House Bsmt.: 762 sq. ft. fully finished walkout
- Primary House YOC: 1984
- Primary House has 3-car attached garage
- ADU GLA: 1,867 sq. ft. + 1-car attached garage
- ✓ ADU Quality: Construction like the primary house – except lesser quality interior finish
- ✓ ADU used only for long term rental
 - No Deed Restriction (Affordable Housing qualifying requirements)
- ✓ ADU rent: \$2,000 per month
- ✓ ADU complies with zoning regulations
- ✓ Splitting the 2 improvements into separate legal parcels unlikely
- ✓ Primary house can be rented
- ✓ Shared septic system and well
- ✓ Single electric meter



Property Location: Glenwood Springs, CO

The Accessory Dwelling Unit - Identifying an ADU

Example 4 (House & New Detached ADU on 16 Acres)

This is an ADU

- ✓ Detached and integrated ADUs are common
 - ✓ Market area is near to a well-known ski resort
 - ✓ The general area is known for year-round sport activities
 - ✓ Good rental demand to accommodate tourist industry employees
 - ✓ To assist in housing demand – County active in expanding the means to allow ADUs
-
- Complexity: Wide variations in quality of construction, amenities, personal taste features, remodeling to keep up with market expectations, location factors and other outbuildings in addition to the ADU.



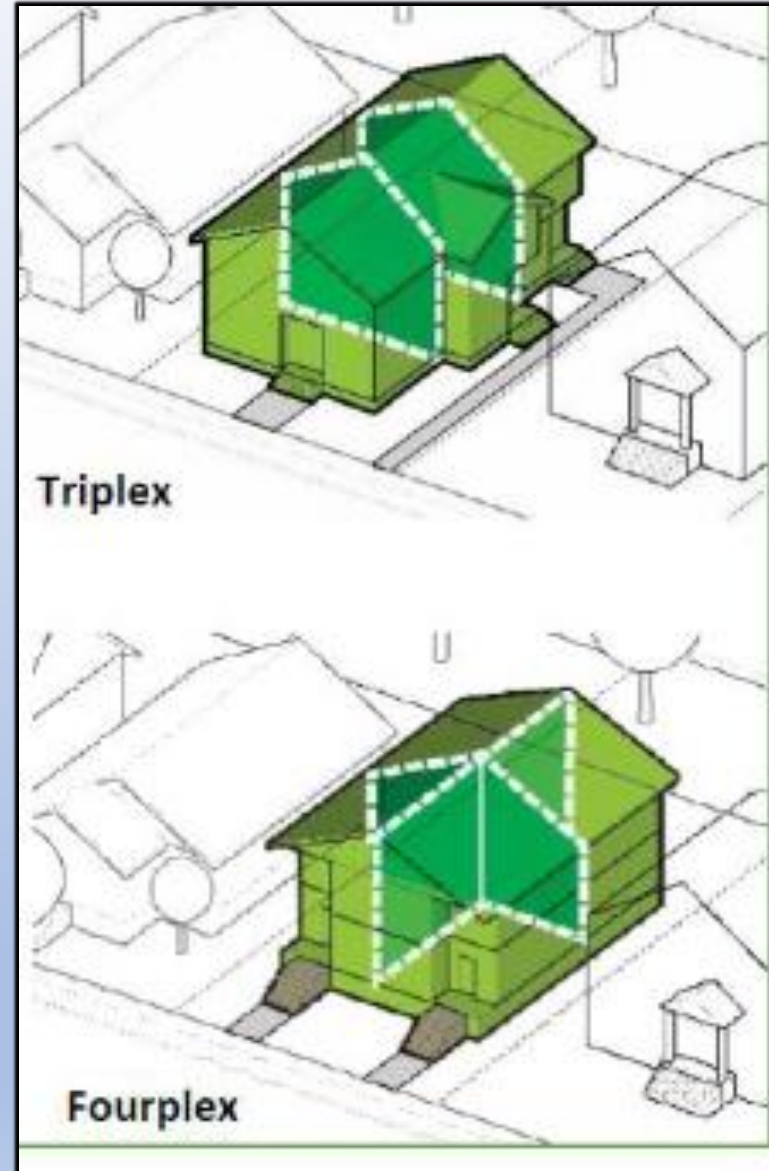
Property Location: Glenwood Springs, CO

The Accessory Dwelling Unit

Identifying an ADU

Small income properties (duplex, 3 or 4-plex)

- Typically - Single structure
- Unit utility (design, floorplan) constancy
- Each unit square footage may have little difference
- Monthly rent difference between each unit is minimal
- Contributory value of each unit is the same
- ADU or Use: Structure or use incidental, and subordinate to the main structure or use.



The Accessory Dwelling Unit - Appraisal Requirements (USPAP)

Competency Rule

“An appraiser must: (1) be competent to perform the assignment; (2) acquire the necessary competency to perform the assignment; or (3) decline or withdraw from the assignment.”

Developing a Real Property Appraisal

“An appraiser must, be aware of, understand, and correctly employ those recognized methods and techniques that are necessary to produce a credible appraisal.”

Market Analysis, and Highest and Best Use

“Identify and analyze the effect on use and value of : (1) existing land use regulations; (2) reasonably probable modification of such land use regulation; (3) economic supply and demand; (4) the physical adaptability of the real estate; (5) market area trends; and (6) develop an opinion of the highest and best use of the real estate.”

Approaches to Value

“In developing a real property appraisal, and appraiser must collect, verify, and analyze all information necessary for credible assignment results.”

The Accessory Dwelling Unit - Appraisal Requirements (USPAP)

Reporting Requirements

“USPAP reporting requirements cannot be fulfilled if the report does not contain sufficient information for the intended user(s) to understand it properly.”

Bias

“A preference of inclination that precludes an appraiser’s impartiality, independence, or objectivity in an assignment.”

➤ Exposure Draft of Proposed Changes to Advisory Opinion 16 (Issued: 03/01/2021)

Relying upon relevant and specific evidence from the actions of participants in the subject’s market rather than on unsupported opinions and conclusions based on subjective generalizations or inclinations, will help the appraiser avoid, and avoid the appearance of, engaging in prohibited actions like bias or illegal discrimination in the completion of an assignment.

Summarizing ≠ Stating

To believe that it is sufficient to state the highest and best use of the subject is “as improved”, state a conclusion using a comment e.g. “supporting data in the appraiser’s work file”, or state any conclusion is incorrect.

- Standards Rule 2-2 is clear of what is to be summarized
 - SR 2-2(a)(x)(5): “. . . Summarize the information analyzed and the reasoning that supports the analyses, opinions, and conclusions . . . “.

The Accessory Dwelling Unit - Case Study

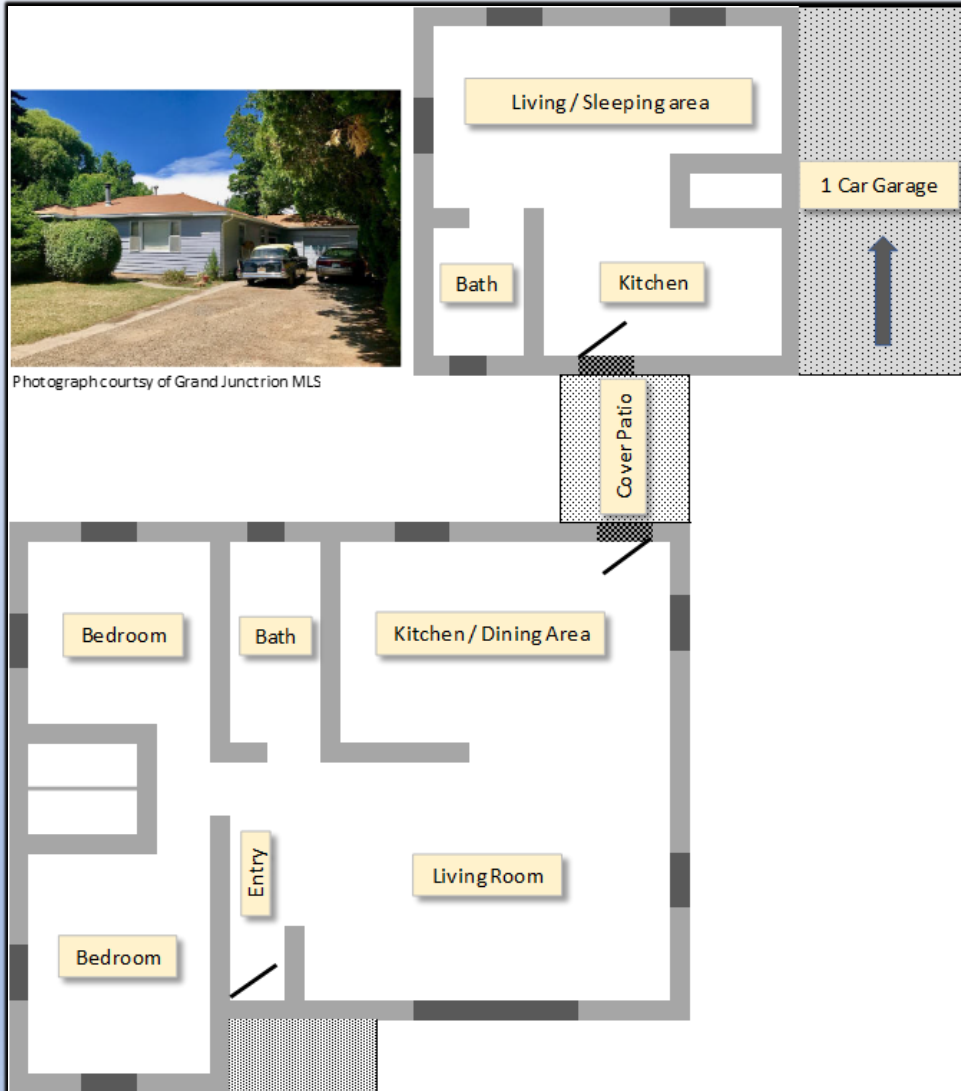
PART V - CASE STUDY

The Accessory Dwelling Unit - Case Study

Purpose of Case Study

- Use appropriate appraisal methods and/or techniques to support the analysis, adjustments, the contributory value of the ADU, and an opinion of value for subject property.
 - Analyze the subject property relevant characteristics
 - Employ a decisioning process that give reasoning/evidence to treat subject unit as an ADU
 - Housing market factors and characteristics
 - Highest and best use analysis
 - Selection of comparable sales
 - Employ appropriate appraisal methods or technique to support adjustments (sales comparison)
 - Paired sales
 - Use of the GRM & monthly rents
 - Develop the income approach to value

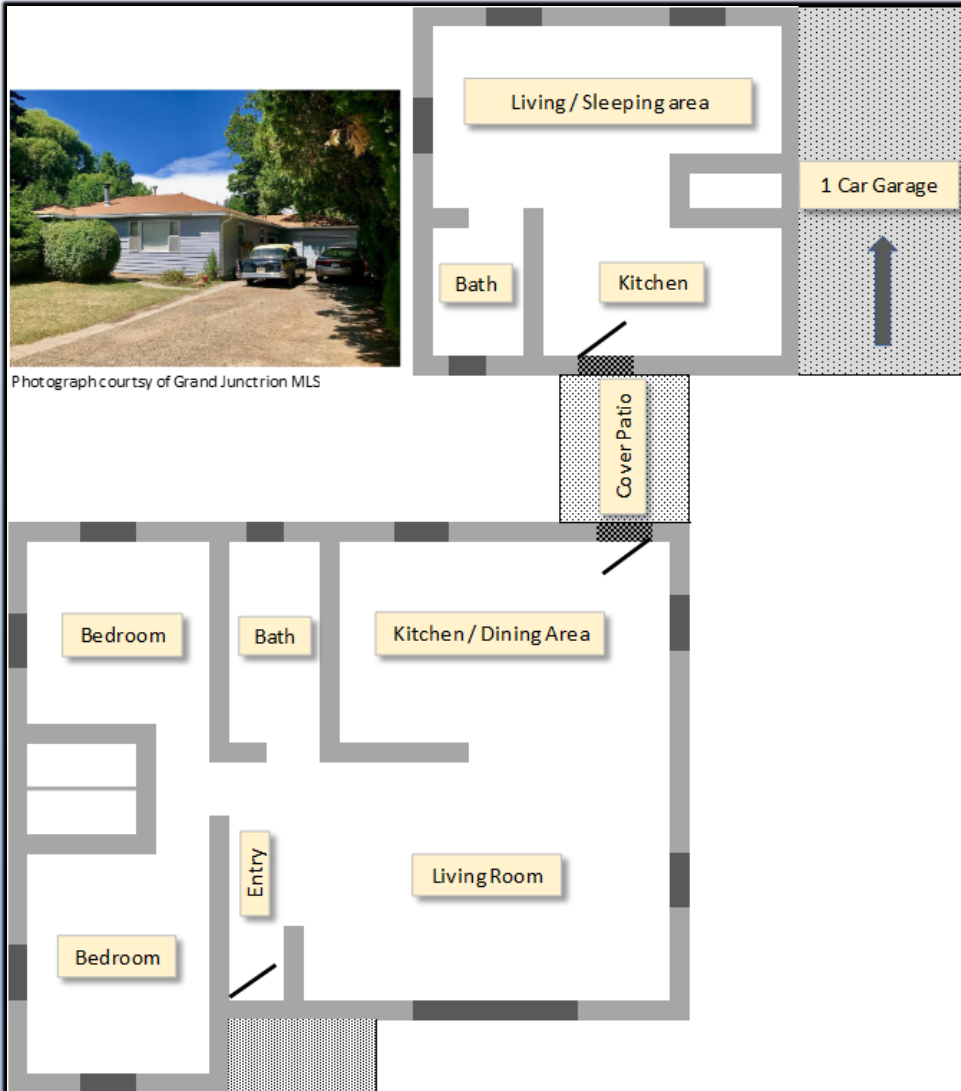
The Accessory Dwelling Unit - Case Study (Subject Property)



Subject Property

- Primary Residence GLA: 1,048 sq. ft.
- Residence Room Count: 5-2-1
- YOC (Age): 1950 (67 yrs.)
- Site: 6,985 sq. ft.
- Garage: 1-car detached w/ ADU
- ADU Living Area: 420 sq. ft.
- ADU YOC (Age): ??
- ADU Room Count: 2-0-1
- ADU Monthly Rent: \$500
- Contract Price: \$179,500
- Effective Date of Appraisal: 01/15/2018

The Accessory Dwelling Unit - Case Study (Subject Property)



Zoning

- Zoning Classification:: SFR
- Zoning Permitted Uses: SFR/duplex-triplex
- ADU Compliant: Not compliant under current zoning regulations.
Site will not allow duplex / triplex
- ADU Status: Grandfathered
- Rental Use Restrictions: None
- Assessor Classification: “Duplex/Triplex”

The Accessory Dwelling Unit - Case Study (Subject Property)

Subject Property ADU Decisioning	
• Site Utilization:	✓ Primary residence & detached ADU on one site ADU/garage appear to have appropriate property setbacks
• ADU Separate from Primary Residence:	✓ Yes – Attached to a one-car detached garage
• Separate Unique USPS Address:	No (shared mailbox)
• Separate Utilities & Meters	No – Has its own FWA heating, hot water tank and a window AC
• Sanitary Provisions:	✓ Yes – Sewer (City) shared with primary residence
• Full Functioning Kitchen:	✓ Yes – Range/oven, refrigerator, sink, counter, cabinets
• Functioning Bathroom:	✓ Yes – Toilet, sink/vanity, shower stall
• Separate Ingress/Egress:	✓ Yes
• Construction Quality:	✓ Less than primary residence
• Condition / Functionality:	Same as house / no separate bedroom
• Access / Parking:	Public roadway / shared driveway parking.
• ADU History: Originally built by owner for family member. Changed to long term use years ago.	
• Current MLS: Marketed as “mother-in-law unit or 2 nd rental”. Not listed in MLS multi-family section.	
• Historical MLS:	None found

The Accessory Dwelling Unit - Case Study (Subject Property)

Market Area Factors

- Subject's defined market area was built up between the 1940s – 1960s
- Denominated by one-unit residential detached housing on sites between 6,000 sq. ft. – 9,000 sq. ft.
- Quality of construction: Average on-site frame-built tract homes – Minimal ornamentation or special features
- Predominately owner occupancy – Very little long term rental use.
- Economically, stable long term owner residency - Very low sales volume each year
- One-unit housing w/ detached ADU not common for this neighborhood – atypical feature
- Transportation well served by arterial roadways along the periphery of the market area
- Multi-family, commercial uses located at the periphery of the market area
- Served by elementary school complexes, a junior high and senior high school
- Market conditions: Stable mean and median sale prices for the past 18 months.
- No adverse economic conditions or externalities to affect marketability or value

The Accessory Dwelling Unit - Case Study (Subject Property)

Highest & Best Use (As Improved)

<ul style="list-style-type: none">• Legally Permissibility	<i>SFR/Duplex-Triplex zoning.</i> Permits one-unit detached housing and duplex/triplex. Min. site size for one-unit is 6,000 sq. ft. Two or 3 unit requires minimum of 9,500 sq. ft. & must meet additional zoning requirements. Records show subject's ADU was added to the detached garage under the original zoning regulations that was then not restrictive to outbuilding type structures; hence, legally nonconforming use (grandfathering). Incomplete records to accurately confirm when ADU addition was built.
<ul style="list-style-type: none">• Physical Possibility	Subject primary house conforms to market area. The ADU design and size exhibits incurable functional obsolescence compared to other ADUs found in a broader geographic area search. The ADU continues to contribute value as a long-term rental or for a family member.
<ul style="list-style-type: none">• Financial Feasibility	Continuation of the existing use is financially feasible
<ul style="list-style-type: none">• Maximum Productivity	Use of the subject property "as improved" One-unit detached housing unit with a detached ADU.

The Accessory Dwelling Unit - Case Study (Comparable Sales)

Selection of Comparable Sales

- Sales search – No sales with ADUs in subject defined area.
- Current listings - No listings with ADUs in subject area. Shortage of available active listings.
- From the available sales – 2 considered comparable to the subject's primary house relevant features.
 - Located in subject's neighborhood and similar actual age.
 - ❖ One comparable MLS note: Documented approval to allow adding a detached ADU.
- Expand search area - 2 comparable properties with each having a detached ADU & 1 w/o an ADU
 - Three sales outside subject defined market area. An alternative/competing area.
 - Three older built homes
 - One older sale (12 months)
 - One sale closed 1 month ago
 - Selected sales suggest no adjustment for actual age difference

The Accessory Dwelling Unit - Case Study (Sales Comparison Approach)

Address	Subject			Comp 1			Comp 2			Comp 3			Comp 4			Comp 5							
Distance				3.36 miles SW			3.38 miles SW			0.55 miles SW			1.48 miles SW			3.00 miles SW							
Sale Price	179,500			179,000			189,000			159,800			161,500			157,400							
Sale Price/GLA	171.28			196.70			157.89			132.07			144.58			141.67							
List\$																							
List\$GLA																							
OrgList\$																							
DOM																							
Sale or Financing				Conv			Conv			Conv			FHA			Cash							
Concessions				0			0			0			\$4,000			-4,000							
SaleDate				01/20/17			10/30/17			08/28/17			05/12/17			12/15/17							
Location	N;Res			N;Res			N;Res			N;Res			N;Res			N;Res							
Site	6,985			5,663			6,970			10,050			6,098			6,350							
View	N;Res			N;Res			N;Res			Average			Average			Average							
Design	DT1.00;Ranch			DT1.00;Ranch			DT1.00;Ranch			DT1.00;Ranch			DT1.00;Ranch			DT1.00;Ranch							
ConstQual	Q4			Q4			Q4			Q4			Q4			Q4							
ActualAge	62			117			117			71			63			110							
Condition	C4			C4			C4			C4			C4			C4							
Above Grade	Tot	BD	Bath	Tot	BD	Bath		Tot	BD	Bath		Tot	BD	Bath		Tot	BD	Bath		Tot	BD	Bath	
Room Count	4	2	1.0	5	2	1.0		5	2	2.0	-4,000	5	2	2.0	-4,000	5	3	2.0	-4,000	4	2	1.0	
Gross Living Area	1,048			910			3,450	1,197			-3,725	1,210			-4,050	1,117			-1,725	1,111			-1,575
Basement & Finished	0			0				0				0				0				0			
Rooms Below Grade	0			0				0				0				0				0			
Functional Utility	Average			Average				Average				Average				Average				Average			
Heating/Cooling	FWA/Evap			FWA/Evap				FWA/Evap				FWA/Evap				FWA/Evap				FWA/Evap			
Energy Efficient Items	Standard			Standard				Standard				Standard				Standard				Standard			
Garage/Carport	1gd2dw			2dw			4,000	2dw			4,000	2dw			4,000	2dw			4,000	1gd2dw			
Porch/Patio/Deck	Porch/Cov Pat			Porch/patio				Porch/patio				Porch/Patio				Porch/Patio				Porch/Patio			
Fireplace(s)	1 WBS			None			2,000	None			2,000	None			2,000	None			2,000	1FP			
ADU	420sf (2-0-1)			576sf (3-1-1)				630sf (3-1-1)				None				None				None			
ADU Rent	\$500			\$575				\$600				None				None				None			
NetAdjTotal							9,450				-1,725				-2,050				-3,725				-1,575
Adj Sale Price				Net Adj				Net Adj				Net Adj				Net Adj				Net Adj			
				GrAdj			188,450	GrAdj			187,275	GrAdj			157,750	GrAdj			157,775	GrAdj			155,825

The Accessory Dwelling Unit - Case Study (Sales Comparison Approach)

Address	Subject			Comp 1			Comp 2				Comp 3				Comp 4				
Distance				3.36 miles SW			3.38 miles SW				0.55 miles SW				1.48 miles SW				
Sale Price	179,500				179,000			189,000			159,800			161,500					
Sale Price/GLA	171.28				196.70			157.89			132.07			144.58					
Sale or Financing				Conv			Conv			Conv			FHA						
Concessions				0			0			0			\$4,000		-4,000				
SaleDate				01/20/17				10/30/17			08/28/17			05/12/17					
Location	N;Res			N;Res				N;Res			N;Res			N;Res					
Site	6,985			5,663				6,970			10,050			6,098					
View	N;Res			N;Res				N;Res			Average			Average					
Design	DT1.00;Ranch			DT1.00;Ranch				DT1.00;Ranch			DT1.00;Ranch			DT1.00;Ranch					
ConstQual	Q4			Q4				Q4			Q4			Q4					
ActualAge	62			117				117			71			63					
Condition	C4			C4				C4			C4			C4					
Above Grade	Tot	BD	Bath	Tot	BD	Bath		Tot	BD	Bath		Tot	BD	Bath		Tot	BD	Bath	
Room Count	4	2	1.0	5	2	1.0		5	2	2.0	-4,000	5	2	2.0	-4,000	5	3	2.0	-4,000
Gross Living Area	1,048			910			3,450	1,197		-3,725	1,210		-4,050	1,117			-1,725		
Basement & Finished	0			0				0			0			0					
Rooms Below Grade	0			0				0			0			0					
Functional Utility	Average			Average				Average			Average			Average					
Heating/Cooling	FWA/Evap			FWA/Evap				FWA/Evap			FWA/Evap			FWA/Evap					
Energy Efficient Items	Standard			Standard				Standard			Standard			Standard					
Garage/Carport	1gd2dw			2dw			4,000	2dw		4,000	2dw		4,000	2dw			4,000		
Porch/Patio/Deck	Porch/Cov Pat			Porch/patio				Porch/patio			Porch/Patio			Porch/Patio					
Fireplace(s)	1 WBS			None			2,000	None		2,000	None		2,000	None			2,000		
ADU	420sf (2-0-1)			576sf (3-1-1)				630sf (3-1-1)			None			None					
ADU Rent	\$500			\$575				\$600			None			None					
NetAdjTotal						9,450			-1,725			-2,050			-3,725				
Adj Sale Price				Net Adj			Net Adj			Net Adj			Net Adj			Net Adj			
				GrAdj		188,450	GrAdj		187,275	GrAdj		157,750	GrAdj		157,775				

ADU Adjustment Process

Step 1

Pairing - Finding Contributory Value C1 / C2 ADU

Comp	Adj Price C1	Adj Price C2	Adj price C3	Adj Price C4	Value
C1 & C3	\$188,450		\$157,750		\$30,700
C1 & C4	\$188,450			\$157,775	\$30,675
C2 & C3		\$187,275	\$157,750		\$29,525
C2 & C4		\$187,275		\$157,775	\$29,500

Conclude: \$30,000

Step 2

ADU GRM Calculation

Comp	ADU Value	Monthly Rent	GRM
C1	30,000	\$575	52.2
C2	30,000	\$600	50.0

Conclude: 51.0

Step 3

ADU Adjustment Calculation

Sub Current Rent	500	
GRM	51.0	
Value of subject ADU	\$25,500	C3 & C4 Adj
Value Diff (30,000 - 25,500)	-\$4,500	C1 & C2 Adj.

The Accessory Dwelling Unit - Case Study (Sales Comparison Approach)

Address	Subject			C1			C2			C3			C4		
Distance				3.36 miles SW			3.38 miles SW			0.55 miles SW			1.48 miles SW		
Sale Price	179,500			179,000			189,000			159,800			161,500		
Sale Price/GLA	171.28			196.70			157.89			132.07			144.58		
Sale or Financing Concessions				Conv 0			Conv 0			Conv 0			FHA \$4,000		
SaleDate				01/20/17			10/30/17			08/28/17			05/12/17		
Above Grade	Tot	BD	Bath	Tot	BD	Bath	Tot	BD	Bath	Tot	BD	Bath	Tot	BD	Bath
Room Count	4	2	1.0	5	2	1.0	5	2	2.0	5	2	2.0	5	3	2.0
Gross Living Area	1,048			910			3,450			1,197			-3,725		
Garage/Carport	1gd2dw			2dw			4,000			2dw			4,000		
Fireplace(s)	1 WBS			None			2,000			None			2,000		
ADU	420sf (2-0-1)			576sf (3-1-1)			-4,500			630sf (3-1-1)			-4,500		
ADU Rent	\$500			\$575			\$600			None			25,500		
NetAdjTotal							4,950						-6,225		
Adj Sale Price				Net Adj			183,950			Net Adj			182,775		
				GrAdj						GrAdj					

Remember ADU Value

- C1 & C2 ADU value: \$30,000

ADU Adjustment Calculation

Sub Current Rent	500	
GRM	51.0	
Value of subject ADU	\$25,500	C3 & C4 Adj
Value Diff (30,000 - 25,500)	-\$4,500	C1 & C2 Adj.

Value Conclusion: **\$183,000**



The Accessory Dwelling Unit - Case Study (Income Approach)

One Unit Housing (Rental Sales)					
Comps	GLA	Rm Count	Sale Price	Rent	GRM
Sale/Rental 1	950	5-2-1	\$156,000	\$975	160
Sale/Rental 2	1,100	5-2-1	\$163,500	\$1,050	156
Sale Rental 3	1,005	5-2-2	\$160,000	\$1,100	145
Conclude:					156

Comparable House Rentals			
Comps/Rental	GLA	Rm Count	Rent
Rental 1	850	5-2-1	\$900
Rental 2	1,125	5-2-2	\$1,050
Rental 3	950	5-2-1	\$950
Subject	1,048	5-2-1	\$1,000
C1 ADU	576	3-1-1	\$575
C2 ADU	600	3-1-1	\$630
Subject ADU	420	2-0-1	\$500

ADU Market Rental Rate

- Unable to located more ADU rentals
- C1, C2 & Subject's ADU rents are what was available

Components of the Income Approach (GRM Method)

To calculate a value for a 1-unit to 4-unit

- Develop an opinion of a market derived GRM
- Develop an opinion of monthly market rent(s) for the subject property
- Multiply the GRM by the total monthly income

$$V = GRM(I_1 + I_2 + \dots I_4)$$

The formula is altered to allow calculating independently for the primary house and the accessory unit (ADU) as follows:

$$V = GRM_r I_r + GRM_{adu} I_{adu}$$

$$V = \$1000(156) + \$500(51)$$

$$V = \$156,000 + \$25,500$$

Value by the income approach: **\$181,500**

The Accessory Dwelling Unit - Case Study

Review

- Subject's Contract Price: \$179,500
- Value by the Sales Comparison Approach: \$183,000
- Value by the Income Approach: \$181,500

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The Accessory Dwelling Unit - Case Study

Examples: Common Observed Appraisal Adjustment Grid Errors

Scenario 1: Primary house & ADU added together – Reported on GLA line

Address	Subject			Comp 1			Comp 2			Comp 3			Comp 4		
Distance				3.36 miles SW			3.38 miles SW			0.55 miles SW			1.48 miles SW		
Sale Price	179,500			179,000			189,000			159,800			161,500		
Sale Price/GLA	122.28			120.46			103.45			132.07			144.58		
Sale or Financing Concessions				Conv 0			Conv 0			Conv 0			FHA \$4,000		
Above Grade Room Count	Tot	BD	Bath	Tot	BD	Bath	Tot	BD	Bath	Tot	BD	Bath	Tot	BD	Bath
	7	2	2.0	8	3	2.0	8	3	3.0	5	2	2.0	6	3	2.0
Gross Living Area	1,468			1,486			1,827			1,210			1,117		
Garage/Carport	1gd2dw			2dw			2dw			2dw			2dw		
Fireplace(s)	1 WBS			None			None			None			None		
NetAdjTotal				6,000			-6,975			12,450			10,775		
Adj Sale Price				Net Adj GrAdj			Net Adj GrAdj			Net Adj GrAdj			Net Adj GrAdj		
				185,000			182,025			172,250			172,275		

- What would the summary of the analysis of market data say?
- Highest & best use analysis and market evidence to support the opinions
- Pairing process to develop GLA per sq. ft adjustment based on similar houses/ADU configurations?
- Comp 1 & 2 compared to comp 3 & 4 – What's the difference – is something is missing
 - Gives appearance of arbitrary / unsupported adjustments
- Difficult to reconcile to a conclusion.
- Could intended user be misled or confused?

The Accessory Dwelling Unit - Case Study

Examples: Common Observed Appraisal Adjustment Grid Errors

Scenario 2: Primary house GLA and ADU each adjusted using same dollar adjustment

Address	Subject			Comp 1			Comp 2			Comp 3			Comp 4		
Distance				3.36 miles SW			3.38 miles SW			0.55 miles SW			1.48 miles SW		
Sale Price	179,500			179,000			189,000			159,800			161,500		
Sale Price/GLA	171.28			196.70			157.89			132.07			144.58		
Sale or Financing Concessions				Conv 0			Conv 0			Conv 0			FHA \$4,000		
Above Grade	Tot	BD	Bath	Tot	BD	Bath	Tot	BD	Bath	Tot	BD	Bath	Tot	BD	Bath
Room Count	5	2	1.0	5	2	1.0	5	2	2.0	5	2	2.0	6	3	2.0
Gross Living Area	1,048			910			1,197			1,210			1,117		
Garage/Carport	1gd2dw			2dw			2dw			2dw			2dw		
Fireplace(s)	1 WBS			None			None			None			None		
ADU	420sf			576sf			630sf			None			10,500		
NetAdjTotal				5,550			-6,975			8,450			6,775		
Adj Sale Price				Net Adj			Net Adj			Net Adj			Net Adj		
				GrAdj			GrAdj			GrAdj			GrAdj		
				184,550			182,025			168,250			168,275		

- What summary of the analysis of market data say?
- Highest & best use analysis and supporting market evidence that leads to the opinion
- Pairing process to develop ADU per sq. ft adjustment using similar ADUs?
- Comp 1 & 2 compared to comp 3 & 4 – What's the difference – is something is missing
 - Gives appearance of arbitrary / unsupported adjustments
- Difficult to reconcile of this data to a conclusion.
- Could the intended user be misled or confused?

The Accessory Dwelling Unit

Closing Remarks
Q & A