

SANTA CRUZ COUNTY

# **ACCESSORY DWELLING UNIT COST AND FINANCING GUIDE**

SEPTEMBER 2018



Use this guide with its companion documents  
Santa Cruz County ADU Basics and ADU Design Guide  
and the resources provided at  
[sccoplanning.com/ADU](http://sccoplanning.com/ADU)

This Guide is not a substitute for the Santa Cruz County Code. If there are discrepancies between this Guide and the County Code, the language in the County Code will govern.

Some properties may have environmental or utility constraints that increase costs, restrict siting options, or require extra review for ADUs. Please consult with County staff for projects with these special circumstances.

# TABLE OF CONTENTS

<b>1</b>	<b>INTRODUCTION</b>	<b>5</b>
	1.1 Purpose of This Guide	5
	1.2 How to Use this Guide	6
<b>2</b>	<b>MAKING A CHOICE: THE DIFFERENT TYPES OF ADUS</b>	<b>7</b>
<b>3</b>	<b>COSTS PART 1: BUILDING AN ADU</b>	<b>13</b>
	3.1 Costs Overview	13
<b>4</b>	<b>FACTORING IN THE FEES: COUNTY AND SPECIAL DISTRICT FEES</b>	<b>17</b>
	4.1 County Fees	17
	4.2 Special District Fees	22
<b>5</b>	<b>COSTS PART 2: BRINGING IT ALL TOGETHER</b>	<b>27</b>
	5.1 Introducing Three Prototype ADUs and a “Remodel Alternative”	28
<b>6</b>	<b>ADU FINANCING</b>	<b>33</b>
	6.1 County Loans and Subsidies to help build Affordable Units	38
<b>7</b>	<b>ONGOING COSTS OF OWNERSHIP</b>	<b>41</b>
<b>8</b>	<b>ADU AS RENTAL PROPERTY</b>	<b>45</b>
	8.1 Deciding to Rent Your ADU	46
<b>9</b>	<b>CONCLUSION</b>	<b>51</b>
	APPENDIX A: EXAMPLES	53
	APPENDIX B: ONLINE RESOURCES	57

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# 1 INTRODUCTION

## 1.1 Purpose of This Guide

An ADU, also known as an “accessory dwelling unit,” “second unit,” “in-law unit,” or “granny flat,” is an additional smaller unit on the same property as a single family home, and the County of Santa Cruz is encouraging the creation of more of these units in our community. This Guide is one of several sources of information developed by the County of Santa Cruz to help you design and build your ADU. Other resources provided by the County include the Santa Cruz County ADU Design Book, which illustrates different types, sizes, and configurations of ADUs on various property sizes, the ADU Basics Book and the County’s online cost and cash flow estimator, which can be used to explore the costs and pay back periods for building a unit on your property.

ADUs add housing to our community without the need to subdivide land to create new parcels. ADUs can be fit into existing neighborhoods, and with rents that tend to be relatively affordable when compared to other rental units. Homeowners can create accessory units by converting space within their existing homes; building home additions; converting existing accessory structures such as garages, sheds or workshops; building above garages or building new, detached structures. There are many options for you to consider.

The process of creating an ADU on your property may seem complicated, but it can be successfully completed by homeowners prepared with information and an understanding of the permit process. The purpose of this Guide is to inform and assist you by identifying questions you should ask as you undertake this process. This Guide focuses on the financial aspects of building and renting an ADU, and is meant to be used alongside the companion document Santa Cruz County Design Manual and How-To Process Guide. Links to other sources of information are provided as well in Appendix B: Online Resources.

Regulations have been relaxed to encourage more ADUs. For example, any residential parcel is eligible to add an ADU, regardless of parcel size or septic status (performance standards apply). Also, parking standards have been reduced for ADUs, and the allowable size of an ADU, on many parcels, has been increased. Guidance and financial assistance is available to help you build, and these resources may also help you legalize an existing, unpermitted unit.

## 1.2 How to Use This Guide

This guide covers topics related to costs, permitting, and financing tools available to property owners, and provides detail in the following areas:

- Types of ADUs
- Typical Cost to Build an ADU
- County and Special District Impact, Connection and Permit Fees
- Bringing It All Together: Looking at Total Estimated Cost for Prototype ADUs and a Remodel Alternative
- How Property Owners Finance ADUs
- How will building and renting an ADU affect my household finances?
- Ongoing Costs of ADU Ownership
- ADUs as Rental Property

Additional information is found in two appendices:

- Case Stories of Owners Who Built ADUs
- Online Resources

# 2 MAKING A CHOICE: THE DIFFERENT TYPES OF ADUS

Deciding which type of ADU is best for you will depend on many factors including the size of your lot, the size and layout of your existing home, the size and type of the unit you intend to build, where your property is located, and, of course, how much you can afford to spend.

- **Lot size** is important because not all lots will be large enough to build an additional detached structure, and the size of the ADU that is allowed by zoning depends in part on the size of your lot. More information on maximum allowable ADU sizes (which vary by type of ADU, lot size, and location within the County) is provided at the end of this section and discussed further in the County's Accessory Dwelling Unit Design Book and "How To" Manual.
- The **size and layout of your existing home** is a factor, because converting existing space in a home to a separate unit is often the most cost effective ADU option. In addition, the size of the existing home may be a factor in determining the allowable size of your ADU, because FAR (Floor Area Ratio) and Lot Coverage — two zoning standards that describe the size of a building and how much space is covered on the ground — are limited on each parcel. If you have a home that already takes up almost all the FAR and Lot Coverage that is allowed on your parcel, your ADU will have less flexibility in terms of design under the zoning code.
- **Where you live** in the County will affect some of your costs because some fees vary based on location. Some fees are charged based on the size of

The type and cost of your ADU will depend of where you live, the size of your property, and the configuration of your existing home.

the unit or number of bedrooms. Knowing more about these fees may be helpful in making design choices that minimize total costs. The fees are explained in Section 4 of this document. Also, some rural properties may incur costs related to septic systems, grading and slopes, and other site specific conditions that urban properties will not face.

The companion ADU Design Guide, ADU Basics, and the County Zoning Ordinance provide more information about the various options for ADUs in the County. Based on what could be permitted on your property you can begin to consider the options available for creating an ADU on your parcel. Your budget, preferences, and intended use of the unit will help you further refine your ideas, and the ADU Design Guide may be of further assistance in considering ways to meet your needs.

You can also control the expense of fees to some extent with your design choices, specifically the size of your unit. Units under 500 square feet are exempted from school, fire, affordable housing, and soils report fees. Units that are created by converting existing structures or by building an addition to the existing home or garage do not trigger the requirement for a new parking space and are exempted from roadway and transportation fees. Certain other impact fees are determined based on the number of bedrooms being added to your property, so a studio or 1-bedroom unit will have a lower fee than a 2- or 3-bedroom unit. See Section 4 for more detail about fees.

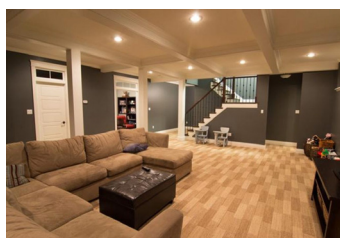
In general, most ADUs fall into one of the following four physical configurations, which are discussed in greater detail below:

- (a) A converted space within an existing house or accessory structure
- (b) New space built above a garage
- (c) Addition to existing house
- (d) New detached building

Any of these types of ADUs could be built new with permits, or considered for legalization if they were created in the past without benefit of permits. Legalizing existing construction carries a unique set of financing needs and practical considerations, and is discussed further in Section 5.

### A. CONVERTED SPACE WITHIN AN EXISTING HOUSE OR ACCESSORY STRUCTURE

#### *Key Considerations:*



Conversions include (from top to bottom): basement apartments; attic apartments, the conversion of an attached garage; and the conversion of an existing detached accessory structure.



- Likely the most affordable type of ADU to create.
- Suitable for lots that can't accommodate an addition or a new structure.
- Can be created by modifying a bedroom or other space in a home.
- Can also be created within an existing accessory structure, such as a garage or workshop. (Note that all converted space is required to meet today's building code)
- Any existing structure can be used to create a Conversion ADU, so long as it has legal status or can attain legal status through the permit process, even if it does not conform to the current zoning code.
- Small additions of up to 30% of the converted space (no more than 150 sf) may be added on to a Conversion ADU to allow for mechanical systems, stairwells (which are counted once on either the ground floor or the second floor toward total area), or other additional space to make the ADU more livable or easier to build.
- Conversion ADUs are not charged sanitation or water connection fees.
- No additional parking is required for a Conversion ADU (except in the Live Oak Parking District), and the primary home can accommodate its parking requirement in any configuration on the lot, including parking in front, rear, and side setbacks, and utilizing triple tandem parking.
- Appropriate for a budget between \$30,000 for a simple remodel and about \$150,000 for a conversion of an accessory structure. The wide range in cost reflects the variety of spaces that could be converted, from a master suite that would require minimal construction to a space that requires substantial remodeling and upgrading. More information of how these costs are estimated is provided in Section 3.

## B. NEW SPACE BUILT ABOVE EXISTING GARAGE

### *Key Considerations:*

- Can be built over an existing or new garage.
- Maximum allowed roof height is 24 feet; exterior walls no more than 20 feet from finished grade to top plate.
- Windows and entrance should be placed to maximize privacy for neighbors.
- Recent examples have been built within a budget of about \$180,000.
- Building above an existing building minimizes impervious surface (hard surfaces that do not absorb storm water). It also uses the site efficiently and does not increase lot coverage which is subject to limits in the urban area.
- Note that building on to an existing garage is not necessarily less expensive than building a new detached garage depending on age and style of construction, among



This unit is built above an existing detached garage.



Additions may be on the second story (top) or the first (bottom).



The permitted size and height of a new detached structure varies based on zone district.

other factors. Often, work is needed to reinforce the foundation in order to support a second floor.

## C. ADDITION TO EXISTING HOUSE

### *Key Considerations:*

- Suitable for smaller lots that preclude a detached structure
- Can be designed as a first story, second story, or two-story addition.
- Should be designed to ensure privacy for ADU occupant, primary home occupant, and neighbors.
- Should be designed to complement the primary home, including height, architectural style, and finish materials.
- Not necessarily less expensive than detached construction, depending on design and type of home. Cost will vary depending on size, location, and construction choices.

## D. NEW DETACHED BUILDING

### *Key Considerations:*

- Starting “from scratch” provides the opportunity to design a building that suits your circumstances. There are online resources for design, including attractive ready-to-build plans. See Appendix B for more information.
- Cost will vary depending on size, location, and construction choices. The estimated cost for a new, 800 square foot structure with two bedrooms is currently estimated to be from \$275,000 to \$380,000, depending on labor costs, finish materials, and location within the County.
- Adding a new detached unit allows for the option of using modular or factory-built structures that may help reduce costs or construction time involved.

## E. LEGALIZING EXISTING UNPERMITTED ADUS

### *Key Considerations:*

- Some ADUs may not have been eligible for permits under prior zoning regulations, but with updated rules many may now qualify for permits.
- Property owners may discuss their options with a planner either on the phone or at the Permit Counter without the risk of triggering enforcement action.

- Any structure that was built without permits will be subject to the requirements of the County Code in terms of site standards, environmental review, and utility connections. Many structures will be able to become legal.
- Any legally built structure that was converted to an ADU without permits will be subject to the zoning standards of a Conversion ADU, which are more lenient.
- Building permits provide a record for future property owners and document the locations of underground utilities, which can be extremely useful as a property changes hands over time.
- A fully permitted ADU is a permanent, durable, and valuable addition to a property. Being fully permitted means the unit may be covered by homeowner's insurance, is verified to be safe and habitable, and may be legally rented.

## SUMMARY OF ALLOWABLE ADU SIZES

The maximum allowable ADU size depends on the size of your lot, your location, and whether you are building a new structure or converting an existing one. Refer to the ADU Design Book and the County Zoning Ordinance Section 13.10.681 for more details.

<b>Table 2-1: ADU Maximum Size<sup>2</sup></b>				
	<b>Inside Urban Services Line*</b>		<b>Outside Urban Services Line*</b>	
<b>Property Size</b>	<b>New Construction</b>	<b>Conversion<sup>1</sup></b>	<b>New Construction</b>	<b>Conversion<sup>1</sup></b>
Less than 5,000 sq. ft. <sup>2</sup>	10% of parcel	50% of primary dwelling or 640 sq. ft, whichever is less	800 sq. ft.	50% of primary dwelling or 640 sq. ft, whichever is less
5,000 to 9,999 sq. ft. <sup>2</sup>	640 sq. ft.	640 sq. ft.	800 sq. ft.	800 sq. ft.
10,000 sq. ft. to one acre	800 sq. ft.	800 sq. ft.	1,000 sq. ft.	1,000 sq. ft.
Greater than one acre	800 sq. ft.	800 sq. ft.	1,200 sq. ft.	1,200 sq. ft.

Note:

\* Urban Areas include Live Oak, Soquel, Aptos, and areas adjacent to Scotts Valley, Santa Cruz, and Watsonville. Use the GIS tool at [sccoplanning.com/ADU](http://sccoplanning.com/ADU) to find out if you are inside or outside the USL.

1. Conversion ADUs are permitted to add, within the above maximum size, up to 150 square feet or 30% of the converted space, whichever is less. The purpose of this is to allow for the addition of small functional additional spaces, such as staircases or mechanical systems that the ADU may require.

2. Parcels 6000 sf or smaller are eligible for an additional 2% FAR and Lot Coverage for a maximum overall lot coverage of 42% or an overall FAR of 0.52 when adding an ADU.

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# 3

## COSTS PART 1: BUILDING AN ADU

### 3.1 Costs Overview

ADUs vary widely in terms of cost, complexity, and special requirements, but no matter the project, the costs can generally be described as falling into three categories: Hard Costs, Soft Costs, and Permits and Fees.

#### HARD COSTS

**“Hard” Costs** include construction labor and materials to build the ADU and associated improvements to the property. Hard costs will vary depending on the type of construction, whether foundation or site improvements are necessary (soil conditions can have a significant impact on hard costs related to foundation design), and also on the type of finishes that are used, such as flooring materials, countertops, and fixtures. Generally, hard costs are the portion of the total cost that you will have the most ability to control with decisions about design and materials. The contractor’s Overhead and Profit (O&P) costs are included as a hard cost.

There are some construction requirements not directly related to building the ADU that are necessary for either safety or environmental protection that can add cost to a project beyond standard hard costs. Additional information on two of these follows:

#### Fire

Improvements to meet fire safety requirements which are set by the local fire district are sometimes experienced as “hidden” hard costs. Examples are improving access or increasing storage of water for firefighting. These costs are most common in the rural areas where there are fewer existing hydrants and narrow or private roads make fire access challenging. Because the specific

requirements will vary from one fire district to another, rural property owners should consult with their fire district early about requirements for their parcel. In many cases these requirements are minimal and do not overly burden the ADU. Note that fire sprinklers are not required in an ADU when the main house does not have sprinklers.

## Septic

It is essential for owners with septic systems to consult early with County Environmental Health Services (EHS) about whether your current system is adequate to accommodate the increased flows from an ADU. Systems that date from the mid-1980s or earlier are likely to not meet current standards, and constructing an ADU will likely trigger a requirement to upgrade. Note that as of 2018 minimum property sizes no longer prevent construction of an ADU in any part of the County (prior requirement for a minimum of 1 acre for parcels served by septic systems has been removed). So long as your septic system can be upgraded to carry the required load, parcel size is not a constraint to ADU construction. On lots larger than an acre you may construct an entirely new septic system just to serve the ADU. This would be treated as a septic upgrade for permitting purposes.

If repair or upgrade is required, depending on the location and existing capacity of the septic system, you may incur the following costs, which are based on common situations:

- Lower Cost Scenario: Minor repair needed. Requires a “minor repair” application and an EHS clearance.
  - » Estimated cost: Permit fees are \$610, assuming it is a conventional minor repair. Repairs themselves typically run between \$2,000 - \$5,000.
- Medium Cost Scenario: Additional leach area needed to increase capacity. Requires an “upgrade sewage disposal” application and construction.
  - » Estimated cost: \$3,136 for application and typically up to \$10,000 for construction
- Higher Cost Scenario: If site conditions cannot accommodate a standard system, contract with a consultant to design and install an enhanced treatment system, which requires an “alternative sewage disposal” permit.
  - » Estimated cost: \$4,165 for permit and with construction costs typically \$35,000 or more for consultant, equipment, and labor.

The actual cost to repair or upgrade septic systems will depend on the state of your existing system, the soils on your property, the load the system will be required to carry, and other factors specific to your property; these figures are provided for purposes of illustration only.

## SOFT COSTS

**“Soft” Costs** include design and studies or tests that may be required. Additional “soft” costs will be County permits and fees that are required for all ADUs. Permit and fee information is provided separately below.

- All ADUs must meet the California Building Code. There is no requirement that a professional building designer or architect be involved in the project, however, many property owners do add budget to allow for professional assistance. Consulting with a professional before you decide to proceed, though it adds cost, will assist with site planning and your overall understanding of the opportunities and constraints on your lot and of County regulations. Costs can range from a few hundred dollars for a consultation to over \$10,000 for full sets of architectural drawings and project management through completion of construction.
- You may have to hire a geotechnical engineer if a soils report indicates that your project requires a new or upgraded foundation, retaining wall or other technical improvements. Note that soil report waivers are available for projects that meet criteria that indicate a soil report is not necessary. Many ADUs will qualify for a waiver, and any that do not will be eligible to apply the waiver request fee to the Soils Report Review fee, so no money is lost in seeking a waiver.
- Converting an existing building will require that it is brought up to current standards for habitable space by meeting the current building code. You may need assistance from an designer or engineer to ensure that your structure will pass inspection.
- In some situations, other tests and studies are required to meet health/safety and environmental codes. These range from testing your water pressure to ensure sufficient flow levels for the additional plumbing fixtures, to geologic reports and required energy analysis. One way to find out about the requirements that will apply to your project is to apply for a Pre-Development Site Review (PDSR) by the Planning Department. This service will provide you with a full picture of all requirements before submitting a building permit application, based on a site visit from the planners who review building permit applications. The cost of this service is based on the number of hours of staff time spent on the project, and typically ranges from \$400 to \$1000; most projects in the urban area are less likely to benefit from a PDSR than those located in rural or environmentally sensitive areas.

## FEES

**County and Special District Fees** are dependent on both the design of the ADU (some are based on size and number of bedrooms) and the location of the property. The County of Santa Cruz has revised its approach to ADU fees to consider them more like “home additions”, rather than new single family units, and recent changes in state law have also affected the fees that can be charged when the ADU is created by converting any existing structure.

- Some fees cover the cost of providing services to review your project and ensure that it is safe and doesn’t harm the environment. Examples of this are fees for building plan review and construction inspection.

- Impact and Capital Improvement fees address additional demand for services and impacts on infrastructure that result from new development such as new schools, roads, and water mains. Examples of impact fees are school fees and parks fees. Impact fees charged by school and water districts are typically the largest fees and are quite variable depending on the location of your parcel. The affordable housing impact fee of \$2/sf for ADUs does not apply to the first 500 square feet of any New Construction ADU and does not apply at all to any Conversion ADU.
- Sanitation and water districts also charge connection and capacity charges for each new unit of housing that is created. State law passed in late 2017 eliminated the ability of special districts and municipalities to charge these fees on Conversion ADUs. Fees for Conversion ADUs are substantially lower than the fees for New Construction as a result of this change as well as the County's revised practices. See Tables 4-1 and 5-1 for more detail.

In order to plan your costs and your financing, a fee estimate is available from the Planning Department. Be aware that changes to your Building Plans could result in a change in the applicable fees. Section 4 of this guide contains a detailed discussion of both County and Special District fees.



# 4 FACTORING IN THE FEES: COUNTY & SPECIAL DISTRICT FEES

Fees can be a significant part of the cost of your ADU, and are worth considering during the early phases of your project. The amount of the permitting, planning, and other fees varies with the characteristics of the project and with the location of the property. As described in the previous section, fees are either charges to recover the costs of providing a service, capital improvement fees, or impact fees. Fees are set by the service providers, such as a water district or sanitation district, based on studies and in a public forum. Impact fees are typically the higher fees and vary the most by location. To the extent fees are based on size of the unit, number of bedrooms, or valuation, your design can influence the amount of fees.

Find out early which special districts your property is located in, so that you can factor in fees and costs. The GIS tool on the County's ADU homepage will give you a complete list of your special districts.

Visit [www.sccoplanning.com/ADU](http://www.sccoplanning.com/ADU) for more information and for help identifying the Special Districts that serve your property.

## 4.1 County Fees

Planning and building permit fees are charges for services that are based on the scope of your project. Fees may be based on the “valuation” of the project, size of the unit, or the number of bedrooms. In some cases, fees are a flat rate per unit. “Valuation” is an assumed value of the construction that is determined based on standard published values for particular types of construction as

determined by the building code. The values are reviewed annually. The valuation for determining permit fees is calculated by multiplying the size of the unit by the standard value that best fits the type of construction.

In 2017, the County Board of Supervisors approved several changes to the fees applied to ADUs, and reduced and eliminated several fees in an effort to reduce the cost burden on applicants. Further changes to these fees will happen from time to time – consult with the Planning Department or the fee calculator on the County’s ADU website ([sccoplaning.com/ADU](http://sccoplaning.com/ADU)) for the most up-to-date information.

## BASIS OF FEES

Fees are set in order to ensure that the County is able to deliver the services it is required to provide. The Planning Department collects and disperses fees for many agencies and Special Districts. The breakdown of the fees is as follows, based on 2018 values:

### *1. Planning and Building Fees*

- Plan Check Fee is based on valuation of project. This fee offsets staff time needed to ensure plans, engineering, and technical specifications meet building code requirements.
- Zoning Plan Check Fee is \$307 per unit. This fee offsets the cost of staff time to ensure plans comply with the zoning code.
- Address Fee is \$33 per quarter hour of review time. Every housing unit in the County, including your ADU, needs an address for fire safety and mail delivery. The Planning Department assigns and tracks addresses. The work to assign and track addresses typically takes one hour. Therefore, the typical property owner will pay \$132 for the address review.
- General Plan and Technology Fees are assessed as 10 percent of permit fees. The County is required by the State to develop and maintain a General Plan (including ordinances to implement the General Plan, such as the recent ADU regulatory changes), which requires ongoing effort. The Technology Fee provides aggregate resources to offset the cost of keeping up with technology needs.

### *2. Environmental Fees and Studies*

The County is responsible for ensuring that any development is assessed for its impact on the physical environment. These reviews protect natural resources including streams, wetlands, and sensitive habitat. New development—even a small structure like an ADU—has the potential to impact these resources by creating more storm water runoff, soil erosion, and loss of habitat. These fees are not charged for ADUs created by converting of part of an existing home.

- Soils Report review by a County Engineer. All ADU builders should apply for a waiver of this requirement, at a cost of \$594. If a waiver cannot be granted, that fee will be applied to the Soils Report Review Fee of \$1,573.
- Environmental Plan Check Fee is \$398 per unit.

- Environmental Inspection Fee (for environmental impacts) is \$350 per unit. This inspection is needed for the purpose of ensuring compliance with plans and safe building practices.

### *3. Fees associated with Public Works: Drainage, Sanitation, Water, Roadway, Roadside, and Transportation Improvements*

The Department of Public Works is responsible for County infrastructure such as roads, sidewalks, drainage facilities, and sanitation facilities, as well as provision of services, such as sanitation and water in certain locations. Your cost will be a mix of fees for plan review, connection fees, and per fixture fees charged to supply services.

- Drainage Assessment pays for a Drainage Engineer to assess the impact of an ADU. Paying attention to drainage before the structure is built can avoid later flooding issues, both on site and in the surrounding areas. The Fee is \$470 for units under 500sf, and \$835 for units over 500sf and does not apply to Conversion ADUs.
- Sanitation Connection fee: The Department of Public Works oversees several sanitation districts and County Service Areas (CSAs) within the county, including the Davenport, Freedom, Boulder Creek, Rolling Woods and Santa Cruz County districts. Connection fees range from \$1,135 to \$4,000 per unit, depending on the District. Sanitation fees only apply to areas with sewer systems. This fee does not apply to Conversion ADUs.
- Roadside and transportation improvement fees of \$1000 per net new bedroom, plus \$21 per linear foot of site frontage are charged in four planning areas in the County: Aptos, Live Oak, Pajaro Valley, and Soquel. These fees address transportation and road impacts from new developments. There are a few places in each of these planning areas in which these fees do not apply, and they do not apply to any project that is not required to provide a parking space for the ADU (including Conversion ADUs, ADUs built as addition to a home or garage, ADUs built above a garage, and others. See Santa Cruz County Code Section 13.10.681(F)(2) for a full list of parking exceptions).

### *4. Flood Control and Water Conservation Fees:*

The Department of Public Works is responsible for administering the requirements of the County's four Flood Control Districts: Zones 5, 6, 7 and 8. Fees for new construction are assessed at a rate of \$1.23 per square foot. Fees are not charged for Conversion ADUs that do not expand an existing structure.

### *5. County Impact Fees*

- Parkland Fees are \$1,000 per bedroom.
- Child Care Fees are \$109 per bedroom, and contribute to a child care facility fund administered by the Human Services Department.
- Affordable Housing Impact Fee is \$2.00 per square foot for any square footage

above 500sf, and does not apply to Conversion ADUs or to any unit that carries a permanent affordability deed restriction. These fees contribute to the Affordable Housing Fund that is used to create affordable housing.

## 6. Environmental Health Fees

- Fees for septic system upgrades and permits vary significantly based on the age of the existing systems, the loads they carry, and the soils in which they are built.
- Consult with the Environmental Health Department early in your process if you are unsure of the capacity available in your existing septic system.

Table 4-1 provides an estimate for County Fees for four sizes of New Construction ADUs, and two alternatives of Conversion ADUs based on converting either habitable or non-habitable space (fees are current through July 2018). The table illustrates lower fees that are associated with a Conversion ADU, and shows the fee cost associated with increasing size and bedroom count for an ADU.

Since fees are subject to change, the amounts included in this table are intended to serve as illustrations of the fee structure for each type of ADU. The Planning Department website and Zoning Counter can advise you about current fees.

**Table 4-1: Estimated County Fees 2018**

ADU Fee Examples							
		400 SF (Studio)	640 SF (1 Bedroom)	800 SF (2 Bedroom)	1,200 SF (3 Bedroom)	Conversion from Habitable space – 640 sf (Existing Bedroom)	Conversion from Non- habitable space – 640 sf (New Bedroom)
Fee Title	Basis for Fee	Fee Amount					
Processing	Valuation	\$1,334	\$1,765	\$2,017	\$2,568	\$759	\$1,164
Building Plan Check	Valuation	\$1,171	\$1,553	\$1,776	\$2,265	\$659	\$1,020
Permit Fee	Valuation	\$1,204	\$1,621	\$1,871	\$2,335	\$677	\$1,048
Soil Report Waiver	Flat Fee	\$594	\$594	\$594	\$594	\$ 0	\$594
Environmental Plan Check	Flat Fee	\$398	\$398	\$398	\$398	\$398	\$398
Environmental Inspections	Flat Fee	\$350	\$350	\$350	\$350	\$ 0	\$ 0
Address review	Based on Time at \$33 per quarter hour <sup>1</sup>	\$132	\$132	\$132	\$132	\$132	\$132
Zoning review	Flat Fee	\$307	\$307	\$307	\$307	\$307	\$307
Road Review	Flat Fee	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Drainage Review	Flat Fee	\$470	\$835	\$835	\$835	\$ 0	\$ 0
Roadside Improvements <sup>2</sup>	Flat Fee per net new bedroom	\$1000	\$1000	\$2000	\$3000	\$ 0	\$ 0
Transportation Improvements <sup>2</sup>	Flat Fee/ per net new bedroom	\$1,000	\$1,000	\$2,000	\$3,000	\$ 0	\$ 0
Park Dedication Fees	Flat Fee per net new bedroom	\$1,000	\$1,000	\$2,000	\$3,000	\$ 0	\$1,000
Childcare Fees	Flat Fee per net new bedroom	\$109	\$109	\$218	\$327	\$ 0	\$ 109
Affordable Housing Impact Fee	\$2.00 per sq. ft. after 500 sf	\$ 0	\$280	\$600	\$1,400	\$ 0	\$ 0
General Plan & Technology <sup>3</sup>	10% of Permit Fees <sup>3</sup>	\$491	\$614	\$686	\$837	\$295	\$408
<b>Total</b>		<b>\$9,560</b>	<b>\$11,558</b>	<b>\$15,784</b>	<b>\$21,348</b>	<b>\$3,227</b>	<b>\$6,180</b>

## Notes:

1. Address review typically takes a full hour.

2. Roadside and TIA fees only apply when a new parking space is required. ADUs that are attached to the primary dwelling or other structure on the parcel, or are Conversion ADUs, are exempt from parking requirements. Only apply in Aptos, Live Oak, Pajaro Valley and Soquel. Fee in Pajaro Valley is \$500/bedroom.

3. Permit fees used to calculate the General Plan and Technology Fee include Processing, Building Plan Check, Permit Fee, Environmental Plan Check, Environmental Inspections, Address Review, and Zoning Review.

Source: Santa Cruz County, 2018

## 4.2 Special District Fees

Visit  
[sccoplanning.com/ADU](https://sccoplanning.com/ADU)  
and click on the button  
for the GIS tool to find  
your special districts

In addition to County Fees, property owners in Santa Cruz County pay fees to outside agencies when the property is located within a special district that has been formed to provide a specific service. These special districts include the local school district, fire protection district, water district, drainage/flood control district, and sanitation district. Every property is in a school district, but some properties that have private wells and/or individual septic sewer systems will not be in a water or sanitation district.<sup>1</sup> You can find out what special districts apply to your property by consulting the ADU homepage on the County website, and using the GIS tool to locate your property.

### Water District Fees

In many cases, water district fees are a determining factor in whether an ADU is economically feasible. Water district fees in particular vary depending on which water district serves your property. Water District fees may include costs to install a required meter and have it inspected, meter drop charges, and costs to participate in conservation/mitigation programs such as Soquel Creek Water District's Water Demand Offset (WDO) program. In addition to the connection fees listed in Table 4-2, water districts may also apply a capacity charge based on the number of plumbing fixtures that are added to a property. Each district has their own standards for capacity charges, and they are affected by the fixtures present elsewhere on the property. To estimate capacity charges you will need to contact your water district directly. The GIS tool on the County's ADU homepage can help you identify your water district.

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<sup>1</sup> See the ADU Issues and Options Study (2017) for additional information on special districts.

**Table 4-2: Water Districts' Connection Fees (Do not apply to Conversion ADUS)**

Water District	ADU Fee Examples			
	400 sq. ft.	640 sq. ft.	800 sq. ft.	1,200 sq. ft.
Central Water District <sup>1</sup>	N/A	N/A	N/A	N/A
Davenport County Sanitation District	\$3,000	\$3,000	\$3,000	\$3,000
Pajaro Valley Water Management Agency <sup>2</sup>	N/A	N/A	N/A	N/A
San Lorenzo Water District <sup>3</sup>	\$10,667	\$10,667	\$10,667	\$10,667
Santa Cruz City	\$7,050	\$7,050	\$7,050	\$7,050
Scotts Valley Water District	\$21,194	\$21,194	\$21,194	\$21,194
Soquel Creek Water District <sup>4</sup>	\$33,405	\$33,405	\$43,093	\$48,208
Watsonville City <sup>5</sup>	\$4,116	\$4,116	\$4,116	\$4,116

## Notes:

1. No connection fee required for an ADU. If fire service is needed, ADU has to pay construction cost for adding "detector meter", but there are no additional connection charges.

2. Each connection, including an ADU, pays an annual fee of \$92 for well use but there is no initial connection fee.

3. Includes charges of \$10,577 for a 5/8" meter connection and \$90 for a 5/8" meter drop. Fee does not include required \$2,500 installation deposit (which is applied to the connection fee). A new meter is not required in every case. If an additional meter is required, additional installation costs of \$12,000-\$15,000 would apply.

4. Includes fees for Water Demand Offset, water capacity, application, meter drop charge, and construction inspection deposit.

Fee shown reflects \$13,500 in service installation costs to add a separate meter for which a customer must hire a contractor. These installation costs were estimated by Soquel Creek at \$12,000-\$15,000.

5. Includes \$2,058.68 fee for new 5/8" meter connection, plus \$1737.29 Construction Charge and \$320.25 Drop fee.

Source: Communications with individual Water Districts, March 2018.

## Other Special District Fees

There are additional Special District fees that affect costs of constructing ADUs. These include School District fees, Fire Protection District fees, and connection fees for Sanitation Districts as shown in Tables 4-3, 4-4, and 4-5. Information on these additional fees is provided below. School impact fees and Sanitation connection fees are higher than Fire District fees. School District fees are not charged on ADUs that are smaller than 500 square feet. Sanitation Connection fees are a flat fee charged per unit, regardless of size or number of bedrooms, and do not apply to any Conversion ADU.<sup>2</sup>

Portions of the county are also within the County Flood Control and Water Conservation District. When a property is within Zone 5, 6, or 8 of the Flood Control District there are charges associated with drainage management, including \$1.23 per square foot of new impervious area. When a property is in zone 7, a flat fee of \$1,000 applies to new dwelling units. These fees only apply to new structures and additions, not to ADUs created as Conversions.

**Table 4-3: School Districts – Residential Impact Fee Comparison**

School District	Fee/ Sq. Ft.	ADU Fee (Unit)			
		<500 Sq.Ft.	640 Sq.Ft.	800 Sq.Ft.	1,200 Sq.Ft.
Unified School Districts					
Aromas-San Juan	N/A	\$0			
Pajaro Valley	\$5.02	\$0	\$3,213	\$4,016	\$6,024
San Lorenzo Valley	\$2.63	\$0	\$1,683	\$2,104	\$3,156
Scotts Valley	\$3.14	\$0	\$2,010	\$2,512	\$3,768
Elementary School Districts					
Bonny Doon Union	N/A	\$0			
Happy Valley	N/A	\$0			
Lakeside Joint Union	N/A	\$0			
Live Oak	N/A	\$0	N/A	N/A	N/A
Loma Prieta Joint Union	\$3.36	\$0	\$2,150	\$2,688	\$4,032
Mountain	\$0.94	\$0	\$602	\$752	\$1,128
Pacific	\$1.74	\$0	\$1,114	\$1,392	\$2,088
Santa Cruz City	N/A	\$0			
Soquel Union	\$3.20	\$0	\$2,048	\$2,560	\$3,840
High School Districts					
Los Gatos - Saratoga Union	\$3.36	\$0	\$2,150	\$2,688	\$4,032
Santa Cruz City	\$3.36	\$0	\$2,150	\$2,688	\$4,032

Source: Communications with individual school districts, March 2017.

2. For more discussion of Special District fees, see the ADU Issues and Options Study, Chapter 6.



**Table 4-4: Fire Protection Districts – Fee Comparison**

Fire Protection District	Plan Check (Fee/Sq.Ft.)	Sprinkler	Extinguisher	Alarm	Total ADU Fees/Unit			
					400 Sq.Ft.	640 Sq.Ft.	800 Sq.Ft.	1,200 Sq.Ft.
Aptos/La Selva Beach	\$0.30	\$270	N/A	\$337	\$727	\$799	\$847	\$967
Aromas Tri-County	\$0.53	N/A	N/A	N/A	\$212	\$339	\$424	\$636
Ben Lomond	\$0.40	N/A	N/A	N/A	\$160	\$256	\$320	\$480
Boulder Creek	\$1.00	N/A	N/A	N/A	\$400	\$640	\$800	\$1,200
Branciforte	\$0.40	\$330	N/A	N/A	\$490	\$586	\$650	\$810
County Fire <sup>1</sup>	\$0.42	N/A	N/A	N/A	\$168	\$269	\$336	\$504
Central <sup>2</sup>	\$0.53	\$262	\$262	\$135	\$474	\$601	\$686	\$898
Felton <sup>3</sup>	N/A	\$100	N/A	N/A	\$200	\$350	\$350	\$350
Pajaro Valley <sup>1</sup>	\$0.42	N/A	N/A	N/A	\$168	\$269	\$336	\$504
Scotts Valley	\$0.20	\$110	\$275	\$275	\$740	\$788	\$820	\$900
Zayante	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Note:

1. County FD and Pajaro Valley FD require separate permits for Sprinklers, Extinguishers and Alarms. Permit fees are charged at \$115/hr for inspections.

2. Central FD rate shown is for Sprinklered single family homes. Unsprinklered is \$0.35/sf. Sprinkler charge includes plan check fee of \$172.50 and \$90 for 1-10 head system. CFD also charges \$7.50 per extinguisher head and \$7.50 per alarm device.

3. Felton FD fees are \$100 for areas under 500 sf and \$250 for areas 500 sf and larger.

Source: Communications with individual fire protection districts, March-April 2018.

**Table 4-5: Sewer Districts – Connection Fee Comparison (Do not apply to Conversion ADUs)**

Sanitation District (SD)/CSA	Connection Fee
Boulder Creek (CSA)	\$1,135
Davenport (SD) <sup>1</sup>	\$3,000
Freedom District (SD)	\$4,000
Rolling Woods (CSA)	\$2,000
Salsipuedes (SD) <sup>2</sup>	N/A
Santa Cruz County (SD)	\$3,000

Note:

1. Davenport Sanitation provides water and sewer service, each with separate connection fee of \$3,000 each.

2. Not managed by County Department of Public Works.

Source: Santa Cruz County Department of Public Works, Service and Capital Improvement Fees, March 2018

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# 5 COSTS PART 2: BRINGING IT ALL TOGETHER

Getting an accurate picture of the overall financial investment required to create an ADU involves bringing together the hard costs, soft costs, and fees. Table 5-1 estimates 2018 costs for each of the four ADU prototypes. The costs are summarized in three general categories: hard costs, including construction costs, which includes contractor overhead and any additional costs to prepare the site, soft costs which are the studies and plans that may be needed in order to design the ADU and are prepared by professionals, and fees which will include the County fees and any Special District Fees that apply.

The information on total costs includes estimated costs, and is intended for illustration purposes only. Converting an existing building is the least expensive way to add an ADU to your property, and garage conversions are a very common form of ADUs in Santa Cruz County. Further discussion of minimizing costs can be found in the Santa Cruz County ADU Basics book (starting on page 4) and in general, the most affordable option is to convert any existing habitable space, and/or to create a unit that is smaller than 500sf. Changes in County regulations also make it easier than ever to accomplish conversion projects.

## 5.1 Introducing Three Prototype

## ADUs and a “Remodel Alternative”

Three popular types of ADUs have been identified as example projects, or prototypes, in order to illustrate points about fees and other costs. In addition, there is a fourth prototype called the “remodel alternative” in this Guide, which is the modification of existing space in a home, usually a bedroom or a master bedroom suite, to create an enhanced “rentable” space. The space has an area for food preparation, may have a separate bathroom and separate entrance, but is connected to the primary house with a door or other interior access. The remodel alternative is not actually a full separate ADU, but could be sufficient to meet the housing needs of some households at a significantly lower cost than creating a fully independent ADU.<sup>3</sup>

The four selected prototypes were located in different parts of the County to illustrate differences in fees and costs among Special Districts and between rural and urban locations. Again, individual properties have unique circumstances and your project is unlikely to perfectly match the examples. There is helpful information in each of the prototypes that may transfer to your situation.

Actual costs that have been incurred by homeowners who have developed ADUs are included in the “case stories” found in Appendix A.

### ADU Prototype 1: Detached ADU

- Type: New, stand-alone structure
- Size: 800 square feet with two bedrooms
- Location of the example: Pajaro Valley, in Pajaro Unified School District
- School District: Pajaro Valley
- Fire District: County Fire/Pajaro Valley
- Water District: Watsonville City
- Sewer District: Freedom Sanitation District

### ADU Prototype 2: Garage Conversion ADU

- Type: Garage conversion
- Size: 400 square feet, one bedroom
- Location of the example: Live Oak
- School District: Live Oak
- Fire District: Central Fire
- Water District: Santa Cruz City
- Sewer District: Santa Cruz County Sanitation District

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<sup>3</sup> These remodel projects are sometimes called “Junior ADUs”, a term that was used in the State’s ADU legislation. This Guide avoids that term because it has a specific legal meaning that doesn’t always apply to the County’s ADU program or building regulations. The idea of the remodel alternative is that it is less costly and easier to build and permit. A Junior ADU and a remodel alternative are conceptually very similar, regardless of the terminology.

## ADU Prototype 3: New ADU above an Existing Garage

- Type: New construction above existing garage
- Size: 640 square feet, one bedroom
- Location of the example: Soquel area
- School District: Pajaro Valley
- Fire District: Aptos/La Selva Beach
- Water District: Soquel Creek Water District
- Sewer District: Santa Cruz County Sanitation District

## ADU Prototype 4: Remodel Alternative

- Type: Converted space inside the main home, no full kitchen
- Size: 500 square feet, bedroom/suite with added amenities
- Location of the example: San Lorenzo Valley
- School District: San Lorenzo Valley
- Fire District: Boulder Creek
- Water District: San Lorenzo Valley Water District
- Sewer District: None/Septic

**Table 5-1: 2017 Estimated Costs for Three Example ADUs and a Remodel Alternative**

	<b>PROTOTYPE 1</b> <i>New Detached Structure (800 sq. ft., with Two Bedrooms)</i>	<b>PROTOTYPE 2</b> <i>Accessory Structure Conversion (400 sq. ft., One Bedroom)</i>	<b>PROTOTYPE 3</b> <i>New Unit Above a Garage (640 sq. ft., One Bedroom)</i>	<b>PROTOTYPE 4</b> <i>Remodel Alternative<sup>1</sup>, Conversion (500 sq. ft. studio)</i>
<b>Location</b>	<b>Pajaro Valley</b>	<b>Live Oak</b>	<b>Soquel</b>	<b>San Lorenzo Valley</b>
<b>1. Hard Costs</b>				
Construction Costs	\$200,000	\$66,700	\$90,000	\$15,000
Contractor Overhead	\$33,000	\$13,005	\$16,500	\$2,250
Potential Additional Costs (Site preparation including parking and drainage work)	\$20,000	\$20,000	\$20,000	\$0
Minor Septic Upgrade	\$0	\$0	\$0	\$3,610
<b>2. Soft Costs</b>				
Soft Costs (Design, Engineering Survey, and Soils Report where Relevant) <sup>2</sup>	\$52,600	\$21,941	\$27,300	\$2,588 <sup>3</sup>
<b>3. Fees</b>				
County Fees	\$15,797	\$9,573	\$11,571	\$2,257
Schools	\$4,016	\$0	\$3,213	\$0
Fire	\$336	\$474	\$799	\$500
Water	\$4,116	\$0	\$33,405	\$0
Sewer	\$4,000	\$0	\$3,000	\$0
Total Special District Fees	\$12,468	\$474	\$40,417	\$500
<b>Total</b>	<b>\$333,865</b>	<b>\$131,693</b>	<b>\$205,788</b>	<b>\$26,205</b>

Note:

1. The “remodel alternative” is the modification of existing space in a home, usually a bedroom or a master bedroom suite, to create an enhanced “rentable” space. The space has kitchen limited food prep area which does not include full-size appliances, may have a separate bathroom and separate entrance, but is connected by a door to the main part of the house and is not a separate unit. We have included this remodel alternative because it will serve many of the same needs as a full ADU without some of the costs.

2. Soft costs include \$2,000 for a site survey, engineering costs which are 5% of total costs that include the construction costs, potential site costs, and contractor overhead, and architecture/planning costs which are 15% of total costs. Source: ADU Contractor interviews 2017.

3. No engineering costs are included for a remodel of existing habitable area.

## COSTS: KEY TAKEAWAYS

**The stand-alone, detached structure is the most expensive way to add an ADU to your property.** The example provided here comes to \$333,865. A new, standalone structure requires the largest amount of architectural and engineering work, more site preparation, parking, and has higher per square foot construction costs than the other alternatives.

**The least expensive option is the remodel alternative.** All three cost components for the remodel alternative are much lower, particularly for construction (and related soft costs) than for the other three examples. The work included in this alternative would typically consist of adding a new sink and additional electrical outlets for the food prep area, and a new exterior door. If you will also be adding a new full bathroom, expect the hard cost to increase by another \$25-\$40k.

While the conversion of an accessory building has lower costs in the example provided than building above a garage, in part this is explained by the size of the unit that was used, and the reduced fees available for Conversion ADUs. The age and condition of the structure being converted will have a significant impact on the construction costs.

**The highest cost components tend to be for construction and soft costs.** Since soft costs include design and planning, it is possible to reduce these costs if you are able to undertake more of the work yourself, or if you take advantage of some of the predesigned building plans that are on the market. See Appendix B for a list of resources. Also, there could be some ways in which you could lower construction costs by doing some of the construction work. It really depends on what your skills are and what you are comfortable doing on your own.

You could also consider placing a factory-built unit on your site. This option allows you to choose the unit that best suits your needs, and make choices for finishes and final look of the unit. This approach may save money and simplify the process, because your design decisions are narrowed to address the impacts of siting the unit. See Appendix B for further information.

**If you are legalizing an ADU that already exists** on your property, your costs will diverge from these prototypes depending on several factors including:

- Whether the structure was built legally with permits before unpermitted interior improvements converted it to an ADU;
- The age of the structure;
- The quality of the construction;
- Whether your special districts will recognize the habitable features as existing or charge fees as if they were new construction; and
- What work will be required to bring the unit up to current code.

As stated earlier, many existing ADUs are eligible to become fully legal and permitted under the current zoning ordinance. If your unit does not qualify, or if the work required to legalize would be unmanageable, you may be eligible for participation in the County's Limited Immunity Amnesty Program, which would identify the structure as a low priority for code enforcement and would allow the ADU to be legally rented as long as it meets basic safety and habitability requirements. See the Planning Department's website for more information.

**It is important to remember that there are some costs you can control and others over which you have no influence.** For example, County and Special District Fees are relatively fixed costs once you've settled on the type and size of unit you're going to create, while construction and soft costs could be greatly influenced by your choices around design, materials and finishes. The single biggest determinant on the price of the ADU is the type of unit you build.

**A note on property taxes:** Many homeowners have the concern that constructing an ADU will trigger a re-assessment of the base value of their property for the purpose of collecting property tax. While constructing an ADU will incrementally increase the value of your property, the corresponding amount of increase is simply added to the tax that was assessed before the improvement. The base value of the property is not reassessed, and any tax advantages that exist, for example, from longtime ownership with no reassessment, will not be affected. Property Tax implications are discussed in greater detail in Section 6 of this Guide.



# 6 ADU FINANCING

Homeowners choose to build ADUs for a number of reasons ranging from providing housing for a family member, to planning for retirement by creating an income stream when they are no longer working, to being able to age in place. An important question to consider is how to best pay for the unit: how much is needed, where the money will come from, and if the unit is rented, how long it will take to recover the cost of building the unit and create positive cash flow.

Once you are comfortable that you understand the cost of constructing or legalizing an ADU, it is time to consider your financing options. Most homeowners looking to build an ADU will use some combination of personal funds and a bank loan that is secured by the property. Work with your lender to find the financing strategy that best matches your circumstances.

In the current lending market the sources of financing to build ADUs have been either a mortgage that covers the cost of both the ADU and the primary home, or some type of second mortgage that is used to construct the unit.

- **Initial First Mortgage** (when purchasing primary home). A standard first mortgage would cover a property that already has an ADU. A first mortgage does not typically cover the cost of both the home acquisition and the cost to build a new ADU, however there are loan products that could make this possible; HomeStyle is the name of one product that applies to detached units, and FHA 203K loans could apply for ADUs created within an existing home. A new homeowner interested in creating an ADU would likely need to access additional funds beyond those needed for purchase in order to pay for the costs of an ADU. Historically lenders have not used either future ADU income or the future value of the property with the ADU completed to qualify for the loan. With the increased interest in ADUs in recent years both the financial and regulatory systems are changing and these practices are worth exploring with your lender.
- **Borrowing Against the Value of Your Property**. For most homeowners the property they own is their biggest asset and building an ADU adds value to that real property asset. Banks are willing to make loans secured by real property because it is a safe investment for two reasons—if payments aren't

made they can foreclose on the property, and because most people will go to great lengths to avoid the loss of their home. There are a variety of ways to leverage your existing property for funds to build an ADU so it is useful to understand how the various tools could work for you.

- **Second Mortgage or Home Equity Line of Credit (HELOC).** If your property has sufficient equity (meaning value above the amount owed in loans for the property), then it is possible to use a second mortgage on the property to finance any type of home improvement, including the construction or legalization of an ADU; the most common type of second mortgage in recent years is a HELOC. Typically, a HELOC is payable in ten to fifteen years and can provide financing up to 80%-90% of the property's value, so it is a tool available to many homeowners with even a few years of equity in their homes, especially in a housing market where home values are increasing.
- **Cash-out Refinancing.** Another option for properties with sufficient equity is to refinance the initial mortgage for a higher amount and use these funds to build the ADU. A cash-out refinance loan typically allows financing up to 80% of the value of a property, so this option is better suited to a homeowner whose home has appreciated in value since it was financed. An advantage to a refinance is that the repayment period of the new loan can be set at thirty years, lowering the monthly payments by spreading the cost of the ADU over a longer period.
- **Use of Personal Assets.** Many property owners utilize personal savings or work with friends or family members to raise cash to finance their ADU. If you have assets that could be used for your ADU, your options include:
  - **Retirement Account Loans.** Many retirement accounts allow loans to be taken against them for home improvements. Repayment is sometimes made through a payroll deduction and interest paid on money taken out goes towards retirement savings.
  - **Construct ADU with Cash and then Refinance the Property.** Some homeowners may decide to take advantage of low mortgage interest rates by using personal savings to construct the unit and then refinance the property once it is complete.
  - **Personal Line of Credit.** If you lack sufficient equity to qualify for a loan secured by the property, a personal line of credit could be used to bridge the gap between the cost of building your ADU and any cash you may be able to access. Typically, personal lines of credit from a bank are not as large as might be available with a HELOC or refinance, and interest rates are higher. Using credit cards to support some of the construction costs would also fall under this category.
- **County Loan Programs.** Beginning in 2018, the County of Santa Cruz is launching two pilot programs to offer loans to local property owners willing to agree to charge affordable rents. The ADU Forgivable Loan Program and the My House, My Home program are described in Section 6.1.

Of the 60 respondents to the County's online survey who had built ADUs, over half

used personal savings and about 42 percent used a HELOC. Fewer than 10 percent refinanced by taking out a new loan from a bank.

## COMPARING THE LENDING OPTIONS

Whether you are working with your lender to refinance an existing mortgage to cover the costs of construction (a cash-out refinance), or to take out a new loan to cover construction costs, the following requirements are likely to apply. Keep in mind that lenders will prefer to be in the “first” position when making a loan and consequently will want to retire or pay off any existing loan before providing additional funds for ADU construction. Also, banks will differentiate between a new “first mortgage” and a “second mortgage” (which includes a HELOC). A refinance of the property generally means that the existing first mortgage is paid off and replaced with new financing.

There are several differences between a cash-out refinance versus, a Home Equity Line of Credit (HELOC) or a second mortgage:

- The interest rates between the loans differ. The HELOC is likely to have a higher interest rate and is also more likely to be a variable rate than a fixed rate second mortgage.
- There may be higher upfront costs to obtain financing for a new first mortgage. In addition to paying for an appraisal, the borrower pays loan fees, title and escrow costs. Borrowers who take out a HELOC or second mortgage and then refinance after the ADU is built may pay these upfront costs twice. Some lenders will work with borrowers who intend to build an ADU with the requirement that the owner re-finance after a year, when the ADU is completed<sup>4</sup>.
- If a borrower is able to qualify for a HELOC, the main expense would be the appraisal and bank fees. The borrower must notify the financial institution that holds the first mortgage about the pending home equity loan to pay for construction work on the property. Most HELOCs last for ten years.
- A second mortgage is likely to have a shorter term than the typical thirty years for a first mortgage. Because it has to be repaid more quickly, the monthly payment will be higher than if it is combined into a new first mortgage.
- A HELOC is a revolving line of credit, meaning the credit amount can be used repeatedly and paid off. Each month, you would have one payment for the HELOC and one for any existing mortgage, rather than the one, consolidated payment you would have with a refinance.
- A Cash-out Refinance replaces your existing mortgage and provides you with a lump-sum of cash to use for your ADU (or for any other purpose), which is then added to your existing loan amount and amortized over the life of the new mortgage (typically 30 years). Each month, you would make one payment on your new mortgage.
- Because a HELOC is a line of credit, it could also be cancelled by the bank without prior notice, similar to a credit card that cancels or lowers your credit limit, and there is no requirement that the bank allow you to withdraw the entire amount of the line

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4. Some lenders encourage the owner to submit an application to “pre-qualify” for the permanent financing that will be needed once a year has passed and the ADU is completed.

of credit before requiring payment. Discuss these issues with your lender.

## LENDING CRITERIA

Whatever new financing structure is proposed, banks use the following criteria to review loan applications:

- You need to have a good credit history (defined as a credit score of over 740) with no recent history of foreclosures or bankruptcy (usually defined as the prior seven years).
- Your total payments for all debt should not exceed 45 percent of your monthly income (called a debt-to-income ratio).
- Most conventional lenders will not include potential future rental proceeds when calculating your monthly income in order to determine your household's borrowing capacity, except in some rare cases when the ADU has already been built and has a documented rental history.
- The maximum loan to value ratio varies among lenders but it is not uncommon to have a limit of 70 percent for lenders working with ADU loans (meaning the total debt on the property can't be more than 70 percent of the appraised value).<sup>5</sup>
- Lenders prefer that you have some amount of cash available in order to qualify for the lowest interest rate – for example, one bank said they look for approximately \$25,000 in savings.
- Appraisals are required for a new HELOC or a new mortgage that covers the existing mortgage and construction costs. These appraisals are based on the current property value and the construction costs of building the ADU.
- A contingency amount needs to be included in the loan balance to cover unforeseen expenses – generally five percent for soft costs and ten percent for construction costs to protect the borrower and the lender against cost over-runs.
- Lending for existing ADUs to be legalized is similar to new construction provided the unit has not been “red tagged” for code violations. If your property has been red-tagged and there is a recorded declaration on title to your property, you can contact the County of Santa Cruz code compliance division to explore removal (either expungement or a plan to complete corrections) in order to facilitate financing.
- Bay Federal Credit Union is developing a loan product that would be available to recipients of the County's ADU Forgivable Loan Program (discussed in Section 6.2) that would take into account future rental income and incentivize renting to households that are participants in a rental subsidy program (See Section 7 for further detail on the Housing Choice Voucher program)<sup>6</sup>.

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5. If you take out a construction loan that also covers the existing loan and then refinance when the unit is completed, the loan to value ratio is typically 80 percent.

## SUMMARY OF FINANCING OPTIONS

There is no “best” financing choice for owners wishing to add an ADU. Qualifying for any loan will depend on your household income, your existing debt (including credit card and auto purchase debt), how much of your existing mortgage has been paid off, and the appreciation in the value of your home.

It is very important to work with a reputable lender. While the financial crisis of 2007/2008 is over, there are still sub-prime lenders operating in California and nationally. While their lending terms may seem attractive, loans provided through these institutions may end up costing the homeowner more in the long run.

### 6.1 County Loans and Subsidies to help build Affordable Units

The County has two loan programs available to help homeowners create affordable housing by building rentable ADUs on their property. Both programs require that the ADU be rented to an income-qualified renter paying an affordable rent. Adult family members who meet the income qualifications can be the renters of these units.

#### *County ADU Forgivable Loan Program*

In 2017, the Board of Supervisors established a pilot ADU Forgivable Loan Program to provide low interest, deferred and forgivable loans to homeowners willing to commit to renting an ADU to a low income household at an affordable rent. The loan can be

**To evaluate costs for loan products and assess whether you can prequalify for one of these lending options, contact your bank or refer to the list of local lenders in Appendix B.**

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6. Rent subsidy refers to the difference between the rent paid by a tenant to a landlord and the Fair Market Rent. The source of subsidy is generally a government program, the largest and best known of these is the Housing Choice Voucher Program, frequently called “Section 8”. Public subsidy programs require subsidized tenants to pay rent that is affordable to them, usually 30% of household income. Section 7 of this document has a detailed discussion of this program.

subordinated to both a first mortgage and an additional loan secured to build the ADU and may be particularly helpful to homeowners who want to build an ADU but do not have sufficient equity in their homes to borrow all of the funds needed to build the ADU.

#### Loan Terms

- **Eligibility:** Unincorporated County homeowner
- **Income Limit:** No income limit for borrower
- **Maximum loan amount:** \$40,000
- **Interest rate:** Three percent (3%) simple interest
- **Term:** 20 years
- **Loan Forgiven:** Loan is forgiven at the end of the 20-year term and restrictions are released
- **Opt-Out Provision:** County rent restrictions can be released prior to the 20-year term of the loan with payment of the principal loan amount plus accumulated interest.
- **Security:** Loan and rent restriction agreement are secured by a deed of trust recorded against the property, ensuring that the ADU will be rented at an affordable rate for the duration of the loan term even if the property changes hands.
- **Tenant Income Limits and Maximum Rents:** Under this program ADUs can only be rented to “lower income households” at affordable rents as defined in the Santa Cruz County Affordable Housing Guidelines. This rent is calculated to be affordable at 70 percent of the Area Median Income, and owners also have the option of renting an affordable ADU to a tenant who holds a Housing Choice Voucher or other subsidy. Renting to a tenant with a voucher or other subsidy allows you to collect the Fair Market Rent (FMR) defined annually by the federal Department of Housing and Urban Development (HUD). See Section 7 for more information on the advantages of renting to a tenant with a housing voucher. Table 6-1 shows the qualifying household incomes for 2017, and Table 6-2 shows the maximum allowable rents.

#### *My House My Home Partnership with Habitat for Humanity*

The County has initiated a program in partnership with Habitat for Humanity Monterey Bay and Senior Network Services to expand Habitat’s ADU construction program targeting low income homeowners over 62. The goal of the program, which is called My House My Home, is to build ADUs on the properties of qualifying low income senior homeowners to provide additional income and adjustable living accommodations to help them age in place.

The program would provide an \$80,000 loan to a qualifying senior homeowner. The loan would be due and payable in 30 years at a 3 percent interest rate. The loan would be matched on a dollar for dollar basis by another loan through Habitat. Senior Network Services will provide case management assistance to the homeowner. The County Housing Program will certify eligibility of the tenant and will monitor compliance annually. In exchange for participating the My House My Home partnership, homeowners will enter into a deed restriction that will require them to rent either the ADU or the primary home at a cost calculated to be affordable to low income households, defined as those whose incomes are at or below 80% of the Area Median

Income adjusted for household size.

- **Eligibility:** Unincorporated County Homeowner over the age of 62
- **Income Limit:** 80% of Area Median Income for borrower (Table 6-1)
- **Loan amount:** \$80,000 (plus amatching \$80,000 from Habitat)
- **Interest rate:** Three percent (3%) simple interest
- **Term:** 30 years
- **Fully deferred loan, payable on sale or transfer**
- **Security:** Loan and rent restriction agreement are secured by a deed of trust recorded against the property, ensuring that either the ADU or the primary home will be rented at an affordable rate for the duration of the loan term.
- **Tenant Income Limits and Maximum Rents:** Lower income households paying an affordable rent. Table 6-1 shows the qualifying household incomes for 2017, and Table 6-2 shows the maximum allowable rents.

Contact the Housing Section of the Planning Department or visit the Financing section of the County's ADU website ([sccoplanning.com/ADU](http://sccoplanning.com/ADU)) for further information on the My House My Home program.

**Table 6-1: 2017 Lower Income Definition Adjusted by Household Size**

Household Size	1	2	3	4	5
Income Limit (80% of median)	\$56,500	\$64,550	\$72,600	\$80,650	\$87,150

**Table 6-2: 2017 Maximum Rents for Lower Income Units**

	Studio	1 Bedroom	2 Bedrooms
Lower Income Rents (70% AMI)	\$1,411	\$1,411	\$1,612
HUD Fair Market Rent (2018)	\$1,378	\$1,624	\$2,161



# 7 ONGOING COSTS OF OWNERSHIP

Constructing an ADU is a significant investment. When thinking about creating an ADU, remember that there are ongoing costs of ownership after the unit is built. These additional costs may be partially or fully offset by rental income, which is discussed in Section 8 of this guide.

## EVALUATING THE FINANCIAL IMPACT OF YOUR ADU

Your personal financial goals and access to cash will influence the type of unit you decide to build, and how you choose to finance it; situations vary and it is safe to say that your situation is unique. If your goal is to have housing for a family member and your funds are limited, you may be most concerned about keeping overall costs low. If, on the other hand, you are developing your ADU specifically to create an income stream through rental income, you might consider how best to maximize the cash flow from the unit. Or maybe you want to build an ADU for yourself so that you can age in place. Some tools can help you consider the impact your ADU project will have on your household finances include an evaluation of monthly cash flow and consideration of the pay-back period for the project. Either tool will be useful in weighing the various financial options and planning for the future of your property.

There are many tools available to assess these pieces of the financing plan including online tools and loan tables that are built into many spreadsheet software packages. In addition to these, the County of Santa Cruz has developed an online Cost and Cash Flow Estimator available at: [sccoplanning.com/ADU](http://sccoplanning.com/ADU). That calculator was built to illustrate the monthly and yearly cash flow impacts of developing an ADU and will help you select the best rent to charge your tenants. The calculator will allow you to see the effect of different loan terms on

your monthly expenses and consider how the length of your loan, your cash investment, and the interest rate will impact your monthly costs. The website also includes a fee estimator to help you get an estimate of the County fees that will apply to your project, based on your intended scope of work. See Appendix B for more resources for estimating construction costs and considering financing variables.

Another way to consider the financial impact of building an ADU is to consider the pay-back period of your investment. A pay-back period is the amount of time it takes a borrower to pay off a loan or recoup the funds used to build the unit. The net income (rent minus expenses) from the ADU can be used to help pay back any loan used to build it, or to recover the personal savings used for construction. In order to calculate the pay-back period for your ADU, the relevant factors are:

- **The amount of the loan you are considering.** Consider whether you can tap more of your own assets to reduce the loan amount or if you want to participate in one of the County's ADU Loan Programs
- **The interest rate.** Understanding the impact of the interest rate banks charge will help you evaluate loan products offered by various lenders.
- **The term of the loan.** Many HELOCs are due in 10 years, whereas a cash-out refinance yields a loan with a 30-year term. Is there a particular loan product that will work better for you? Talk to your lender about your options.
- **The monthly payment.** For many ADU owners the maximum monthly loan payment they can take on will be limited to the rental income received from the ADU tenant. Consider whether you can afford to pay more than that amount in order to either accommodate a higher loan amount or to pay down the loan more quickly.

Table 7-1 uses the Prototype models from Section 5 of this Financing Guide to illustrate the pay-back period of an ADU loan. The intention of this modeling is to show comparative payoff periods considering comparable financing assumptions: for comparison purposes, this model assumes that the full cost of the ADU is financed with no cash down payment; that HUD's Fair Market Rents (FMR) are used for the rental income (See Section 8 for further discussion of FMR); that 100% of the rental income is being used to pay-down the loan; that an interest rate of 5.25% is used for all loans. The construction costs are those that were identified through the County's 2017 ADU study.

In the prototypes used in this guide, the fastest pay-back period would be for the least expensive approach - the remodel alternative - and the longest would be for the ADU built as a new structure, which would take 21 and a half years to pay off under these assumptions. The loan for a new structure could be paid off in a shorter time frame, of course, if you reduce the loan amount by using personal assets in the form of a down payment. The loan resources identified in Appendix B and available at [sccoplanning.com/ADU](http://sccoplanning.com/ADU) can help you model your own pay-back period.

Constructing an ADU is a significant investment. When thinking about creating an ADU, remember that there are ongoing costs of ownership after the unit is built. In most cases the loan payment will be the largest monthly expense for the ADU, and other costs to

**Table 7-1: COMPARATIVE PAY-OFF PERIOD FOR ADU PROTOTYPES**

ADU Cost	New Structure (800 sq. ft., with Two Bedrooms)	Accessory Structure Conversion (400 sq. ft., One Bedroom)	Above Garage (640 sq. ft., One Bedroom)	Remodel Alternative (500 sq. ft.)
Total Unit Cost (Rounded Values)	\$333,900	\$131,700	\$205,800	\$26,200
Annual Pay off Assumptions				
Annual ADU Loan Payments/ Annual FMR Rent. <sup>1</sup>	\$25,936	\$19,490	\$18,629	\$9,489
Monthly ADU Loan Payments/ Monthly FMR Rent	\$2,161	\$1,624	\$1,551	\$792
Number of years to pay off loan under loan payments and rental income assumed here <sup>3</sup>	21.5	8.5	16.6	3.0

Notes:

1. This example assumes an interest rate of 5.25% and principal and interest are included in payments.
2. Monthly rents are multiplied by 12 to determine annual rental revenue.
3. Total annual mortgage payments are divided by annual rent revenues to estimate payback period.
4. HUD FMR rents for units created under the "remodel alternative" will vary by circumstance. The subsidized rent may be calculated as a portion of the bedrooms of the house, e.g. FMR rent for one bedroom of a four bedroom house would be calculated as one fourth of the four bedroom rent of \$3,168 or \$792.

consider include property insurance, taxes, increased cost for trash and recycling pick up, monthly utilities and unit maintenance and repairs over time.

These additional costs may be partially or fully offset by rental income, and are part of the calculation of payoff period.

## Property Taxes

Adding an ADU to your property will cause the assessed value of your property to be reviewed. County Appraisers typically determine the increase in assessed value from plans submitted for Building Permits, but the appraiser may choose to visit the property as well. Increased value is not based on construction costs and therefore owner-builders who have lower costs would have the same value as a contractor built project. The base value of the land and existing improvements will remain unchanged, and an increment representing the change in property value because of the new ADU will be added via a supplemental assessment. (See your property tax bill for information on the current assessed value of your property.)

There is no "one size fits all" in calculating this increase in value, since there are multiple factors that determine the assessed value. These factors include the condition of the property, unit size and type and the quality of finishes. Whatever the amount of the increase, any tax benefit you currently have, for example from owning the property for many years, will be preserved for the existing land and improvement values.

The State Board of Equalization (BOE) Website provides estimates about how much the ADU will add to assessed value of a property and explains how the ADU value is assessed. ADUs are considered Modern Single Family Homes in the BOE Guide. Depending on

construction characteristics, costs per square foot can be calculated and will define the increase in assessed value due to the ADU. Keep in mind that the BOE uses statewide valuations and costs in Santa Cruz County may be higher. (See the website link and directions at the end of this Guide to help estimate the increase in assessed value due to the new ADU.)

## Understanding Utility Costs

As you are planning your ADU, consider how the cost of utilities will change with increased usage. Newly-built units will be constructed under CALGreen—the California Building Code—and as a result will be very energy efficient meaning utility costs are likely to be modest. You can opt to pay the utilities on behalf of your tenant, or you can share the costs with the tenant by devising a split of the utility bills or installing a separate meter, or sub-meter. If you rent to a tenant with a Housing Choice Voucher or other federal subsidy and make them responsible for their own share of the utility bill, the amount of rent you receive will be reduced by an amount equal to a “reasonable utility allowance” (established by HUD). Considering the efficiency of your new unit, it may be more economical to pay a single utility bill for your home and the ADU rather than having the rent reduced, since the “reasonable utility allowance” reduction is typically greater than the actual cost of the utilities.

## Maintenance, Repair and Capital Improvement Costs of Your ADU

As with any home, the ADU will require on-going maintenance. This could range from fixing or replacing an appliance to occasional major improvements. Major repairs and improvements occur infrequently but can be costly, such as roof replacement, re-siding, or driveway repair. Many landlords set aside funds monthly in anticipation of these costs. Note that some of the costs of operating the ADU may be deducted from your income taxes.

## Calculation of Income Taxes on Rental Income

It is important to maintain records of revenues and expenses (including assigning a pro-rated share of property taxes to the ADU) to come up with a net income from the ADU. This income is reported on an IRS form for supplemental income and losses from other sources, such as rental property (Schedule E to Form 1040). One of the advantages of owning rental property is that it is possible to depreciate the “value” of the ADU portion of the property by following a defined depreciation schedule provided by the IRS, which creates a significant tax benefit. Consult with a tax professional or utilize online tax preparation software to address this issue.

## ADVANTAGES OF RENTING AN ADU AT HUD’S FAIR MARKET RENT

There are advantages of renting out the ADU to a tenant participating in a housing subsidy program. Although the rent may, at times, be less than the maximum you might be able to charge in the market, it is also a stable and reliable source of rental income

# 8 ADUs AS RENTAL PROPERTY

The need or desire for on-going rental income is one of the main reasons homeowners reported building their ADU. In the survey conducted for the County's 2017 ADU Study, of the homeowners who either built an ADU or purchased a home with an existing ADU, almost half said that rental income was an important consideration. In addition, this same survey showed that rental income is the primary motivation for over half of homeowners who are interested in adding ADUs to their properties. Before considering using your ADU as a rental unit you may wish to know more about the costs and benefits of owning a rental unit.

There are both public and private benefits from rental ADUs. Homeowners that rent out their ADUs expand the housing supply. Further, ADUs tend to be more affordable than other types of rental units, and add options to the housing stock since they tend to be smaller units.

The rent received from the ADU can augment household finances or help repay loans taken out to build the unit.<sup>7</sup> Besides rental income, building an ADU can provide housing for people providing assistance to the homeowner, such as child care, senior support or assistance with household chores. In some cases homeowners with an ADU offer to rent the unit at a reduced rent in exchange for the services tenants provide.

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7. The County has developed an online resource to help weigh financial considerations – see [sccoplanning.com/ADU](http://sccoplanning.com/ADU)

## 8.1 Deciding to Rent Your ADU

As of 2018, Santa Cruz County Code requires properties that include an ADU to be owner occupied in either the primary house or in the ADU. With an ADU on your property you will not be allowed to rent either unit as a short-term vacation rental (for a period of less than 30 days). There are financial benefits and personal benefits to renting out your unit, but not everyone is ready to be a landlord. Think about whether you want to have a tenant on your property.

### DO YOU WANT TO BE A LANDLORD?

Being a landlord for a renter of an ADU on your property is different from owning and operating other types of rental properties. In many ways it is more similar to deciding to have a roommate. Renting your ADU means you are sharing your property with another household who has tenancy rights, and the right to expect quiet enjoyment of the home for which they are paying rent. Additionally, as a landlord you are subject to all of the same requirements under local, State and federal law, such as non-discrimination and the requirement to give notice of changes to the lease and 24-hour advance notice to enter the tenant's unit.

It is important to spell out your expectations through a legally enforceable lease. The lease is the opportunity to consider the issues that will make sharing your property work for you – for example, will you allow your tenant to smoke in the unit? If not, be sure that the lease agreement states that very clearly. Will you allow pets? If so, think about the number, type and size that will be acceptable and spell it out in the lease. Do you expect your tenant to help out with maintaining the landscaping around the unit? Spell it out in the lease. What are your expectations for guests? Where will the tenant park? You should expect to inspect the unit once a year to be sure everything is in working order, such as the smoke alarm—be sure the lease makes it clear you will do this and how you will give notice to the tenant when you will enter the unit. There are many resources available to get an up to date, legally enforceable list of typical lease conditions to consider, and Appendix B includes links to resources to get you started.

A lease establishes your rights and responsibilities as a landlord, as well as what you can expect from your tenant. The California Department of Consumer Affairs website (link in Appendix B) provides information about leases and other landlord/tenant responsibilities, and their document *California Tenants: A Guide to Residential Tenants' and Landlords' Rights and Responsibilities* provides a comprehensive guide to your legal responsibilities as a landlord. Most tenants and landlords that share property are able to manage their relationship without legal input, but if you are concerned about your responsibilities, you may consider consulting with a property attorney.

A typical lease for an ADU might include:

- Term of lease (month to month or a specific date, such as one year, with termination date specified)
- Amount of rent
- Security deposit and terms for return of deposit
- List of payments of move-in costs
- Late charges
- Availability of parking and storage
- Smoking policy
- Pet policy
- Noise policies
- Any property-specific conditions such as consideration for residential neighbors
- Designation of who pays for utilities
- Check list to show condition of unit at move-in
- Maintenance responsibilities (landlord's and tenant's)
- Alterations and repairs that should not be undertaken by tenant
- Inventory of keys
- Tenant's obligations when vacating property including notice period

## SELECTING TENANTS

When selecting tenants, landlords must adhere to federal Fair Housing laws that may apply. The Fannie Mae Landlord Guide provides more information on these rules. A link to this document is provided in Appendix B.

When considering tenant applications, you may encounter potential renters that participate in the Housing Choice Voucher program. This is a program managed by the Federal Department of Housing and Urban Development (HUD), and has several potential advantages to you as a landlord. This and other rental assistance programs are discussed below.

**California Landlord-Tenant law changes frequently. There are many resources for a form of lease that covers general requirements. You can and should think about adding language that clarifies your expectations for your tenant**

throughout the fluctuating market cycle. Because the rent is affordable to the tenant, they are not as likely to be shopping around for a better deal, tenancies tend to last longer than at market rate, and the income provided to landlords is competitive with the market. Most subsidy programs are based on a published Fair Market Rent (or FMR) defined by the HUD through a process managed by the Housing Authority of the County of Santa Cruz. The Housing Authority conducts a rent survey every three years<sup>8</sup> in order to set the rent levels for various sized rental units. The largest tenant based rental subsidy program is the Federal Housing Choice Voucher Program (often referred to as “Section 8”), although there are other programs.

## SETTING RENT LEVELS

What is the “right” rent you should charge for your ADU? You might start by finding out what the current market is charging. Sources of information on current rents include Craigslist and the UC Santa Cruz Housing Department. (Links provided in Appendix B.) You can also check with the Housing Authority of the County of Santa Cruz which sets Fair Market Rent every three years. These resources can give you some idea of the market but there are other factors to consider. How much income do you need in order to cover your costs and pay down debt? Do you want or expect your tenant to help out on the property?

Setting a reasonable rent can reduce tenant turnover, and the stability of a long-term tenant saves you money both because you do not need to prepare the unit frequently for a new tenant and because you will not lose rental income while you search for a new tenant.

In 2017, differences between HUD’s defined Fair Market Rent (FMR) and market rate rents is between 9% and 25% based on the size of the unit. Table 8-1 shows a comparison of the Housing Choice Voucher Program rents with the rents advertised by the UCSC Housing Office in 2017.

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8. This 3-year lag is the reason that the FMR may seem out of step with local market rents when the rental market is changing rapidly.



**Table 8-1: COMPARISON OF BELOW MARKET RENTS WITH MARKET RATE RENTS (MAY 2017)**

UCSC Housing Office, Current Listings (May 2017)	Studio	One Bedroom	Two Bedrooms
Apartments	\$1,400	\$1,840	\$2,560
Houses	NA	\$1,980	\$2,860
<b>Averages (Apartments and Houses)</b>	<b>\$1,400</b>	<b>\$1,910</b>	<b>\$2,710</b>
<b>Fair Market Rent - FMR (March 2017)</b>	<b>\$1,275</b>	<b>\$1,512</b>	<b>\$1,931</b>
Rent Difference	\$125	\$398	\$779
Percentage Difference Between FMR and May 2017 UCSC Housing Office Listings for Apartments and Houses	9%	18%	25%

Under the Housing Choice Voucher program the Housing Authority approves a household for the program and the household is responsible for finding a landlord that will rent to them. The final decision of whether the tenant will move into the unit is a mutual decision between the potential tenant and the landlord.

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# 9

## CONCLUSION

It is now simpler than ever to construct an ADU and realize the benefits of housing flexibility, rental income, and increased property value that can come with a second dwelling on your property. ADUs can be created by constructing a new building, converting existing space, or legalizing an existing ADU. We hope this guide has helped you consider the factors that are most relevant for your specific project and property, and that you feel better prepared to weigh the pros and cons of various aspects of your ADU project.

The County supports the creation of ADUs in all neighborhoods, and in a variety of configurations. The Planning Department website provides information on the ADU codes, loan programs, fees, and incentives that may change over time, and the zoning and building permit counters are also a valuable asset to for understanding the options that are available to you. We hope you will take full advantage of these services.

We look forward to working with you to create safe, flexible, and needed housing options in our community.

### COUNTY OF SANTA CRUZ PLANNING DEPARTMENT

701 Ocean Street, 4th Floor  
Santa Cruz, CA 95060  
831-454-2580

Planning.ZoningInfo@santacruzcounty.us  
PLNBuildingInfo@santacruzcounty.us

### BUILDING AND ZONING COUNTER HOURS

**Monday through Thursday**

#### **Morning Hours**

8:00 A.M. – 11:30 A.M.

#### **Afternoon Hours**

1:00 P.M. - 3:30 P.M.

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# APPENDIX A: EXAMPLES OF OWNERS WHO HAVE BUILT ADUs

In early 2017, Santa Cruz County conducted an on-line survey about ADUs. This was a voluntary survey that was advertised in the community. Property owners who had ADUs, those who built ADUs, and those interested in building ADUs were encouraged to participate. Professionals who have built or designed ADUs were also encouraged to participate. The experiences and recommendations of these survey respondents are provided in a separate report entitled “Santa Cruz County ADU Study Summary of Online Survey Results” and is available at: <http://sccoplanning.com/ADU>. The survey information was very useful in understanding property owners’ motivations and experiences in building their ADUs.

Following are descriptions of how three example property owners built and now use their ADUs. The names of these owners have been changed since the survey was confidential. Case study information presented in this Appendix has not been verified. Also, since these units were built in the past, the cost information reflects time of construction.

## SEPARATE ADU STRUCTURE

Stuart lives in an urban area of Aptos. He built an ADU as a new structure. It consists of 612 SF and includes one bedroom and one bathroom. He has owned the property for four years and built the ADU within the first year. The lot size is 11,800 SF or just under one-quarter of an acre.

Stuart lives in the primary unit. He built the ADU unit as a separate living space for his son. He rents the unit to his son for a “very reduced rent.” “I purchased this large lot with the intention of building the ADU for my slightly disabled 40-year-old son.”

Stuart designed and built the ADU. From start (obtaining permits) to finish (construction completed), the process took about one year.

The total cost for the construction in 2013 was \$220,000 and was financed through personal savings. These costs included permitting costs (\$17,337), utility connections (\$24,607), Central Fire District fees (\$4,317) and the remaining amount of \$178,000 was for labor, materials and other additional costs. The only permit Stuart obtained was the building permit. Stuart mentioned that “I built this unit myself, but the cost of permits was extravagant. I built a higher quality project than many, but of the total cost of \$220,000, there were \$46,261 in permit costs and fees. The majority of this was paid to Soquel Creek Water District (\$24,607). The new changes in regulations should take care of some of the problems I had with permitting.”

“I have no idea how much the ADU has increased my property values. Values have gone up a fair amount since I built it, but I didn’t build it to make money. I built it for family.”

## DETACHED GARAGE CONVERSION

Connie has lived in her home located in an urban area of Live Oak for the past twenty years. Her house is located on a lot that is about 8,000 SF.

Connie built her ADU after owning her house for less than five years. Her current income is about \$115,000 annually. Rental income was the primary reason she created the ADU.

“When I purchased the property, I was married. The original plan was to convert the existing garage legally with him doing the construction work. Instead, after divorce, I lived in the unfinished space and later converted the unit with the help of a general contractor.” She now lives in the main house and rents out the ADU

Her ADU is a detached garage conversion and is 525 SF in size. Connie’s ADU is a one bedroom, one bathroom unit. Her original renter was a friend who did not earn a high income. Her current renter has lived in the ADU for almost five years and is a senior citizen. Connie’s current tenant is an acquaintance, and there is no formal lease contract.

“Today, I rent it to a senior citizen on a very fixed income for less than half its market value. Next year, I plan to return to school to make a career change and live in the ADU myself, so that I can earn more income from the property by renting out the main house. I will finance my schooling, in part, by rent from the main house.”

Rent paid by her tenant consists of a combination of cash rent (\$750/month) and help provided by the tenant to Connie (minimal cooking, gardening, and housekeeping). Utilities are included in the rent and cost \$115/month. Connie originally set the rent based on what the tenant could afford.

The total cost for the construction work was \$25,000 in 2001. Connie used a home equity line of credit (HELOC) and borrowed the maximum amount that she could afford, based on the equity in her home and her income. The potential rental income from the ADU was not considered when she applied for the loan. According to Connie, “I investigated permits and couldn’t afford them. I wish I’d found a way to finance the permits.”

“At the time I borrowed the money, the \$25,000 for building and finishing of the unit was all I could afford. The permitting fees and required plans and setback variance all felt overwhelming...” (The permitting fees were approximately \$18,000 at the time, with another \$3,000 to \$5,000 to hire an architect to do the necessary drawings.) Connie is interested in incentives that would allow her to get permits for the unit and make it fully legal.

## ADU ABOVE GARAGE

Marilyn, age 67, lives in Soquel in a rural area. Her site is over one acre in size. She has lived in the house for 40 years and built the ADU after living in the house for more than 10 years. Her ADU is located above her garage and is 650 SF in size. The unit consists of one bedroom and one bathroom.

The ADU was designed by her spouse, a contractor, who also built the unit. “My husband drew and submitted the plans through a planning consultant.”

The total costs were \$113,500 (in the late 1990s/early 2000s), of which \$4,000 was for design, \$12,000 was spent on labor, \$25,000 was spent on materials, \$24,000 for permits, \$1,500 for utility connections, \$2,000 for the planning consultant who helped with the plans, and \$45,000 for remaining costs.

Marilyn and her husband paid for the costs of building the ADU by subdividing and selling a portion of the property. The proceeds from the sale of the land were sufficient to pay all the costs.

Marilyn lives in the primary residence now. Previously, Marilyn’s mother had used the ADU as her primary residence. After Marilyn’s mother died, the unit needed some renovation. Marilyn decided that she could use the rental income, as her current income is \$30,000 annually. She has also thought about living in the ADU herself and renting out the primary house, which could increase her income even more.

Recently, the first tenant moved in. The tenant holds a Section 8 Voucher.<sup>9</sup> Marilyn is renting the unit at 35% below market value. “The young woman (my new tenant) cried with relief when she heard the rent. I simply cannot bring myself to charge a high market rate rent.”

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9. The Housing Choice Voucher Program (or Section 8) is the federal government’s major program for assisting very low-income households and individuals. The participant is free to choose any housing that meets the requirements of the program. Housing choice vouchers are administered locally by public housing agencies, such as the County Housing Authority of the County of Santa Cruz. A housing subsidy is paid to the landlord directly by the Housing Authority on behalf of the participating household. See Section 7 for a complete discussion.

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# APPENDIX B: ONLINE RESOURCES

Presence of a link in this document does not convey any guarantee or County recommendation of a product, business or resource. These links are presented for informational purposes only. There are many other resources available on-line as well.

## GENERAL GUIDANCE AND REGULATIONS

### *ADU Statewide Guidance and Regulations*

California Department of Housing and Community Development, Where Foundations Begin

Accessory Dwelling Unit Memorandum (December 2016)

<http://www.hcd.ca.gov/policy-research/docs/2016-12-12-ADU-TA-Memo.docx.pdf>

### *Guidance from Santa Cruz County*

ADU Design Book and How-To Guide – [sccoplaning.com/ADU](http://sccoplaning.com/ADU)

County Zoning Ordinance – [www.codepublishing.com/CA/SantaCruzCounty/](http://www.codepublishing.com/CA/SantaCruzCounty/)

## CONSTRUCTION COST ESTIMATING

Building Advisor - <http://buildingadvisor.com/>

SmartSheet - [www.smartsheet.com/excel-construction-project-management-templates](http://www.smartsheet.com/excel-construction-project-management-templates)

## FEES AND RELATED COSTS

### *Santa Cruz County Department of Public Works, Service and Capital Improvement Fees*

<http://www.dpw.co.santa-cruz.ca.us/Portals/19/pdfs/feebook.pdf>

### *Calculating Costs of Installing Separate PG&E Meters*

<https://www.pge.com/mybusiness/customerservice/otherrequests/newconstruction/projectcosts/index.shtml>

### *Calculating Costs of Water Connections to ADUs in the Soquel Creek Water District*

<http://www.soquelcreekwater.org/residential/new-accessory-dwelling-unit-water-service>

### *Locations of Special Districts*

Find Special District by Location on Santa Cruz County website (<http://gis.co.santa-cruz.ca.us/publicgisweb/>)

Click the right-pointing arrow at the top left to reveal a side menu. Scroll down in the menu to find “Special Districts” and select one or more special districts. The district boundaries will draw over the map.

Select the drop-down box at the top left under “Select Search Type” and change to “Address.” Enter an address in the textbox to the right under “Enter Search Value.” The map will zoom to the location. Zoom out to see which district contains the location.

Districts Available:

- Flood Control
- Road Maintenance
- Fire
- Water
- Sanitation

Special District PDF Maps

- Fire Districts (<http://www.santacruzlafco.org/maps/225-03FireOverview.pdf>)
- Sanitation Districts:
  - » Santa Cruz County (mid-county) ([http://gis.co.santa-cruz.ca.us/map\\_gallery/pdfs/Map%20Gallery/Jurisdictional%20Boundaries/Sanitation%20Districts/Santa%20Cruz%20Sanitation%20District.pdf](http://gis.co.santa-cruz.ca.us/map_gallery/pdfs/Map%20Gallery/Jurisdictional%20Boundaries/Sanitation%20Districts/Santa%20Cruz%20Sanitation%20District.pdf))
  - » Salsipuedes ([http://gis.co.santa-cruz.ca.us/map\\_gallery/pdfs/Map%20Gallery/Jurisdictional%20Boundaries/Sanitation%20Districts/Salsipuedes%20Sanitary%20District.pdf](http://gis.co.santa-cruz.ca.us/map_gallery/pdfs/Map%20Gallery/Jurisdictional%20Boundaries/Sanitation%20Districts/Salsipuedes%20Sanitary%20District.pdf))
  - » Freedom ([http://gis.co.santa-cruz.ca.us/map\\_gallery/pdfs/Map%20Gallery/Jurisdictional%20Boundaries/Sanitation%20Districts/Freedom%20Sanitation%20District.pdf](http://gis.co.santa-cruz.ca.us/map_gallery/pdfs/Map%20Gallery/Jurisdictional%20Boundaries/Sanitation%20Districts/Freedom%20Sanitation%20District.pdf))

- » Davenport ([http://gis.co.santa-cruz.ca.us/map\\_gallery/pdfs/Map%20Gallery/Jurisdictional%20Boundaries/Sanitation%20Districts/Davenport%20Sanitation%20District.pdf](http://gis.co.santa-cruz.ca.us/map_gallery/pdfs/Map%20Gallery/Jurisdictional%20Boundaries/Sanitation%20Districts/Davenport%20Sanitation%20District.pdf))
- School Districts ([http://gis.co.santa-cruz.ca.us/Map\\_Gallery/pdfs/Map%20Gallery/Administrative%20Boundaries/School%20Districts/County%20Wide%20Districts.pdf](http://gis.co.santa-cruz.ca.us/Map_Gallery/pdfs/Map%20Gallery/Administrative%20Boundaries/School%20Districts/County%20Wide%20Districts.pdf))

## FINANCING AND LENDING INFORMATION

### *Lenders*

These websites can provide updated information on interest rates and other lending information. Also included here are local lenders (Santa Cruz County Bank, Lighthouse Bank, and Bay Federal Credit Union).

<https://www.wellsfargo.com/mortgage/rates/> is a good source for current interest rates.

[https://www.sccountybank.com/realestate\\_lending.cfm](https://www.sccountybank.com/realestate_lending.cfm)

<https://www.lighthousebank.net/Home/tabid/2188/Default.aspx> (links to telephone numbers to use)

<https://www.bayfed.com/products-services/Loan-FAQ/heloc-information>

### *Mortgage Calculator*

<https://www.zillow.com/mortgage-calculator/>

### *Calculating Increase in Assessed Property Value*

<http://www.boe.ca.gov/>

Click the tab for Forms & Pubs, then click Property Taxes. Click on Publications, then look for Other Documents, and click on Assessor's Handbook. Select AH 531, Residential Building Costs. Click on the latest date shown. Go to Section 531.21.

You may also paste the following link into your browser:

<http://www.boe.ca.gov/proptaxes/pdf/ah53117.pdf>

## LANDLORD AND RENTAL INFORMATION

### *Landlord Advice for New Landlords*

The Housing Authority of the County of Santa Cruz: <https://www.hacosantacruz.org/>

Becoming a Landlord: Rewards, Risks, and Responsibilities (Fannie Mae 2008)

<https://www.fanniemae.com/content/tool/landlord-guidance.pdf>

Consumer Publications - Landlord/Tenant - California Department of Consumer Affairs

<http://www.dca.ca.gov/publications/landlordbook/index.shtml>

California Association of Realtors Lease Template Tool

<https://eforms.com/rental/ca/california-association-of-realtors-c-a-r-lease-agreement-template/>

### *Sources for Current Rent Data*

UC Santa Cruz Housing Office

<http://communityrentals.ucsc.edu> – this link shows current listings.

<https://communityrentals.ucsc.edu/cost/index.html> - This link summarizes an entire year of rental listings

Craigslist for Rentals in Santa Cruz County

<https://sfbay.craigslist.org/search/scz/apa?availabilityMode=0>

Santa Cruz County Housing Authority Website (Below Market Rents, also Known as Affordable Rents)

[https://hacosantacruz.org/pdf/Pynt%20Std,%20Util%20Allow,%20Inc%20Limits/sc\\_pmt\\_standards.pdf](https://hacosantacruz.org/pdf/Pynt%20Std,%20Util%20Allow,%20Inc%20Limits/sc_pmt_standards.pdf)

## MANUFACTURED/PREFAB HOME AND STOCK BUILDING PLAN RESOURCES

California Precut Homes: <http://www.caprecut.com/floorplans/1-story-homes-600-2-000-ft.html>

Cutting Edge Homes: <https://www.cuttingedgehomes.net>

GJ Gardner Homes: <http://www.gjgardner.com/san-luis-obispo-county-home-builders/granny-flats.aspx>

HousePlans.com: <https://www.houseplans.com/collection/themed-granny-units>

Ohana Kit Homes: <http://www.hawaiiadu.com/>

Workbench: [workbenchbuilt.com](http://workbenchbuilt.com)

Yamada homes: <http://www.yamadahomes.com/>



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