

# Building an ADU has endless possibilities.



## What Is An ADU?

An **accessory dwelling unit (ADU)**, otherwise known as a “mother-in-law” or “granny flat,” is an additional living space located on the same lot as an existing single-family home. While accessory dwelling units may be attached or detached, their purpose is to provide its tenants with **complete and independent living facilities**. In order to be classified as an accessory dwelling unit, the living space must include permanent solutions for living, sleeping, eating, cooking, and sanitation. In other words, an ADU is essentially a self-sufficient home that happens to be located on the same property as a single-family home.

## Benefits Of An ADU

In addition to making homes **more affordable** for generational families, the benefits of an ADU include the following:

- » An ADU is perfectly designed to serve as an income producing real estate asset.
- » ADU's increase the value of the property they are built on.
- » The addition of an ADU may increase the occupancy rate of a property, allowing more residents to enjoy the same area.
- » Higher occupancy rates associated with ADU real estate can translate into more affordable living situations for families with multiple incomes.
- » The parents of younger families may move into an ADU in order to be closer to caregivers and loved ones.
- » Homeowners who are no longer in need of the extra space afforded by their original home may be able to move into an ADU and rent out the primary house.
- » They offer a way for homeowners to optimize their existing space.
- » As the concept of the ADU continues to grow in popularity, so too do the forms of financing that facilitate their development and construction.

## Drawbacks Of An ADU

ADU real estate has grown in popularity, and for good reason: the opportunity to generate **passive income** from an existing piece of property is too good for many homeowners to pass up. That said, accessory dwelling units are not without their own caveats. While they may have become synonymous with several encouraging benefits, there are some drawbacks homeowners need to at least take into consideration:

- » ADU real estate isn't a more basic living arrangement; it requires just as much attention to detail, permitting and care as a traditional single-family home.
- » Zoning laws will vary from city to city, which can be confusing for those who have never owned or built an ADU. For example, in some jurisdictions, ADU-endowed properties must be owner-occupied and size restrictions vary by city.
- » Building an ADU can be expensive; sometimes as much as buying a brand-new home in some parts of the country.
- » When an accessory dwelling unit is built on a property, it will likely increase the property taxes.
- » Accessory dwelling units coincide with a lot of "red tape," which can be confusing and dense to those who are unfamiliar with the hoops they have to jump through.
- » Building an ADU will detract from the square footage of usable outdoor living space.

## Different Types Of ADUs

There are **three primary types** of ADUs: detached structures which are completely independent from the primary residence, attached external apartments with their own entrances, and attached internal units with communal and/or separate entrances.

**Detached structures**, as their names suggest, are ADUs built somewhere else on the same property as the existing home. Detached ADUs do not share any walls with the primary residence, and in most areas must have their own utility connections. That means detached ADUs will need independent tie-ins to the electricity and natural gas supplier, sewer connection, and water supply. As a result, detached units are typically more costly to build than their attached cousins, but they may also award their inhabitants with more privacy, which bodes well for landlords intent on renting the space out.

**Attached external units**, unlike their detached counterparts, share at least one wall with the primary residence. It is worth noting, however, that the wall may be the only thing they share. Most attached external units have their own entrances and



utility connections, so are able to function as their own independent unit. Since they are already sharing at least one wall and sometimes all or part of a roof, attached units typically cost a lot less to build, which may allow more bang for the owner's buck.

The last type of ADU is the **attached internal unit**. As their names suggest, these units are fully integrated into the existing structure. From the outside, it may not be obvious the home contains an ADU. However, the extra units may take the form of basement or attic units. Either way, the walls of the ADU are all shared with the primary house. More often than not, they share utility service and mechanical appliances with the main unit. Due, in large part, to the fully integrated nature, these units are the most cost effective types of ADU's.

## Is An ADU A Good Investment?

Determining whether or not an ADU is a good investment is entirely dependent on current market conditions and the amount required to get the unit **"up and running."** Again, building an ADU may require some homeowners to part ways with an exorbitant amount of money. Therefore, ADUs may be worth the investment if the owner is able to recoup the initial investment in a reasonable amount of time. Likewise, this particular investment strategy is more geared towards long-term commitments. It is worth noting, however, that building an ADU may take time, so profits may not come in immediately. Investors considering building an ADU should account for the time it takes to plan and build the unit and get renters into it.



## How Much Does It Cost To Build?

The cost of building an ADU is contingent on several factors, the most important of which is whether or not the unit is attached or detached. Detached accessory dwelling units, for example, cost quite a bit more than their attached counterparts.

According to **AccessoryDwellings.org**, detached ADU real estate can cost homeowners upwards of twice as much as attached units. Whereas an analysis of data provided by Portland ADU Owners suggests detached ADUs can cost anywhere from \$90,000 to \$300,000 to build, the same data set also tells us that attached ADUs can cost anywhere from \$35,000 to \$200,000 to build.

Outside of their proximity to the existing property, any number of factors go into determining the **true cost** of building an ADU. The location in which the home is located, the size of the addition, the amenities built into the new unit, the work put into designing the ADU, and the permits required to build the ADU, are a few examples of additional costs.

