



# Backyard Cottages & Basement Units



Councilmember Mike O'Brien

## Owner Occupancy Requirement

This handout describes current and proposed changes to the owner occupancy requirement for ADUs.

### Current Regulations

Current regulations require that a property owner occupy either the main house or the accessory dwelling unit (ADU) for six months of the year. They cannot rent out both the main house and the ADU.

### Proposal

The Preferred Alternative from the ADU Environmental Impact Statement (EIS) would remove the owner-occupancy requirement. While an owner occupancy requirement is not included in the Preferred Alternative, it would require that the property has been in continuous ownership for a minimum of one year before a second ADU could be permitted.

## Why Remove the Owner Occupancy Requirement?

### Equity

Current rules treat owners and renters inequitably. Owner-occupancy is not required for any other type of housing unit, including single-family homes, duplexes, or multifamily apartments.

Currently, a property owner can offer a single-family home on the rental market within single-family zones without any requirement that the owner lives on the property. That property owner could not add an ADU. Further, if an ADU was built previously, when the owner lived on the property, or built by a previous owner, they could not offer both the ADU and the main house for rent, leaving either the main house or the ADU empty.

### Financing

The owner-occupancy requirement is frequently cited as a barrier, either real or perceived, to securing financing.

Lenders typically will not consider potential rental income from both the main house and the ADU because of the existing owner occupancy requirement. For some

homeowners, the potential rental income is necessary to qualify for a construction loan to build an ADU. It may also limit the number of homebuyers that could qualify for a mortgage for properties with existing ADUs.

### Increased ADU Production

Twenty percent of single-family lots are currently renter occupied. Under existing rules, ADUs could not be permitted on these lots.

Removing the requirement increases the number of lots eligible to add an ADU, increasing the opportunity for more housing options in single-family zones.

### Flexibility

The owner-occupancy requirement limits how homeowners can use their property now and in the future. This may deter people from making the substantial investment required to create an ADU.

If a homeowner must move for an expected job change, she cannot rent the house and the ADU to recoup her investment and instead must leave.

## What the EIS Tells Us

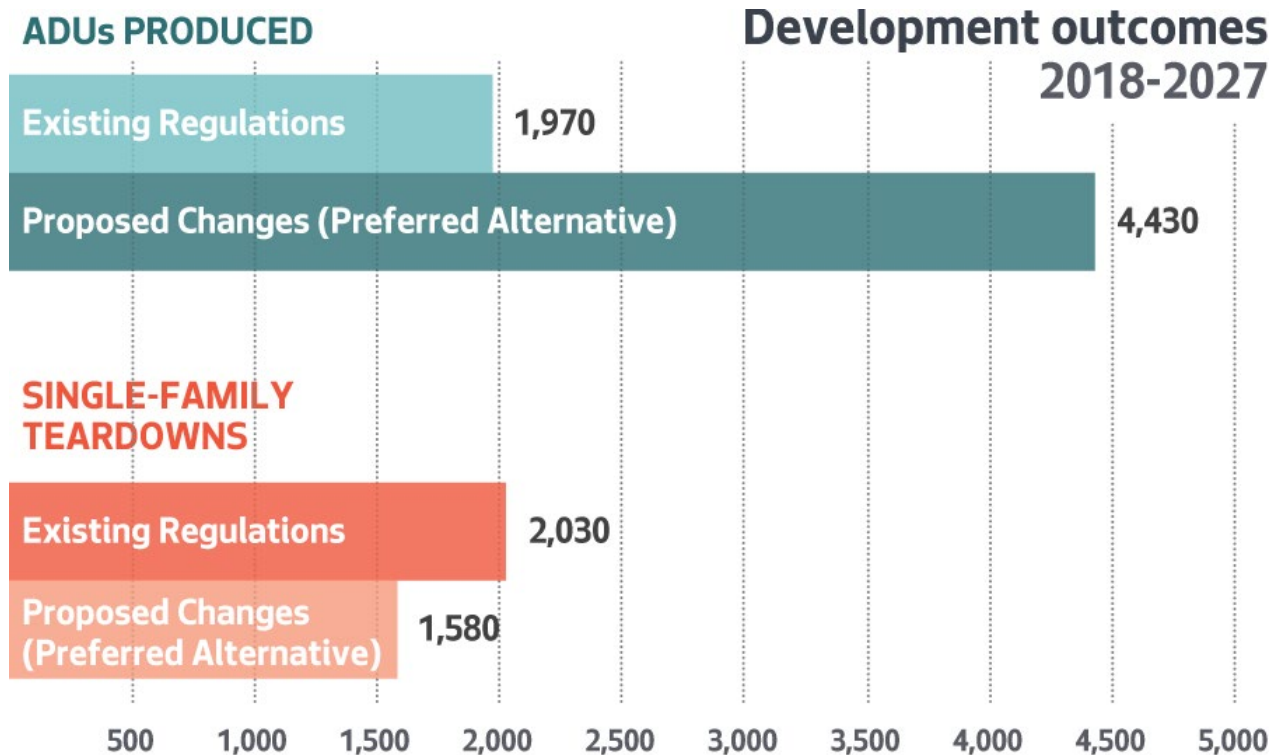
A key concern we frequently hear is that these changes would increase real-estate speculation in single-family zones. The ADU EIS analysis evaluated: (1) how the proposed changes might alter the underlying real-estate economics in single-family zones (i.e. would it change the most profitable development outcome); and (2) would the changes make single-family zones more attractive as rental investments rather than as owner-occupied assets.

Under current regulations, it is not uncommon for older, smaller existing houses to be torn down and redeveloped with one large, very expensive houses (i.e. a McMansion). The analysis found that under the Preferred Alternative the most profitable investment would either not change or shift to keeping the existing house and adding one or two ADUs. The proposed code changes would not accelerate teardowns and redevelopment of single-family homes. (For a more detailed discussion, [see Chapter 4.1 – Housing and Socioeconomics, and Appendix A](#), in the

Accessory Dwelling Unit Final EIS.)

If the proposal were to increase speculation, we would expect that the number of teardowns and redevelopment of single-family homes would increase and that renting three units would be the most profitable option. The analysis does not support that conclusion. The EIS also considers whether the changes would modify land values such that a developer who intends to redevelop the property could afford to pay more for land and, thus, outbidding other buyers or pressuring current homeowners to sell. The analysis suggests that land prices are unlikely to change substantially due to the proposed code changes.

Overall, the analysis indicates that removing barriers to ADUs and establishing a maximum floor area ratio (FAR) limit would decrease the number of teardowns and yield more ADUs compared to current regulations.



Source: Accessory Dwelling Unit Final EIS, City of Seattle, 2018

## Next Steps

I look forward to getting feedback and having more discussions as we work toward introducing legislation mid-2019.