



UCLA ECONOMIC LETTER

REAL ESTATE AND THE MACROECONOMY

A partnership between the UCLA Ziman Center for Real Estate and the UCLA Anderson Forecast sponsored by the Ziman Center's UCLA Rosalinde and Arthur Gilbert Program in Real Estate, Finance and Urban Economics

MAY 2021

Monthly condensed analyses of crucial real estate and economic issues offered by the UCLA Anderson Forecast and the UCLA Ziman Center for Real Estate. In this May 2021 Letter, UCLA Luskin School of Public Affairs Researcher Rebecca E. Crane studies the boom in ADUs (Accessory Dwelling Units) and their impact on the Los Angeles housing crisis.

Crane's original research paper, "Transforming Homeowners into Landlords: A Survey of Homeowners with Accessory Dwelling Units in Los Angeles," is available [here](#).

How are ADUs Used? The Impact of Accessory Dwelling Units in Los Angeles

ADUs have the potential to aid the city's housing crisis. But how many of them will actually absorb new residents?

By [Rebecca E. Crane](#)

To address the state's housing shortage, California legislators adopted laws in 2016 to ease regulations on and encourage the construction of accessory dwelling units (ADUs)—small, secondary housing units on lots zoned for single-family homes. In the two years following the change in state law, the City of Los Angeles permitted over 6,000 ADUs, almost 10 times what was permitted in the decade prior.

In fact, ADUs represented half of all housing units permitted in the City of LA in 2018. However, it has been uncertain how homeowners will use ADUs. Anecdotal evidence suggests they may often be used as an office, guest room or short-term rental (such as Airbnb).

“The recent increase in ADU permits likely will not result in a large wave of new low-cost, long-term housing nor should they be considered a solution to the crisis in affordable housing in Los Angeles.”

The results of this paper indicate that the increase in ADUs will not result in a significant rise of low-cost, long-term rental housing.

I survey homeowners who received an ADU permit between 2013 and 2018 to determine how many use their property as a long-term housing unit or rental unit rather than as a short-term rental or for another purpose entirely. I analyze these results in relation to individual demographic factors from the survey as well as to neighborhood characteristics from the American Community Survey (ACS).

This paper concludes that, while they represent a positive addition to the rental housing supply, ADUs will not appreciably add to the supply of low-cost rentals, and should not be considered a solution to Los Angeles’ affordability crisis.

INTRODUCTION

Demand for housing in cities such as Los Angeles has vastly outpaced production. According to a May 2019 California Housing Partnership report, the County needs another half million affordable housing units to meet current demand (California Housing Partnership, 2019). For renters to afford the median monthly asking rent of \$2,471, they need to earn almost \$50 per hour—three times higher than the median hourly wage.

Accessory dwelling units offer a potential solution to this challenge. In low-density residential neighborhoods, ADUs could potentially double a parcel’s housing capacity and significantly increase the total number of housing units in the area. The Southern California Association of Governments estimates Los Angeles currently needs over 320,000 housing units to meet demand, and it will require another 130,000 units in the next 15 years. In Los Angeles, around a half million parcels zoned for single-family housing account for approximately 70% of the city’s residential land, suggesting ADUs have the potential to significantly increase the number of housing units across the city. And ADUs could do all this without seriously modifying a neighborhood’s built environment in the way that multi-residential apartments buildings would, thus limiting the potential homeowner opposition that multiunit developments projects receive.

California legislators passed new laws, effective 2017, to relax regulations around ADU construction and enable homeowners to more easily permit new units on their property. The goal, in part, was to increase the availability of affordable rental housing across the state, and particularly in cities suffering from a serious housing shortfall.

ADUs can increase low-cost housing in two ways: directly and indirectly. Homeowners can offer ADUs as low-cost rental units directly. As ADUs are most common in neighborhoods with high rates of single-family housing, ADUs might offer an affordable alternative to the single-family homes in the neighborhood. However, ADUs are smaller than the average rental unit and they frequently house family members and friends, complicating the question of affordability compared to rental housing as a whole.

Indirectly, ADUs lower costs by increasing the number of housing units on the market. Increasing the supply of housing should stabilize housing prices, improving affordability. But ADUs differ from other rental units in two important ways. First, not all homeowners use their ADU as a rental unit, so construction does not imply entry into the housing market. In turning their ADU (or main house) into a rental property, homeowners transform into landlords with new obligations to their tenants. And while ADUs have their own entrance, kitchen, and bathroom, these new resident landlords sacrifice some measure of privacy on their private property. Further, non-monetary factors motivate some homeowners to build the ADU, like a desire for a semi-independent, flexible living space for family, friends, or caregivers.

Second, if monetary reasons motivate a homeowner to build an ADU, then short-term rental housing can offer a more flexible—and potentially a more lucrative—means of capitalizing on the property investment. Los Angeles

recently implemented restrictions on using newly constructed ADUs as short-term rental properties; however, the effectiveness of these measures is yet to be determined.

This research investigates the promise of ADUs as low-cost housing through a survey of homeowners. Of the 6,500 homeowners with a permit, close to 5% completed the survey. Participants responded to a range of questions about ADU use, construction and financing, as well as several socioeconomic questions. I combine responses to questions about usage with responses to socioeconomic questions to understand what characteristics are associated with use as a long-term residential unit rather than a short-term rental or a non-residential property. Further, I examine the rents homeowners charge to understand how ADUs compare to other rental properties in the same neighborhood after accounting for size and relationship to the tenant.

The recent increase in ADU permits following the 2017 regulatory changes will not result in a large wave of new low-cost, long-term housing nor should they be considered a solution to the crisis in affordable housing in Los Angeles. Results of the survey suggest that the recent surge in ADU permits will just marginally add to the supply of low-cost, long-term housing in Los Angeles.

ADUs are a unique form of housing, as they are not always used as a separate housing unit. While homeowners are incentivized to build an ADU for a variety of reasons, they are primarily driven to share their private space by economic need or a familial relationship. Not all homeowners are willing to share their private space with a stranger, and high-income homeowners are more likely to use the ADU as an office or guest room rather than as a residence of any kind. This suggests that in Los Angeles, where a third of all single-family parcels are in block groups with a median income of more than \$100,000, the surge in ADU permits will not necessarily translate into a similar number of new housing units.

ADUs AS LONG-TERM, LOW-COST HOUSING

The majority of survey respondents do intend to use the ADU as a long-term residence. At the time of the survey, approximately two-thirds of respondents were using the ADU to house either a family member, friend, caregiver, or tenant. And homeowners who use the property as a rental unit overwhelmingly rent it out to long-term tenants rather than short-term lodgers. Nearly three quarters of homeowners using the ADU as a rental property had long-term tenants at the time of the survey. Only a fifth of respondents plan to use the ADU as a short-term rental in the future, whereas over half of all respondents plan to use it as a long-term rental.

One-sixth of the respondents have no plans to use the property as a separate residential unit; instead, they will use the ADU as a non-residential space, like a home office, a guest room, or some other extension of their primary residence. This is particularly true for high-income respondents who appear to have no immediate need for rental income. Over a third of homeowners who reported a very high annual household income (\$150,000 and above) on the survey plan to use the ADU as a non-residential space. And only a fifth of respondents who plan to use the ADU only as a non-residential space reported an annual income of less than \$150,000. This corresponds with previous research showing that in high-income communities trying to preserve their single-family home identity, homeowners are less likely to use their ADU as long-term housing and more frequently refer to the unit as a guesthouse. The half million single-family residential parcels where homeowners can pull permits to build ADUs in Los Angeles are most common in medium- to high-income neighborhoods. And yet homeowners in high-income neighborhoods are less likely to need the rental income ADUs might provide, suggesting ADUs have limited potential as a source of long-term rental housing.

The results of the survey suggest that the ADUs added to the long-term rental stock are not low-cost compared to equivalent housing in the neighborhood after accounting for the landlord-tenant relationship and the size of the unit. Nearly two-thirds of respondents with long-term tenants charge their tenants between \$1,000 and \$1,999 per month. This is comparable to the median gross rent for all units in the City of Los Angeles of \$1,474 per month (ACS 1-Year Survey, 2018). But ADUs differ from the average rental unit in two important ways. First, ADUs are smaller on average than most rental units in the city. Nearly half of the survey participants have a studio sized ADU, and only a fifth of participants have an ADU with two or more bedrooms. In comparison, half of the rental properties in Los Angeles have two or more bedrooms (ACS 1-Year Survey, 2018). The average rental price rises with the number of rooms in the rental unit. The average studio unit in Los Angeles rents for \$1,130 per month, the average studio ADU in the survey rents for \$1,588 per month. Second, ADUs differ from the standard multiunit rental property in terms of

the tenant-landlord relationship. Nearly a quarter of survey participants house family members or friends in their ADU, and the majority of participants with family members residing in their ADUs do not collect rent.

CONCLUSION

ADUs are a unique rental experience, providing tenants the opportunity to live in low-density, high owner-occupied areas that are frequently inaccessible to renters. However, ADUs have limited capacity to successfully meet the housing needs of urban areas like Los Angeles. Despite the recent surge in ADU permits, not all homeowners will be able or interested in building an ADU on their property. Based on this survey, we know that many homeowners who build an ADU in the coming years may choose not to use that property as a long-term residence—particularly those homeowners who can afford not to share their private space. **Significantly increasing the supply of housing in cities like Los Angeles will require more units that a single ADU on a parcel will provide. To meet current and future housing demand, policymakers and planners will need to consider policies that raise density levels more significantly across the city in the future.**

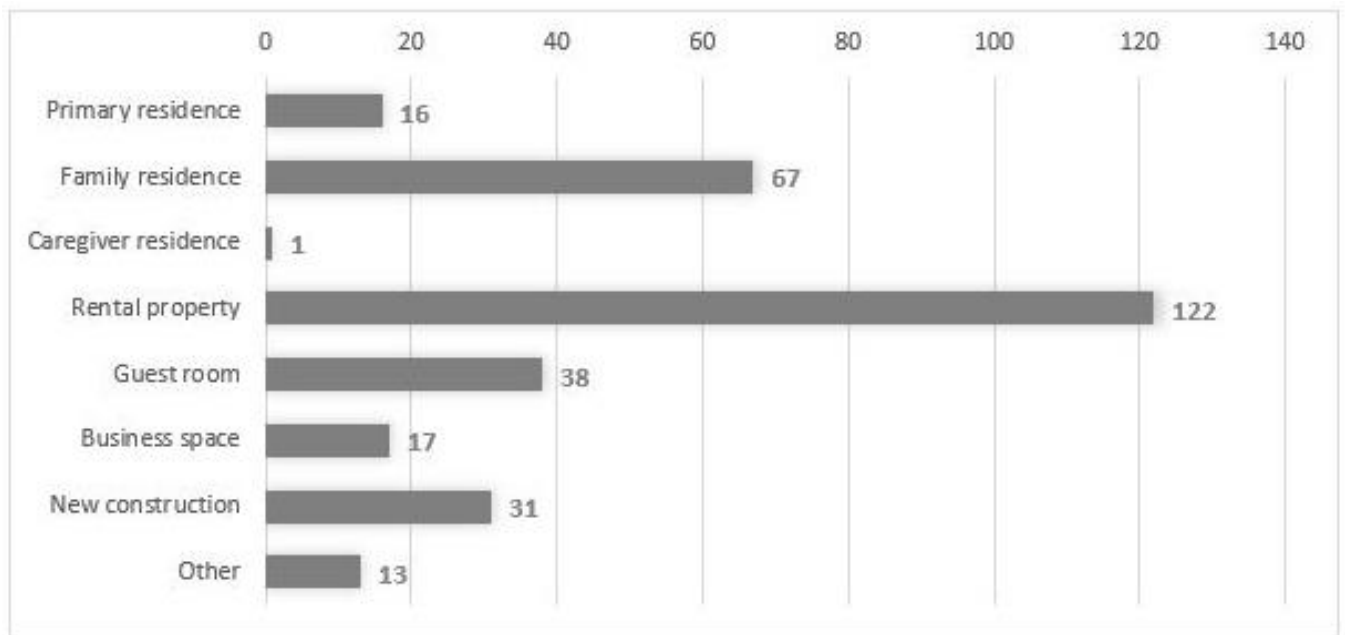


Figure 1. How Homeowners Currently Use their ADU

Question: "How are you using your ADU (second unit, garage unit, granny flat) most right now?" N=305

Thank you to the UCLA Ziman Center for Real Estate's [Howard and Irene Levine Program in Housing and Social Responsibility](#), the [Haynes Foundation](#), and the [University of California Los Angeles](#) for their support for this project.