

DATE: January 31, 2022
TO: Dan Pauly, Kim Rybold, City of Wilsonville
FROM: Becky Hewitt, Kaitlin La Bonte, Ariel Kane ECONorthwest
SUBJECT: Frog Pond East and South Accessory Dwelling Units Memorandum

Section 1. Introduction

Accessory Dwelling Units (ADUs) offer an opportunity to seamlessly integrate additional, smaller units within neighborhoods while staying with traditional single-family development and financing models. There are many reasons why people may be interested in building or living in ADUs. For residents, ADUs tend to be a more affordable flexible housing option. For homeowners, ADUs provide opportunities to house family members or earn additional income. As ADUs grow in popularity and recognition, many jurisdictions are considering ways to encourage ADU development.

In bringing the Frog Pond East and South areas into the Urban Growth Boundary (UGB), Metro required that the city explore ways to encourage the construction of ADUs in the expansion area. In Frog Pond East and South, the challenges to encouraging ADU development are different from infill development scenarios. Strategies to promote ADU development in an infill context typically focus on facilitating development for homeowners. In a greenfield development context such as Frog Pond, the City's strategies should focus on ways to influence homebuilders' floorplans to encourage building ADUs at the time of construction or encouraging home and lot designs that provide opportunities for ADU additions later.

This memorandum is intended to assist the City of Wilsonville in planning for residential development in Frog Pond East and South in a way that would be supportive of ADU development in the planning area's residential neighborhoods. Using available survey data and stakeholder interviews, this memorandum provides some insight into the likely demand and market for ADUs in the region and describes ways to City could facilitate ADU development as the planning area is built out.

Section 2. Who do ADUs serve?

Who wants ADUs and why?

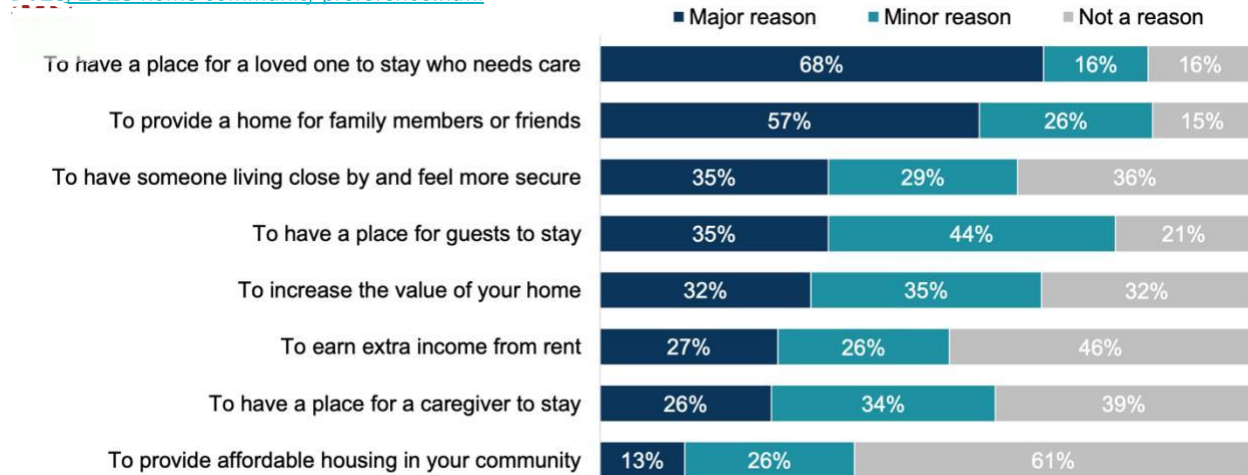
A 2018 American Association of Retired Persons (AARP) Home and Community Preferences Survey¹ found that 33% of adults aged 18 and older who did not have an ADU on their property would consider adding an ADU (27% unsure). As shown in Exhibit 1, of those who would consider adding an ADU, having a place for a loved one to stay who needs care was a major

¹ This survey was conducted by NORC at the University of Chicago with funding from AARP in March and April 2018. 2,287 participants completed the survey, the final total of the national sample was 1,947.

reason for 68% of respondents; providing a home for family members or friends was a major reason for 57%.

Exhibit 1. Major Reasons for Considering Building an ADU

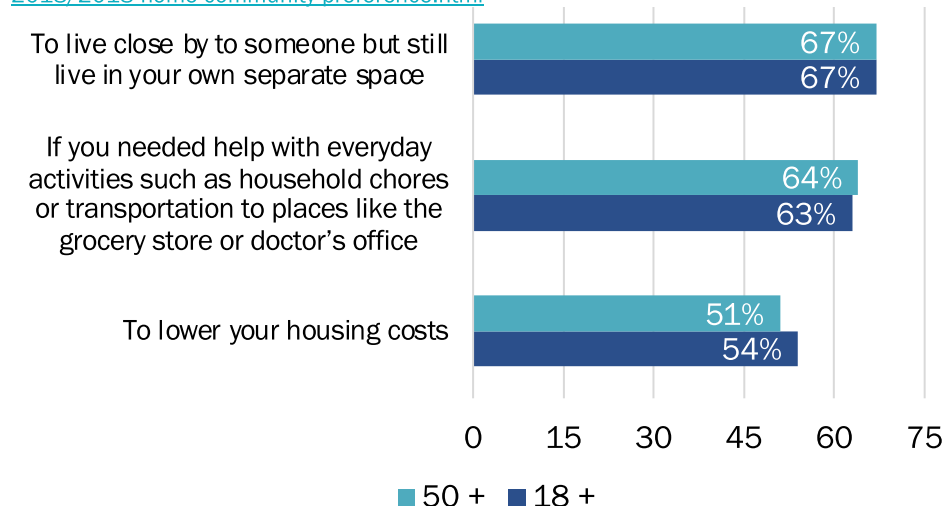
Source: 2018 AARP Home and Community Preferences Survey, www.aarp.org/research/topics/community/info-2018/2018-home-community-preference.html



Out of the adults surveyed, 67% said they would consider living in an ADU to live close to someone but still have their own space, 63% said they would consider it if they needed help with everyday activities, and 54% said they could consider it to lower their housing costs. This is shown in Exhibit 2.

Exhibit 2. Top Three Reasons for Considering Living in an ADU by Age Group

Source: 2018 AARP Home and Community Preferences Survey, www.aarp.org/research/topics/community/info-2018/2018-home-community-preference.html

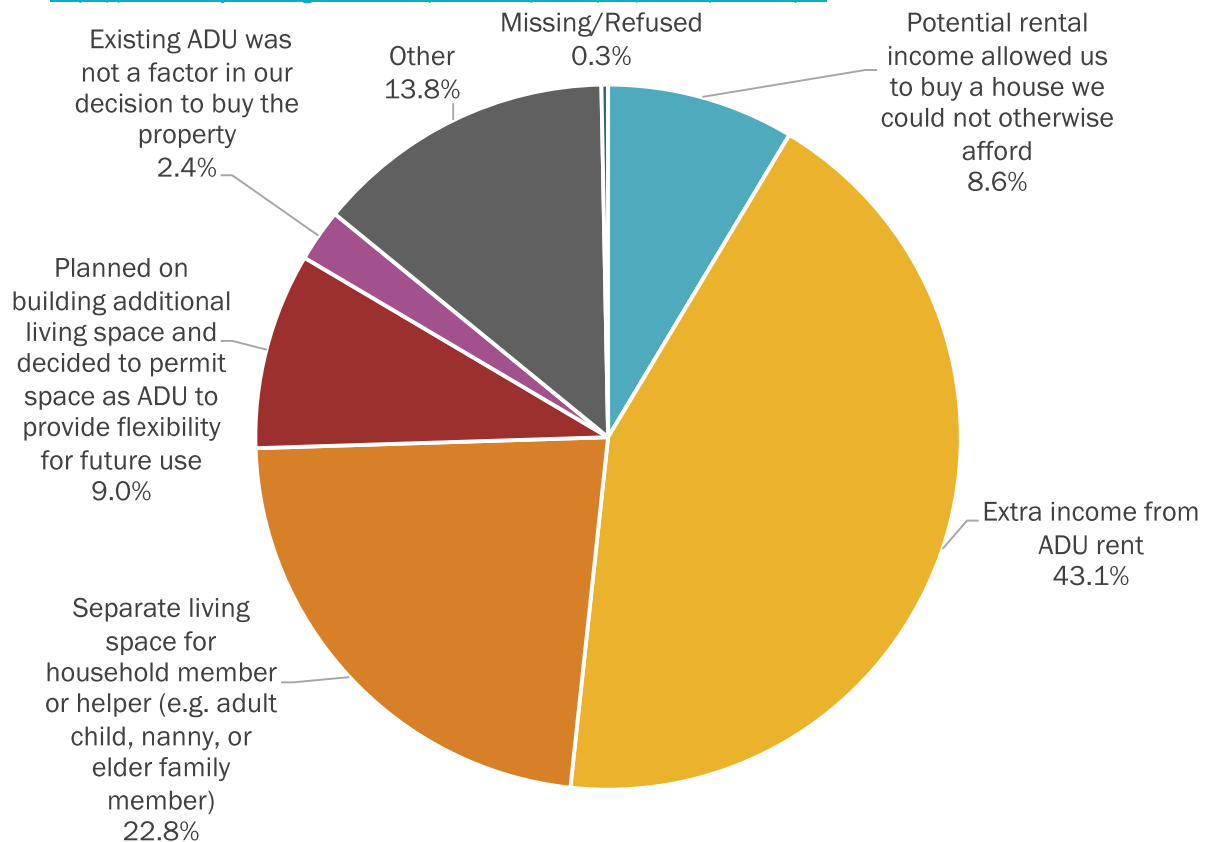


In a 2013 survey of Portland, Eugene, and Ashland homeowners with existing ADUs, 43% of Portland respondents said that the extra income from ADU rent was a primary reason for

building an ADU or for purchasing a property with an existing ADU. Other reasons are shown in Exhibit 3.

Exhibit 3. Portland Homeowners primary reason for building an ADU or purchasing the property with an existing ADU.

Source: Accessory Dwelling Unit Survey for Portland, Eugene, and Ashland, Oregon Final Methodology and Data Report, 2013 <https://accessorydwellings.files.wordpress.com/2013/10/adureportfrev.pdf>



What might an ADU rent for in Frog Pond East and South?

In the 2013 survey of Portland property owners with ADUs, the mean rental income received was between \$811 and \$880 (Exhibit 4). While these rents are now well out of date, the range of rents is worth noting: from as little as \$385 per month, to as much as \$1,800 per month.

Exhibit 4. Portland Rent Received Monthly for ADU, 2013

Source: Accessory Dwelling Unit Survey for Portland, Eugene, and Ashland, Oregon Final Methodology and Data Report, 2013 <https://accessorydwellings.files.wordpress.com/2013/10/adureportfrev.pdf>

	N	Minimum	Maximum	Mean	Std. Deviation
How much rent do you receive monthly for your ADU?	143	\$385	\$1,800	\$880.20	\$239.42
If rent includes utilities, how much is the rent without utilities?	78	\$200	\$1,700	\$811.85	\$248.09

Based on analysis of recent ADU listings in Portland, Milwaukie, Canby, Oregon City, Beaverton and Hillsboro, ADU rents were generally between \$1,050 and \$2,000 per month. Rents varied by structure type, number of bedrooms and unit size, with the average rent overall being \$1,540. Detached ADUs tended to have higher rents, with smaller footprints. Basement ADU rents tended to be lower, at an average of \$1,275 (see Exhibit 5).

Exhibit 5. ADU Rents in Portland Metro Area by Structure and Bedroom

Source: ECONorthwest Analysis of Craigslist, Apartments.com data, 2021

Structure	Bedrooms	Most rent for	Average Rent	Most units are
Attached	Studio	\$1,475	\$1,475	500 SF
	1 Bedroom	\$1,450 - \$1,625	\$1,540	650 - 800 SF
	2 Bedrooms	\$1,595	\$1,595	610 SF
	Overall	\$1,450 - \$1,625	\$1,540	500 - 800 SF
Basement	Studio	\$1,350 - \$1,450	\$1,400	500 - 750 SF
	1 Bedroom	\$1,050 - \$1,250	\$1,150	500 - 1,500 SF
	Overall	\$1,050 - \$1,400	\$1,275	500 - 1,500 SF
Detached	Studio	\$1,450	\$1,450	450 SF
	2 Bedrooms	\$1,500 - \$2,000	\$1,700	750 - 950 SF
	Overall	\$1,450 - \$2,000	\$1,650	500 - 950 SF
Overall	Studio	\$1,350 - \$1,475	\$1,430	500 - 600 SF
	1 Bedroom	\$1,050 - \$1,625	\$1,350	350 - 800 SF
	2 Bedrooms	\$1,500 - \$2,000	\$1,690	600 - 750 SF
	Overall	\$1,050 - \$2,000	\$1,540	500 - 1,000 SF

Overall, while the variability is high due to a small set of observations spread across a wide area in many different forms and ages of homes, this suggests that ADU rents might be similar to rents for newer market-rate apartments.

What might an ADU sell for in Frog Pond East and South?

Some ADUs are sold separately from the main home as condominiums rather than being rented out or managed by the owner of the main home. These sales transactions are difficult to isolate, and there are no known examples in Wilsonville or surrounding areas. Examples of new construction small, detached condominium units in Portland have mostly sold for \$300,000 to

\$400,000—roughly 60-70% of the sale price of the main house on the same lot where both were new construction. Given this pattern and the estimated sale prices for new homes in the Frog Pond area with larger lots generally being between \$600,000 and \$800,000, the price range for ADUs in the Frog Pond area may be similar to that seen in Portland. This is also similar to the pricing for newer two- to three-bedroom condominium units in Wilsonville.

Section 3. Opportunities and Barriers for ADU development

Regulatory Barriers

The City of Wilsonville recently updated its ADU regulations to comply with state and regional requirements. ECONorthwest reviewed the current regulations to identify any requirements that could still create challenges for ADU construction in Frog Pond East and South. The primary code standards identified as potential obstacles included:

- Lot coverage and setback standards in several existing residential zones may limit the ability to build detached ADUs.
- ADUs are not allowed for townhouses (unless those townhouses meet the single-family minimum lot size). Some developers have created floor plans for townhouses with ADUs that can be sold separately and some with a flexible ground-floor space with separate entrance that can either be used as a home office or an ADU. This model is not currently allowed in Wilsonville, but could be appropriate for portions of Frog Pond East and South.

Exhibit 6: Example of townhouse with ADU / ground floor flexible space

Source: Redfin.com



Financial and Other Factors

ECONorthwest interviewed several homebuilders who are likely to develop portions of Frog Pond East and South when master planning is complete. Some indicated interest in building ADUs. They noted several factors that will influence their decision-making about whether or not to include ADUs in their floor plans:

- When building detached ADUs with single-family homes, this can require a larger lot and push the price-point for the home above what most households can afford. (Providing flexibility for ADUs on lot coverage and setback standards could help address this concern to some extent.)
- Being able to sell the ADU separately helps keep the cost down for both units. One developer's model has been to sell all units with a three-year owner occupancy requirement, including the ADUs, to ensure that they are not used as investment properties. (Another Metro requirement for Frog Pond East and South is that the City ensure that any future homeowners associations will not require owner occupancy of homes that have accessory dwelling units. This could preclude this aspect of the model, and may, ironically, discourage building ADUs for some builders.)
- Local fees are an important factor in whether developers will build ADUs. (Wilsonville does not charge SDCs for ADUs.)

Section 4. ADU Strategies

Regulatory strategies:

- Providing greater flexibility on lot coverage and setbacks for detached ADUs could make it easier to add them to a lot with less effect on the size or location of the main home.
- Allowing ADUs with townhouses (regardless of lot size) in areas where higher density is appropriate could expand opportunities to add ADUs.
- Wilsonville already allows land divisions for ADUs to be sold on a separate lot from the main home, which is mostly applicable to detached ADUs, but could be an incentive for homebuilders along with the lack of SDC fees.
- Allowing larger ADUs (the current limit is 800 square feet) could make the existing financial and regulatory incentives stronger, but would also make them even more similar to two-unit cluster housing, which is also allowed.

Financial strategies:

- The primary financial incentive that has been used to encourage ADU production is waiver of SDCs. As noted above, Wilsonville already has this option in place, and has for many years.

- Establishing a set of pre-approved building plans for homes and townhouses with ADUs, or other similar measures to streamline the review process for development, could make some difference to homebuilders. However, with a greenfield development, there are many other review and permitting processes that will tend to take longer than the building permit review, meaning that streamlining one part of the process is likely to have a minimal impact.
- A marketing approach in which the City would help direct media attention to new homes built with ADUs could provide some incentive for builders, who would benefit from the free publicity, though the City would have to approach this carefully to avoid the appearance of bias towards a particular developer.

Section 5. Conclusions and Next Steps

ADUs in Frog Pond East and South could provide additional options for small rental and/or for-sale units at price-points similar to multifamily housing but at a neighborhood scale. This makes them an important part of the mix in this area, particularly if opportunities for multifamily development in the area are limited. Past surveys suggest that people value ADUs for intergenerational households, flexible space for guests or family members, and for rental income that can help them afford their own housing costs. These factors primarily apply when ADUs are owned along with the main home and managed by the homeowner, but this may or may not be the case when ADUs can also be sold as separate units. Subsequent additional outreach will gather additional information about community perspectives and preferences which could also influence the City's approach to ADUs.

Frog Pond East and South's greenfield context means that encouraging ADU construction in Frog Pond East and South will require influencing large professional homebuilders rather than individual homeowners. The City already has many important incentives in place, including exempting ADUs from SDCs and allowing land divisions to split them from the main house. While the City has seen little ADU production, this may be a factor of private restrictions that prohibit ADUs in some areas of Wilsonville. These restrictions are no longer allowed, and will not constrain ADUs in Frog Pond East and South.

Removing subtler regulatory obstacles including lot coverage, setbacks, and allowing ADUs with townhouses could help address some of the considerations that homebuilders noted would affect their interest in developing homes with ADUs. Metro's requirement that the City prevent homeowners' associations from requiring owner occupancy for units with ADUs could inadvertently serve as a deterrent to one model of building homes with ADUs that is intended to prevent the homes from becoming investor properties. The City may want to explore with Metro whether this condition could be modified to allow a temporary restriction to owner occupancy for a certain period after initial construction.