

Accessory Dwelling Units in our Backyards:  
Building Affordable Housing in Santa Cruz

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## I. introduction

Much of Coastal California, stretching from San Diego in the south to Santa Rosa in the north, is in the grip of an affordable housing crisis.<sup>1</sup> While there are numerous causes, a primary one is the high cost of land, since new construction is constrained by mountains to the east and the ocean to the west. Infill development and high-rise construction is expensive, time-consuming and often long-delayed due to building regulations and local opposition. Proposition 13, passed in 1979, has made it difficult and expensive for long-time homeowners to move or downsize, thereby limiting the supply of housing on one hand, and motivating conversion of multifamily housing into condominiums on the other. Amidst all of this, the professionals on whom community well-being depends-- teachers, police, firefighters, construction and service workers, janitors--cannot afford to live in the places they work.

Are there solutions to this affordable housing crisis? In this policy paper, we begin by describing the specific problem as it exists in the City of Santa Cruz.<sup>2</sup> We then turn to a discussion of alternatives, with a focus on backyard Accessory Dwelling Units (ADUs), and describe the “best practices” followed by organizations and programs in other cities on the West Coast. The third part of the paper describes ADU model options that might be suitable for Santa Cruz and the region, potential costs of construction, and financing options. The fourth section summarizes the regulatory and permitting process through which an ADU must pass in order to be built. Finally, the last section of the paper describes the pieces, people and partners required to design, develop and deploy an ADUB (ADUs in Backyards) program.

## II. What is the problem?

As is the case in many parts of California, the Monterey Bay region faces an affordable housing crisis. Buildable land convenient to urban centers is limited and expensive; housing prices are among the highest in the United States; and median rents for even a one-bedroom apartment in Santa Cruz exceed \$2,000, beyond the reach of many tenants. Money for second homes is flowing in from Silicon Valley, and many who work or study in or near Santa Cruz commute long distances from Watsonville, San Jose, Salinas and even Oakland.

Land costs are key, as illustrated by the following example. In the 1960s, a 2,000 square foot home in Live Oak (an unincorporated suburb of Santa Cruz) cost \$25,000 to purchase. Today, as a result of Proposition 13,<sup>3</sup> the assessed value of that house for property tax purposes is about \$80,000, of which 25% is land cost and 75%, structure. A

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<sup>1</sup> Affordable housing is defined below.

<sup>2</sup> An excellent resource for exploring housing affordability in Santa Cruz County can be found on the website of “No Place Like Home,” a project of the UC Santa Cruz Sociology Department, at: <https://noplacelikehome.ucsc.edu/en/>

<sup>3</sup> Proposition 13 was an amendment to the California Constitution, passed in 1978, caps property tax assessments to 1% of market value, limits annual increases in property taxes to 2%, and prohibits reassessment except for new construction or when a property changes hands (“What is Proposition 13,” California Tax Data, at: <https://www.californiataxdata.com/pdf/Prop13.pdf> (accessed June 30, 2019).

similar, recently-sold nearby house is assessed at \$800,000, of which 75% is land cost and 25%, structure (in other words, the house is virtually worthless). A newly-built house of 1,400 square feet may cost \$250,000 to build and close to \$1 million to purchase. There are other factors that play a role in the high costs of housing but, for our purposes, land is the primary one.

The high cost of land has similar impacts on rents. There is a large tenant population in Santa Cruz, due in significant part to the 9,000 or so UC Santa Cruz students, along with faculty, staff and service workers, who live off campus. But the booming economy in Silicon Valley has stressed rental markets there, with spillover into the Monterey Bay region. It often makes more economic sense for the owner of an apartment building to convert it into condominiums, and many new multifamily developments are simply sold as condos (which start at around \$500,000 for a two bedroom unit). There are probably many houses with spare bedrooms that could be converted into rental units, especially in those with older homeowners who cannot afford to downsize.<sup>4</sup>

As one result, rents in Santa Cruz have been rising continuously and have become broadly unaffordable to an important income demographic. Table 1 below was created by UC Santa Cruz to inform new students about housing costs. These numbers are drawn from a limited sample; according to RENTCafé, the average rent for a 733 square foot apartment is \$2,325.<sup>5</sup>

Every year the U.S. Department of Housing and Urban Development calculates and published “Fair Market Rent” figures for several hundred metropolitan areas in the United States. These figures are used as the basis for determining eligibility for various types of housing assistance available to tenants (see Table 2) “Housing affordability” is then calculated according to the fraction of a household’s income that goes to rent. For example, a household of 4 persons with the annual *median* income in the Santa Cruz area is \$98,000, or \$8,167/month. HUD defines housing as affordable if it consumes a maximum of 30% of a household’s total income. Based on this benchmark, almost 63% of Santa Cruz renters are “rent overburdened.” Figure 1 shows income qualifications for various sized households in Santa Cruz (AMI is “Area Median Income”).

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<sup>4</sup> Older occupants who have owned their homes for a long time, and have probably paid off their mortgages, also pay lower property taxes than they would in a smaller and much more expensive replacement home (a house assessed on its market value at the time of purchase (today around \$150,000) would pay \$3,000 per year in property taxes. A smaller, replacement home could cost more than \$700,000, with property taxes of \$14,000 per year.

<sup>5</sup> RentJungle, Rent trend data in Santa Cruz, California, at: <https://www.rentjungle.com/average-rent-in-santa-cruz-rent-trends/> (accessed August 27, 2019); Affordable Housing Online, “Affordable Housing in Santa Cruz,” 2019, at: <https://affordablehousingonline.com/housing-search/California/Santa-Cruz> (accessed June 30, 2019).

**Table 1: Weighted Average Rental Costs in Santa Cruz, 2014-18.**

Weighted Average Rental Costs and Percentage Increase/Decrease 2014 through 2018 University of California, Santa Cruz									
Rental Type	2014	2015	Comparison to prior year	2016	Comparison to prior year	2017	Comparison to prior year	2018	Comparison to prior year
Room in Shared Housing	\$ 795	\$ 873	10%	\$ 900	3%	\$ 942	5%	\$ 1,017	8%
Studios/Efficiencies	\$ 983	\$ 1,085	10%	\$ 1,173	8%	\$ 1,186	1%	\$ 1,428	20%
1 BR House/Duplex	\$ 1,500	\$ 1,701	13%	\$ 1,662	-2%	\$ 1,744	5%	\$ 1,995	14%
1 BR Apt/Condo	\$ 1,306	\$ 1,412	8%	\$ 1,581	12%	\$ 1,697	7%	\$ 2,079	23%
2 BR House/Duplex	\$ 2,172	\$ 2,400	10%	\$ 2,620	9%	\$ 2,674	2%	\$ 2,977	11%
2 BR Apt/Condo	\$ 1,905	\$ 2,127	12%	\$ 2,360	11%	\$ 2,444	4%	\$ 2,775	14%
3 BR House/Duplex	\$ 2,923	\$ 3,158	8%	\$ 3,403	8%	\$ 3,488	2%	\$ 3,852	10%
3 BR Apt/Condo	\$ 2,849	\$ 3,074	8%	\$ 3,132	2%	\$ 3,135	0%	\$ 3,276	5%
4 BR House/Apt/Condo	\$ 3,723	\$ 4,040	9%	\$ 4,149	3%	\$ 4,169	0%	\$ 4,688	12%
5-8 BR House/Apt/Condo	\$ 4,749	\$ 4,929	4%	\$ 5,708	16%	\$ 5,420	-5%	\$ 5,645	11%
Average Annual % +/-	\$ 2,291	\$ 2,480	8.3%	\$ 2,669	7.6%	\$ 2,690	0.8%	\$ 2,973	10.5%

Source: UCSC Community Rentals, <https://communityrentals.ucsc.edu/pdf/5-yr-comp.pdf> (accessed June 25, 2019).

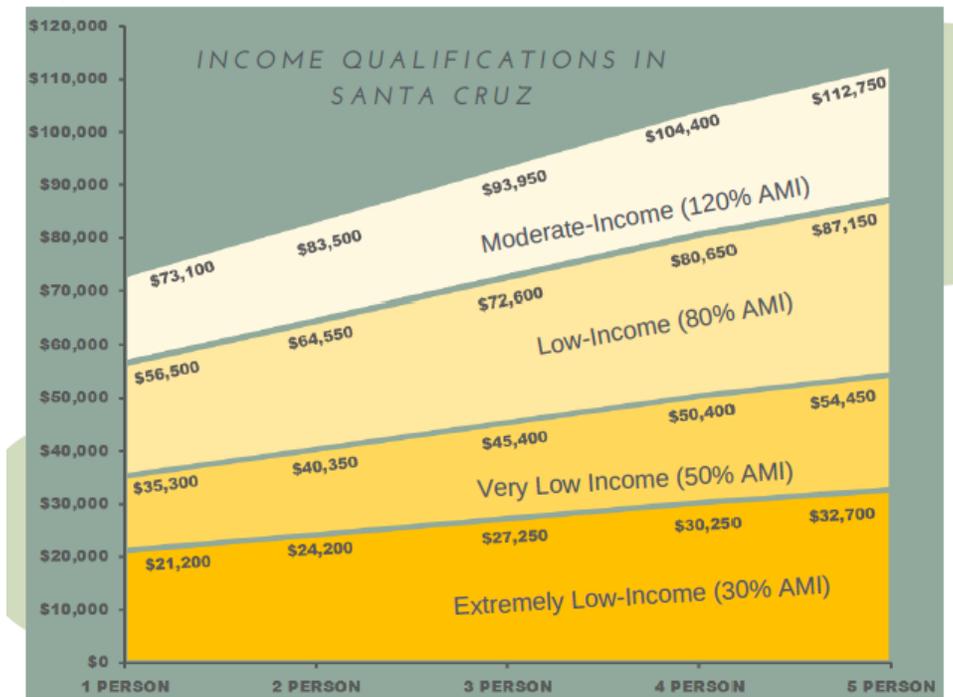
**Table 2: HUD Fair Market Rents in Santa Cruz, 2019**

	Studio	1 bedroom	2 bedrooms	3 bedrooms	4 bedrooms
HUD fair mkt	\$1,567	\$1,844	\$2,439	\$3,241	\$3,701
Median rent (2018)	\$1,428	\$2,079	\$2,775	\$3,276	NA

Source: Affordable Housing Online, "Affordable Housing in Santa Cruz," 2019, at: <https://affordablehousingonline.com/housing-search/California/Santa-Cruz> (accessed June 30, 2019).

Figure 2 shows median annual incomes in relation to household size for common service worker positions in Santa Cruz; a considerable number fall into low, very low and extremely low income brackets. An extremely low income household of four persons would be rent overburdened if they were paying more than \$920 per month in rent. An entry level police officer with a family of four could pay up to \$2,016 per month--enough for a one bedroom house or apartment--without becoming rent overburdened.

Figure 1: Income qualifications in Santa Cruz



Source: "Affordable Housing in the City," City of Santa Cruz Housing & Community Development, 2017, at: <https://www.cityofsantacruz.com/home/showdocument?id=59799>

Figure 2: Professional & Service Worker incomes in Santa Cruz

Occupation	Salary	Household Size			
		1	2	3	4
Healthcare (Nurse)	\$104,832				\$104,400
Entry Level Police Officer	\$72,228	\$73,100	\$83,500	\$93,950	\$80,650
Mechanical Engineer	\$72,180			\$72,600	
Entry School Teacher	\$51,134	\$56,500	\$64,550		
Social Service Worker	\$49,920				\$50,400
Sales	\$39,021		\$40,350	\$45,400	
Healthcare Support	\$34,341	\$35,300			
Administrative Assistant	\$29,994				\$30,250
Food Prep and Serving	\$25,667			\$27,250	
Restaurant Host	\$21,770		\$24,200		
Dishwasher	\$21,091	\$21,200			

Source: "Affordable Housing in the City," City of Santa Cruz Housing & Community Development, 2017, at: <https://www.cityofsantacruz.com/home/showdocument?id=59799>

**Table 3: Maximum allowable rents in Santa Cruz for low & extremely low incomes**

	Extremely low income (30% of AMI)	Extremely low income (30% of AMI)	Very low income (50% of AMI)	Very low income (50% of AMI)
	1 person (\$25,800)	4 persons (\$36,800)	1 person (\$42,950)	4 persons (\$61,350)
Max. allowable rent	\$645	\$920	\$1,074	\$1,534

There are several housing assistance programs available in Santa Cruz that provide rental subsidies to very and extremely low income households, but limits imposed on such help by Federal and other laws do not provide much in the way of access to housing in Santa Cruz.<sup>6</sup>

### III. What are the solutions?

There are a number of ways to increase the supply of rental housing in Santa Cruz which could bring down median rents in the city, once enough units are built. One option is to build upwards. The per dwelling costs of “high-rise” construction, unless publicly-subsidized, usually put such units out of the affordability category. For example, a proposal to build a 175-unit apartment complex in downtown Santa Cruz involves a set-aside of 5 units for tenants with 80% of AMI (\$78,400 & \$54,880) and 15 units for those with 50% of AMI (\$49,000 & \$34,300).<sup>7</sup> This means that allowable rents would be \$1,960 and \$1,372 for the first group and \$1,225 and \$888 for the second group. These are below the city’s median rents, but just 20 units is not a viable solution to the housing crisis.

A second alternative is infill development, on privately or publicly-owned lots and spaces. This means “filling in” open spaces in existing neighborhoods, “building up” rather than “out,” and turning single family structures into multi-unit ones. Infill housing utilizes existing infrastructure and reduces urban sprawl, while revitalizing older neighborhoods. Another popular approach to infill is “transit oriented development” which concentrates new (usually multi-family) housing around transit stations and centers. However, given the high cost of land in most urban areas, infill tends toward gentrification and rising real estate and rental costs, forcing current residents to move elsewhere..

A third alternative is the backyard accessory dwelling unit (ADUs). An ADU is defined as an “additional, self-contained housing unit that is secondary to the main residence” (SC ADU Manual, 2003: 1). ADUs come in a number of forms: free-standing, additions to existing houses, “over-the-garage” units. Whatever the form, there are several advantages to “infill” ADUs over the alternatives: :

- There is no land cost, since the property is made available by the homeowner;
- The construction impact is localized and time-limited than for new structures;;

<sup>6</sup> Information about these programs can be found at “Housing Assistance Information,” City of Santa Cruz, <http://www.cityofsantacruz.com/government/city-departments/economic-development/housing-assistance-information>.

<sup>7</sup> Average median income (AMI) in Santa Cruz is \$98,000 for a family of four and \$68,600 for an individual (York, 2019); Jessica A York, “Downtown 175-apartment proposal draws Santa Cruz interest,” *Santa Cruz Sentinel*, July 2, 2019, at: <https://www.santacruzsentinel.com/2019/07/02/downtown-175-apartment-proposal-draws-santa-cruz-interest/> (accessed July 30, 2019).

- Utilities are readily available from the primary structure on the property;
- Neighborhood opposition to low-profile ADUs is likely to be minimal and
- If construction costs can be held down, monthly rents could be less than \$2,000 (compared to a HUD “fair market rent” of almost \$2,800 for a two bedroom apartment in Santa Cruz).

ADUs as infill have become an increasingly popular approach to increasing the rental housing supply in urban areas; many cities have instituted programs of various sorts to encourage homeowners to build and rent such units. In a later section of this prospectus, we offer details about some of these programs. In the remainder of this section, we provide an overview of the legal and regulatory environment for ADUs in California and Santa Cruz.

As with any construction project, ADUs are governed by a mix of both state and local laws and regulations. Local laws and regulations can differ considerably from one jurisdiction to the next, so getting approval for a project can be both labyrinthian and byzantine. In recent years, however, both state and localities have begun to streamline and simplify the review, permitting and approval process for ADUs, recognizing that these can make significant contributions to affordable housing. The California Senate and House have passed or have pending no less than five bills ([SB 13](#); [SB 1069](#); [AB/SB 2299](#); [AB/SB 2406](#); [AB 68](#); and [AB 69](#); see Table 4, below). It is important to recognize that, while these state laws require cities to modify their local regulations, there is only limited review of the latter to ensure that such requirements have been implemented.

Until recently, zoning laws were one of the major obstacles to construction of affordable housing and ADUs. Zoning defines allowed types of construction, both residential and commercial, in particular areas of a city. Often, areas with single family homes are zoned only for such structures; apartment buildings and ADUs are not allowed. SB 1069 “authorizes” city and county jurisdictions to “provide by ordinance for the creation of 2nd units in single-family and multifamily residential zones.” This and other laws cannot require that jurisdictions pass appropriate ordinances, but any jurisdiction that does not must follow state standards. In other words, zoning cannot be used to deny ADU construction.

Specific City of Santa Cruz regulations regarding ADU permitting and development can be found in the City’s [Municipal Code \(Section 24.16 Part II\)](#). ADUs must also comply with basic building codes as adopted in Title 18 and 19 of the Santa Cruz Municipal Code. These sections discuss specific requirements relating to building, plumbing, mechanics, electric, and fire safety. More details are provided in a later section of this prospectus.

Finally, residential development is regulated by a Santa Cruz voter-approved initiative, Measure O.<sup>8</sup> This measure specifically requires new multi-unit residential developments to provide “a certain percentage of the total number of units as affordable to moderate, low or very low income households.”<sup>9</sup> This requirement can be met in several ways, one of which is to build and designate units as for-sale units or as rentals which remain affordable through “a long-term or permanent deed restriction recorded against the property.”<sup>10</sup>

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<sup>8</sup> See also Keyser Marston Associates, Inc., “Financial Feasibility Analysis--Inclusionary Housing Rental Residential Development,” Prepared for the City of Santa Cruz, June 18, 2018, at: <http://www.cityofsantacruz.com/home/showdocument?id=70961>.

<sup>9</sup> <http://www.cityofsantacruz.com/government/city-departments/economic-development/housing-assistance-information/housing-programs/measure-o-inclusionary-housing>

<sup>10</sup> <http://www.cityofsantacruz.com/government/city-departments/economic-development/housing-assistance-information/housing-programs/measure-o-inclusionary-housing>

There is not enough space in this report to examine in detail the various laws, regulations, permit requirements and fees that apply to ADU construction in the City of Santa Cruz. We have provided links to various informational resources, and an appendix which provides details about requirements in Santa Cruz, for those who wish to immerse themselves in the minutiae of construction in California today.

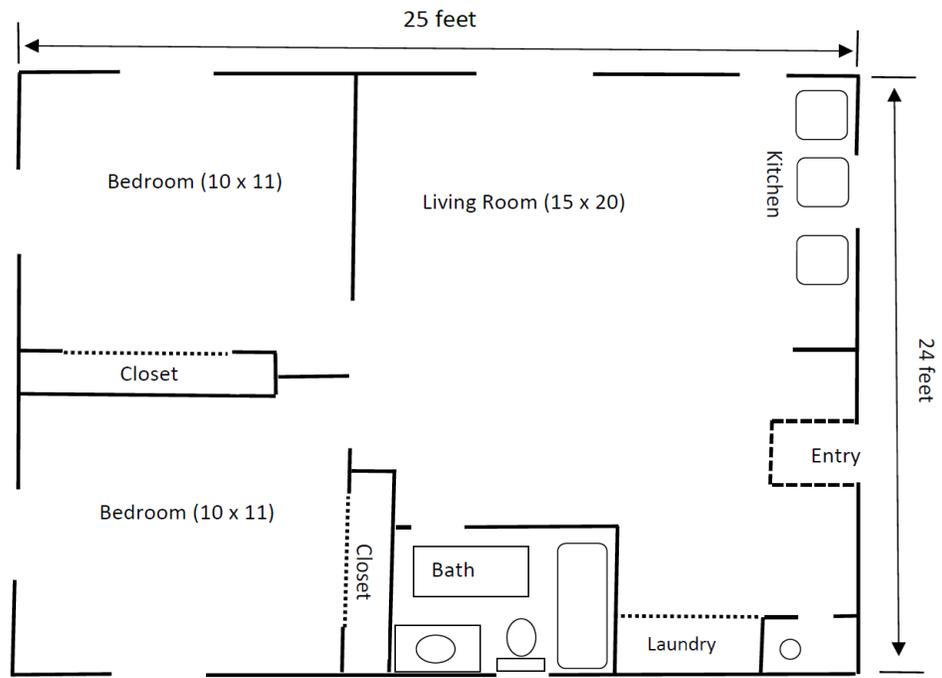
**Table 4: State and local laws and regulations addressing ADU construction**

Law or regulation, title, date passed or chaptered	Summary of contents
<a href="#">AB 1866</a> : Housing: Density bonuses; 9/29/02	Requires housing elements of jurisdictions to identify sites for 2nd units based upon relevant factors.
<a href="#">AB/SB 2299</a> : Land use: housing: 2nd units; 9/27/16	Specifies siting standards; eliminates parking requirements; overrides any more restrictive local ordinances.
<a href="#">AB/SB 2406</a> : Housing: junior accessory dwelling units; 9/28/16	Regulations for Junior Accessory Dwelling Units: “a unit that is no more than 500 square feet in size and contained entirely within an existing single-family structure.”
<a href="#">SB 1069</a> : Land Use-Zoning; 10/8/17	Allows ADUs in restricted housing zones; simplifies parking requirements; regulates fire sprinklers & utility hookups.
<a href="#">AB 494</a> : Land Use: Accessory Dwelling Units; 10/8/17	Authorizes local agency to provide, by ordinance, for the creation of accessory dwelling units in single-family and multifamily residential zones.
<a href="#">SB 229</a> : Accessory Dwelling Units; 10/8/17	Authorizes local agency to provide, by ordinance, for the creation of accessory dwelling units in single-family and multifamily residential zones.
<a href="#">AB 68</a> & <a href="#">AB 69</a> : Land Use: Accessory Dwelling Units; amended 7/5/19 & 6/20/19	require local ministerial approval or denial of ADU permit application w/in 60 days; required small home building standards governing accessory dwelling units smaller than 800 square feet.
<a href="#">SB 13</a> : Accessory Dwelling Units; last amended 9/06/19	Significantly reduces the barrier requirements a city can legally impose on ADU development including but not limited to parking requirements, size limitations, and fee reductions.
<a href="#">Santa Cruz Municipal Code Ch. 24.16.100</a> : Accessory Dwelling Units	Defines ADUs, zoning, permitting, occupancy, etc. for city

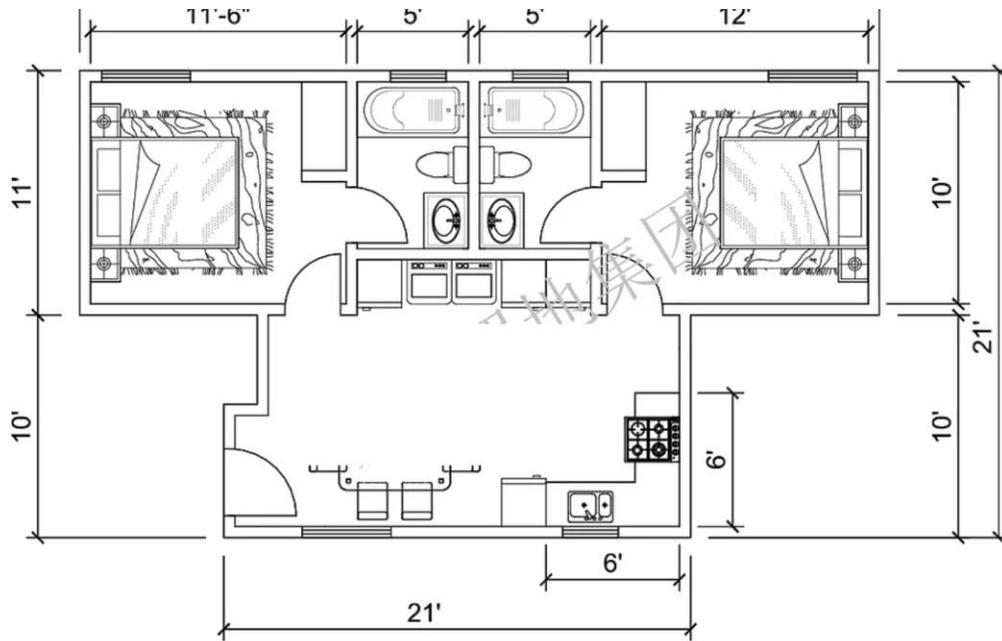
#### IV. How many? How much?

There are already some 550 legal and illegal ADUs in Santa Cruz that have been built over the last 100 years. In order to determine the potential for backyard ADUs in Santa Cruz, we conducted a GIS survey of housing parcels in the City, and identified more than 9,000 lots with adequate space for a free-standing unit of 600 square feet (ADUs can range from 200 to 1,200 square feet; we have settled on size close to the median). This is probably an overestimate, but there are almost certainly several thousand sites theoretically available (Figure 2 shows sample ADUs and Figure 3 a sample neighborhood in Santa Cruz).

**Figure 2: Conceptual layouts of 2 bedroom, 600 square foot ADUs**

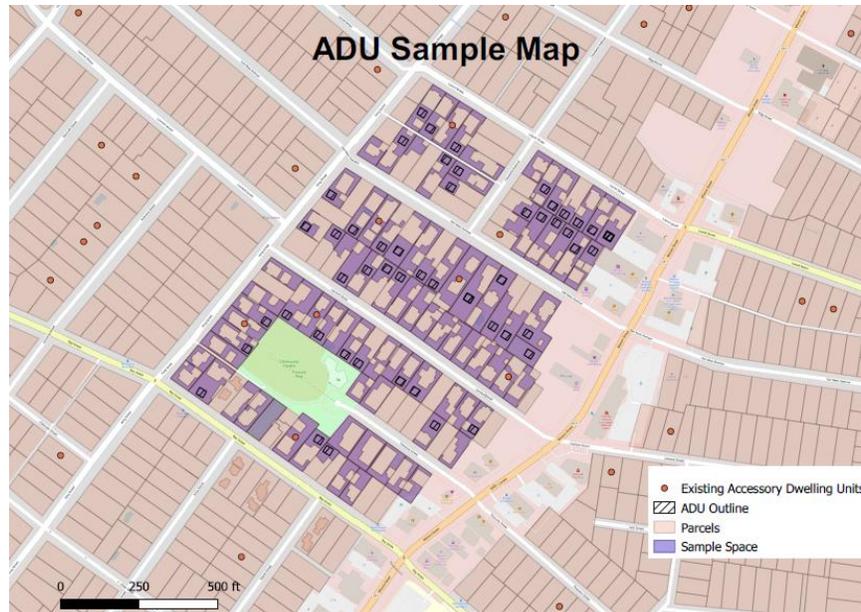


Source: Authors



Source: ADU Builder, Inc., at: <https://www.adu-builder.com/> (accessed August 27, 2019).

Figure 3: Potential ADU sites in a sample Santa Cruz neighborhood



Source: Tomas Nilsson & William Bravo, “Santa Cruz ADUB GIS Project,” Sustainable Systems Research Foundation, 2019.

What does it cost to build an ADU? Discussions with city building and planning staff suggests that a “stick-built” stand-alone unit can cost anywhere from \$150,000 to \$300,000 (\$250-500/sq. ft.), depending on square footage, design and other features. But these are the costs of “designer” ADUs; we believe that attractive manufactured structures could bring the total cost per unit down to \$71,000 to \$102,500 (Table 5). At that cost, financing would be considerably easier (see below).

**Table 5: ADU cost estimates**

Element	Estimated cost
Manufactured unit/kit	\$35-50,000
Shipping	\$1-5,000
Permitting fees (inc. hookups)	\$12-15,000
Concrete slab & site prep (500 sf)	\$8-10,000
Interior finishing	\$15-22,500
Total	\$71-102,500
Optional solar photovoltaic system	\$5,000

Source: Estimates by authors from various published sources.

A significant portion of the cost of a new ADU comes from permitting fees. The specific building and safety requirements come from national standards and may be supplemented by additional requirements imposed by the local jurisdiction (city or county). Some of these local permits are oriented toward funding of community needs. Moreover, these requirements apply to *all* construction, whether or not the structure is a new one.

Any new residential structure must undergo an architectural review, to ensure that a design is feasible and will not fall down if built according to the plan. All units must have utility (gas, electricity, water, sewer) hookups, and permits are required for these connections. There are fees for technology, records maintenance and city plan

maintenance. Finally, there are fees for such things as green building education, parks and recreation and the local school district, on the theory that every new residential structure will be occupied by people who will use city services.<sup>11</sup>

Table 6 illustrates these fees for a 400 and 750 square foot ADU and a 1,400 square foot single family house in Santa Cruz. Some of these fees may be waived if a standard building design can be approved to cover specific structure models and/or the homeowner agrees to rent to low-income tenants for a specified period of time.

Although state, county and city have significantly liberalized the system of permits and requirements for ADUs, by all accounts, the permitting process remains daunting, and can take a considerable amount of time. Moreover, because ADUs are built as individually-designed units, each one is subject to an individual review. Standardized plans could reduce the time required for initial review, although all units would have to undergo inspection.

**Table 6: Permit fees for an ADU & 1400 sf single family house in Santa Cruz**

Fee description	When it is due	400 sf ADU	750 sf ADU	1400sf sf house*
<b>Building &amp; safety plan check:</b> insures that construction documents comply with California codes	Application submittal	\$721	\$1,013	\$5,102
<b>Planning plan check:</b> charged for projects requiring planning application	Application submittal	\$894	\$1,279	\$2,721
<b>Public works plan check:</b> impacts on public facilities, e.g., streets, drainage, etc.	Application submittal	\$496	\$496	\$1,403
<b>Fire plan check:</b> compliance with California Fire Code	Permit issuance	\$512	\$512	\$512
<b>Building, mechanical, electrical &amp; plumbing permit inspection:</b> check on quality and safety of service systems	Permit issuance	\$1,306	\$1,481	\$2,425
<b>State required:</b> not defined	Permit issuance	\$14	\$49	\$61
<b>Technology:</b> not defined	Permit issuance	\$164	\$224	\$500
<b>Document handling:</b> service fee	Permit issuance	\$40	\$40	\$40
<b>Green building education fund:</b> program management, public educational purposes such as publications and local seminars.	Permit issuance	\$220	\$412	\$633
<b>General plan maintenance:</b> for updating & maintaining general plan	Permit issuance	\$1,074	\$2,013	\$3,500
<b>Parks &amp; recreation:</b> used to purchase and develop land for parks	Permit issuance	\$1,200	\$2,250	\$4,000
<b>Water (paid to SC Water Dept.):</b> cost of water & sewer hookups	Prior to permit final	\$4,768	\$4,768	\$4,768
<b>SC County Office of Education Developer:</b> support for public schools	Prior to permit issuance	\$0	\$2,520	\$6,800
<b>Total permit fees</b>		\$11,112	\$17,057	\$32,465

\*Rough estimate because precise fees depend on location. A comprehensive list of fees can be found at:

<http://www.cityofsantacruz.com/home/showdocument?id=67977>

Source: City of Santa Cruz, "Frequently Asked Questions Relating to Accessory Dwelling Units," Planning & Community Development, March 28, 2019, at: <http://www.cityofsantacruz.com/Home/ShowDocument?id=75458> (accessed Jun 9, 2019); "Residential Building Permit Fee Estimate Worksheet," <https://www.sccoplanning.com/PlanningHome/BuildingSafety/FeesPayments/BuildingPermitFeeEstimateWorksheet.aspx> (accessed August 21, 2019).

<sup>11</sup> Some number of these "city service" fees are a direct consequence of Proposition 13, which imposed limits on property taxes and annual increases in valuation, resulting in reductions in funding for those services.

#### IV. ADU financing

For an ADU to be affordable to tenants, it must also be affordable to the homeowner, which depends on the costs of financing, taxes and maintenance. The property owner has the opportunity to make some income from renting out their ADU.

Whatever the cost of money, financing a new ADU is not trivial and stands as an obstacle to building one. A number of “innovative” financing methods have been proposed, with some being put into practice.<sup>12</sup> Some of these are largely experimental, some more established. All assume that a homeowner holds sufficient equity in their home to secure the local. Table 7 provides a summary of some of these non-conventional financing methods.

**Table 7: Innovative ADU financing methods**

Name	Explanation	Comments
<b>Renovation mortgage</b>	new or refinanced mortgage based on a property's value after renovation or flexible terms	ADU cost internalized in mortgage
<b>ADU-Specific Home Equity Line of Credit</b>	backed by home equity; revolving lines of credit with shorter repayment terms and interest on the balance drawn	Homeowner finances the entire ADU
<b>Community Development Financial Institution/Local Partnership Loan Programs</b>	allow projected rental income from unbuilt ADUs to count as income toward local qualification	Local bank provides financing in economically-disadvantaged communities
<b>Local Government Grant and Loan Programs</b>	partial financing loan in exchange for repayment at sale, with commitment to low income tenant or homeless accommodation	sometimes offers loan forgiveness if homeowner fulfills the terms of low income housing agreement
<b>Shared equity financing</b>	company provides partial financing in exchange for future home appreciation or sale value	May require home sale or repayment within a specified time period; no interest or payments
<b>Peer-to-peer lending</b>	investors provide direct financing to homeowners in exchange for higher-risk interest rate	May drive up rents in order to pay high interest rate
<b>Revolving fund</b>	Public or private fund provides partial financing with repayment from rents	Homeowner repays fund with portion of rental revenues; could be financed with bonds
<b>ADU Delivery &amp; Management</b>	private company finances, sites, gets permits for, manages rental ADU, shares rent with homeowner or pays ground lease	

Source: Robert Liberty, Kol Peterson & Dan Hardcastle, “Innovations in Financing for Accessory Dwelling Units,” Urban Sustainability Accelerator, at: <https://accessorydwellings.files.wordpress.com/2019/05/financing-for-accessory-dwelling-units-may-14-version-rl.pdf> (accessed August 26, 2019);

<sup>12</sup> Kol Peterson, “2019 is the Year of ADU Financing Innovation,” accessorydwellings.org, nd., at: <https://accessorydwellings.org/2019/05/16/2019-is-the-year-of-adu-financing-innovation/> (accessed August 26, 2019). A summary of more conventional financing methods can be found at: Julia Felsmen, “I Bid You ADU,” The Workshop Team, April 20, 2018, at: <http://workshopmortgage.com/blog/blog/2018/04/20/i-bid-you-adu/> (accessed August 26, 2019). These include: savings; conventional home equity line of credit (HELOCs); conventional cash-out mortgage refinancing; family loans; and credit cards.

Below, we provide some examples of cash flows for ADU financing, with partial support from a revolving fund, a public or private pot of money that is repaid by rents and interest returned to the fund. Such financing would be restricted to “property-rich, cash-poor” homeowners, on the assumption that many interested homeowners hold sufficient equity in their property to completely finance ADU construction. But rather than providing public subsidies to these homeowners to make ADU rents affordable, we propose dividing the risk equally between equity loans and the external funder, with the latter providing up to \$50,000 at 4% interest. During the period of the loan (10 years; see below), homeowners commit to rents capped according to tenant income levels. After the end of the loan term, ownership reverts wholly to the homeowner and the rent cap may be lifted.

**Our financial assumptions are:**

1. **Loan:** Subject to a homeowner’s credit qualifications, the revolving fund provides half of the unit cost, up to \$50,000, at 4% interest for 10 years as co-financing to qualified homeowners who build backyard ADUs with capped rents (we assume the remainder of the cost is financed by a 4% home equity loan);
2. **Cost/rents:** We assume a range of ADU construction and installation costs, from \$50,000 to \$150,000. For a \$100,000 ADU, in April 2019, the median rent in Santa Cruz for a one bedroom apartment was \$2,523 per month, for a two bedroom, \$3,388.<sup>13</sup> Here, we provide the monthly cost of loan, taxes and maintenance, with a 10% markup.
3. **Repayment:** Occupants pay rent to property owner who repays both the revolving fund and home equity loan. At the end of ten years, both loans are paid off and title to the ADU is transferred free and clear to the homeowner. It is also possible for the revolving fund loan to be forgiven if the homeowner agrees to rent to low-income tenants over the 10-year period
4. **Co-investor:** In the last row, we show the additional cost of financing half with a simple 10% return over the 10-year loan on top of loan payments (the actual incremental cost depends on the interest rate on the loan).

**Table 8: Financing and costs of a 600 square foot, two bedroom ADU**

Total construction cost	\$50,000	\$75,000	\$100,000	\$125,000	\$150,000
Interest on 10-yr. loan at 4% (x1.48)	\$24,000	\$36,000	\$48,000	\$60,000	\$72,000
Total cost construction + interest	\$74,000	\$111,000	\$132,000	\$185,000	\$222,000
Annual payment	\$7,400	\$11,000	\$13,200	\$18,500	\$22,000
Taxes @ 2% of assessed value	\$1,000	\$1,500	\$2,000	\$2,500	\$4,000
Maintenance	\$1,200	\$1,300	\$1,400	\$1,500	\$1,600
Total annual cost	\$9,600	\$13,800	\$16,600	\$22,500	\$27,600
Total monthly cost to homeowner	\$800	\$1,150	\$1,385	\$1,875	\$2,300

<sup>13</sup> RentJungle, Rent trend data in Santa Cruz, California, at: <https://www.rentjungle.com/average-rent-in-santa-cruz-rent-trends/> (accessed August 27, 2019)

Hypothetical unit rent w/ 10% ROI to funder providing 50% of cost	\$1,008	\$1,462	\$1,802	\$2,396	\$2,925
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Source: authors' calculation

How large would a revolving fund need to be? If we assume construction of 300 units per year, at an average of \$100,000, the total capital cost is \$30 million, of which half (\$15 million) is provided by the external funder. The funds are fully repaid by year 7.

**Table 9: Revolving fund finances for 300 units @ \$100,000**

Project year	Annual return to fund from rents of 300 units (@ \$7,600/year)*	Fund balance for 300 unit program	Fund balance for 1,500 unit program, with 300 units built annually for five years
0	0	(\$15,000,000)	(\$15,000,000)
1	\$2,280,000	(\$12,720,000)	(\$27,720,000)
2	\$2,280,000	(\$10,440,000)	(\$38,160,000)
3	\$2,280,000	(\$8,160,000)	(\$46,320,000)
4	\$2,280,000	(\$5,880,000)	(\$52,200,000)
5	\$2,280,000	(\$3,600,000)	(\$55,800,000)
6	\$2,280,000	(\$1,320,000)	(\$44,400,000)
7	\$2,280,000	\$960,000	(\$33,000,000)
8	\$2,280,000	\$3,240,000	(\$21,600,000)
9	\$2,280,000	\$5,530,000	(\$10,200,000)
10	\$2,280,000	\$7,800,000	\$1,200,000
11			\$12,600,000
12			\$21,720,000
13			\$28,560,000
14			\$33,120,000
15			\$35,400,000

For a full-scale operation, we envision a five year program that would build a total of 1,500 ADUs. While the annual funding requirement would be spread out over time, the fund balance would remain in the red for a longer period of time

Normally, the homeowner is both developer and contractor, and must shepherd the project through the permitting process, often with considerable delays along the line. Many homeowners find this too daunting. A few companies and organizations offer full-service “ADU Management and Delivery,” which reduces the burden on and the risk to the homeowner. The managing entity can be non-profit or for-profit. The managing organization identifies interested homeowners, presents them with several pre-approved designs from which to choose, arranges financing, handles permitting, hires contractor- builders and delivers the key at completion. The entity could also manage the units under contract or even own them for 10 years while paying ground rent to the homeowner. After the ten-year term, title would be transferred to the homeowner. If the model is sufficiently attractive and offers a high rate of return, financing could come from a variety of sources, including venture capitalists (see the final row in Table 8).

One consideration not addressed so far is the following: any type of rental involves a transfer of wealth from tenants to property owners (which is normal practice for privately-owned properties), on the assumption that the former realizes a benefit equivalent to the rent. Where rental markets are tight and median rents high, property owners can reap windfall profits without significant additional benefit to tenants (with lower rents, such transfers will be smaller than at present, but it will still be significant).

Property owners are taxed for the value of their property but some small portion of ADU rents, beyond repayments, might be paid into a community housing fund. Moreover, as the revolving fund begins to show a positive balance, that sum ought to be distributed to tenants in the form of rebates or to the community in the form of social services, to the homeless and low-income residents.

## VII. ADU programs and best practices in other cities

Up and down the West Coast, cities and organizations have launched projects and programs to encourage and facilitation construction of ADUs, in an effort to address the affordable housing problem. We have also identified numerous construction companies that specialize in or build ADUs (Tables I.1 and I.2, in Appendix I.) What are their “best practices” and have there been notable successes in increasing ADU stocks?

We have identified the following “best practices,” some of which are available in Santa Cruz.

1. **Liberalization of ADU regulations** in virtually all jurisdictions reviewed, in order to streamline the permitting and inspection process. There is only limited evidence of actual reductions in permitting, construction and inspection.
2. **Waivers of some permit fees in some jurisdictions**, usually on the basis of standardized designs and other relatively low-cost requirements. These can speed up time to completion but generally have minimal effect on the total cost of an ADU.
3. **Specialized financing programs** that provide a portion of ADU cost, often with the condition that the unit be rented to low-income tenants for a specified period of time.
4. **One-stop-management** by non-profits or private companies that manage design, permitting, financing, construction and even rental management.
5. **Dedicated city staff** whose sole responsibility is working with homeowners and helping to shepherd ADUs through the planning and permitting process.

We would propose consideration of the following as potential best practices:

6. **Jurisdictional consultations and agreements with builders and home manufacturers** to promote standardized designs, construction materials and techniques, and pre-approved permitting, as appropriate.

7. **Low risk, incentivized programs** to encourage homeowners to build backyard ADUs.
8. **Returns to community programs** which will fund local low-income housing and homeless needs.

### **VIII. Our proposal in brief**

SSRF proposes to design, launch and co-manage an ADU construction program with a construction target of 100-300 units per year for five years. These units will be attractive, two-bedroom manufactured structures of 500-600 square feet, based on a few pre-approved designs and materials, with interior finishing and utilities installed during manufacture and completed on-site. The units will come with optional solar PV fittings. They will be co-financed by through a revolving fund providing low-interest, 10-year loans to qualified homeowners. These loans will be forgiven if the homeowner agrees to rent to low-income tenants for a minimum of 5 of the 10 year loan period. Projects will be managed by a “one-stop-shop” public or private developer, which will also offer property management services. The target date for program launch is 2023 with completion by 2027. If successful, it may be continued thereafter.

### **Project timeline**

**Phase I: Project design (2019-20):** Develop the program plan, appoint an Advisory Board, create partnerships and collaborations through phone calls and meetings, identify funders and solicit support for Phase I, hold public forums and meetings to generate community support and streamline the construction process, find donors who will support a program demo ADU, and create financial groundwork for launching Phase II.

**Phase II: Project development & launch (2021-22):** Contract with manufactured building company & materials suppliers; complete the demo ADU; develop plan for revolving fund to present to potential funders; solicit homeowner participants; conduct extensive informational outreach through forums, meetings and conferences; create protocol for building an ADU covering financing, permitting, construction, completion, inspection, etc.; commission several basic designs; work with city to streamline regulations and permitting; incorporate business or organization to manage project, subject to funding; hire necessary staff and contract with consultants, as required.

**Phase III: Program operation (2023-27):** Design, finance, build and deliver target of 100 ADUs per year.

A full timeline and budget can be found in Appendix III.

## Appendix 1: ADU programs and builders

Table I.1: Sample programs and best practices

Name & location	Program summary	Guidance & support for Homeowners	Financing	Low Income Renter Support	Permitting & other
<b>Non-profit</b>					
<a href="#">Backyard Homes Project</a> <a href="#">LA Más</a> , et al (public-private partnership)  Los Angeles	Affordable design and construction services for affordable ADUs in gentrifying areas	“one-stop-shop” project management: design, permitting, contracting, delivery	Self-Help Federal Credit Union and Genesis LA provide special financial product	Owners may receive bonus if they lease for 5 years to for section 8 voucher holders	600 sf ADU costs \$200,000 (est.)  Dept. of Water & Power may deny permits if ADU is too close to power lines
<a href="#">Blocks</a> <a href="#">Soup</a> , et al. (public-private)  Menlo Park, CA	Affordable pre-fab housing for low income to promote community	“one-stop-shop” through partnerships w/ contractor, manufactured homes companies	No information provided	Availability for section 8 to reduce the price of construction through city funding	Partnered with Honomobo (CAN), Blockable (WA), Project M (LA). Current status unclear.
<a href="#">Self help enterprises</a> , <a href="#">Clovis Cottage Home Program</a>  Clovis, CA	Support for infill ADUs in Old Town & other homes on alleyways	Choice of free pre-approved building plans; asset management of rental housing	Provides low-interest loans of \$50-80,000; may be sweat equity requirement	Income limits on homeowners seeking loans	Not available to homes without alley access.
<b>Private</b>					
<a href="#">Dweller</a>  Portland, OR	Builds lower cost backyard ADUs, based on modular home of mobile home dimensions	“one-stop-shop” in partnership; offers property management services	Loan not based on real property value; works with lenders who specialize in ADUs	Not applicable	City officials waived city fees in 2014 Flexibility in ADU regulations, in terms of placement and structural forms the ADU can be.
<a href="#">Cover</a>  Los Angeles	Backyard studio ADUs for higher end areas	design, permits, manufacture, and installs backyard homes	Homeowner must secure financing	Not applicable	Studio units are 320 sf; can be ordered with kitchen & bathroom
<a href="#">Plús Hús</a>	Backyard studio ADUs	design & structure only	Homeowner must secure financing	Not applicable	Units are 320 sf; does not do permits, site prep, construction
<b>Public</b>					

<a href="#">ADU Incentives Program</a> (proposed) San Francisco	suite of services – including financing – for homeowners to create ADU in single family home	Project management; Technical assistance for permits, design, and construction; property management support and landlord training	Low and no interest loans and small grants; waiver of some permit fees	Forgivable loans up to 100% cost of construction to owners who keep the unit affordable	Announced by SF Supervisor Gordon Mar; new units subject to rent control.
<a href="#">Backyard cottages &amp; basements</a> Seattle, WA	Liberalization of ADU & DADU regulations	Reduces number, space, parking, occupancy & other requirements	Proposal to use Home Repair Program to run small-scale for low-interest pilot financing for ADU construction	N/A	No active financing programs available -
<a href="#">Backyard Home, San Jose</a> San Jose, California	Liberalization of ADU regulations & streamlining of process	Expedite permit process for approved designs; subsidies & loan forgiveness	<a href="#">\$20,000 per unit subsidy of new ADUs</a> in exchange for 5 years affordable housing rates.  Private funds from the Housing Trust Silicon Valley	Fees waived for home owners willing to rent low-income renters for five years.	

Sources: online materials & interviews

**Table I.2: Santa Cruz area ADU builders**

Company & location	Website/information	
JD Homes, Ben Lomond	<a href="http://jdowlinghomes.com/">http://jdowlinghomes.com/</a>	
Schultz Construction, SC	<a href="http://www.schultzbuildz.com/">http://www.schultzbuildz.com/</a>	
Cutting Edge Construction, SC	<a href="http://www.cutting-edge.construction/">http://www.cutting-edge.construction/</a>	
MS Builders, SC	<a href="http://ms-builders.com/">http://ms-builders.com/</a>	
Boa Constructor, SC	<a href="http://www.buildingnaturally.com/">http://www.buildingnaturally.com/</a>	
Michael Hartrich Design-Build, SC	<a href="https://santacruzconstructionguild.us/michael-hartrich/">https://santacruzconstructionguild.us/michael-hartrich/</a>	
Santa Cruz Green Builder, SC	<a href="https://www.santacruzgreenbuilders.com/adu">https://www.santacruzgreenbuilders.com/adu</a>	
Workbench, SC	<a href="https://www.workbenchbuilt.com/adus">https://www.workbenchbuilt.com/adus</a>	

**Appendix II: Zoning, building regulations, and permit requirements for ADUs in the City of Santa Cruz**

**Table II.1: Santa Cruz ADU Development Standards (all ADUs must conform to these requirements)**

ADU Development Standards	Details	More Info
<b>Zones where ADUs are allowed</b>	<ol style="list-style-type: none"> <li>1. RS-1A, RS-2A, RS-5A, RS-10A;*</li> <li>2. R-1-5, R-1-7, R-1-10;**</li> <li>3. R-L, R-M, R-H;***</li> <li>4. R-T(A), R-T(B), and R-T(D)****</li> </ol>	<p>SC Municipal Code Chapter 24.10: <a href="#">Land Use Districts</a></p> <p>* <b>RS-1A</b> = Single - Family Residential 1 Acre  <b>RS-2A</b> = Single - Family Residential 2 Acres  <b>RS-5A</b> = Single - Family Residential 5 Acres  <b>RS-10A</b> = Single - Family Residential 10 Acres</p> <p>** <b>R-1-5</b> = Single - Family Residential - 5,000 sq ft.  <b>R-1-7</b> = Single - Family Residential - 7,000 sq ft.  <b>R-1-10</b> = Single - Family Residential - 10,000 sq ft.</p> <p>*** <b>R-L</b>= Multiple Residence Low Density District  <b>R-M</b> = Multiple Residence Medium Density District  <b>R-H</b> = Multiple Residence - High Density District</p> <p>**** <b>R-T(A)</b> = Subdistrict A - Medium Density Residential  <b>R-T(B)</b> = Subdistrict B - Motel Residential  <b>R-T(C)</b> = Subdistrict C - Beach Commercial</p>
<b>Minimum size of lot for ADUs</b>	no minimum - ADUs permitted on any size lot zoned for single family use	SC Municipal Code 24.16.120 - Locations Permitted
<b>Number of ADUs per Parcel</b>	One ADU per parcel	SC municipal Code Chapter 24.16.140 - Development Standards
<b>Parking Requirements</b>	NO off-street parking is required for any ADU	<p>SC municipal Code Chapter 24.16.140 - Development Standards</p> <p><a href="#">SB 2299</a>  <a href="#">SB 1069</a></p>
<b>Size of ADU</b>	ADU floor area cannot exceed 10% of the net lot area up to a maximum of one thousand two hundred (1200) square feet of habitable area.	SC municipal Code Chapter 24.16.140 - Development Standards
<b>Size of ADU (for attached ADUs)</b>	For attached ADUs, floor area cannot exceed fifty percent of the existing habitable floor area of the main single-family dwelling. Floor area also may not exceed the maximum ADU floor area allowed for the lot (10% of net lot area or 1200 sq ft).	<p>SC municipal Code Chapter 24.16.140 - Development Standards</p> <p>For more info on size requirements for ADUs that use "alternative green</p>

		construction methods” or which have “stairways”, see Number 3 of SC municipal Code Chapter 24.16.140 - Development Standards
<b>Existing Development on the Lot</b>	ADUs are allowed when there is an existing single family dwelling on the lot or a single family dwelling will be constructed in conjunction with the ADU	SC municipal Code Chapter 24.16.140 - Development Standards
<b>Rear Lot Coverage</b>	No combination of buildings may occupy more than 30% of the required rear yard for the district in which it is located	For more info on units which face an alley or the rail trail, see SC Municipal Code Chapter 24.16.160, number 5.
<b>Open Space and Landscaping</b>	The site plan must provide open space and landscaping that are useful for both the accessory dwelling unit and the principal single-family dwelling. Landscaping will provide for the privacy and screening of adjacent properties	SC municipal Code Chapter 24.16.140 - Development Standards
<b>Standards for ADUs located outside the standards side and rear yard setbacks for the district</b>	1) ADU entrances shall face the interior of the lot unless the ADU is directly accessible from an alley, a public street, or the Monterey Bay Sanctuary Scenic Trail 2) Windows facing adjoining residential property shall protect the privacy of neighbors OR fencing/landscaping shall be required to provide screening	SC municipal Code Chapter 24.16.140 - Development Standards
<b>Alley or Rail Trail Orientation</b>	1) When an ADU is adjacent to an alley or the MBSS trail, the ADU is encouraged to be oriented toward the alley or trail with the front access door and windows facing the alley 2) Parking provided off the alley shall maintain a 24 ft back out which includes the alley 3) Fences shall be 3 ft 6 inches tall along the alley	MBSS - Monterey Bay Sanctuary Scenic  For more info on fences along alleys, see SC municipal Code Chapter 24.16.140 - Development Standards, number 8.
<b>Occupancy and Vacation rentals</b>	The property owner or an adult member of the property owner’s immediate family must occupy either the primary or accessory dwelling as their principal place of residence.  ADUs must be used for long-term residential purposes and may not be used on a transient occupancy basis or for short term/vacation rental purposes	For more info on who is included in the property owner’s immediate family, see SC municipal Code Chapter 24.16.140 - Development Standards, number 9(a).  For more info on exceptions to occupying one of the dwellings, see SC municipal Code Chapter 24.16.140 - Development Standards, number 9(a).  The property owner: the majority owner of the property as shown in the most recent Santa Cruz County assessor’s roll. For more info on property owners, see SC municipal Code Chapter 24.16.140 - Development Standards, number 9(c).  For more info on legalizing ADUs which are nonconforming with occupancy rules, see SC municipal Code Chapter 24.16.140 - Development Standards, number 9(d).
<b>Connections between Units</b>	At the planning director’s discretion, ADUs may be permitted to create direct access between units, or common access to shared garage, laundry room, or storage area	For more info, see SC municipal Code Chapter 24.16.140 - Development Standards and Section 24.22.320
<b>Other Code Requirements</b>	ADUs must comply with California Building Standards Code	For more info, see the <a href="#">California Building Standards Code</a>

<b>Green Building Standards</b>	1) New ADU construction must meet green building prioritized permit processing. 2) Conversion ADUs must meet minimum green building point standards plus 15 additional points.	For more info, see the <a href="#">California Green Building Standards Code</a>
<b>Large Home Design Permit</b>	When determining if a large home design permit is required, the square footage of an attached ADU shall be counted with the square footage of the single-family home. For detached ADUs, its square footage shall not be counted toward a large home design permit.	

**Table II.2: Comparison of Conversion ADU and Detached ADU Development Standards**

<b>Development Standards</b>	<b>New Construction ADU</b>	<b>Conversion ADU</b>
<b>Design</b>	The design of the accessory dwelling unit shall relate to the design of the principal single-family dwelling by use of the compatible exterior wall materials, window types, door and window trims, roofing materials and roof pitch	NA
<b>Setbacks and Lot Coverage</b>	For new construction <b>detached</b> ADUs: 1) side and rear yard setbacks for new construction detached single-story ADU shall not be less than three feet and the distance between buildings on the same lot must be a minimum of six feet 2) new construction ADUs above garages shall provide side and rear yard setbacks of at least five feet 3) ADUs higher than 1 story and not built above a garage shall provide side setbacks of at least five feet and rear setbacks of at least ten feet. 4) if any portion of ADU is located in front of the principal single-family dwelling, then the front and side yard setbacks shall be the same as those required for single-family homes in the zoning district.  For new construction <b>attached</b> ADUs: 1) New construction attached ADUs must meet the same setbacks as the principal single-family dwelling	Conversion ADUs shall be permitted to maintain the existing setbacks and lot coverage of the structure to be converted or reconstructed.
<b>Building Height and Stories</b>	Detached new construction ADUs: 1) shall not exceed 15 ft in height (measured to roof peak) 2) shall not extend above and beyond the daylight plane with a height of 7 ft at each side or rear property line and extending into the property of an angle of 45 degrees. (exceptions in <a href="#">Section 24.12.120 of SC Municipal Code</a> )  Two-story detached new construction ADUs 1) shall not exceed 22 ft in height (measured to roof peak) 2) shall limit the major access stairs, decks, entry doors, and windows to the interior of the lot, an alley, or MBS Scenic Trail, if applicable. Minimize windows impacting privacy.  Attached new construction ADUs 1) may occupy any level of the principal single-family dwelling 2) must meet the setbacks required for the principal single-family dwelling  For info on circumstances when the maximum allowed building height of the ADU may be exceeded, see SC Municipal Code Chapter 24.16.141 New Construction Accessory Dwelling Unit Standards, number 4(e).	NA

<b>Substandard Lots</b>	<p>For new construction ADUs proposed on substandard residential lots:</p> <p>a) Maximum allowable lot coverage for all structures shall be 45% (for more info on what lot coverage includes, decks, second-story enclosed cantilevered areas, see SC Municipal Code Chapter 24.16.141 New Construction Accessory Dwelling Unit Standards, number 5(a).)</p> <p>b) Floor area for all second stories shall not exceed 50% of the first floor area for all structures (for exceptions, see see SC Municipal Code Chapter 24.16.141 New Construction Accessory Dwelling Unit Standards, number 5(b).</p> <p>c) Continuous long walls parallel to the side property line with narrow side yards shall be minimized</p> <p>d) Landscaping required at least for front yard areas</p> <p>e) Structures, landscaping or other features shall incorporate methods to lessen the visibility of garages on a street facade</p> <p>f) Deign permits required if attached new construction ADU is proposed on a substandard lot in conjunction with a new single-family home (a design permit shall be required per Section <a href="#">24.08.440.</a>)</p>	NA
<b>Large Home Design Permit</b>	<p>In determining if a large home design permit is required:</p> <p>1) if new construction <b>attached</b> ADU is proposed in conjunction with a new single family dwelling OR with an addition to the existing single-family dwelling, the square footage of the attached accessory dwelling unit shall be counted with the square footage of the single-family home</p> <p>2) if a new construction <b>attached</b> ADU is proposed and there is no addition to any other portion of the primary dwelling, the square footage of the accessory dwelling unit shall not be counted toward a large home design permit.</p>	The square footage of any conversion accessory dwelling unit shall not be counted toward the requirement for a large home design permit.
<b>Reconstruction</b>	NA	Structures to be converted may either be converted utilizing the existing structural components of the building, or reconstructed within the existing three-dimensional physical space occupied by the structure
<b>Additions and Expansions</b>	NA	<p>An ADU shall be considered a conversion accessory dwelling unit when the proposed dwelling unit is created primarily within an existing or reconstructed structure.</p> <p>1) Expansion of floor space up to 120 sq ft is permitted 2) Floor expansions must comply with the development standards that apply to new construction accessory dwelling units as stated in <a href="#">Section 24.16.141.</a></p> <p>3) Floor expansions shall not enlarge the accessory dwelling unit beyond the size permitted for the parcel</p> <p>4) Expansions of height up to 2 ft in additional height is permitted</p> <p>5) Height expansions shall comply with height limits set in for new construction ADUs in <a href="#">Section 24.16.141.</a></p> <p>6) Any expansions in excess of the above will trigger review as a new construction ADU, including assessment of any required fees</p>

Table II.3: Santa Cruz City Deed Restrictions Required for Obtaining a Building Permit

**In order to obtain a building permit, the property owner shall file with the county recorder the following restrictions with reference to the deed under which the property was acquired by the present owner:**

Deed Restriction Subject	Details
Sale	The ADU shall not be sold separate from the primary dwelling unit.
Size	The unit is restricted to the approved size
Use	Use of the ADU shall be in effect only so long as the property is in compliance with the ordinance as codified, including the requirements regarding occupancy
Binding Declarations	The above declarations are binding upon any successor in ownership of the property; lack of compliance shall be cause for code enforcement
Deed Restriction Lapse	The deed restrictions shall lapse upon removal of the accessory dwelling unit.
Permit Parking Program	If a property with an ADU is located in a permit parking program district, the primary residence and the ADU combined shall qualify only for the number of residential parking permits that would have been available to the primary residence. No additional parking permits will be granted for ADUs. The property owner shall offer the tenant of an ADU a residential parking permit if requested by the tenant.
Vacation/Short Term Rentals	Neither the accessory dwelling unit nor the primary unit shall be used as a short term or vacation rental.