

# People in Portland want and build ADU's—with or without permits.

*a market study by*

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## **Executive Summary**

ADU's are remarkably flexible dwellings with many advantages for homeowners and neighborhoods, but very few permitted ones have been created in Portland. Are local citizens mostly uninterested in this kind of development, or are they simply building ADUs without permits? I studied interest in ADU's by searching the RMLS database for sold properties and cross-checking those listings against permit records.

I found that Portlanders crave the functionality of ADU's. "Guest apartments," "in-law units," etc. are touted as features during sales of single family residences, and are often described as rentable. There is clearly a market for such properties. However only 38% of the properties I studied had a permit for an ADU. There are likely 2-3 times more "functional ADU's" in Portland than permit numbers suggest.

Examining the set of unpermitted ADU's more closely suggests several things. Renovations permitted for one purpose (e.g. guest suite) often become independent residences at future points in the structure's history, as owners change and needs evolve. Otherwise responsible people who desire the functionality of an ADU seem reluctant to get an ADU permit. It seems reasonable that lower SDC's and less restrictive size standards would encourage homeowners to create legitimate ADU's.

## **Introduction**

I am a Mt. Tabor resident who created my own permitted ADU a few years ago. It's been a success financially and artistically. It's an attractive infill development that hasn't changed the nature of my neighborhood – my neighbors would say it's improved it.

I've sensed from conversations with people – and the >100,000 pageviews my blog (<http://bottleworld.net>) about the project has generated – that such projects are valuable socially and financially. I am interested in becoming a micro-developer of houses with ADU's. As part of my due diligence, I am studying the market value of properties with ADU's.

There is just one problem: very few permitted ADU's have been created in Portland over the last few years and there are too few sales records of these to make a reliable sample. Accordingly, I have studied sales of properties with ADU-like features, regardless of permits. My results indicate that there are many more functional ADU's in Portland than the permit numbers suggest, and they have given me some insight into the reasons that many, if not most, such developments are not permitted.

## My method

I searched the RMLS database of sold “single family detached” properties in Portland for the last three years (09/2006 to 09/2009). The RMLS system contains comment fields written by the selling agents—which presumably list the property's main positive features. I looked for comments containing phrases that might describe an ADU or its practical equivalent: “granny house,” “guest apartment,” “in-law unit,” etc. I studied the resulting listings to create a shorter list of properties which I was confident contained independent living spaces with all the functional properties of an ADU: separate bath, kitchen, and entrance. Then I compared this list of “practical ADU's” to permit records, as found on PortlandMaps.com, and (with the help of a BDS staffer) in the TRACS system and old paper records. Finally, I re-examined the comments in RMLS and details of permit records for any clues as to how the property had evolved.

## Basic Results

There was clearly **considerable interest** in the type of functionality provided by an ADU which I define as an independent living area within, or on the grounds of, a single family residence. Over 3 years there were **200-300 listings** of sold properties where the comments advertised ADU-like features such as “granny house,” “guest apartment,” “ADU,” or “rental unit.” These sales were spread across Portland and appeared at all price levels. **The interest in ADU functionality crosses neighborhoods and income levels.**

I can not be positive that all of those 200-300 sales represented actual independent living units. Sometimes they referred to the potential of the property; usually the listing was too vague to be sure.

However, I found **42 sales**, which, from descriptions and photographs on RMLS, demonstrably had the properties of an ADU: a separate kitchen, bath, and entrance. Call these the “practical ADU's.”

Of those practical ADU's, only **38% (or 16 sales) had a relevant permit. 62% (or 26 sales) did not have a relevant permit.** Call these the “unpermitted ADU's.” Most often there was no permit at all, or just trade permits. Sometimes there was an expansion of living space with a second sink agreement.

Not all of those renovations are necessarily being used illegally as rentals. However, **nearly half** (12 of 26, or 46%) **of the unpermitted ADU's were touted as rentals** in their RMLS listings. Some typical comments:

- “Basement is a finished and RENTED IN LAW APARTMENT-Extra income!”
- “Mother-in-law apartment OCCUPIED, CALL 1ST... Currently SFR with Guest Suite/rental”
- “2 car garage w/ cool studio/ADU... great for a guesthouse... Nice tenant.”

## Conclusions and Commentary

This study assumes that 3 years of “sold” listings are a decent sample of the existing stock of single family detached residences in Portland. If that assumption is reasonable, then the relative numbers (16 permitted properties sold, 26 underpermitted properties sold, with 12 of them being clearly touted as rentals) suggest that the **total number of functional ADU's in Portland could be 2 or even 3 times the number of permitted ADU's.** If Portland has 356 permitted ADU's (166 from 1994-1999, and 190 from 2000-2009, according to City documents), then there easily could be 350 more properties that

have functioning ADU's.

Why so many unpermitted ADU's and illegal rentals? In a few cases the RMLS notes and permit records, which can be quite detailed, suggested the homeowner knew they were skirting the system and went ahead anyway. However, I believe there is another trend at work. The comments and permit records suggest that some **homeowners and real estate agents are confused about what their permits allow them to do**. This is especially true when properties change hands. For example, one owner might permit a space with a second sink agreement, legitimately, as a guest suite. Hearing that the renovation was permitted, the selling agent might describe the property as a “permitted apartment.” Then the new owner might rent the place out without having looked too closely at the details.

All properties go through evolutions in owners and their needs. **Renovations that resemble ADU's are likely to be used as independent residences at some point in their lifespan.**

Notably, it is exactly this kind of flexibility which is the major attraction of ADU's. ADU's can be adapted to homeowner and community needs over time by variously serving as rental housing, extra living space, home offices, etc. **Homeowners want this kind of adaptability in their residence, so much that they are developing ADU's outside the city's processes.**

Most of these people are not out-and-out scofflaws; it's reasonable to presume that if the ADU code were easier to navigate, many such future developments could be brought under the permit system, and both homeowners and tenants would receive the benefits of the permitting process as well as of professional inspections.

My conversations with people in the field suggest several significant barriers: the 33% size constraint, especially for small houses; large systems development charges, which can be \$5000-\$10,000 even for ADU's sized for only one person; and design constraints that often require applying for adjustments. If the full potential of the ADU form of development is to be realized, barriers like these need to be addressed.