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External ADUs: Learning from Vancouver

Vancouver's Laneway Housing program is the poster child for external ADUs. More such units have been constructed there than anywhere else in North America. But a closer look at Vancouver's experience suggests that, if increased housing affordability is the goal, the program is a failure. Basically, external ADUs function as a kind of price support for inflated real estate values. They don't decrease median rents and they do drive up the price of single-family homes that include (or whose lots could accommodate) such units.

61 of the first 100 "laneway homes" in Vancouver were built as part of total lot redevelopment rather than while retaining the existing SFH.[1] Allowing external ADUs incentivizes teardowns.

As of 2013, 2/3 of the units being built are constructed by parties that have already built 5 or more laneway dwellings,[2] so clearly the increase in these units is developer-driven and speculative. It has not been homeowner-initiated in most cases.

This is an example of how upzoning has a tendency to increase housing prices by incentivizing teardowns in areas where a lot can now hold more housing units. Newer homes (of whatever type) tend to sell for more than older (but non-historic) housing stock -- especially the kind of housing stock where teardowns represent a viable redevelopment option.

Info on rents -- $1800-$2500/month[3] is typical (at which point the industry rep admits that they are expensive but says once there are enough laneway houses, maybe they'll contribute to affordability by driving down the prices of basement apartments and condos). And, for context, here is data on average rents (and trends) in Vancouver[4] -- note that ADUs rents are significantly above the average ($1047) and that rents are continuing to increase despite the creation of laneway houses.

External ADUs are costly to construct and do not provide a good return on investment for homeowners who add them.[5]

A few other observations on Vancouver:

It has recently rewritten its statute to promote single-story external ADUs (cheaper, more handicapped accessible, less intrusive on neighbors than two-story units), to limit upper level decks and prohibit roofdecks, and to require off-street parking for the cottages. The laneway program includes monitoring requirements, which have yielded useful information and influenced these policy changes.

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[1] http://former.vancouver.ca/ctyclerk/cclerk/20101021/documents/csbu3-MonitoringofLanewayHousingImplementation-Report.pdf

[2] http://former.vancouver.ca/ctyclerk/cclerk/20130515/documents/p4.pdf (p. 9) This report is worth reading in full because it also details the experiences that neighbors and renters have had with ADUs and explains how and why Vancouver is modifying its program in response to those issues.

[3] http://www.huffingtonpost.ca/2013/12/29/laneway-housing-vancouver_n_4516212.html

[4] http://www.huffingtonpost.ca/2013/03/08/vancouver-housing-affordability-drops_n_2839404.html

[5] http://www.huffingtonpost.ca/michael-hungerford/laneway-housing-vancouver_b_4298984.html

590 SF is the average size, most units are 1BR but they are starting to see more 2BRs on same footprint, typically inhabited by students. Renters say these units are too small, so Vancouver's planners have revised their regulations to allow up to 900SF (on a 50 foot wide, 6100 SF lot). (Would be 644 SF max on a typical 33 x 122 lot). Vancouver does have lot size and fire-safety access requirements (3 foot wide path from street to ADU, free of projections). Also at least 16 feet of separation between the main house and the laneway house is required.[6]

The bottom line:

First, if the objective is to increase affordable housing, then external ADUs are a strategy that has failed. The rental units don't decrease average rents (or even get rented for below average rates). They also increase the costs of single-family homes. If 1/4 of the new homes are being built with external ADUs (which was the figure in the back of the 2013 report), that impact could be significant. In other words, external ADUs don't lower housing prices -- they enable developers to keep prices high. To see this logic in action locally, look at the Barry Farm PUD where the developer is proposing external ADUs in its market rate units. The goal here is presumably to raise the appraisal values of the homes. A previous project in the area (Henson Ridge) couldn't get property assessments to come in high enough to support mortgage lending at the prices they wanted to charge. What adding external ADUs does for the banks/appraisers is eliminates comparables in the area. What it does for the potential buyer is says "buy something you can't afford on your own income -- you can rely on someone else to contribute to your mortgage." [7]

Secondly, renters in Vancouver said they chose to live in external ADUs because they were new and detached -- both of which are less environmentally-sound options than living in a multifamily building or an internal ADU or buying an older house and fixing it up. So from a sustainability standpoint, they're not a success either.

If the goal is increasing the housing supply, then any zoning change that allows people to build something they couldn't previously build will do that to some extent. But it's a compared to what question. Had the laneway option not been so highly publicized, what would have been built/financed/developed instead? Three reasonable sized apartment buildings have housed the population (500 HH, typically of 1-2 people) in ADUs citywide and on a much smaller footprint (so land use isn't great either). Or would Vancouver have been better off just admitting that these were now duplex neighborhoods and allowing teardowns that would have replaced 1 SFH with ownership rights with 2 such units rather than with a new SFH and a small rental unit?

Already (within the first 2-3 years of experience), people are saying the rental units are too small, so there's a push to make them bigger. And too tall, so there's a push to make them flatter (not a good sign from the pervious surface standpoint). The people who built their own ADUs haven't resold their homes yet, so they haven't encountered the difficulties that may present (e.g. is price too high for resale, are there requests to subdivide the lot and let the tenant stay or even buy his/her unit and render the main house more affordable?) The numbers suggest that most of the homeowner-built ADUs are essentially family compounds, so they weren't necessarily making economically rational decisions (or decisions that will be economically ration for subsequent buyers). Vancouver realtors are already anticipating that laneway cottages will lead to lot subdivisions or condoization of single-family properties.

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[6] http://vancouver.ca/files/cov/laneway-housing-howto-guide.pdf

[7] Take this logic one step further -- think about gentrifying areas with lots of seniors in existing sing-family housing stock. DCFPI data says that the vast majority of home<u>owners</u> that face severe housing burdens are seniors. On the one hand, people facing severe housing burdens are the people who could benefit most from accessory rental apartments. On the other hand, cash-strapped elderly people are also the people who can least afford to build accessory rental apartments. Enter the entrepreneurial remodeler/would-be developer. The pitch is "I'll build you a rental unit for no money down and you can pay me back out of the income it earns you -- win-win." The contract includes a clause that uses the existing home as collateral. Elderly homeowner gets sick and can't fill the rental unit after a tenant leaves, or tenants miss a couple of payments, and suddenly the developer owns the whole property.

Also there seems to be a big gap between permits filed (900) and units built (500). Do people sour on the idea when they get deeper into the process and realize the costs? Will that happen more (or will people not even go as far as the permit stage) once there's more experience with these units. How easy/lucrative will it be to rent an older external ADU, if what attracts people to these units are that they are new?

Five years into the program, these are not auspicious results.

Why hasn't the Office of Planning provided this kind of information to the Commission and the public? Instead, a decade-old AARP piece that basically just provides text for a series of model statutes is held up as evidence that external ADUs are a best practice and will help people age in place. It's crazy to adopt major changes like this without more and better information than OP has provided. This has been a consistent problem throughout the ZRR and it is imperative that the Commission make an independent assessment of what it would need to know to make a rational and well-informed decision on the policy proposals OP has put forth and/or on whether such initiatives need to be vetted through a more robust and democratic legislative process like the forthcoming Comprehensive Plan amendments.