
ULI District Council Task Forces
for Health and Social Equity

Unlocking ADUs

Policy Research and Convening
Lessons for Chicago



Message from ULI Chicago Leadership

We could not have anticipated it when we launched the ADU Initiative, but the COVID-19 pandemic has deeply impacted our lives and how we utilize our built environment. Since March 2020, Chicagoans, like people across the country and the world, are staying at home to slow the spread of the COVID-19 virus. The pandemic has underscored the importance of access to safe and affordable housing for all. ADUs can be an important tool in solving the increased housing challenges and we hope that the recommendations outlined in the report will help craft a successful, equitable ADU policy for Chicago and other communities.

Cover photo: Eric Allix Rogers

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ULI's District Council Task Forces for Health and Social Equity: One Program, Four Distinctive Deliverables

Beginning in August 2019, member-led task forces organized by ULI district councils in Chicago, Phoenix, Sacramento, and Tampa worked to address local policy and regulatory barriers to creation of healthier and more equitable places. These initiatives were part of ULI's District Council Task Forces for Health and Social Equity Project, led by ULI's Building Healthy Places Initiative with support from the Robert Wood Johnson Foundation. In addition to identifying a local challenge and executing an 18-month scope of work, each team was encouraged to document its project, outcomes, and recommendations, producing a deliverable that would meet the local need. The result is a library of four distinctive reports reflecting the work done in each city.

uli.org/taskforces

Urban Land Institute Chicago

The Urban Land Institute is a global, member-driven organization comprising more than 45,000 real estate and urban development professionals dedicated to advancing the Institute's mission of shaping the future of the built environment for transformative impact in communities worldwide.

ULI Chicago, a District Council of the Urban Land Institute, has nearly 1,400 members in the Chicago region spanning the land use industry including developers, builders, engineers, attorneys, planners, investors, financial advisors, academics, architects and public officials.

Technical Assistance Services Program

ULI Chicago's Technical Assistance Services (TAS) program allows local communities or government agencies an opportunity to access strategic advice from development experts that they could not obtain through any other process. Through its TAS program, ULI Chicago convenes a multidisciplinary team of ULI-member experts to address complex land use challenges and help sponsors find creative, practical and implementable solutions.

Sustaining Support

ULI Chicago gratefully acknowledges its sponsors, whose support is critical to local ULI initiatives:

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ULI Building Healthy Places Initiative

Around the world, communities face pressing health challenges related to the built environment. Through the Building Healthy Places Initiative, launched in 2013, ULI is leveraging the power of ULI's global networks to shape projects and places in ways that improve the health of people and communities. Building Healthy Places is working to make health, social equity, and wellness mainstream considerations in real estate practice. Learn more and connect with Building Healthy Places: uli.org/health

ULI's District Council Task Forces for Health and Social Equity

The ULI Chicago Accessory Dwelling Unit (ADU) Initiative is part of ULI's District Council Task Forces for Health and Social Equity program led by the ULI Building Healthy Places Initiative with support from the Robert Wood Johnson Foundation. ULI District Councils in Arizona, Chicago, Sacramento, and Tampa organized member-led task forces to explore solutions to local policy and practice barriers in order to promote healthier and more equitable communities. The collective findings and key takeaways from the four teams is documented in a national synthesis report. To view more resources from this project and the participating cities, visit uli.org/taskforces.

CONTRIBUTOR

Avison Young
Clayco, CRG & LJC
Conor Commercial Real Estate
Deloitte
DLA Piper LLP (US)
Eastdil Secured, LLC
Environmental Systems Design, Inc.
EQ Office
Focus
Gilbane Building Company
Goettsch Partners, Inc.
Gould & Ratner LLP
Heitman
Hinshaw & Culbertson LLP
HKS Inc.
Hyatt
JLL
Katten Muchin Rosenman LLP
LaSalle Investment Management
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Related Midwest
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Accessory Dwelling Units

Granny flats, in-law units, coach houses, casitas; whatever their name, “accessory dwelling units” or ADUs are gaining ground in cities around the country. Minneapolis made ADUs possible when it did away with single-family-only residential zoning in its new Minneapolis 2040 plan. In 2016, Washington, DC made ADUs permissible by-right in lower-density residential zones when it updated its zoning code. Los Angeles added more than 4,100 new ADUs in 2018 accounting for 20% of residential construction permits issued in the city.

What Are ADUs?

ADUs are smaller, independent dwelling units with a full kitchen and bathroom, and can be attached or detached from a primary residential building. ADUs

can be created in new construction and existing residential buildings by repurposing basement and attic spaces, by building an extension or as detached units in the backyard (Figure 1).

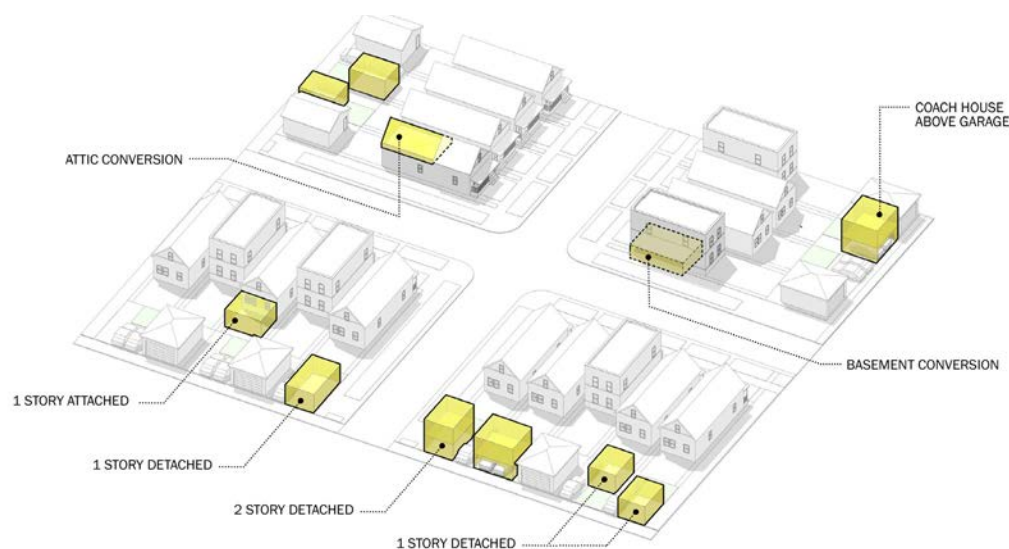


Figure 1. Types of ADUs
Source: Booth Hansen

ULI Chicago Initiative

ULI Chicago launched the ADU Initiative in August 2019 to develop a framework for a successful and equitable ADU policy for Chicago and to provide a potential model for communities across the region. The Initiative was launched with the following three goals:

- 1. Make It Easier to Build ADUs.** Identify the most significant regulatory, policy, technical and financial barriers to building ADUs and develop recommendations to help overcome them.
- 2. Improve Housing Affordability.** Explore opportunities for incentivizing affordable ADUs for middle- and lower-income households.
- 3. Build Community Support.** Engage diverse

groups in the planning process, proactively address potential concerns regarding ADUs.

As a part of the Initiative, ULI Chicago convened nearly 100 community, industry and public sector stakeholders in a series of workshops. Workshop participants worked collaboratively to identify the most significant barriers to building ADUs and developed strategies to help overcome the barriers, promote affordability and win community support. Supported by best practices research from other cities and analysis of Chicago’s housing stock and development trends, stakeholders worked together to develop the recommendations presented in this report.

Why Build ADUs?

ADUs help reinvigorate neighborhoods by creating more housing variety for different needs, from younger householders who want a small footprint to seniors looking to downsize but remain in their neighborhood. ADUs can also serve as a source of financial stability for homeowners, especially for seniors and others living on fixed incomes. Rental income from the ADU can help defray rising costs of home ownership, allowing them to stay in their home. In Chicago, allowing an additional unit could help tip the scale in favor of retaining a 2-4 flat¹ residential building vs. tearing it down and replacing it with a more expensive single-family home. In addition, because they are smaller and use non-primary spaces such as basements and backyards, ADUs tend to be more affordable than regular residential units in the same neighborhood.² Therefore, ADUs can help create more income-diverse neighborhoods and improve housing affordability. By bringing in new residents,

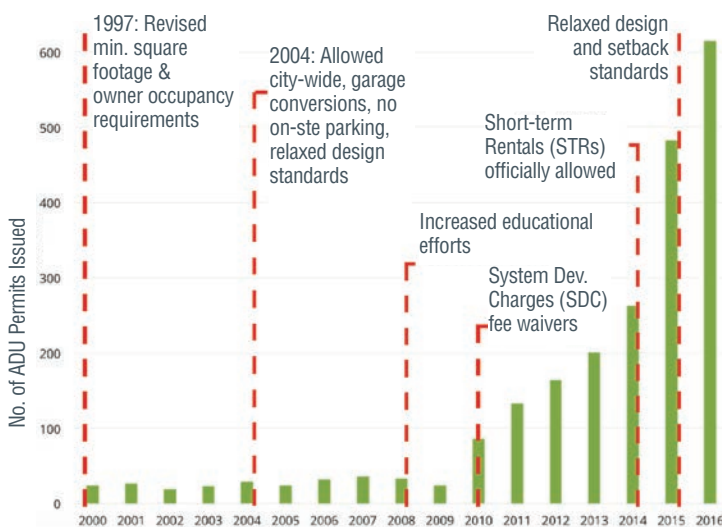
¹ A 2-4 flat is small residential building with up to four apartments; typically, two or three apartments are stacked on top of each other and accessed via a common entrance vestibule.

² California Budget & Policy Center. *Health Note: Senate Bill 13*. August 2019

ADUs also add to neighborhood vibrancy and can help build a stronger customer base for area businesses.

Not surprisingly, cities with predominantly single-family housing are increasingly looking at ADUs as a mechanism for increasing housing supply, choice and affordability. Although interest in ADUs is growing, barriers abound. Restrictive zoning regulations, red tape, costs to build coupled with limited financing options, and neighborhood resistance all make it challenging to build ADUs. In fact, after legalizing ADUs, many cities have initially seen only a handful of units built. It took strategic changes such as greater flexibility in site development standards, shorter and simpler approval processes, and increased technical support to encourage higher levels of ADU construction (Figures 2a and 2b).

In Illinois, HB 4869, the Local Accessory Dwelling Unit Act, was introduced in the Illinois General Assembly in February 2020. This bill bars local governments in Illinois from prohibiting ADUs on lots with existing or proposed residential buildings. Municipalities would be allowed to regulate the size and location of ADUs, but these regulations cannot be so restrictive that they have the effect of prohibiting ADUs.



2a: ADU permits issued and key ADU reforms, City of Portland



2b: ADU permits issued and key ADU reforms, City of Seattle

* In July 2019, Seattle passed comprehensive ADU reforms.

Figures 2a and 2b. Easing Restrictions, Increasing Flexibility and Spreading Awareness Are Key Factors in Promoting ADU Production

Source: Based on Turner Center analysis. Full report: Chappel, Karen, et. al. *Jumpstarting the Market for Accessory Dwelling Units: Lessons learned from Portland, Seattle and Vancouver*. 2017.

ADUs in Chicago

Historically, ADUs have been an integral part of Chicago’s urban fabric. 2-4 flats, which typically include a basement unit, have been a popular residential building type in Chicago, accounting for nearly 30% of total residential units.³ Renting the basement or the garden unit of a 2-flat while living in the unit above was common, and likely an important source of income for many Chicago homeowners while providing an affordable housing option for renter households. However, recent trends indicate that Chicago is losing its 2-4 flat housing stock at a rapid rate, and not surprisingly, its affordable housing stock (Figures 3 & 4).

If the de-converted or demolished 2-4 flat happens to be in an “RS” or single-family-only zoning district,

³ Chicago Metropolitan Agency for Planning. “Community Data Snapshots, Chicago Municipality.” *Community Data Snapshots*, July 2019

current regulations make it very challenging if not impossible to build a 2-flat again on that site. 55 percent of residential parcels in the city are in RS zones, which do not allow new ADUs to be built, even within the existing building envelope. RT and RM zones allow more than one unit on a site, but frequently other requirements, such as parking and open space, make it difficult to accommodate more than one residential unit on a site (see Figure 6 for information on Chicago’s residential zoning districts).

Building new coach houses or backyard houses is currently not allowed in Chicago. They were outlawed in the 1950s when Chicago’s population was booming, and the city likely feared overcrowding. Existing coach houses can remain but they cannot be expanded or reused as rental dwelling units if they have been

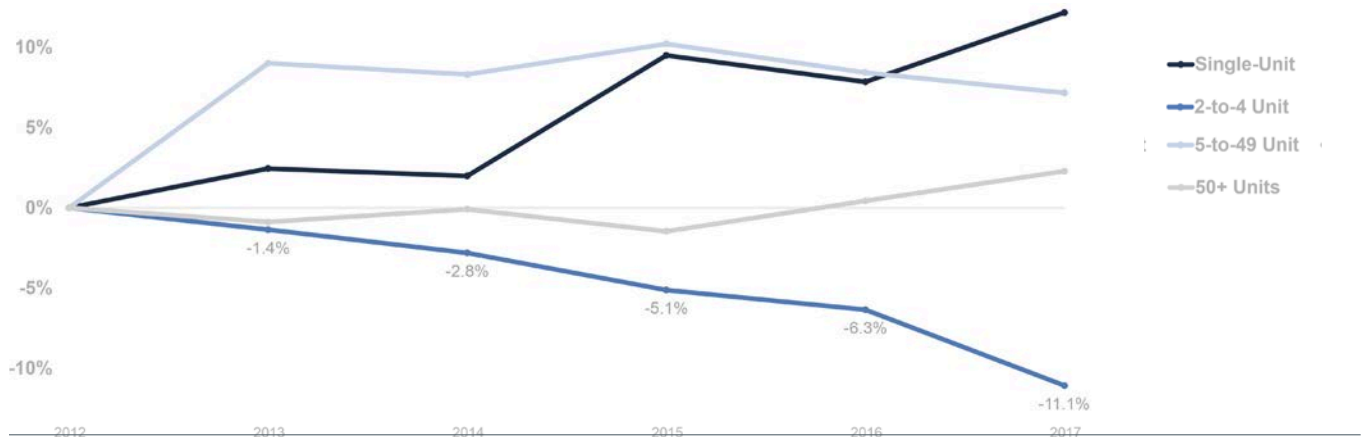


Figure 3. **2-4 Flats are Disappearing from the Rental Stock:** Indexed Change in Rental Units by Building Size in the City of Chicago, 2012-2017
 Source: Analysis by the Institute for Housing Studies (IHS), DePaul University, using US Census Bureau and Public Use Microdata Samples (PUMS) data

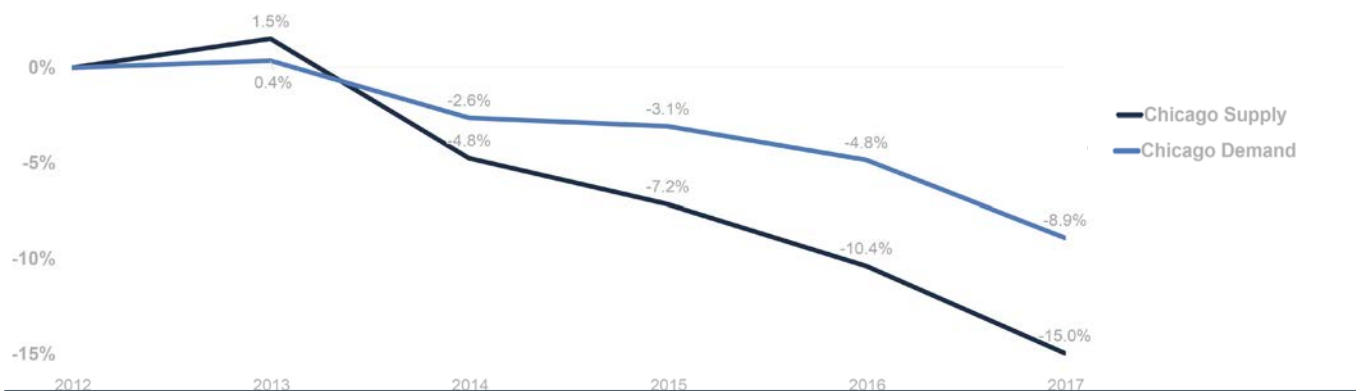


Figure 4. **Chicago’s Affordability Gap is Driven by Declining Supply:** Indexed Change in Affordable Supply & Affordable Demand in the City of Chicago, 2012-2017
 Source: Analysis by the Institute for Housing Studies (IHS), DePaul University, using US Census Bureau and Public Use Microdata Samples (PUMS) data

vacant for more than a year. Estimates indicate that there are more than 2,400 existing coach houses in Chicago (Figure 5).

Many multifamily buildings have unproductive vacant space in their basements and on the ground floor that is well-suited for conversion into residential units. But current zoning regulations, including off-street parking requirements, severely limit the ability to repurpose existing underutilized space to create additional units. Easing zoning restrictions to allow ADUs in multifamily buildings will allow property owners to deliver new units at relatively lower costs and generate additional rental income to help offset rising operating expenses. Using previously vacant ground floor space could also create a more vibrant street environment and stronger customer base for area businesses.

While the current zoning regulations in Chicago are not ADU-friendly, the city’s most recent five-year

housing plan explores policy change to encourage ADUs as a way to create affordable rental housing and increase homeownership opportunities.

Chicago is actively working to implement this strategy. An ordinance to make it easier to build ADUs is expected to be introduced in the Chicago City Council in spring 2020. City representatives have been active participants in the ULI Chicago ADU Initiative and have indicated that the stakeholder discussions and resulting recommendations have provided valuable input into the city’s ordinance drafting process. Our initial review of the proposed ordinance indicates significant alignment between the ordinance’s key provisions and the recommendations presented in this report. A comparative analysis of the introduced ordinance will be included as an Addendum.

City of Chicago Housing Plan

Plan Vision

No matter who you are or where you live in Chicago, every family and resident deserves the chance to make a great home, thrive and be proud of their community.

The plan states:

“The City will identify options to leverage building codes or zoning to create affordability through accessory dwelling units (ADU), which is an additional housing unit added to an existing property such as basement or attic conversions, “in-law” apartment units, garage or coach house conversions, or new construction. ADUs can offer relatively affordable housing for tenants and can help moderate income families become homeowners with the additional income. The City will work with partners to explore cost-effective, safe strategies or policy adjustments to increase this supply of housing, including new mandated and natural occurring affordable units.”

Excerpt from: City of Chicago. *One Chicago, Housing Strategies for a Thriving City, Five Year Housing Plan, 2019-2023.*

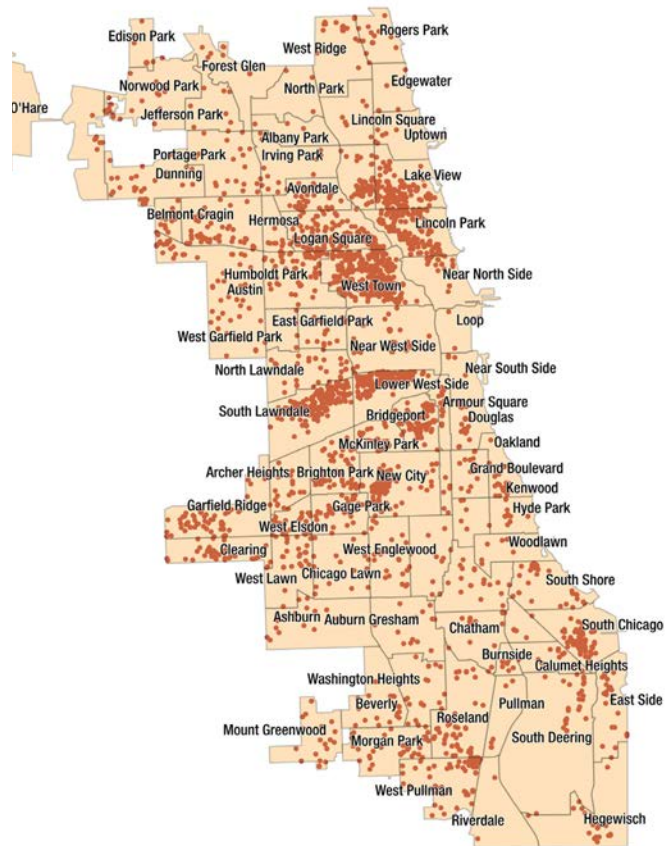


Figure 5. **Estimated Locations of Coach and Rear Houses in Chicago**
 Map Source: Vance, Steven. “Where Coach Houses are in Chicago.” *Chicago Cityscape*, March 2, 2019.

Notes: 1. Data for the map comes from the City of Chicago building footprints data layer and OpenStreet Map.
 2. Each of the 3,138 dots on the map represent a suspected coach or rear house; further validation revealed that approximately 77% (or 2,416 dots) are actually coach/rear houses.

Most Significant Barriers for ADUs in Chicago

Participants in stakeholder convenings identified the following as the most significant barriers and challenges for building ADUs in Chicago:

Zoning Regulations

Current zoning regulations either prohibit or make it difficult to build ADUs on most residential lots; new coach houses are not permitted.

Navigating City Processes

- **Permit application process.** Getting permits through zoning and buildings reviews can be time-consuming and complex, particularly for homeowners and smaller-scale property owners and developers.
- **Building inspections.** The ADU inspection could reveal other code violations in the primary dwelling requiring expensive repairs. In the absence of any programs to help bring the building up-to-code, some property owners may choose to avoid inspections by not legalizing an existing unit or building a new ADU.

Cost of Building

- Although ADUs are usually cheaper to build than a regular unit, they still require a significant capital investment which can be a barrier for many. Also, adding a new unit can trigger the need for infrastructure upgrades, such as a new water service line, which can be prohibitively expensive.
- Cost of building will be a greater barrier in neighborhoods with softer real-estate markets where going rents may not be high enough to recoup the cost of creating the ADU.

Financing

There is a lack of loan products that can be used to finance ADU construction, and most property owners rely on personal savings or equity in their existing home to finance ADUs.

Improving Health & Safety while Minimizing Displacement

- Anecdotal evidence suggests that like many cities across the country, Chicago has a significant number of “illegal” ADUs. These are mostly basement units that have been built without permits and are rented by households who cannot afford market-rate rents but are not able to access public or subsidized housing. While some of these units might be perfectly safe and habitable, others may not. Therefore, creating a pathway for legalizing these existing units by having them meet minimum health and safety standards, would create better housing conditions. However, once improved, these units are likely to fetch higher rents, potentially pricing-out former tenants. Minimizing displacement of lower-income tenants by providing access to rental subsidies and incentivizing property owners to continue to rent affordably should be an important consideration for the City’s ADU policy.
- Basement units face higher risks of water seepage and flooding. In the absence of appropriate water-proofing improvements, this can result in potentially unhealthy living conditions especially in neighborhoods with higher incidences of urban flooding.

Awareness and Knowledge

Even the best policies will have little effect if their intended audience does not know about them or how to use them effectively. Because homeowners and smaller-scale property owners/developers are essential to a successful implementation of any ADU policy in the city, it will be necessary to create awareness and build knowledge—both about the benefits of building an ADU on one’s property and how to do it.

Existing Residential Zoning Districts

This section provides a summary description of Chicago’s existing residential zoning districts and bulk and density standards associated with each district. For complete details and up-to-date information, please refer to the Chicago Zoning Ordinance.^{3a}

Existing Zoning District Descriptions

RS, Residential Single-Unit Districts

RS districts are primarily intended to accommodate detached houses on individual lots. There are three RS districts – RS1, RS2 and RS3 – which are differentiated based on minimum lot area requirements (MLA) and floor/area ratios (FAR).

RT, Residential Two-Flat, Townhouse and Multi-Unit Districts

RT districts are intended to accommodate detached houses, two-flats, townhouses, and low-density, multi-unit residential buildings and provide a gradual transition between RS districts and higher density RM districts. The RT districts are differentiated primarily on the basis of allowed density (MLA per unit) and FAR. The RT4A designation is intended to accommodate and promote multi-unit buildings containing dwelling units which are accessible for people with disabilities.

RM, Residential Multi-Unit Districts

RM districts accommodate a wide range of housing types, including detached houses, two-flats, townhouses and multi-unit residential. They are however primarily intended for moderate to high-density, multi-unit residential buildings. In addition to MLA per unit and FAR, the five RM districts – RM4.5, RM5, RM5.5, RM6 and RM6.5 – are differentiated based on allowed building heights.

Existing Bulk and Density Standards

Selected bulk and density standards, particularly those that impact the ability to add an internal ADU or in the backyard of a residential parcel, are provided below for residential districts RS1-RM5. RM5.5 and higher districts allow greater density, FAR and height, making it less likely that these requirements will be significant barriers to creating ADUs.

Zone Name	MLA (square feet)	MLA/ Unit (square feet)	FAR	Max. Building Height (feet)	Rear Yard Open Space		Min. Front Setback (feet)	Min. Rear Setback (feet)
					sq.ft. per unit/ % of lot area, whichever is more	min. dimension of any side (feet)		
RS1	6,250	6,250	0.50	30	400/ 6.5	20	20 feet or 16% of lot depth, whichever is less	For detached houses: 28% of lot depth or 50 feet, whichever is less. For other principal buildings: 30% of lot depth or 50 feet, whichever is less. In buildings with 19 units or less and 33% accessible units, 24% of lot depth or 50 feet, whichever is less.
RS2	5,000	5,000	0.65	30	400/ 6.5	20		
RS3	2,500	2,500*	0.90	30	225/ 6.5	15		
RT3.5	2,500	1,250	1.05	35	100/ 6.5	12	15 feet or 12% of lot depth, whichever is less. Alternatively, the average front yard depth of nearest 2 lots.	
RT4	1,650	1,000	1.20	38	65/ 6.5	12		
RT4A	1,650	1,000	1.50**	42**	65/ 6.5	12		
RM4.5	1,650	700	1.70	45/47***	50/ 6.5	10		
RM5	1,650	400	2.00	45/47***	36/ 5.25	10		

Figure 6. Selected Bulk and Density Standards for Residential Zoning Districts RS1 – RS5

Source: Chicago Zoning Ordinance

Notes: There are several exemptions to the standards listed in the table above; refer the Chicago municipal code for a more complete overview of applicable standards.

* MLA/unit can be reduced to 1,500 square feet if more than 60% of similarly zoned lots on the same side of the block have more than one dwelling unit.

** Greater FAR and height (compared to RT-4) is available for multi-family buildings with 19 units or less where at least 33% of units are accessible.

*** For lot frontage less than 32 feet, maximum allowed height is 45 feet; for lot frontage more than 32 feet, maximum allowed height is 47 feet.

3a Chicago Zoning Ordinance and Land Use Ordinance, Chapter 17-2: Residential Districts, *Municipal Code of Chicago, December 18, 2019*, [library.amlegal.com/nxt/gateway.dll/Illinois/chicagozoning/chicagozoningordinanceandlanduseordinanc?f=templates\\$fn=default.htm\\$3.0\\$vid=amlegal:chicagozoning_il](http://library.amlegal.com/nxt/gateway.dll/Illinois/chicagozoning/chicagozoningordinanceandlanduseordinanc?f=templates$fn=default.htm$3.0$vid=amlegal:chicagozoning_il).

Characteristics of Residential Parcels and Buildings

Analysis by the Institute for Housing Studies, DePaul University

The Institute for Housing Studies (IHS) provided data analysis and mapping support for ULI Chicago’s ADU Initiative. IHS analysis, combined with the “on-the-ground” experience of industry and community stakeholders, helped illustrate the differences in housing conditions and needs in neighborhoods across the city. The analysis provided the context necessary for developing recommendations that are practical, implementable and equitable. Highlights and key findings from IHS’s analysis is presented in this section.

Key Findings

Distribution of Residential Zoning Districts

As illustrated in Figures 7 and 8:

- There are only a limited number of parcels with RS1 zoning designation and they are concentrated in a few community areas. In addition to those listed in Figure 7, South Shore (3.3%) and Kenwood (8%) are the only two community areas with more than 3% of their parcels in RS1 zone.
- The other single-family only zones, RS2 and RS3, are distributed throughout the city. Many community areas have a significant percentage of parcels with RS2 zoning, which is more limiting for ADUs than the RS3 zone. Many of these community areas are on the South and West Sides, which have been identified as priority investment areas by the city.

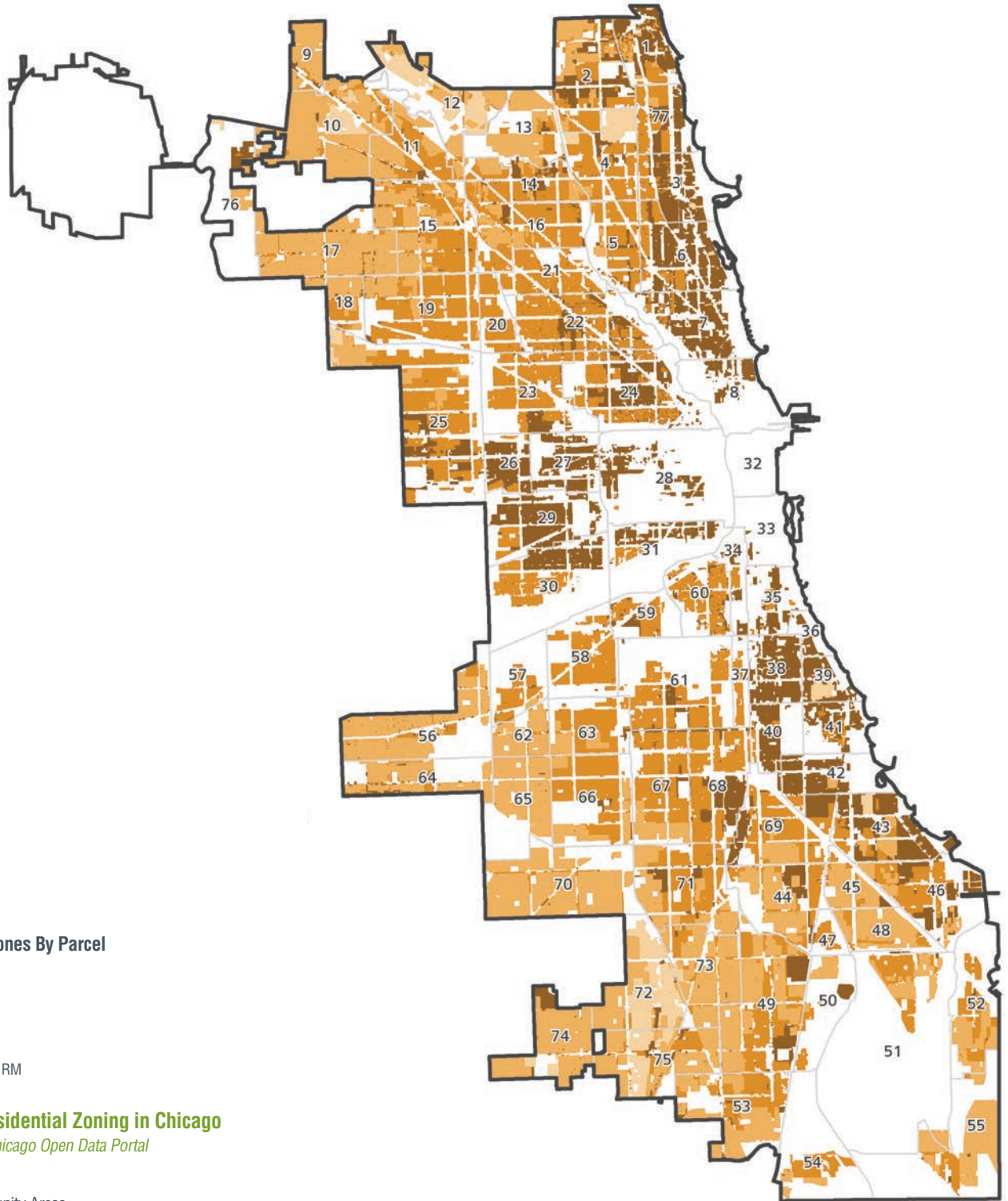
Com. Area No.	Community Area	Percentage of Residential Parcels		
		RS1	RS2	RS3
70	Ashburn		94.7%	3.8%
62	West Elsdon		90.9%	4.3%
74	Mount Greenwood	4.7%	90.7%	1.0%
65	West Lawn		89.5%	0.7%
56	Garfield Ridge		89.2%	5.8%
48	Calumet Heights		84.9%	13.8%
73	Washington Heights		83.7%	11.6%
45	Avalon Park		81.1%	14.4%
17	Dunning		79.3%	4.1%
9	Edison Park		75.4%	6.8%
10	Norwood Park	7.2%	73.4%	10.1%
64	Clearing		69.7%	11.3%
75	Morgan Park	16.9%	63.7%	12.3%
53	West Pullman		58.7%	35.8%
49	Roseland		58.1%	35.0%
18	Montclare		57.7%	28.9%
55	Hegewisch		57.3%	36.6%
44	Chatham		54.2%	27.1%
13	North Park		52.1%	27.7%
52	East Side		47.7%	47.0%
50	Pullman		46.6%	51.3%
12	Forest Glen	43.4%	44.2%	5.8%
11	Jefferson Park		43.8%	41.4%
72	Beverly	49.7%	43.0%	3.6%
15	Portage Park		42.2%	48.0%
71	Auburn Gresham		41.5%	48.8%

Figure 7. Top 25 Chicago Community Areas by Percentage of Residential Parcels in RS2 Zoning District

Source: IHS analysis of Cook County Assessor Data

Notes. 1. Universe: Parcels in Chicago by community area with a residential property (single family, condo, 2 to 4, 5+) as of the Cook County Assessor’s 2018 data.

2. “All Other Zoning Districts” include Downtown Districts, Manufacturing Districts, Planning Manufacturing, Planned Development, and Open Space.



Residential Zones By Parcel

- RS1
- RS2
- RS3
- RT and RM

Figure 8. Residential Zoning in Chicago

Data Source: Chicago Open Data Portal

Chicago Community Areas

1 Rogers Park	9 Edison Park	17 Dunning	25 Austin	33 Near South Side	41 Hyde Park	49 Roseland	57 Archer Heights	65 West Lawn	73 Washington Heights
2 West Ridge	10 Norwood Park	18 Montclare	26 W. Garfield Park	34 Armour Square	42 Woodlawn	50 Pullman	58 Brighton Park	66 Chicago Lawn	74 Mount Greenwood
3 Uptown	11 Jefferson Park	19 Belmont Cragin	27 E. Garfield Park	35 Douglas	43 South Shore	51 South Deering	59 McKinley Park	67 West Englewood	75 Morgan Park
4 Lincoln Square	12 Forest Glen	20 Hermosa	28 Near West Side	36 Oakland	44 Chatham	52 East Side	60 Bridgeport	68 Englewood	76 O'Hare
5 North Center	13 North Park	21 Avondale	29 North Lawndale	37 Fuller Park	45 Avalon Park	53 West Pullman	61 New City	69 Greater Grand Crossing	77 Edgewater
6 Lakeview	14 Albany Park	22 Logan Square	30 South Lawndale	38 Grand Boulevard	46 South Chicago	54 Riverdale	62 West Elsdon	70 Ashburn	
7 Lincoln Park	15 Portage Park	23 Humboldt Park	31 Lower West Side	39 Kenwood	47 Burnside	55 Hegewisch	63 Gage Park	71 Auburn Gresham	
8 Near North Side	16 Irving Park	24 West Town	32 Loop	40 Washington Park	48 Calumet Heights	56 Garfield Ridge	64 Clearing	72 Beverly	

Zoning for Existing Residential Buildings

As shown in Figure 9, most of the residential parcels in the city (55%) are in RS or single-family only zones, which under existing regulations are not conducive to creating ADUs. Slightly more than 25% of the residential parcels are in RS1 and RS2 zones.

Many residential properties in Chicago, especially older buildings, do not reflect the current zoning designation of their parcel.

- Out of the 677,228 parcels in Chicago with a residential property, only 77% of the parcels have a residential zoning designation.
- Larger apartment buildings are found in non-residential zones at a greater rate than other building types: More than a quarter of buildings with 5+ units are in business and commercial zones (20.9% in B- districts, 4.5% in C- districts).

- 65% of all 2-4 unit buildings are in RS or single-family only zoning districts. 60% of 2-4 unit buildings are on parcels with RS3 zoning.

Basements in Existing 2-4 Unit Buildings

Converting basements of existing buildings offers a relatively low-cost opportunity for adding new residential units in neighborhoods throughout the city. 2-4 flat buildings, which are common in most Chicago neighborhoods, can be particularly well-suited for basement units.

As per Cook County Assessor data, in 2018, more than 60% of 2-4 unit buildings in Chicago, that is nearly 77,000 2-4 flats, had a full basement. These include unfinished basements and “formal recreation rooms,” that may already have many of the improvements needed to create a residential unit. There is however no data available on the ceiling height and the general conditions of the basements, making it difficult to ascertain suitability or cost for conversion into a safe and healthy residential unit.



Participants discuss barriers to ADUs and brainstorm solutions at a stakeholder convening.

Zone Name	Single Family		2 to 4 unit		5+ unit		Condominium		All Residential Property Types	
	Count	Percentage	Count	Percentage	Count	Percentage	Count	Percentage	Count	Percentage
RS1	10,278	3.4%	174	0.1%	25	0.1%	1,148	0.5%	11,625	1.7%
RS2	152,277	50.8%	5,756	4.6%	398	1.9%	2,480	1.1%	160,911	23.8%
RS3	102,205	34.1%	74,768	60.1%	5,283	25.4%	19,732	8.5%	201,988	29.8%
RM and RT	23,820	7.9%	30,130	24.2%	8,215	39.5%	87,156	37.6%	149,321	22.0%
All Residential Zones (RS1-RS3, RM, RT)	288,580	96.2%	110,828	89.2%	13,921	66.9%	110,516	47.6%	523,845	77.4%
All Business Zones (B1, B2, B3)	2,234	0.7%	9,220	7.4%	4,351	20.9%	21,857	9.4%	37,662	5.6%
All Commercial Zones (C1, C2, C3)	706	0.2%	2,498	2.0%	946	4.5%	5,978	2.6%	10,128	1.5%
All Other Zoning Districts	8,523	2.8%	1,758	1.4%	1,605	7.7%	93,707	40.4%	105,593	15.6%
All Zoning Districts	300,043	100.0%	124,304	100.0%	20,823	100.0%	232,058	100.0%	677,228	100.0%

Figure 9. Residential Parcels by Zoning District and Building Type

Source: IHS analysis of Cook County Assessor Data

Notes. 1. Universe: Parcels with a residential property (single family, condo, 2 to 4 unit building, 5+ unit building) in Chicago as of the Cook County Assessor's 2018 data.
 2. "All Other Zoning Districts" include Downtown Districts, Manufacturing Districts, Planning Manufacturing, Planned Development, and Open Space.

Zone Name	Total 2 to 4 Unit Parcels	Eligible 2 to 4 Unit Parcels
RS1	174	133
RS2	5,756	4,244
RS3	74,768	49,362
RM and RT	30,130	18,261
All Residential (RS1-RS3, RM, RT)	110,828	72,000
All Business (B1, B2, B3)	9,220	2,913
All Commercial (C1, C2, C3)	2,498	875
All Other Zoning Districts	1,758	792
All Zoning Districts	124,304	76,580

Figure 10. 2-4 Unit Parcels with an Existing Eligible Basement

Source: IHS analysis of Cook County Assessor Data

Notes. 1. Universe: Parcels with a 2 to 4 unit property in Chicago as of the Cook County Assessor's 2018 data.
 2. An "existing eligible basement" is a parcel with a "Full and Unfinished" or "Full and Formal Rec. Room" basement description in the Cook County Assessor's data.
 3. "All Other Zoning Districts" include Downtown Districts, Manufacturing Districts, Planning Manufacturing, Planned Development, and Open Space.

Less Regulation Is More ADUs

Lessons from Other Cities

ULI's Building Healthy Places team reviewed ADU policy in several cities to understand which regulatory changes have been most impactful in promoting equitable ADU development. While there is significant variation in how different cities regulate ADUs, it is clear that a streamlined, cost effective process and flexible code requirements encourage more people to build ADUs. Key policy consistencies across cities with larger volumes of ADUs include:

- Allow ADUs on all lots where residential uses are permitted
- Allow attached ADUs (basement, attic or other carve-out unit and as additions) and detached ADUs (coach houses and cottages)
- Do not require off-street parking for the ADU
- Do not require the property owner to live on-site
- Allow flexibility in terms of size, height and placement of ADUs on the lot
- Minimize permit and other development fees
- Offer financial assistance programs for middle- and lower-income property owners

Note: AARP offers many resource materials on ADUs. For information on ADU policy in various cities, we recommend the 2019 publication titled *Accessory Dwelling Units: A Step by Step Guide to Design and Development*.



Crown Hill Detached ADU in Seattle: Contemporary two-level unit with a flexible space on the main level that includes a sleeping area, office and full bathroom with laundry—convertible for aging in place.

Credit: Design and photography by Sheri Newbold, live-work-play architecture and interior design

Recommendations for a Successful & Equitable ADU Policy for Chicago

Through an extensive stakeholder engagement process supported by data analysis and best practices research, ULI Chicago has prepared a framework of recommendations for the city as it considers adopting new ADU-friendly regulations. Our recommendations focus on incremental changes that will help overcome the most significant barriers to creating ADUs; providing regulatory relief or incentives beyond what is outlined in this report could further boost ADU production. While the recommendations are specific to Chicago, the overall framework could translate well to other municipalities in the Chicago region and beyond.

It is important to note that although the recommendations are organized in numerical order to make the report easier to follow, they don't reflect any prioritization of recommendations. Fostering equitable ADU development so property owners across the city, including homeowners and owners of smaller-scale

multi-family residential buildings, can successfully build ADUs, will require a multi-faceted approach to implementing recommendations. For example, changing the regulatory requirements should be accompanied with a robust program of technical and financial support targeted towards middle- and lower-income homeowners, who might not otherwise be able to build or rent an ADU.

While the city will need to implement many of the recommendations, other entities—including sister agencies such as the Chicago Housing Authority (CHA), non-profit organizations such as the Neighborhood Housing Services (NHS) and Community Investment Corporation (CIC), community-based organizations, professional associations, and development professionals willing to volunteer their time—can play a significant role in making it easier for property owners across the city to build ADUs.



Community and industry stakeholders, and City of Chicago representatives participated in multiple convenings organized by ULI Chicago to develop recommendations for a successful and equitable ADU policy for Chicago.

Recommendation 1: Key Components of an ADU-Friendly Zoning Ordinance

Easing regulatory restrictions that do not allow the creation of ADUs by either prohibiting them or making it very difficult to site them on typical lots is the first step in unlocking the ADU opportunity in Chicago.

Residential Zoning Districts

Allow ADUs in all residential zones, including the current single-family only, RS1-RS3 zones.

- RS zones contain the largest residential parcels in the City and are therefore more likely to have space for accessory units, making them suitable for such development.
- Interest in ADUs is rising. As per the 2018 AARP Home and Communities Survey, one in three respondents over the age of 18 said that they would consider building an ADU, and two-thirds of the respondents said they would live in an ADU. ADUs are appealing because they offer a unique opportunity to age-in-place or provide housing for a loved one, especially in established neighborhoods with access to amenities but not enough buildable land for new development. Homeowners in all residential zones, even in the most homogenous single-family zones of RS1 and RS2, should be afforded the flexibility to build an ADU if they choose to do so.
- Several Chicago neighborhoods, many of them on the south and west sides, have a large share of residential parcels in RS1 and RS2 zones (Figure 7). These neighborhoods will be disproportionately disadvantaged if ADUs are not allowed in RS1 and RS2. For example, in Roseland and West Pullman, identified as priority investment areas as part of Chicago's Invest South West Initiative, nearly 60% of all parcels with residential buildings are in the RS2 zone.
- Selective application of ADU zoning might encourage residents who are opposed to ADUs to seek downzoning.

- Frequently, the desire to maintain neighborhood character is cited as a reason for not allowing ADUs in lower density, single-family only neighborhoods. However, density and bulk controls can be more effective in maintaining the character of the built environment than a restriction on the number of units on a lot. Our recommendations for bulk control and site design are provided later in this section.

Commercial Zoning Districts

Allow ADUs in existing residential buildings on lots with commercial or other non-residential zoning.

This would allow all residential buildings with space to add ADUs to do so irrespective of the underlying zoning designation. As per an analysis of Cook County Assessor data by the Institute for Housing Studies (IHS), more than 25% of apartment buildings in Chicago with 5+ units are on lots with B- or C- zoning designations.

Consider allowing on a targeted basis, the conversion of chronically vacant ground floor commercial space in commercial and mixed-use zones into residential units.

- Chicago, like cities across the country, has an excess of ground level commercial space. Allowing these spaces to be retrofitted into residential units, especially in sub-optimal commercial/retail locations, can serve the dual benefit of activating vacant spaces and helping “right-size” commercial space.

- Ground-level commercial spaces are better suited for creating accessible units for those with disabilities or age-related mobility issues compared to basement units and coach houses above garages. We recommend that such units be required to meet accessibility standards set by the Americans with Disabilities Act (ADA).
- The City could consider a pilot to test the conversion of ground level commercial space into residential along corridors with limited commercial potential. For instance, if the block is not a primary commercial street and if there is a vacancy rate of 50% or more, it could be considered for partial or full conversion to residential use.

Permitted Use

Allow ADUs to be an “as-of-right” use instead a special use.

The approval process for a special use can be difficult to navigate for a homeowner and expensive because it typically requires professional assistance. The outcome is also inherently unpredictable, which can be a significant deterrent for many, especially for homeowners and smaller-scale developers with limited resources.

Existing Structure Requirement

Allow ADUs in new residential construction; do not limit to existing structures.

In neighborhoods with many vacant lots where single-family homes and even 2-4 flats likely once stood, ADUs should be allowed as a part of new residential construction. Limiting ADUs to older or existing buildings could be a significant disadvantage for neighborhoods that have lost a lot of their building stock and need to focus on activating vacant parcels (Figure 11). In some of these neighborhoods, constructing a new 2-3-unit residential building on a vacant lot could be more desirable or financially viable



Chronically vacant ground level commercial space can be repurposed to create accessible residential units.

Credit: @2020 Google

Community Area	No. of Privately-owned Vacant Parcels
Englewood	2,468
West Englewood	2,403
New City	1,867
North Lawndale	1,418
East Garfield Park	1,375
Roseland	1,323
West Pullman	1,175
Austin	1,164
South Deering	1,122
Humboldt Park	904
West Garfield Park	830
Auburn Gresham	795
Greater Grand Crossing	793
Near West Side	762
South Chicago	738
Morgan Park	686
Grand Boulevard	671
Woodlawn	621
West Town	532
South Shore	505

Figure 11. Top 20 Community Areas by Number of Privately Owned Vacant Parcels

Source: IHS analysis of 2018 Cook County Assessor’s Data.

Note: Vacant parcels owned by public agencies are not included in this figure; actual number of vacant parcels is likely to be significantly higher.

than building a single-family house. In such instances, allowing ADUs in new construction could mean the difference between whether a parcel remains vacant or gets developed, bringing new residents and stability to the block and the neighborhood. Also, when planned as a part of new construction rather than as a retrofit, ADUs can likely be built more efficiently and cheaply.



Newer 3-flat on a quiet street with a mix of residential uses in Chicago's Lakeview neighborhood.

Some worry that allowing ADUs as a part of new construction in neighborhoods with stronger real estate markets would encourage owners to tear down older, and likely more affordable, residential buildings and replace them with higher-end homes. However, as shown in Figure 12, in stronger markets, much of the 2-4 flat teardown activity is being driven by the demand for new construction single-family housing. The ability to add basement or attic units is unlikely to further incentivize significant teardown activity in these markets. On the other hand, limiting ADUs to existing, older buildings will reduce the number of residential units that can be built in new developments in stronger markets. Therefore, we recommend that the city allow ADUs in new residential construction in all neighborhoods.

Owner Occupancy

Do not require the property owner to reside onsite in the principal residence or the ADU.

As many cities have learned, this requirement can be excessively restrictive, making an ADU investment riskier and consequently less attractive for a homeowner. A life-change, such as a new job, might require a homeowner to move. If the city has an

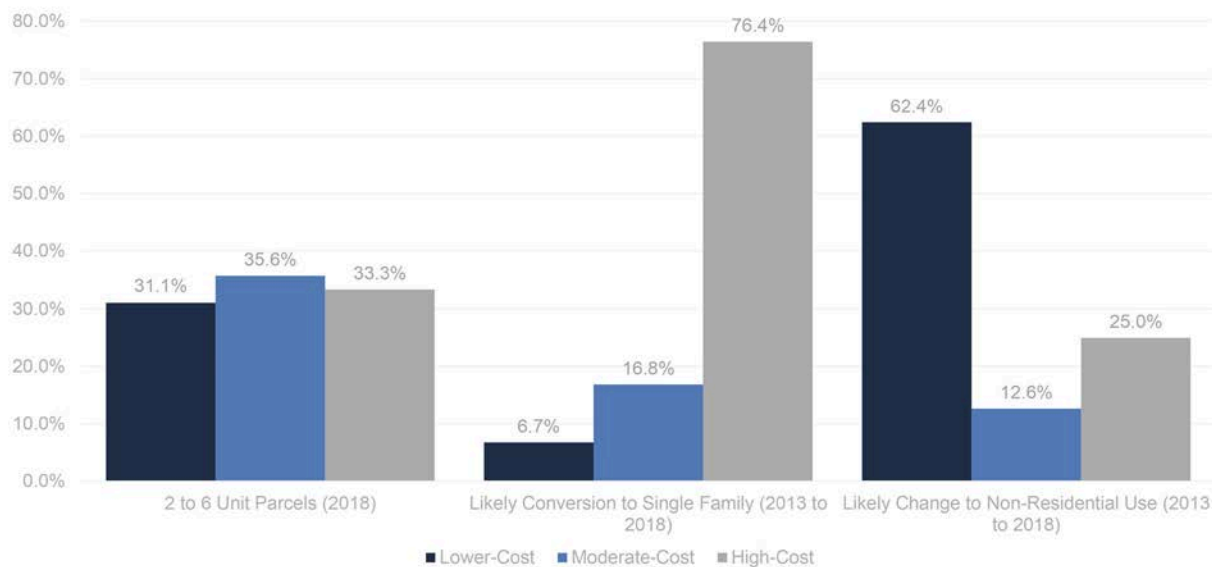


Figure 12. **Market Context for Lost 2-4 Flats:** Distribution of 2-6 Unit Parcels (2018) and Parcels that Shifted to New Category (2013-2018)
 Source: IHS calculations of Cook County Assessor's data

owner-occupancy requirement, the homeowner will not have the flexibility to rent both the principal and accessory units. Instead, they would be forced to stop renting the ADU or sell their property. In addition, owner-occupancy requirements reduce the value that appraisers can assign to the ADU, making the property less valuable overall. Alan Durning of the Sightline Institute refers to the owner-occupancy requirement as one of the poison pills of ADU legislation.⁴

Short-Term Rentals (STRs)

Do not prohibit short-term rentals in ADUs. Instead, subject ADUs to the same regulations for STRs as other residential units in the neighborhood or the city.

Given that ADUs are a significant investment for most homeowners, allowing greater flexibility in how ADUs can be used to generate additional income or meet other needs is likely to stimulate greater interest in building them. A report prepared by the Turner Center to study ADU development in Portland, Seattle and Vancouver,⁵ found that in Portland, ADU production surged after the City allowed their use as STRs in 2014. While it's likely that many factors, including a strengthening housing market, contributed to the increase in ADU production in Portland, easing restrictions on STRs appears to be a significant factor. In a survey conducted for the Turner Center report, 11% of respondents cited the ability to use their ADU as a short-term rental and another 11% cited the desire for a flexible future as the primary reason for building an ADU. The Turner Center survey also found that only 12% of ADUs were being used as short-term rentals, suggesting that even when homeowners do not use ADUs as STRs, they value the flexibility of being able to do so.

4 Durning, Alan. "ADUS AND DON'TS." *The Sightline Institute*, March 2013, www.sightline.org/2013/03/15/adus-and-donts/

5 Chapple, Karen, et al. *Jumpstarting the Market for Accessory Dwelling Units: Lessons Learned From Portland, Seattle, and Vancouver*. Turner Center for Housing Innovation, UC Berkeley, 2017.

6 Farquhar, John and Tierney, Jackson. "Easing ADU limits will boost long-term rental stock." *Mountain Xpress*, Asheville, NC, January 5, 2017. mountainx.com/opinion/easing-adu-limits-will-boost-long-term-rental-stock/

7 Li, Jun, et al. *Pros vs. Joes: Agent Pricing Behavior in the Sharing Economy*. Ross School of Business Working Paper Series, Working Paper No. 1298, August 2016.

8 City of Seattle. *Accessory Dwelling Units, Final Environmental Impact Statement*. October 2018

Additionally, even the ADUs that are used as STRs can eventually become long-term housing, as the homeowner's needs change in the future. In Portland, a study found that within one year of licensing, nearly half of ADUs stopped being short-term rentals.⁶ This is consistent with the findings of a study on short-term rental housing operations in Chicago.⁷ Researchers compiled listing data from Airbnb, a leading short-term rental platform, for all stay dates in the Chicago area from December 1, 2012 to March 31, 2013. When they revisited 18 months later, they found that 49% of these original listings had exited the market. In addition to the hassle of marketing and maintaining a short-term rental unit vs. using it as a long-term rental, economics might not always be in the favor of short-term rentals. An Environmental Impact Study (EIS) completed by the City of Seattle for its ADU ordinance revealed that it was more profitable to rent an ADU as a long-term rental and this remained true across different parcel prototypes and real estate markets within Seattle.⁸



Older 2-4 flats make up a significant portion of Chicago's residential building stock.

Parking

We recommend that no new off-street parking be required for ADUs and additional parking relief be provided when building at-grade ADUs.

Given the relatively small size of the typical Chicago single-family residential lot (125 feet x 25 feet), the requirement to provide an additional parking space on site would make it very challenging if not impossible to build an ADU.

At-grade ADUs, even without meeting ADA's accessibility standards, can provide a more comfortable and accessible living environment for seniors and others with limited mobility. The current zoning code requires two off-street spots for every dwelling unit in single-family zones. We recommend that the city consider relaxing this requirement to allow the construction of ground-level ADUs. If the homeowner is building an at-grade ADU, allow the two required spots to be provided as tandem parking (one car behind another), and if the ADU is within a transit-served location, allow the elimination of one mandated parking space (see Figures 13a-c for potential ADU layouts on a typical Chicago lot).

There should also be an opportunity to add ADUs in multi-family residential buildings without providing new off-street parking. Many multi-family buildings

have underutilized ground floor and basement space that could be repurposed to provide new units at a relatively low cost, but don't have large enough lots to provide additional off-street parking. Waiving parking requirements for ADUs in such multi-family buildings could help in creating a significant number of units with affordable rents.

Regulating Density and Bulk

Our density and bulk recommendations focus on making it possible to build ADUs on most residential lots while maintaining open space and strengthening neighborhood character.

Minimum lot area (MLA) per dwelling unit is the primary mechanism for regulating density or the number of units, including ADUs, that can be built on a lot. Requirements for setbacks, open space, building coverage and height regulate the size and location of buildings on a lot. Internal ADUs such as basement and attic units, which are usually incorporated completely within the existing primary building, are not impacted by these requirements. Bulk and density regulations have a more significant impact on the ability to build backyard ADUs. Figures 13a-c provide layouts of different types of ADUs that can be created on a typical Chicago single-family residential lot by implementing the regulatory changes recommended below.

Parking Utilization

While residents are often concerned about lack of parking in their neighborhood, research shows that many residential parking spaces go unused even during peak demand times.

The Center for Neighborhood Technology (CNT) has found that mandatory off-street parking requirements in Chicago are resulting in significant oversupply. As a part of its research, CNT surveyed 41 rental multi-family buildings with more than ten units each; most of them located in the City of Chicago with a few in suburban Cook county. The sample included a mix of vintage and newer buildings, both market-rate and affordable, and near as well as away from the CTA rail system to capture a snapshot of parking demand across the City. CNT found that at 4 a.m., which would be a peak time for residential parking utilization, apartment buildings that had two parking spaces for every three units, were utilizing only one-half of the parking spaces. Even within a quarter mile of transit stops (CTA "L" stations), where only one parking space was provided for every two units, one-third of the parking spots were empty.

Source: Center for Neighborhood Technology, *Stalled Out: How Empty Parking Spaces Diminish Neighborhood Affordability*. 2016

Minimum Lot Area (MLA) per Dwelling Unit

We recommend waiving MLA requirements to allow the greater of one new ADU or 33% of the total legally established or permissible residential units. For lots that are eligible for more than one ADU, we recommend allowing both a coach house and an internal ADU, provided the ADUs meet other regulatory requirements. This change would allow a gentle increase in density of one ADU on lots with single-family and 2-3 flat buildings, two ADUs in buildings with 4 to 6 units, and potentially more units in larger multi-family buildings.

Under the current zoning code, typical residential lots in Chicago are not large enough to meet the MLA requirement for more than one unit. For example, in the RS3 zone, the typical lot area is 3,125 square feet and the required MLA is 2,500 square feet. If this MLA requirement is applied to every dwelling unit built on the lot, it would make typical RS3 lots ineligible for ADUs even if they were made an “allowed use.”

Setbacks

Front setback. No change is recommended to accommodate ADUs.

Side setback. Require the ADU to be set back at least 3 feet from the property line on one side of the property. On the other side, allow the ADU to be built up to the property line.

The 3'-0" minimum setback on one side of the ADU is required to maintain access for fire and safety

professionals. These setbacks requirements do not apply to the existing primary dwelling unit on the site.

Rear setback. Allow backyard ADUs as a permitted encroachment in the rear setback and subject to the same rules as other accessory structures. No change is recommended to the dimension of the rear setback.

Currently, if the rear property line is less than 10 feet from the center line of the alley, the accessory structure must be set back 2 feet from the property line to allow adequate passageway and turning radius for vehicles. Backyard ADUs should be subject to the same requirement.

Open Space

Regulate the minimum area of rear yard open space that must be provided while allowing greater flexibility in where it is located on the lot. Also, require a minimum separation distance between the primary house and the backyard ADU.

We recommend allowing the rear yard open space to be defined as a circle with a diameter of the minimum length required in the current zoning code, to be provided anywhere between the alley lot line and the rear wall of the primary residence. Porches that are open on at least three sides, open stairwells not more than 4 feet wide that entirely abut a wall of the primary house or the ADU, and other currently allowed structures, should continue to be allowed encroachments into the open space.



Front View



Side View

Single-family residence with a backyard cottage in the North Center neighborhood of Chicago.

Credit: @2020 Google

Figures 13a-c: Potential Layouts for Backyard ADUs on a Typical Chicago Single-Family Residential Lot

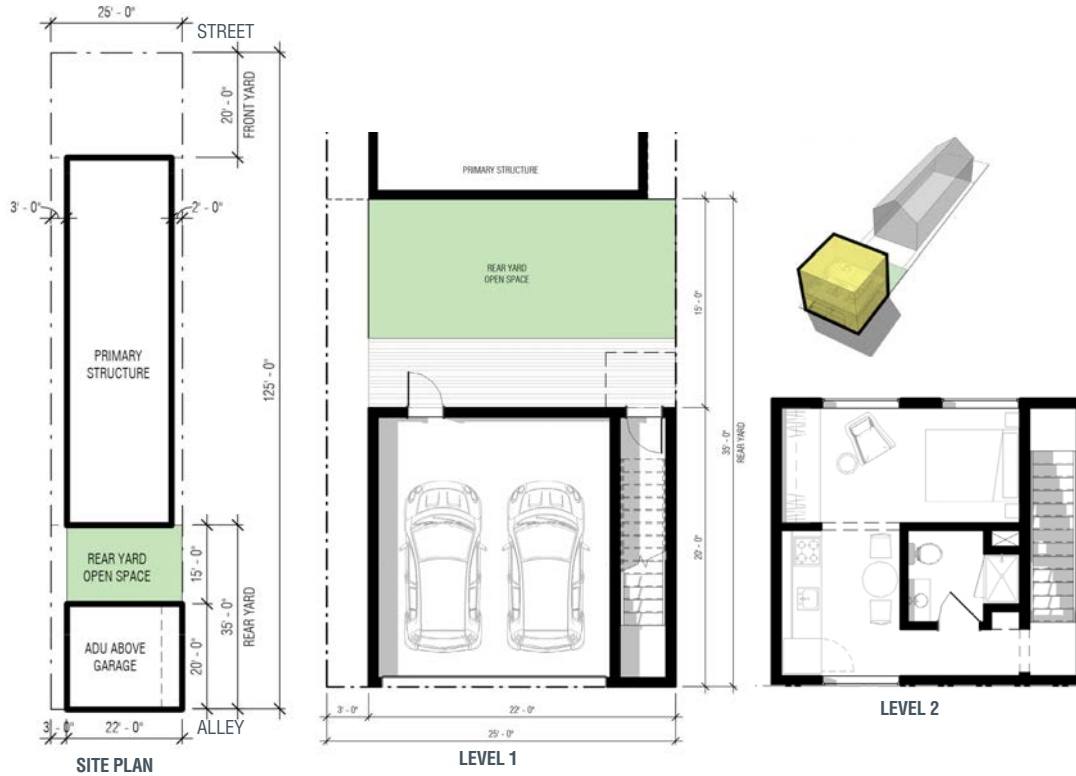


Figure 13a. Studio ADU Above a Two-Car Garage

- Key features include:
- Wider alley, 2' setback from rear lot line not required
 - Primary house built up to the rear setback line
 - Two off-street parking spaces
 - ADU size: 440 square feet (covers 50% of the rear yard setback)

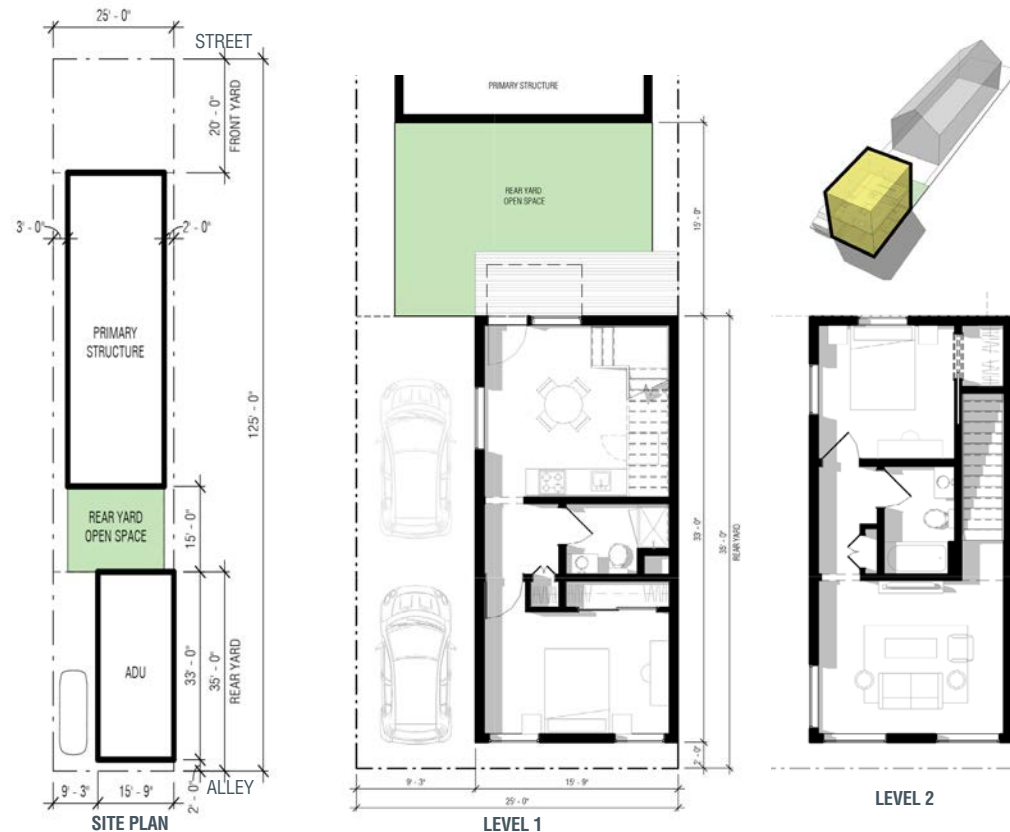


Figure 13b. Two Story, 2-Bed and 2-Bath ADU

- Key features include:
- One off-street parking space, option to provide another tandem parking space
 - ADU size: 1,050 square feet on two levels (covers 59% of the rear yard setback)

Source: Sketches by Booth Hansen

The appropriate minimum separation distance—the distance between the rear wall of the primary house and the front or side wall of the ADU—should be based on an analysis of existing lot and building sizes in different neighborhoods. We recommend a separation distance of at least 15 feet to maintain open space while still allowing a backyard ADU on most residential lots.

Building Coverage

Limit the total footprint of the accessory structure, including the dwelling unit and garage, to 60% of the rear yard or 700 square feet, whichever is less.

Height

Increase the maximum allowed height for accessory structures such that they can accommodate two stories. Allowing two stories in accessory structures would make it possible for property owners to add a dwelling unit above their garage or construct a larger, two-story coach house in their backyard. We recommend that at minimum, the allowed height of accessory structures be increased to 20 feet. Going a little further and setting the maximum allowed height at 22 feet, would help create a more spacious ADU interior. Also, it would make it easier to build pitched roofs while maintaining a ceiling height of 7'-6" instead of the minimum 7'-0" requirement.

Floor/Area Ratio (FAR)

Backyard ADUs. Allow coach houses and backyard cottages to be exempt from FAR requirements. Allow restrictions on building coverage and height to control the size of the structure.

Basement and Attic ADUs. No change is recommended from existing code requirements. In the current code, basement spaces that are more than 50% below ground level are not included in floor/area calculations. We recommend applying the same rule when a basement is converted into a dwelling unit. Attic spaces with a clear height of 6'-9" or more are counted towards floor area in the current code. Attic units, which must have ceiling heights of at least 7 feet, will therefore be subject to applicable FAR and height restrictions based on the underlying zoning designation of the lot.

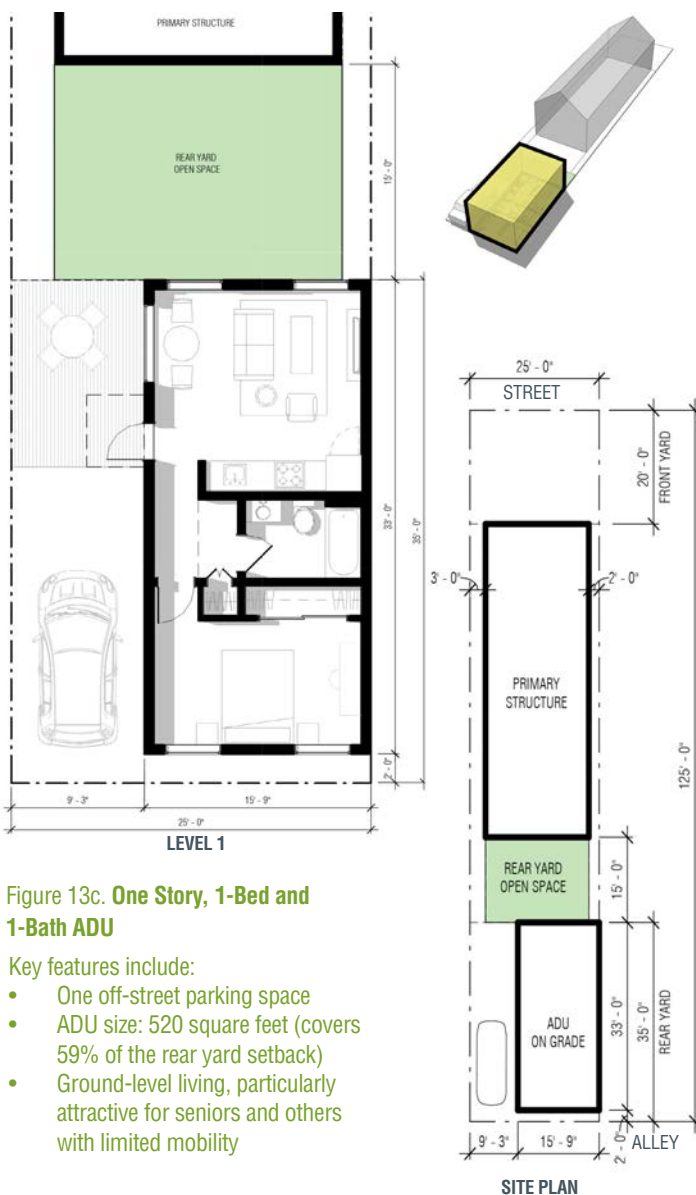


Figure 13c. One Story, 1-Bed and 1-Bath ADU

Key features include:

- One off-street parking space
- ADU size: 520 square feet (covers 59% of the rear yard setback)
- Ground-level living, particularly attractive for seniors and others with limited mobility

Recommendation 2: Key Components of an ADU-Friendly Building Code

Chicago has adopted a new building code that will be mandatory starting August 1, 2020. Modeled on the International Building Code (IBC), Chicago's new code includes many ADU-friendly regulations, which are highlighted in this section. We recommend that the city and partner organizations continue a robust program of outreach and education to create greater understanding of the new code requirements and how they might benefit homeowners and smaller property owners.

Smaller Residential Buildings (R-5 Occupancy)

Recognizing that smaller residential buildings do not need to meet the same building code standards as much larger buildings with higher levels of occupancy and usage, the new Chicago building code includes a separate occupancy category, R-5, for smaller residential buildings. The code defines smaller residential buildings as those with 1-3 units and no more than four stories in height. Key differences for R-5 buildings include:

- Not required to meet accessibility standards unless they are a part of a planned development
- Not required to have sprinklers
- Can be built with 20% reduction in design wind loads and do not need to meet seismic requirements

Single-family homes and 2-flats would still be considered an R-5 occupancy category after adding an ADU and would not trigger additional code requirements.

Wood Frame Construction

Wood frame construction can be very cost-effective for building smaller, energy-efficient buildings such as backyard cottages and coach houses. The new building code provides additional flexibility for wood frame buildings. Such buildings now have no minimum setback requirement compared to the minimum 2'-6" setback required previously. Instead, if the building is closer than 3 feet from the property line, it is now subject to an increased fire resistance requirement

and limits on the size of windows or other openings. This increased flexibility makes it easier to fit backyard cottages and coach houses on the typical 25 foot wide Chicago lot.



The new Chicago building code has a separate occupancy category with more flexible requirements for smaller residential buildings.

Reduced Minimum Ceiling Heights

The new code allows 7'-0" ceiling heights instead of 7'-6", potentially reducing or eliminating the need for excavation to meet the height requirements in basement units or building dormer windows in attic units.

Minimum Space Dimensions

The new Chicago code maintains the flexibility provided by the previous code regarding minimum space dimensions, allowing property owners greater flexibility in retrofitting basement and attic spaces into dwelling units. Unlike the IBC, the Chicago code does not regulate minimum room dimensions; the minimum requirements are only for room size. Habitable spaces are required to be at least 70 sq. ft. and single-room living areas (studio units) must be at least 180 sq. ft. Spaces with plumbing fixtures (that is, kitchens and bathrooms) must comply with minimum clearance requirements for plumbing fixtures.

Exiting Requirements

The new Chicago code provides increased flexibility in exiting requirements by maintaining many of the provisions of the previous code and enhancing them based on IBC. There continues to be no new requirement for egress windows as Chicago's code relies on stricter requirements for exit stairs. The Chicago code allows steeper stairs and tighter winders than IBC. The new code will allow narrower spiral staircases like IBC and allow steeper stairs or ladder access to loft spaces.

Residential Mezzanines and Lofts

Mezzanines and lofts are not counted as an additional story under the new building code, making it easier to add them in smaller—no more than four stories—residential buildings (R5 occupancy classification in the new building code). Mezzanines can also be larger in size but need access via conventional stairs; lofts cannot have plumbing fixtures but can have ladder access.

Electrical Disconnects

Electrical disconnects can now be located outside of residential buildings instead of a common access space within the basement, making it easier to create a basement ADU with private access.

Plumbing

The City of Chicago tentatively plans to roll out plumbing code reforms in Phase 3 of its Construction Code Modernization initiative. In formulating these reforms, efforts should be made to provide greater clarity on meter location, service size, and sewer requirements for ADUs.

Additional information on Chicago's new construction code for small residential buildings is available on the Department of Buildings (DOB) website at: www.chicago.gov/city/en/depts/bldgs/supp_info/small-residential-buildings-code-workshop.html.



Required minimum ceiling height for basement units has been reduced to 7'-0" in the new building code (compared to 7'-6").

Recommendation 3: Streamlined, User-Friendly and Solutions-Focused Process for ADUs

To encourage ADU construction in Chicago, we recommend that the application and review process be simple, unambiguous and expeditious. We also recommend that the city adopt a solutions-based approach to building inspections that focuses on improving health and safety rather than violations that do not pose a safety hazard.

Make It Easy to Obtain ADU Permits

For many homeowners and smaller-scale developers, navigating a complex application process can be daunting, besides being time-consuming and expensive. San Francisco, for example, was experiencing a serious backlog of ADU applications until the City established a streamlined, inter-departmental review process that offered applicants greater clarity and support in resolving code requirements. All ADU applications in San Francisco are now acted on within four months.

Creating a simple, streamlined process would result in ADUs getting built quickly and encourage more homeowners to explore the ADU opportunity adding to the much-needed housing stock in Chicago. Recommendations include:

- Create a user-friendly website, similar to Chicago's Large Lots program, for property owners to determine if they are eligible to build an ADU and to understand the steps involved. San Francisco's online ADU website could also serve as a model - <https://sf.gov/step-by-step/add-units-your-property>.
- Provide no-cost opportunities for potential applicants to meet with city staff or representatives from community-based, non-profit organizations to provide specific guidance on ADU potential for their property. A community intermediary who can help make an initial assessment regarding ADU feasibility would be an especially valuable resource for homeowners who might be hesitant to meet with city officials.
- Provide access to free or low-cost resources for design, construction and project management guidance. A guidebook including sample layouts and designs, checklists of "must-do" improvements, cost estimates, construction considerations, and financing sources could be a valuable resource for a homeowner, helping them understand what is required to build an ADU. The city should work with partner agencies such as Neighborhood Housing Services (NHS) in developing these resource materials. ADU information sessions, such as Austin's "ADU Tuesdays" where residents can learn about the city's ADU policy and programs, can also be very helpful.
- Create a coordinated process across city departments so that ADU applicants have a single point of contact at the city for their ADU questions and the application process. To the extent possible, the city should try to parallel process ADU applications across reviewing departments to shorten processing times. Adequate staffing and ADU-specific training for staff would be key in ensuring that ADU applications are processed in a timely fashion.
- Allow ADUs to be an eligible project under DOB's Self-Certification Permit Program, commonly known as "Self-Cert." This program simplifies the building permit process for eligible projects by eliminating plan review by DOB and allowing the Architect of Record (with active Self-Cert registration) to take full responsibility for code compliance. After zoning is approved, self-certified building permits are typically issued within ten days.

Practice a Strategic, Solutions-Focused Approach to Building Inspections

While essential for maintaining health and safety, building inspection to certify an ADU is ready-for-occupancy can be a challenging step for many homeowners. An ADU inspection could reveal other existing code violations on the property, resulting in unexpected and possibly significant fines and repair costs for homeowners. For many, this may be a significant deterrent keeping them from building an ADU or legalizing an existing unit that may have been built without proper permits.

Therefore we recommend a solutions-based approach to building inspections that prioritizes improving health and safety over violations that do not pose a safety hazard. Also, helping property owners reach compliance by connecting them with resources can ease the burden, especially for seniors and lower-income households. Programs such as Small Accessible Repairs for Seniors (SARFS) and Roof, Porch and Emergency Heating Repair could be bolstered with more money and expanded to assist income-eligible homeowners with a variety of necessary home repairs. Volunteer organizations such as Habitat for Humanity could organize service days to help homeowners fix code violations.

The Cities RISE program outlines the framework for a strategic approach to code enforcement that is proactive and equitable rather than reactive and punitive.⁹ Such an approach can result in fewer distressed properties and healthier neighborhoods overall. A strategic, proactive approach allows for an information and feedback loop across departments to identify “problem areas.” It encourages development of solutions at the macro-level to address the root causes instead of treating each incident as a “one-off” code violation. The Urban Institute provides a framework for strategic code enforcement for Memphis.¹⁰ Santa Clarita’s Extreme Neighborhood Program offers an excellent example of the benefits of strategic code enforcement (see below).

⁹ Cities for Responsible Investment and Strategic Enforcement (RISE). *The Power & Proximity of Code Enforcement: a Tool for Equitable Neighborhoods*. June 2019

¹⁰ The Urban Institute. *Strategic Housing Code Enforcement and Public Health, A Health Impact Assessment in Memphis, Tennessee*. October 2018

Santa Clarita, California: Extreme Neighborhood Makeover Program

The City of Santa Clarita started the Extreme Neighborhood Makeover program in 2005 in response to an increasing concentration of unsafe conditions and would-be code violations in its neighborhoods where residents were having a hard time keeping up with building maintenance. Recognizing that issuing increasing numbers of violations and fines would cause economic hardship to already overburdened households and might even result in eventual foreclosure, the city decided to take a different approach.

The city collaborated with various nonprofits, local businesses and community volunteers to sponsor kick-off block parties in target areas. Elected officials and city employees provided information about local regulations, grant programs, and other resources for homeowners and tenants. Local businesses and neighbors came out to eat, meet each other, and figure out ways to work together to improve their neighborhood. Each block party was followed up with a “heads-up” list of current violations from the city and staff continuously checked in with residents to clarify issues or connect them to resources. Through its Makeover program, the city reached almost 500 homes and, for a relatively low cost, improved compliance rates from 10% to 95%.

Source: Cities for Responsible Investment and Strategic Enforcement (RISE). *The Power & Proximity of Code Enforcement: a Tool for Equitable Neighborhoods*. June 2019.

Recommendation 4: Cost of Building

ADUs are usually cheaper to build than regular units but still require a significant capital investment. In this section, we explore strategies for achieving potential cost savings and provide general cost estimates for constructing ADUs in Chicago.

In general, ADUs cost less to build than regular units, particularly basement and attic units, which can be accommodated within the existing building. Even coach houses are typically less expensive because they are usually smaller and have no land acquisition costs. In San Francisco for example, the average cost to build an ADU in 2018 was estimated to be less than \$150,000 compared to \$500,000 for a regular unit in a new development.¹¹ The average cost to build an ADU in Portland, Seattle and Vancouver was \$156,000 according to the 2017 Turner Center study.

However, even when it is comparatively lower, the cost of building an ADU is a significant investment that can be a barrier for many. In addition, unlike traditional housing, there are fewer loan products available to help finance ADUs, making it harder for property owners who do not have access to personal or other non-traditional sources of funds. Financing barriers and potential solutions are discussed in greater detail later in the report under financing recommendations; this section provides general cost estimates and strategies for achieving potential cost savings.

¹¹ “National Planning Achievement Award For A Best Practice — Silver, San Francisco’s Accessory Dwelling Unit and Unit Legalization Program.” National Planning Achievement Awards 2018, *American Planning Association*. www.planning.org/awards/2018/achievement/.

FOLLOWING PAGE:

Figure 14. Potential Improvements and Associated Cost Estimates for Creating Basement Units in Existing Buildings

Source: Cost estimates are based on case studies provided by the Chicago Metropolitan Housing Development Corporation, Neighborhood Housing Services, and ADU Initiative participants, Greg Gibson and Jacob Chartoff.

Notes: Cost estimates are for a 900 square foot apartment and are intended to provide general guidance only. Actual construction costs can vary significantly based on existing building conditions and other factors.

Estimating Construction Costs for Basement Units

Figure 14 provides a list of potential improvements that may be needed to create a basement unit in an existing building and associated cost estimates. The estimates are based on case studies provided by stakeholder participants and are intended only for general guidance. Actual construction costs can vary significantly based on a variety of reasons, including existing conditions, quality of finishes selected, and the experience and skill level of construction professionals. In many buildings, creating basement units can be a cost-effective way of adding new units. On the other hand, for properties with structural challenges and history of significant flooding, creating safe basement units can be prohibitively expensive.

The cost estimates in Figure 14 are for an approximately 900 square foot basement unit with two bedrooms, one full bath and a kitchen. It is important to note that all of these improvements may not be required for all basement units. A basement which already complies with building code requirements and does not require significant structural work may cost less than \$75,000 to convert to an ADU. A basement that requires structural changes and more extensive improvements may exceed \$150,000. Construction contingencies and soft costs are not included in these estimates.

Potential Improvement		Potential Improvement Costs		
		Estimate 1 (lower cost)	Estimate 2 (higher cost)	Estimate 3 (no structural rework)
Site & Structure				
	Waterproofing: Regrading, drain tiles, sump pump & ejector pump	\$5,000	\$12,000	\$5,000
	Masonry repairs and caulking	\$1,500	\$2,500	
	New windows	\$2,500	\$4,000	
	Demolition of interior walls & finishes	\$2,500	\$3,500	\$2,500
	Sub-Total	\$11,500	\$22,000	\$7,500.00
Increasing Ceiling Height				
	Shoring for removal and new structural columns	\$5,000	\$8,000	
	Underground plumbing work for drains	\$1,500	\$2,500	
	Removal of existing slab, excavation & new concrete slab	\$10,000	\$14,000	
	Sub-Total	\$16,500	\$24,500	--
Upgraded Building Services				
	Upgraded water service	\$12,000	\$18,000	
	Upgraded electrical service	\$8,500	\$10,000	
	Sub-Total	\$20,500	\$28,000	--
Build-Out				
	Rough & finish carpentry for walls & ceiling: Wood framing & blocking, insulation, doors, frames & hardware	\$10,000	\$14,000	\$10,000
	Plumbing & Electrical work: Electrical distribution, outlets & switches, exhaust fans & vents for kitchen & bath, new water pipes, drains & vents	\$18,000	\$22,000	\$18,000
	Drywall, taping & paint	\$7,500	\$10,000	\$7,500
	Flooring	\$4,500	\$8,000	\$4,500
	Cabinets, counters, fixtures & appliances	\$4,000	\$6,000	\$4,000
	Sub-Total	\$44,000	\$60,000	\$44,000
Building Systems				
	Heating: Furnace and ductwork	\$8,000	\$12,000	\$8,000
	Hot water heater	\$2,500	\$3,000	\$2,500
	Sub-Total	\$10,500	\$15,000	\$10,500
Miscellaneous Construction Costs				
	Temporary facilities, storage, dumpsters, clean-up, etc.	\$2,500	\$3,000	\$2,500
Construction Sub-Total		\$105,500	\$152,500	\$64,500
Soft Costs				
	General Contractor	\$5,000	\$10,000	\$5,000
	Architect	\$6,000	\$8,500	\$6,000
	Permit Fees	\$500	\$2,000	\$500
Total Cost		\$117,000	\$173,000	\$76,000

A basement which already complies with building code and does not require significant structural work may cost less than \$75,000 to convert to an ADU (Estimate 3). A basement that requires more extensive improvements may exceed \$150,000.

Opportunities for Reducing Costs for Building ADUs

Design and Construction Solutions

Design Guides and Pre-approved Design

Building an ADU based on design guidelines developed for Chicago site and building conditions or using a pre-approved ADU design for backyard ADUs would reduce soft costs. It would also facilitate a smoother, faster permitting and building inspection process. The pre-approved designs could be used in conjunction with Department of Building's (DOB) self-cert program, which allows the project architect with a valid self-cert registration to bypass DOB review.

For example, the West Denver Renaissance Collaborative (WDRC) has five permitted designs for its ADU pilot program called the West Denver Single Family Plus (WDSF+) Initiative. This program is available to qualified moderate- and low-income homeowners. Seattle is working with designers and builders to develop preapproved construction plans for detached ADUs, which will be made available in an online gallery with images, description, and information about the designer.

Modular and Prefabricated Units

Prefabricated dwelling units are gaining in popularity as a potential mechanism for delivering new units at lower costs and could help bring down the costs for backyard ADUs as well.

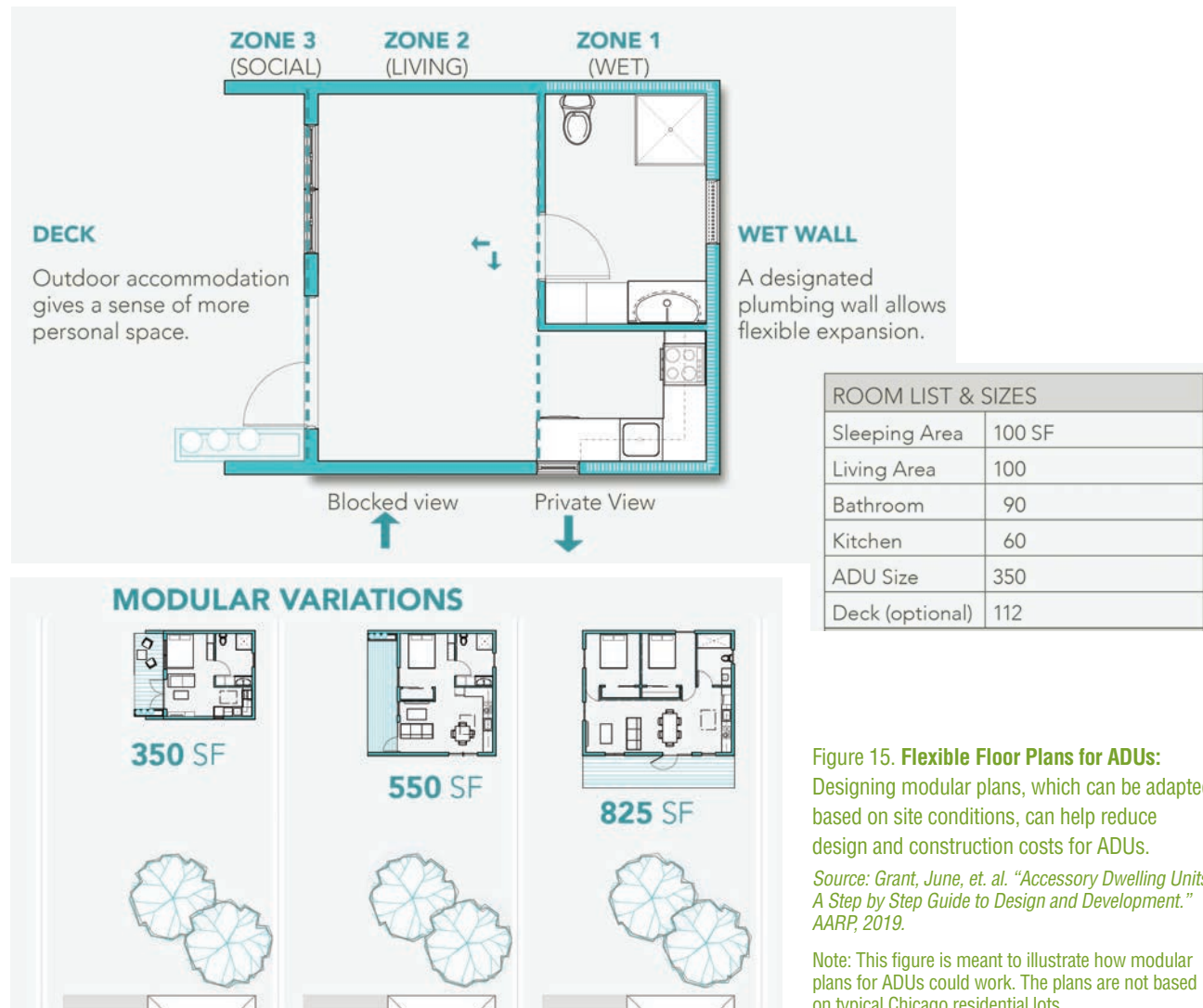


Figure 15. **Flexible Floor Plans for ADUs:** Designing modular plans, which can be adapted based on site conditions, can help reduce design and construction costs for ADUs.

Source: Grant, June, et. al. "Accessory Dwelling Units: A Step by Step Guide to Design and Development." AARP, 2019.

Note: This figure is meant to illustrate how modular plans for ADUs could work. The plans are not based on typical Chicago residential lots.

Dweller, a private company based in Oregon, builds and installs ready to rent, 425-square-foot prefabricated ADUs in backyards for \$130,000. Dweller's price includes design, permitting, construction and installation costs including utility connections and landscaping. It estimates that because of the modular, prefabricated design, its ADUs are 25%-50% cheaper than comparable units. In Chicago, Skender, a design, construction and manufacturing firm, is manufacturing ten modular 3-flat residential buildings that will be assembled on vacant lots to provide affordable housing. These 3-flats can provide a potential template for developing modular backyard homes that meet Chicago's building code and other regulatory requirements.

Passive Design

Incorporating energy-efficient design features to create a "passive house" that requires minimal heating/cooling could result in operational cost savings and a healthier living environment in the ADU. For example, Community Investment Corporation and Elevate Energy's Energy Savers program has helped finance energy-saving retrofits in over 10,000 units in multi-family buildings including 2-4 flats.

"Bundling" ADU Construction

Neighborhood organizations or small-scale developers could identify opportunities to build multiple ADUs in a neighborhood at the same time, helping achieve economies of scale.

General Contracting and Project Management Services

Non-profit or other community-focused housing organizations can likely provide these services at lower than market costs. Access to a list of architects, contractors and other professionals with expertise in building ADUs, would also be an useful resource for property owners.

Permit and Other Fees

Permit and inspection fees, fees for utility connections, and when applicable, development impact fees can be a significant portion of the cost to build an ADU. While recognizing that some fees are necessary to help fund ADU-related city services, we recommend minimizing fees and perhaps waiving them on a sliding scale based on income-eligibility of the applicant to encourage ADU production. The city could tap into resources that fund its affordable housing programs to cross-subsidize the fee reductions and waivers.

In 2010, Portland waived development fees covering sewer, water, and other infrastructure connections, reducing costs by as much as \$11,000 per unit. In 2013, the city received almost 200 ADU applications, six times more than the yearly average from 2000 to 2009.¹² Permit fees in Chicago are much lower, especially when renovating an existing unit or creating a new unit in an existing building. We recommend continuing to keep permitting costs low and explore opportunities for further reductions based on income-eligibility of ADU applicants.

Cost Sharing for Infrastructure Improvements

Water Line Upgrade

Upgrading the water service line to meet the increased demand from additional fixtures and users is likely to be one of the most expensive improvements in most ADU projects. The current process of determining whether a new service line is needed can be opaque and does not necessarily consider the higher water efficiency of modern fixtures. Creating an easy-to-use chart that clearly correlates service line sizes to number and type of fixtures would be a helpful resource for property owners.

In instances where an upgraded service line is required, the property owner would be replacing the existing lead service line, effectively eliminating a health hazard for current and future occupants of

¹² California Budget & Policy Center. *Health Note: Senate Bill 13*. August 2019

the dwelling unit(s). Chicago could consider a pilot program to help property owners finance the replacement of old lead water service lines, which could be tied to an affordability requirement for the new ADU.¹³

Waterproofing for Basement Units

Minimizing basement flooding, which could be from water leaks, seepage or sewage back-ups, might require a variety of improvements, ranging from less intensive interventions such as soil grading and rain gardens to perimeter drainage systems with sump pumps. Parts of the city that are more susceptible to flooding are likely to need the most intensive and most expensive improvements. A recent study on urban flooding by CNT shows that Chicago neighborhoods with a greater concentration of people of color and lower-household incomes are disproportionately affected by urban flooding. This is partly due to a lack of adequate stormwater infrastructure in these neighborhoods.¹⁴

The city should implement comprehensive stormwater improvements to reduce urban flooding, especially its disparate impacts in lower-income neighborhoods. The city should also explore opportunities for sharing the cost of waterproofing with property owners in these neighborhoods; the level of financial assistance could be based on the household income of the property owner and/or be tied to an affordability requirement for the ADU. As noted in the section on general cost estimates, waterproofing improvements can constitute a significant portion of the cost of building a basement ADU.

Property Tax Relief

The increased property value from an ADU is likely to result in an increase in property taxes effectively reducing the financial benefit of the ADU. However, relief from property taxes is available in some cases:

- The Cook County Tax Assessor offers a homeowner improvement exemption, which allows up to \$75,000 of home improvements to be exempt from property tax increase for five years. Therefore, a significant portion of the ADU improvement (if not all of it), should not result in property tax increase for the homeowner for at least five years, allowing them to recoup their investment sooner.
- If the property owner commits to long-term affordability for the ADU, the assessor is committed to providing a lower assessment value for the property, compensating in part for the lower rental income.
- Placing the property in the Chicago Community Land Trust (CCLT) can result in significant property tax relief.

¹³ Recognizing the significant public health benefit, many municipalities are working actively to facilitate lead line replacement. Philadelphia for example, offers free lead service line replacement to residents when crews work on water main on their street, whether crews break anything or not. Elgin, IL requires homeowners to replace lead pipes with financial assistance from the city when any groundwork is being done near their property. Source: Eng, Monica. "Chicago's Way Of Replacing Broken Pipes Can Increase Lead In Your Drinking Water." *WBEZ Chicago*, April 2, 2019. www.npr.org/local/309/2019/04/02/708900376/chicago-s-way-of-replacing-broken-pipes-can-increase-lead-in-your-drinking-water

¹⁴ Center for Neighborhood Technology. *Assessing Disparities of Urban Flood Risk for Households of Color in Chicago*. December 2018.

Recommendation 5: Financing

After regulatory restrictions are removed, the ability to get financing is often the next big hurdle for building ADUs. We recommend expanding financing options for owner-occupants and smaller property owners, who are likely to face greater challenges in accessing financing; strategies are presented below.

Financing Challenges

Owner-occupants and smaller multifamily owners will most likely need new financing tools to build ADUs. If a new ADU policy in Chicago allows basement units to be added in multi-family residential buildings without parking and other relief, larger rental owners may be able to pay to create these units with their own resources. Smaller owners, however, may need financing, which could be complicated, depending on the value of their building and the size of their first mortgage.

The challenge is likely even greater for owner-occupants. In the 2017 Turner Center survey of ADU owners, 54% of the respondents cited obtaining financing and paying for construction as their biggest challenge, and it is not difficult to see why. 30% of respondents relied on cash savings, 15% on other personal resources such as credit cards, and 40% borrowed against the equity in their home (via a home equity line of credit (HELOC) or a cash-out refinance of their existing mortgage) to build their ADU. Only 4% of respondents were able to borrow against the future expected value of the ADU to finance its construction (Figure 16).

Most residential loan products available today do not consider the future value of an ADU that is yet to be constructed or the potential rental income stream from an ADU. This stymies the ability of homeowners to get a traditional bank loan for an ADU. If they lack significant equity in their home or a high enough income, the Loan to Value (LTV) and Debt to Income (DTI) ratios become too high for them to qualify for a loan. Renovation loans, such as the Housing and Urban Development's (HUD) 203(K) loans and Fannie

Mae's HomeStyle loans, consider the after-rehab value of the property, but are not as widely used for ADUs, likely because of restrictive criteria. 203(K) loans cannot be used for detached ADUs and require using licensed contractors and approved 203(K) consultants.

Without easy access to a loan or sufficient personal savings, building even a lower cost ADU becomes financially infeasible for most homeowners. As Seattle's Equity Assessment Report found, in the absence of interventions such as ADU-friendly loan products, most ADUs are likely to be built by wealthier, asset rich homeowners.¹⁵ Overcoming the financing barrier is therefore key to an equitable ADU program that can

¹⁵ Office of Councilmember Mike O'Brien, Seattle City Council, District 6. *A Racial Equity Toolkit on Policies for Accessory Dwelling Units*. October 2018. <https://www.planning.org/knowledgebase/re-source/9162111/>

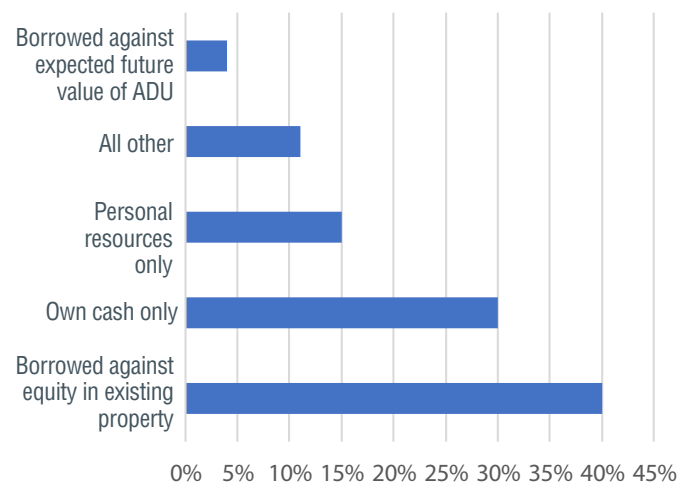


Figure 16. **Source of Financing for ADU Development**

Source: Based on 2017 Turner Center survey of 210 ADU owners. Full report: Chappel, Karen, et al. *Jumpstarting the Market for Accessory Dwelling Units: Lessons learned from Portland, Seattle and Vancouver*.

also both benefit moderate-income homeowners and increase ADU production across the City. Community focused financial institutions, housing non-profits and others are rising to the challenge. Innovative financing products are facilitating the surge in ADU production in many cities across the country. As Chicago considers adopting more flexible regulations to encourage ADUs, we recommend working with community partners and financial institutions to expand options for financing ADUs and reducing reliance on personal wealth for their construction.

Financing programs that offer a subsidy or provide savings over market-rate loans can be tied to income-eligibility requirements for ADU applicants or affordability requirements for the new ADU. It is important to note that the affordability requirement should be in proportion to the level of subsidy being offered. For example, a small grant to cover part of the pre-development costs, while very helpful to many income-eligible homeowners, might not be as attractive if it came with an affordability requirement that significantly reduced the rental income potential from the ADU for many years.

Financing Tools for Owner-Occupants

Bridge Loans

Shorter-term loans, which homeowners can use to construct the ADU and establish a rental income stream, can serve as a “bridge,” allowing homeowners to transition into a longer term, conventional mortgage. For example, Housing Trust Silicon Valley, a Community Development Financial Institution (CDFI) serving 13 counties in the Bay Area, is offering loans for building ADUs at the following terms:

- Second mortgage, maximum loan amount is capped at \$200,000
- 36-month loan term, 20-year amortization schedule
- Interest rate of 5%; interest only payments in the first year, principal and interest payments in second and third years
- The loan comes with the restriction of renting the ADU to a household at 80%-120% Area Median Income (AMI) for two years

Loans against Future Value of ADU and Rental Income

Local banks and other financial institutions in some cities have developed loan products with underwriting standards that use future value and rental income from the proposed ADU in determining loan eligibility. These loans are often backed by loan loss reserve pools funded by grants and philanthropic donations. The cash-out refinance program offered as a part of the Backyard Homes project in Los Angeles is based on these principles.

Grants or Low-Cost Loans

Even before breaking ground on an ADU, a homeowner can spend thousands of dollars on predevelopment services such as feasibility studies, architectural drawings and permit fees. This initial cost can be a hurdle, especially for homeowners with limited financial resources. Grants or low interest loans to help defray these costs, either through direct financial assistance or access to discounted professional services, can encourage homeowners to take the first step towards building an ADU. Such financing options could be made available on a sliding scale to income-eligible residents.

Private loan pools, funded by local philanthropic organizations, foundations and private donors, can be used to provide below-market loans for constructing ADUs. For example, Healthy Neighborhoods, a non-profit organization in Baltimore, created a \$30.5 million private loan pool supported by local banks and philanthropic organizations. This loan pool provides below-market loans to income-eligible homebuyers and homeowners to purchase or rehab homes to encourage investment in neighborhoods. While not ADU specific, the Healthy Neighborhoods loan pool provides a good model that can be replicated to encourage ADU investment in Chicago.

Boston also launched a pilot loan program to provide very low-cost financing for homeowners of 1-3 unit buildings interested in constructing an additional dwelling unit on their property. Interest-free loans of up to \$30,000 are available to homeowners with annual household incomes of less than 135% AMI

and less than \$75,000 in financial assets (excluding the value of the home, retirement accounts and college savings plans). Homeowners with incomes between 120-135 percent of AMI are required to match the city-funded loan 1:1. There is no match requirement for incomes below that. The loan has no monthly payments and is not due until the owner sells, transfers ownership, or undertakes a cash-out refinance of the home.

Shared Equity or Co-Investment

In this emerging financing model, companies provide cash in exchange for shared equity in the home equal to the value of the cash investment, plus a share in the home's future appreciation (or depreciation). Homeowners can use the cash to build an ADU. Because it is not a loan, there are no monthly interest or principal payments; the investment is paid back typically at the time of sale or at the end of an agreed upon time period. Homeowners could also choose to buy out the investment at any time. Specific terms of the agreement, including amount of cash available and how it can be spent, vary by company. Unision, based in San Francisco, allows homeowners to access up to 17.5% of their home value as cash to be used however they want.

Developer ADU Financing and Leasing

Another emerging innovative financing model for ADUs allows homeowners to build an ADU on their property for little or no financial outlay. Instead, the homeowner enters into a lease agreement with a developer who owns the ADU while they continue to own the land. The developer is responsible for all the construction and maintenance costs for the ADU and pays the homeowner a percentage of the rental revenue each month under a lease agreement. The property owner has the option of selecting tenants themselves. The property owner also retains the right to purchase the ADU at any time based on a declining buyout payment established in the lease agreement; at the end of the lease term, the property owner will own the unit outright.

An Oregon-based for-profit company, Dweller, which constructs and installs prefabricated ADUs for a fixed fee, also offers the financing model described above for property owners who are not able to or do not want to pay the entire cost of the ADU upfront. Other examples include United Dwelling in Los Angeles and ADU Builder in Palo Alto, California.



This second-story ADU was built over a two-car garage in Portland to generate rental income for the homeowner. The 650-square-foot ADU has two bedrooms, 1 bathroom and a “great room” with combined living, dining and kitchen areas.

Credit: Propel Studio Architecture, photo by Marshall Steeves

Selected Case Studies: Initiatives to Encourage ADUs and Improve Housing Affordability

The Alley Flat Initiative Austin, Texas

The Alley Flat Initiative is a collaboration between the University of Texas Center for Sustainable Development (UTCSD), the Guadalupe Neighborhood Development Corporation (GNDC), and Community Powered Workshop (formerly the Austin Community Design and Development Center) to build sustainable and affordable “alley flats” or small backyard houses on residential lots.

Homeowners in Austin who agree to comply with Austin’s SMART (Safe, Mixed-income, Accessible, Reasonably-priced, Transit-oriented) Housing requirements for 5 years are eligible to participate in the Alley Flat Initiative. Alley Flat Initiative clients receive architectural services, expedited review, and permit fee waivers in exchange for complying with sustainability and affordability requirements. During the 5-year compliance period for the SMART program, the rent for the alley flat is limited to 28% of 80% Median Family Income (MFI), which in 2019 was \$1,233.17/month for a studio or one-bedroom apartment.

Community Powered Workshop has a design catalog of house models that are designed to a budget and have a minimum of three stars on the Austin Energy Green Building Program Single Family rating tool. Clients can choose the house model most suitable for their site and needs or request a custom design for an additional fee.

For more information, visit: thealleyflatinitiative.org



Exterior and interior photos of a backyard house in Austin’s Clarksville neighborhood built as a part of Community Powered Workshop’s Alley Flat Initiative.

Credit: Community Powered Workshop, photos by Leonid Furmansky



The Backyard Homes Project

Los Angeles, California

LA-Más, a non-profit organization based in Los Angeles, in partnership with other non-profit and public agencies, launched the Backyard Homes Project in 2017 to help homeowners build affordable ADUs in their backyards. The pilot program, intended for ten homeowners in its first phase, serves as a “one-stop shop” for design, permitting and construction support. In exchange, homeowners commit to rent the ADU to a section 8 voucher holder for a minimum of 5 years.

The program includes optional financing in the form of a permanent mortgage product designed particularly for homeowners who have some equity in their homes but may not have the cash to finance an ADU. Eligible program participants can get a cash-out refinance with up to 90% Loan to Value (LTV). There is no requirement for mortgage insurance and up to 75% of future rental income from the ADU can be used to help qualify for the loan. Homeowners can choose from multiple design options for ADUs that include garage conversions as well as new construction ADUs. Each plan comes with a baseline cost that includes everything necessary to get a certificate of occupancy from the city including permits, surveys, materials and labor. The Backyard Homes Project is the result of many community partners coming together to provide the complete suite of services needed to build an ADU from start to finish:

- *LA-Más*: Program Management, Design, Permitting
- *Restore Neighborhoods LA (RNLA)*: Construction
- *Genesis LA Economic Growth Corporation & Self-Help Federal Credit Union*: Financing
- *LA Family Housing & St. Joseph Center*: Tenant Matching and Support
- *Housing Rights Center*: Landlord Training
- *Housing Authority of the City of LA (HACLA)*: Section 8 Program Management

For additional information, visit: www.mas.la/affordable-adus

WDSF+ Initiative ADU Pilot Program

Denver, Colorado

The West Denver Renaissance Collaborative (WDRC) launched an ADU pilot program in June 2019 as a part of its West Denver Single Family Plus (WDSF+) initiative to minimize displacement in west Denver. To participate in the WDSF+ ADU pilot, homeowners must have a property that is zoned for ADUs in a west Denver neighborhood and have an annual household income of 120% of area median income (AMI) or lower. Applicants must also be able to qualify for a new mortgage that covers the primary house and the ADU development costs.

The WDSF+ ADU pilot program provides significant cost savings for participating homeowners by using design-permitted ADU models. The cost savings along with development, design, financing, and construction assistance make it possible for moderate and low-income homeowners to build an ADU. WDRC also provides custom housing counseling services and property management training to program participants.

In exchange, program participants agree to the following terms:

- The ADU must be used for residential occupancy, and either the ADU or primary house must be occupied or rented by a household earning less than 80% current Denver AMI for a 25-year term.
- If rented, the monthly rent must be equal to or less than 80% Denver current AMI maximum rent.

For more information, visit: www.mywdrc.org/adu-pilot-program

Recommendation 6: Fostering an Equitable ADU Policy

Encouraging equitable development, where a variety of ADUs are built in neighborhoods across the city by property owners from a range of income, racial and ethnic backgrounds and at affordable price-points, will require a deliberate effort including direct subsidies. Crafting and implementing strategies that can help overcome the additional financial, technical and cultural barriers faced by lower-income residents and communities of color, should be an integral part of the city's ADU policy. Recommendations for equitable strategies are presented below.

Research shows that loosening regulations to allow ADUs and removing burdensome fees and requirements can spur ADU production. The increased supply of housing units is a great opportunity in cost-burdened housing markets and can help stabilize and even put a downward pressure on rapidly rising rents and sale prices. Research also shows that in the absence of policy interventions, most of the ADUs will be built by wealthy homeowner or property owners in the strongest residential markets within the city and rented at market rates. While these ADUs are likely to be more affordable than other types of dwelling units in the neighborhood, adding to its housing and income diversity, the market-rate rents will still likely be too high for many middle- and lower-income households.

Encouraging equitable ADU development that benefits all residents and neighborhoods in the city will require a robust program of targeted financial and technical assistance. Key elements that should be part of the assistance program are presented below.

Financial Assistance

The cost of building and securing financing are significant barriers for all property owners interested in building ADUs, but they have a disproportionate impact on lower- and middle-income households who are unlikely to have enough savings to build an ADU. In fact, representatives from non-profit agencies who are implementing housing assistance programs in the community, report that the second unit in many 2-flat buildings go unused because the owners, particularly seniors, lack the resources to perform basic maintenance and repair to keep the unit habitable.

Why Does Chicago Need an Equitable ADU Policy?

Equitable ADU development can help stabilize Chicago's lower- and middle-income families and neighborhoods:

- **Stronger Neighborhoods.** ADUs can make it easier to age in place and for multiple generations of families and community members to live together, strengthening the social fabric of the neighborhood.
- **Homeownership Opportunities.** Rental income from an ADU can help homeowners who might otherwise struggle with rising costs stay in their homes. By making homeownership easier through increased financial stability, ADUs can provide housing stability and an opportunity to build wealth.
- **Housing Affordability.** For renter households with limited means, the cheaper rent of an ADU such as a basement unit can provide housing stability and greater economic security.

Therefore, reducing the cost burden and providing financial assistance for renovating existing or building new ADUs is key to ensuring more equitable ADU development (see Recommendation 5 on financing for details). Financial assistance should be designed to serve the following policy priorities:

- Make it easier for property owners without sufficient personal income or savings to improve or build an ADU.
- When property owners receive financial assistance to create ADUs, the new units should be rented at affordable rates, so low-income households are not priced out.
- Encourage property owners to improve any existing “illegal” units to make them healthy and safe while minimizing displacement of existing tenants.

Financial incentives such as grants or low-cost loans should have specific requirements such as:

- Restrictions on income eligibility. A specific grant or other type of financial assistance could be limited to ADU applicants with income levels below a certain threshold.
- Affordability requirement for the ADU that is built using the incentive. In exchange for receiving financial assistance, the property owner would have to commit to rent the ADU at an affordable rent.

For financial incentives to be most effective, we recommend that they be designed such that affordability requirements correlate with the level of financial benefit being provided. For example, even after accessing financial assistance from the city or another source, a homeowner could incur significant costs to build an ADU and then operate it as a rental unit. If the rent is set too low to recoup their costs and potentially earn a small profit, most property owners may not choose to build the ADU at all.

To achieve a higher level of rental affordability that can serve the lowest-income households, we recommend exploring additional subsidies such as the Chicago Housing Authority (CHA)’s rental vouchers. CHA could consider a pilot program to allocate project-based vouchers to new ADUs in their “Mobility Areas” and provide technical assistance related to voucher acceptance for interested property owners as part of a streamlined ADU permitting and approval process.

Technical Resources

For the average homeowner and smaller-scale property owners the thought of building an ADU in their backyard or basement and then operating it as a rental unit can be overwhelming. Creating a streamlined application and review process and a centralized resource center for ADUs can be very valuable in helping overcome the knowledge barrier that can keep many potential ADU applicants on the sidelines (see Recommendation 3 on streamlining ADU application and review for details).

ADU resources, including guidebooks, should include plentiful illustrations and explanations to ensure that the information can be easily understood by those without design or construction experience. To ensure quality construction, especially in cases where special expertise might be needed, such as installing waterproofing in an existing basement, a trusted community partner should maintain a list of skilled, competent contractors. Once the unit is ready, guidance or assistance in recruiting tenants, and operating and maintaining the rental unit could be a valuable resource for many homeowners and help ensure a healthy and safe living environment for tenants.

In addition, key resource materials should be translated to other languages, especially Spanish, to make the information more accessible to a wider group of property owners.

Community-Based Intermediaries

Many residents might hesitate to legalize or build an ADU because they are not comfortable navigating a complex and time-consuming City Hall process. They might also be worried about opening up their home or property for a city inspection.

To help overcome this hurdle, we recommend building capacity in community-based, non-profit organizations to provide trained staff members who can help homeowners make an initial assessment of their property's suitability for an ADU. The community organization would serve as an intermediary, providing a free, no-obligation assessment of the

improvements needed to build an up-to-code unit and information on potential resources for the homeowner. Working with community-based intermediaries could make the entire process of building or legalizing an ADU, including interfacing with the city, much less daunting for many homeowners and encourage them to build new or renovate their existing space to create a safe and healthy unit.

In many cities, community organizations have developed innovative programs to promote equitable ADU development. These programs can serve as a model for Chicago; key features of selected programs have been included as case studies (Pages 34-35).

Funding Sources

Financial incentives such as reduced or waived permit fees, subsidies for costly infrastructure improvements like lead pipe replacement, and access to low cost loans can significantly boost ADU production. Restricting these incentives to income-eligible applicants and tying them to proportionate affordability requirements for the new ADU can provide stability for middle- and lower- income homeowners and create more affordable units, fulfilling important housing policy goals for Chicago. We recommend exploring a combination of public and non-profit or philanthropic resources to help pay for these incentives. Potential resources are presented in this section.

Public Resources

Chicago has many existing programs to fund new affordable housing and provide housing assistance to middle- and lower-income households. Some of the programs targeted to homeowners or homebuyers could be expanded to include ADUs. Existing city programs include:

Homebuyer assistance programs

The city offers assistance with downpayment and closing costs for income qualifying Chicagoans buying their first home or refinancing their mortgage. The city should explore if some could be expanded to help finance ADU improvement or construction.

Home-repair assistance programs

Funding for these currently oversubscribed programs should be boosted and expanded to help homeowners seeking to build ADUs. Programs include:

- Tax Increment Financing-Neighborhood Improvement Program (TIF-NIP), which provides home repair grants to owners of 1-4 unit buildings
- Small Accessible Repairs for Seniors (SARFS)
- Roof, Porch and Emergency Heating Repair Program (Formerly EHAP)

The Chicago Community Land Trust (CCLT)

The CCLT offers up to \$30,000 in home improvement grants and substantial property tax savings to homeowners who "opt-in" to the Trust, that is agree to sell their home at an affordable price when they sell. For some homeowners, this could be an excellent way to help finance the improvement or construction of an ADU.

Adopt-a-Landmark Fund

Buildings that are designated Chicago Landmarks or contributing buildings within a designated landmark district, except for residential buildings that have six units or less, can receive grants of up to \$250,000 for qualifying exterior renovation projects. Grants more than \$250,000 require City Council approval. This could help fund exterior work related to adding ADUs in buildings with a landmark status.

Chicago's Affordable Requirements Ordinance (ARO)

A portion of the fees-in-lieu collected through the ARO can be used to finance the construction of affordable ADUs.

Tax Increment Financing (TIF) Districts

TIF revenue can be used to finance eligible costs, including qualifying infrastructure improvements and site preparation work that may be needed to build ADUs on some lots.

The city should consider allowing the retrofitting of vacant ground level space in commercial and mixed-use buildings, especially in sub-optimal commercial

locations, to create ADUs accessible to people with disabilities. To facilitate this, the city could potentially tap into funds and programs that might not be housing specific but are meant to support neighborhood revitalization. These programs include the:

- Neighborhood Opportunity Fund (NOF) and the
- Small Business Improvement Fund (SBIF)

Private and Philanthropic Resources

While government programs for financing the construction and maintenance of affordable housing are vital, they fall far short of the need. Individuals, philanthropic organizations and foundations can play an important role in filling some of the gaps. For example, foundations of larger national banks can partner with local financial institutions, which because of their deeper understanding of the community, can better assess the true value and risk associated with loosening criteria to support projects that do not meet traditional lending standards. The larger banks could help fund a loan loss reserve pool, enabling Community Development Financial Institutions (CDFIs) and local lenders to underwrite loans based on the future value of the ADU.

Conclusion

The need for safe and affordable housing is likely to increase as more households in the Chicago region face unemployment and rising economic uncertainty due to the COVID-19 pandemic. Accessory Dwelling Units provide an innovative way for Chicago to address the growing housing challenge by adding to its inventory of affordable housing, providing financial stability for homeowners and by energizing neighborhoods.

To promote ADUs, the city should revise its zoning and building codes and streamline its permitting process, which currently discourage renovation and new construction of ADUs. In addition to removing regulatory barriers, the city should promote measures to enhance affordability of ADUs including creative financing structures and greater access to a broad range of financing sources for owners and developers seeking to create ADUs.

The city should implement the recommendations in this report with a strong focus on fostering equity so that ADUs can be built in all neighborhoods across the city by owner-occupants and smaller-scale developers in addition to larger property owners. To do that effectively, the city should work with key implementation partners such as the Chicago Housing Authority, housing focused non-profit organizations, CDFIs, community leaders and volunteers. Aldermanic ward offices can play a key role in spreading awareness of the new ordinance and connect residents to resources that can help them build ADUs.

Steering Committee Members

Todd Berlinghof (*Co-Chair*)
Hamilton Partners

Molly Ekerdt (*Co-Chair*)
Preservation of Affordable Housing

Bryan Esenberg
Deputy Commissioner
Department of Housing, City of Chicago

Rafael Leon
Chicago Metropolitan Housing Development Corporation

Brad White
Alphawood Foundation Chicago

Paul Williams
Department Of Housing, City of Chicago

Stacie Young
The Preservation Compact, Community Investment Corporation

City of Chicago Representatives

Patrick Murphey
Zoning Administrator
Department of Planning and Development, City of Chicago

Harry Osterman
Alderman
48th Ward, City of Chicago

Cynthia Roubik
Assistant Commissioner
Department of Planning and Development, City of Chicago

Grant Ullrich
Deputy Commissioner
Department of Buildings, City of Chicago

Steven Valenziano
Assistant Zoning Administrator
Department of Planning and Development, City of Chicago

ULI Team

Billy Grayson
ULI Centers and Initiatives

William Zeh Herbig
ULI Building Healthy Places Initiative

Rachel MacCleery
ULI Building Healthy Places Initiative

Cynthia McSherry
ULI Chicago

Barbara Ray
HiredPen, Inc.

Diana Schoder
ULI Building Healthy Places Initiative

Swasti Shah
ULI Chicago

Reema Singh
ULI Building Healthy Places Initiative (former staff)

Stakeholder Convening Participants

Juan Sebastian Arias
Metropolitan Planning Council

Jovita Baber
Historic Homes Rentals

Tom Benedetto
Chicagoland Apartment Association

Emily Bloom-Carlin
The Preservation Compact, Community Investment Corporation

Ranadip Bose
SB Friedman Development Advisors

Sarah Brune
Neighborhood Housing Services

Allyson Case Anderson
Integro Rehab LLC

Marty Cerny
Housing PLUS

Jacob Chartoff
Civic Projects Architecture

Robin Coffey
Neighborhood Housing Services

Kevin Drewyer
Chicago Hope Academy

Sarah Duda
Institute for Housing Studies, DePaul University

Anne Evens
Elevate Energy

David Feinberg
IFF

Nancy Firfer
Metropolitan Planning Council

Ghian Foreman
Emerald South Economic Development Collaborative

Anastacia Fratto
ResElevate

Steve Friedland
Applegate & Thorne-Thomsen, P.C.

Patricia Fron
Chicago Area Fair Housing Alliance

Greg Gibson
LEVEL Architecture Incorporated

Mike Glasser
Neighborhood Building Owners Alliance

Hector Gonzalez
Neighborhood Housing Services

Graham Grady
Taft Stettinius & Hollister, LLP

Tyler Hague
Colliers International

Bryan Hanharan
Bank of America

Albert Hanna
Chicago Area Fair Housing Alliance

Kyle Harvey
Community Investment Corporation

Sean Heath
Neighborhood Housing Services

Anthony Hrusovsky
Sterling Bay

Kristin Ihnchak
Chicago Metropolitan Agency for Planning

Roberto Interiano
CIBC

Sarah Jacobson
Lamar Johnson Collaborative

Larry Kearns
Wheeler Kearns Architects

Diane Limas
Communities United

Rosanna Marquez
AARP Illinois

John McDonnell
Cook County Assessor's Office

Ann McKenzie
Chicago Housing Authority

Stacey Meekins
Sam Schwartz Consulting

Allison Milld Clements
Illinois Housing Council

Paul Mittleman
Hispanic Housing Development Corporation

David Morrison
Cook County Assessor's Office

Jason Patch
Grand Basin Capital

Mark Pomarico
Booth Hansen

Guacolda Reyes
Bickerdike Redevelopment Corporation

Emily Robinson
Elevate Energy

Rachel Scheu
Elevate Energy

Jacob Seid
Chicago Metropolitan Agency for Planning

Mary Lu Seidel
Preservation Chicago

Paul Shadle
DLA Piper LLP (US)

Geoff Smith
Institute for Housing Studies, DePaul University

Kyle Smith
Metropolitan Mayors Caucus

Charisma Thapa
Communities United

Steven Vance
MAP Strategies and Chicago Cityscape

Juan Villafane
Krueck+Sexton Architects

Drew Williams-Clark
Center for Neighborhood Technology

Kate Wolf
Trillium Consulting LLC

Jon Womack
Northwest Side Building Coalition

Terri Worman
AARP

James Young
Booth Hansen

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Urban Land Institute
2001 L Street, NW
Suite 200
Washington, DC 20036-4948
uli.org

ULI Chicago
1700 W. Irving Park Road
Suite 208
Chicago, IL 60613
chicago.uli.org

