

The West Denver Single Family Plus (WDSF+) ADU Pilot Program

Construction Y1 (2021) Summary Report

April 22, 2022



Overview

Following years of intense housing pressures and displacement in west Denver due to rising costs that resulted in a loss of affordable housing, the West Denver Renaissance Collaborative (WDRC) in 2019 launched the Single-Family Plus (WDSF+) Accessory Dwelling Unit (ADU) Pilot Program to encourage qualified low and moderate-income homeowners to build detached ADUs in nine west Denver neighborhoods. This report documents success in the ADU pilot program's first full year of construction (2021) and identifies the lessons learned, solutions, and remaining barriers to increasing and scaling affordable ADUs in west Denver and to other Denver neighborhoods. The pilot program is a model for Denver and other cities illustrating the potential of affordable ADUs as the nation seeks solutions to its affordable housing crisis.

The ADU pilot program was designed and funded with four goals: to stabilize homeowners and minimize displacement, provide wealth-building opportunity, create new long-term affordable units, and promote equitable access to ADU zoning and development by offering support and incentives that simplify design, financing, and construction of ADUs in exchange for long-term affordability.

Results from the first full year of development show the ADU pilot program is repositioning ADUs as a tool for homeowner stabilization, family economic mobility, and affordable housing that is "context sensitive," adding much needed housing within single-family residential neighborhoods in west Denver. The ADU pilot program is a response to community interest and need with dedicated partners and creative solutions that are being watched around the nation, at a time when few ADUs are getting built in Denver. The program is proving it can help moderate and low-income homeowners build affordable ADUs and is keeping families together and helping them to stay in place.

The pilot program focuses on equitable access to development in historically low and moderate-income neighborhoods experiencing involuntary displacement fueled by investor speculation, new public infrastructure investments, and rising housing costs. The program is helping longtime residents invest in their properties, build intergenerational wealth, and create economic flexibility. This is critically important for low and moderate-income families in an area that was historically redlined and has a majority of Latinx

residents with limited resources to leverage home equity. Most participant homeowners (83 percent) in the pilot program identify as households of color seeking to house family. These early outcomes align with the City and County of Denver's Department of Housing Stability (HOST) goals for family units, support for BIPOC (Black, Indigenous, and people of color) households, and solutions for minimizing displacement.

Through a collaboration of local, regional, and national initiative partners—including the Denver Housing Authority (DHA), Strong, Prosperous And Resilient Communities Challenge (SPARCC), Fannie Mae, Habitat for Humanity of Metro Denver (Habitat), Colorado Housing and Finance Authority (CHFA), and the City and County of Denver (City)—the program is proving that technical support, targeted financial resources, and solutions to common obstacles can make the development of affordable ADUs more predictable and less complex, therefore a more accessible and equitable housing solution.

ADUs have been shown to provide multiple benefits for homeowners, but for low and moderate-income households the costs and challenges often push ADU development beyond their reach. Aided by partner organizations and the HOST ADU affordable funding, the pilot program achieves significant cost savings for homeowners through technical support including predevelopment services, pre-approved architectural models, site planning and permitting, access to custom ADU financing, and cost saving construction solutions.

Despite rising lumber costs and nationwide supply chain disruptions, results show the pilot program ADUs are being built for less than market-rate ADUs, and that an 80-percent maximum AMI (area median income) rent does not hinder a positive cash flow on the ADU for low and moderate-income homeowners. Most often, the pilot program ADUs provide living space for extended family, saving on high rent that would be paid elsewhere. Many households lowered their mortgage interest rate by refinancing to finance their ADU and others are using ADU rent to pay off their ADU debt and or to offset rising housing costs and property taxes. Program financial supports include strategies aimed at early project cost estimating, bridging initial site costs, certified housing counseling, and support from a community-responsive mortgage lender to ensure program participants have financial security, equity in their properties, and income for other family needs. These technical and financial supports are coupled with affordable-ADU deed and rent restrictions to achieve long-term housing for both homeowners and renters.

The pilot program met its 2021 target of 10 ADUs in development and by December 2021 had five in construction and five in permitting. As of January 2022, several additional homeowner participants are in predevelopment and a new wave of marketing has launched. In the second full year of development, the pilot program team and partners will continue to refine how ADUs are permitted and constructed and will work to keep ADU development accessible and more predictable for moderate and low-income homeowners. WDRC's 2022 target is to double production to 20 ADUs with a goal of up to 50 ADUs in development by the end of 2023. The program is on track to meet these targets despite the complications of the COVID-19 pandemic and the rising materials costs and labor shortages that have followed.

One of the greatest strengths of the ADU pilot program is that it is a collaboration of DHA, Habitat, First Bank and HOST, who together bring innovative solutions to the charge of lowering ADU costs, understanding equity and increasing access, and/or figuring out how to bring a range of ADU benefits to scale. Together these partners have achieved a range of creative solutions through daily implementation of ADUs and aligned missions. This report summarizes how the program has responded to the community

call for a local housing solution, the details of the ADU pilot program to date, and the pivots and approach that elevates ADUs as a critical affordable housing tool for Denver at a time when there is an undersupply of housing, projected population growth, stagnant incomes, and staggering annual housing and rent increases.

WDSF+ ADU Pilot Program Benefits

The pilot program aims to achieve specific benefits for west Denver families and neighborhoods:

- *Financial support* to help homeowners earn rental income from either the main house or the accessory unit and to grow household equity and intergenerational wealth by increasing property value.
 - *Family support* for long-term housing stability by providing low-cost, flexible, and independent living space for multiple generations or extended family members, such as age-in-place seniors, adult children and grandchildren, young low-paid workers, and caregivers who can help lower childcare costs.
 - *Place-based solutions* that help to reduce the displacement of families from neighborhoods and local schools by providing additional affordable homes on existing lots that are centrally located with access to many city amenities and jobs.
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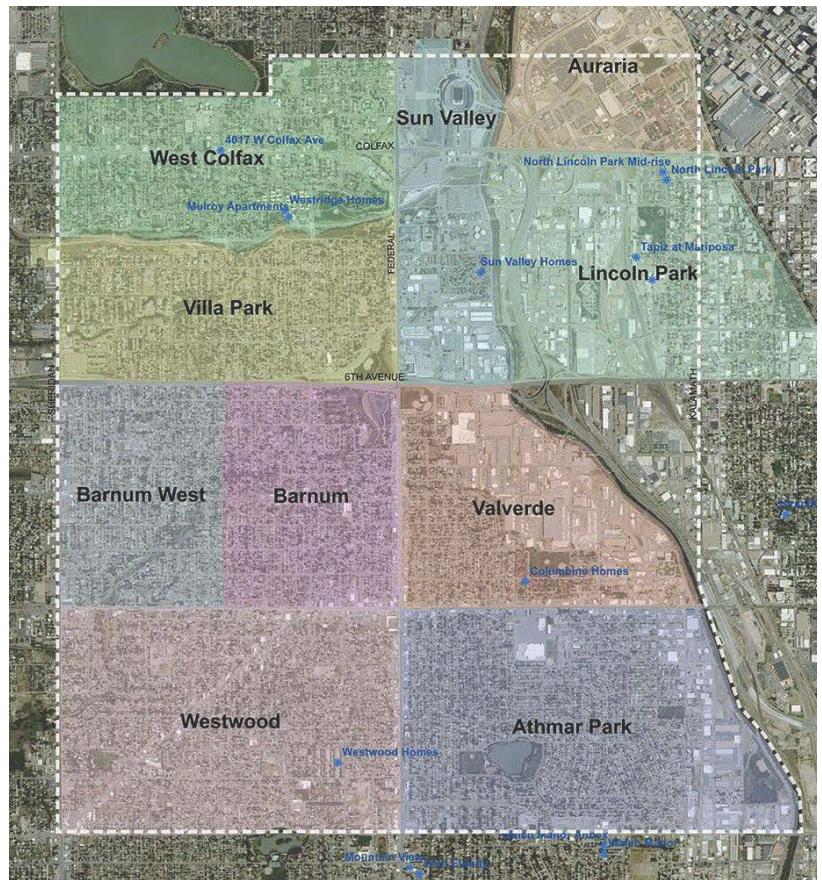
Background on Housing in West Denver

The nine west Denver neighborhoods included in the ADU pilot program—Athmar Park, Barnum, West Barnum, Lincoln Park, Sun Valley, Valverde, Villa Park, West Colfax, and Westwood—include 6,400 acres, 64,000 residents, 24,000 households, and three City Council districts.

In these neighborhoods, housing pressures have increased significantly in recent years, causing displacement of longtime residents from what had been a stable low and middle-income area. Beginning in the 1930s and extending to the late 1960s, west Denver was redlined by both mortgage lenders and federal, state, and local governments. The legacy of disinvestment is still evident today in the housing stock and in inadequate or nonexistent urban infrastructure, including missing or damaged sidewalks and narrow alleys. West Denver neighborhoods for decades offered affordable homeownership and rental opportunities for Latinx and other people of color who typically earned up to half of the area median income (AMI). Many residents in these neighborhoods were proud to be able to buy a modest single-family home in a neighborhood accessible to downtown and centrally located jobs.

That changed between 2009 and 2014, when the Latinx community, which previously had comprised over two-thirds of the population, lost 5,100 residents, or nearly 8 percent of west Denver’s total population. They were among the thousands of long-term households displaced during the Great Recession and the housing crisis that followed. Many of the area’s homeowners lost their homes because of risky mortgages or refinancing without sufficient equity (during the foreclosure crisis, northeast and southwest Denver had some of the highest foreclosure rates in the nation). Displacement also increased due to limited housing production, stagnant wages, rising property taxes, and residential real estate investors who were buying properties and driving up housing costs in some of the last “affordable” neighborhoods in the city.

While west Denver offered homeownership opportunity for people of color before the foreclosure crisis, these neighborhoods quickly became unaffordable for most of the existing households afterwards. Banks and LLCs purchased homes during the foreclosure crisis and rented them at affordable rates until their value increased and then sold many at top value. Between 2015 and 2018, 3,900 households, including 5,800 school-aged children previously enrolled in neighborhood schools, were displaced from west



Map of the nine WDRC focus neighborhoods.

Denver neighborhoods. Up to 70 percent of the homes were sold to investors who did minor upgrades and either increased the rents or sold them for significantly higher prices more aligned with urban neighborhoods closer to downtown.

Citywide growth, greater housing demand, and a lack of new housing, especially for lower-income families, increased housing costs and led to social and economic changes in west Denver’s neighborhoods. With 78 percent of renters and 58 percent of homeowners considered low-income, west Denver became particularly vulnerable as households could not keep up financially. Between 2012 and 2017, households earning over \$100,000 nearly doubled in west Denver as an influx of more affluent white homeowners and renters led to gentrification. Rents have kept rising and by 2021 the median west Denver rent was equivalent to the entire monthly income of a family of four who qualified for free lunch with the Denver Public Schools. In addition, only 13 percent of renters and 17 percent of existing homeowners could afford the area’s median-priced home in 2021.

Changes over time across the nine WDRC focus neighborhoods

	2009	2014	2019	2021
Prices				
Rent (median)	\$780		\$1,454	\$2,450
Sales (median)		\$180,500	\$353,000	\$430,000
Investor Transactions (2019-2021)				33%
Property Tax (median)	\$722			\$1,788
Tenure (Renter/Owner)	52%/48%	60%/40%	57%/43%	
Cost Burdened (Renter/Owner)	39%/46%	53%/34%	54%/29%	
Income \$100K+	7%	7%	17%	
80%+ AMI Owners		58%		55%
Demographics				
Race/Ethnicity (Hisp/White Non-Hisp)	73%/20%		68%/23%	60%/29%*
Bachelor's Degree +	11%	13%	22%	
Students (Total FRL)		14,132	13,509	TBD
Families Displaced			3900	TBD
Housing Production - Pipeline (number affordable)			4,500 (~1,100)	5,860 (~1,800)

Provided by the Colorado Futures Center. Sources: City and County of Denver, Denver Housing Authority, County and State Assessor property transactions, ACS 5-yr estimates, HUD, Ribbon Demographics, US Census, Decennial Census. *2020 census.

It was no surprise that by 2020, west Denver had an estimated 3,110 “doubled-up” households, the city’s highest rate of households with two or more families living in single-family homes. Intergenerational living is common among west Denver households as a family and cultural preference, but in many homes, economic necessity has created crowded conditions. In 2017 west Denver neighborhood leaders advocated for solutions to stabilize homeowners, relieve doubled-up pressure, and for affordable housing that was locally controlled and financed—they wanted to explore ADUs.

West Denver Renaissance Collaborative (WDRC) + Housing Equity

WDRC was created through a partnership of DHA, the City and County of Denver and various nonprofits in 2016 to advocate, support, and provide solutions for the top community needs in nine west Denver neighborhoods. Current work includes supporting small businesses, a range of efforts to minimize displacement, and launching a local community connector program to ensure resources reach underrepresented residents. Changes in housing affordability and the need for solutions has been a primary focus. In 2017 WDRC commissioned a baseline housing needs assessment to better understand the area's housing and household pressures and to inform anti-displacement efforts. In 2019, a WDRC contracted analysis conducted to identify the magnitude of displacement and identify impact of rising housing prices and rents showed approximately 20,700 or 85-percent of households in west Denver were vulnerable to or experiencing displacement. The also estimated the 2019 affordable housing need gap to be 7,300 units, and of the 6,000 housing units in the pipeline for development, only 1,150 were planned as affordable.

WDRC's surveys, analyses, and conversations with west Denver homeowners and renters pointed to the desire of many residents to have the option to invest in their properties and to not have to sell their homes to reap the equity and rising real estate values that were creating change in their neighborhoods. Multifamily development projects just north of the west Denver neighborhoods were resulting in the demolition of naturally occurring affordable homes and the displacement of residents of color. Community leaders expressed a desire for a locally benefitting solution for families with kids. ADUs kept coming up as a grassroots solution that could help west Denver keep families together and prevent displacement. The large, predominantly single-family lots of west Denver made ADUs a viable option that created local benefits for homeowners and provided much needed family-oriented affordable housing, but without requiring demolition of existing homes. However, few ADUs were being built in Denver despite their inclusion in the 2010 zoning code, so WDRC worked first to understand why.

ADU Development in Denver

In recent years, Denver and other U.S. cities have introduced or relaxed regulations on ADUs to respond to the need for more affordable and diverse housing options. These efforts have brought success in cities such as Portland and Seattle and in California, where statewide policy and incentives were adopted. In Denver, limited financing options and complex City policy requirements resulted in ADU development dependent upon custom design and engineering that led to high cost and expensive ADUs.

The Denver Zoning Code regulates where attached (located within the primary home) and detached (separated from the primary home) ADUs are allowed and includes building form standards regarding height, minimum lot size and depth, setbacks, footprint size, and structure dimensions. Besides zoning requirements, ADUs must meet all building and fire code standards for new construction. Though they are small compared to other development projects, ADUs can trigger City land dedication requests to expand an existing alley width or sidewalk right-of-way. In some single-unit (SU) zone districts, the property owner must live onsite in either the ADU or the primary home, and should the owner not live on the property, the ADU must be 'decommissioned' without clear information about how that is accomplished.

Blueprint Denver 2019 Housing and Land Use Policy Support for ADUs

Blueprint Denver 2019, the City's 20-year land use and transportation plan, has two specific ADU policies that hold regulator promise for ADUs in Denver:

- Policy 04 advises diversifying housing choice by expanding ADUs in all residential areas and identifying strategies to prevent involuntary displacement, especially in areas that score high for vulnerability to displacement. It recommends implementing a citywide program to expand access to ADUs as a wealth-building tool for low and moderate-income homeowners and implementing incentives or requirements for income-restricted ADUs to ensure long-term housing options rather than short-term rentals.
- Policy 05 advises evaluating barriers to ADU permitting and construction and revising codes and/or fees to remove or reduce barriers for homeowners, especially in neighborhoods that score high in vulnerability to displacement. It also advises establishing context-specific patterns or templates to facilitate the approval process for detached ADUs.
- *Blueprint Denver 2019* Plan link: <https://denvergov.org/Government/Agencies-Departments-Offices/Agencies-Departments-Offices-Directory/Community-Planning-and-Development/Planning/Blueprint-Denver>

Though *Blueprint Denver 2019*, the City's 20-year land use and transportation plan, includes ADUs as a tool for diversifying housing choice in residential areas, Denver's current ADU policies have had limited success. In 2010, approximately 25 percent of the city was rezoned to allow ADUs, but between 2010 and 2021, only 403 ADUs were permitted citywide. ADU permits per year peaked at 69 in 2019 but then dropped to 54 in 2020 and 64 in 2021, suggesting that the factors that have made ADU development challenging for homeowners, especially during the Covid pandemic, have been experienced citywide.

WDSF ADU Pilot Program and Results to Date

ADU Pilot Program Goals

The ADU pilot program was designed and is implemented around four goals: to stabilize homeowners and minimize displacement, provide wealth-building opportunity, create new long-term affordable units, and promote equitable access to ADU zoning and development by offering support and incentives that simplify design, financing, and construction of ADUs in exchange for long-term affordability. Affordability and neighborhood stability result not only from creating additional housing opportunities for renters, but also from enabling homeowners to build wealth through rental income and increased equity in their property. WDRC pursued the ADU pilot program focused on the values and needs expressed by community members. These included designing ADUs at the ground level to serve extended family and to ensure homeowners could age in place (universal design, no stairs), ensuring the program could serve Spanish-speaking homeowners, and creating program flexibility so that homeowners could move into the ADU and rent or house family in either the ADU or the primary home. Supports needed to be in place to help homeowners understand all elements of financing and to help with lenders, designers, permitting, and how to be a property manager.

ADU Pilot Program Design

The pilot program provides a range of services and significant cost savings to assist homeowners in the construction of detached ADU models. The cost savings, along with development, design, financing, permitting, and construction support, make it possible for low and moderate-income homeowners to build an ADU. The pilot program provides:

- Site predevelopment and bridge funding for initial site costs
 - Certified housing counseling
 - Access to financing with local ADU-focused lenders
 - Cost estimating and project feasibility
 - Architecture services and pre-approved ADU designs
 - Site planning, final design submittal preparation, and permitting
 - ADU construction
 - Property management training
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Pilot Program Requirements

The pilot program is available to homeowners of lots currently zoned for ADUs in west Denver who have lived in the area for at least two years. The residential lot must meet Denver zoning requirements, including minimum lot size, and an ADU cannot exceed the maximum building coverage for that zone. The program develops only new detached ADUs that are independent of the primary home, not conversions of existing interior spaces or structures such as garages. Per zoning standards, the ADU must be built on the back one-third of the lot, and the site must have an area clear of other structures and obstructions and avoid conflicts with trees and underground utilities. Homeowners must qualify for ADU financing or be willing to work with a housing counselor to qualify. Initially, household income was required to be less than 120 percent of Denver AMI. In 2021, that requirement was eliminated, opening the program to all income levels for homeowners who wanted to build an affordable restricted ADU.

Pilot Program Outreach and Education

In 2018, WDRC published *WDSF+ ADU Handbook: A Guide to Detached ADU & Tandem House Development* to help educate west Denver homeowners about the benefits and requirements of developing an ADU (<https://www.mywdrc.org>).

WDRC's outreach initially targeted west Denver homeowners identified through a database of all parcels within the City of Denver. The team analyzed parcels to determine if they had ADU zoning, a large enough lot, land on which to build an ADU, and were owner-occupied. In 2020, ADU outreach activities included letters, phone calls, and postcards mailed to all eligible homeowners, a total of 2,868 west Denver households. WDRC consistently found many homeowners had no idea what an ADU was, the benefits they could provide, or the regulations guiding ADU design, permitting, and construction. The ADU pilot program team adjusted its outreach efforts to provide more general education on ADUs and their benefits and facilitated ADU work sessions at community centers, made presentations at Registered Neighborhood Organizations (RNOs) in every neighborhood, and participated in virtual and in-person town hall meetings in two City Council districts. After the Covid pandemic restricted in-person meetings, the team pivoted to virtual meetings and information sessions in public parks, providing presentations in Spanish and English that included an overview of the pilot program, qualifications for participation, zoning and site preparation, development guidelines, and financing (<https://www.mywdrc.org/adu-pilot-program>).

By 2021, west Denver residents were more aware of ADUs due to the team's outreach and education efforts and local media articles about the City's ADU policies and success stories. West Denver residents advocated for a legislative rezoning to allow ADUs by right on single-family-zoned lots in three west Denver neighborhoods, an effort led by the City Council District 3 office.

What is an ADU?

In its outreach efforts, WDRC found that west Denver residents were often not aware of ADUs or had misconceptions about what they were. WDRC created an education program to acquaint homeowners with ADUs and their benefits for homeowners and the community. Presentations covered pilot program basics including:

- A detached ADU (also known as a carriage house, in-law unit, casita, or granny flat) is a small house built on the back one-third of a single-family lot where zoning allows.
- An ADU can provide more room for families and help them build a more secure financial future. The pilot program provides design-finance-build support and incentives and offers cost savings for qualified homeowners in exchange for maintaining an affordable ADU for 25 years.

Housing Counseling

Before applying for ADU construction financing, pilot program participants are required to meet with DHA or NEWSED housing counselors certified by the U.S. Department of Housing and Urban Development (HUD) to review financial readiness, before and after financing budgets, and factors such as debt and credit scores. Participants are referred to a lender to determine the ADU unit size and cost they can qualify for, and then meet again with the counselor to discuss financing options, terms, and their pre- and post-ADU financial picture. Including housing counseling early in the ADU development process ensures homeowners understand the financial impacts and costs before they ever talk to a lender or put money towards developing the ADU. This is also a valued step that increases efficiency so the housing counseling

team will not advance a homeowner to financing unless they have their documents ready, understand the financing process, and can qualify. The housing counseling team helps create a smooth transition to financing by working with homeowners on financial education, pre-qualification, and financial readiness so they are prepared and supported for the next steps in the process.

All homeowners in the first year of the pilot program who qualified for ADU financing benefited from low-interest refinance rates, and several were able to lower their monthly payments despite the additional amount of their ADU loan. One homeowner worked with housing counselors for months to remove four liens from their property and was able to refinance out of an adjustable-rate mortgage that would ultimately have doubled their payments. Many applicants who ultimately did not move forward with ADU construction still received benefits from housing counseling, including referrals to other programs like mortgage assistance, help with lien removal, mortgage modification, and even foreclosure prevention counseling. A total of 49 households were engaged in some level of housing counseling, and 10 became participants in the ADU pilot program.

Site Variables

ADUs sites are required to meet City standards for development and trigger development review requirements around zone lot irregularities, unpermitted structures, and the right-of-way needs adjacent to the site. Site variables that affect an ADU can include the condition of sidewalks, the composition of soils, condition of existing utilities, and whether trees, fences, sheds, or garages need to be removed. Sheds and other structures on the property must be permitted or will be flagged at permit before the ADU review can move ahead. Utilities such as water and sewer lines must be close enough to tap into and be in good condition or could trigger costly upgrades or relocation. The pilot program takes on the financial risk of paying upfront costs for a professional survey, soils bore, and engineering analysis of soil types to help identify the site conditions that may impact the project total cost. These preliminary site variables costs are then included in the homeowner's total ADU cost and paid back to DHA reimbursed once financing is secured.

Pre-Approved Architectural Models

The ADU pilot program has designed and previewed six ADU models with the City development review team to ensure the ADUs are meeting building code and to help expedite the development process for subsequent sites. Program submittals using an ADU model with no changes requires only zoning and site plan reviews, which can help to expedite permitting. Architects from Habitat for Humanity and a local chapter of the American Institute of Architects designed the ADU models with varying sizes and layouts that meet the City's ADU standards for size, height, and setbacks and complement the architectural character of west Denver neighborhoods.

The ADU models include two studio options (432-square foot), a one-bedroom ADU (576-square-foot), two different two-bedroom ADUs (864-square-foot) and one three-bedroom ADU (864-square-foot). All models are single-level units with a kitchen, bathroom, electric heat and hot water systems, and a front porch. The designs also include a one-bedroom flat over a new garage, though no homeowners have chosen this option yet, generally because the costs are much higher, and the unit is not as accessible. West Denver homeowners have chosen to build five of the pre-approved ADU models with significant preference for the two- and three-bedroom units when space and budget allow.

Six ADU models have been reviewed with the Development Review division of the Denver Community Planning division. Five of the ADUs (excluding the linear studio) have been or are in construction.



1 Bedroom
576 sq. ft., 1 Bath



Small 2 Bedroom
576 sq. ft., 1 Bath



WDRS
<http://www.mywdr.org>
 SA+R
 Experience the different ADUs by viewing the QR code with any compatible smartphone.



WDRS
<http://www.mywdr.org>
 SA+R
 Experience the different ADUs by viewing the QR code with any compatible smartphone.



Large 2 Bedroom
664 sq. ft., 1 Bath



3 Bedroom
664 sq. ft., 1 Bath



WDRS
<http://www.mywdr.org>
 SA+R
 Experience the different ADUs by viewing the QR code with any compatible smartphone.



WDRS
<http://www.mywdr.org>
 SA+R
 Experience the different ADUs by viewing the QR code with any compatible smartphone.



Studio
432 sq. ft., 1 Bath



WDRS
<http://www.mywdr.org>
 SA+R
 Experience the different ADUs by viewing the QR code with any compatible smartphone.



Income Requirements

When the development program launched in 2020, homeowners who made up to 120 percent AMI could participate in the program, and those whose income was below 80 percent AMI qualified for a \$25,000 forgivable loan from the City. Due to Covid pandemic impacts, many potential homeowner participants were hit hard by employment layoffs, the need to take in family, and tightening regulations in mortgage underwriting. The pilot program team also realized broader participation was needed.

In June 2021, Denver City Council approved an extension through 2022 of Denver's HOST Affordable Housing funding for affordable restricted ADUs. City Council also raised the amount of the forgivable loan to \$30,000, and extended funding to homeowners at all AMI levels. Increasing the loan amount and including homeowners at higher income levels allowed the program to serve more doubled-up households as well as higher-income households. Now, the program is open to homeowners of any income level who agree to build an ADU that will be affordably restricted for 25 years. This means a homeowner who initially qualifies at 81 percent of AMI or more must rent to a tenant who earns 80 percent AMI or less. If the homeowner initially qualifies for the program at 80 percent AMI or less, there is no income requirement for the tenant. Consistent with City affordable homeownership policy, the qualifying homeowner is not penalized if income increases during the 25-year affordability term, and a tenant's income can increase above 80 percent during their tenancy. However, a new tenant would have to requalify.

Pilot Program Affordability and Use Requirements

The program deed restriction specifies the ADU must be used for residential occupancy and that any ADU monthly rent cannot exceed 80 percent of Denver's AMI maximum rent. In addition, short-term rental of the ADU is not allowed during the 25-year term. In Denver, short-term rental is defined as "a primary residence used for lodging accommodations to transients for a period of less than 30 consecutive days" (DRMC, Sec. 33-46).

A standard promissory note is tied to the deed restriction and creates a financial obligation to the ADU pilot program if a homeowner sells the property during the 25-year affordability term. The \$30,000 forgivable loan subsidy rolls into the promissory note total of \$50,000 for a studio and one-bedroom, or \$75,000 for a two or three-bedroom unit. These totals, respectively, reflect the program's value-capture for both the financial support from the City and the DHA program services, which helped the homeowner to build the ADU. The promissory total, along with the homeowner financing, together reflect the market value of the ADU and reduce the potential for "fix and flip" situations. They help ensure the City and DHA capture the value of their investment. The promissory note total depreciates over 25 years and does not need to be repaid unless the homeowner sells or fails to comply with the deed restriction terms. If homeowners sell the property to someone outside of their family before the 25-year term is completed, they must pay the current-year depreciated promissory note total, unless they have no return on the ADU investment. Repaid promissory note funds return to the program to develop more ADUs. Annual reporting on the ADUs and deed restrictions will be used to flag when a property is for sale.

Property management training is included as part of the pilot program in part to ensure homeowners are set up for success and understand the affordability and use requirements, as well as required annual reporting. The training also walks homeowners through compliance with fair housing laws, Denver rental

requirements, general education around landlord-tenant obligations, and other rental fundamentals for a first-time landlord.

Financing

Although less expensive to build than a full-size home, an ADU is still a complete but smaller version of a single-family home that entails a time-intensive process in which unpredictable costs can emerge. These factors make ADUs risky for most low or moderate-income homeowners. ADU financing is unique and requires a lender who understands them. In Denver, the value of the ADU cannot be separated from the primary home--the ADU and primary home are linked, and the ADU cannot be sold separately. This makes it difficult to incorporate rental income from the ADU to qualify for ADU financing. ADU financing typically requires a home equity line of credit, cash, or construction loan. Because these loans tend to be shorter-term and higher-interest, conventional financing options typically are not aligned with ADUs or the financial positions of lower-income homeowners.

In search of alternatives to conventional financing, WDRC approached numerous lending partners and explained the pilot program's goals and intentions for affordability. WDRC partnered with lenders that understood the financing needs of west Denver homeowners, including DHA, which offered a second position construction mortgage made possible from a line of credit from CHFA. Another financing option was the Elevation Community Land Trust's Stay in Place Program, in which a homeowner owns the primary home and the ADU while leasing the land through a 99-year renewable land lease.

In 2019, while WDRC was developing the ADU pilot program, FirstBank authorized a total of \$3 million in loan financing for a custom portfolio ADU-financing mortgage that allows homeowners to refinance their primary mortgage and pull home equity into an ADU construction escrow. The new mortgage has a single closing at the start of ADU construction so homeowners know their cost of borrowing up front, unlike a more traditional construction loan structure or other temporary financing option which could require re-qualification for a permanent loan structure at the end of the project, under potentially different terms. In 2021, the ADU pilot program's first year of development, all the homeowners selected FirstBank for loans because of the bank's custom ADU loan product, community approach to lending, and attractive loan rates which are fixed for 30 years. FirstBank worked with homeowners who had nontraditional forms of income, whose primary language was not English, and who submitted an individual taxpayer identification number (or ITIN, which is often used by immigrants), rather than a Social Security number. FirstBank's competitive terms, familiarity with ADUs, nimble response to meeting borrowers' needs, and ability to work with a development, counseling, and construction team were essential to the program in the first year of construction and to making ADU financing accessible to all moderate and low-income program participants.

Development Process

The development process relies on teamwork. As homeowners apply for eligibility, staff from WDRC, DHA housing counselors, NEWSED Community Development Corporation, and Habitat work together to guide them through the complex ADU development process. DHA through WDRC serves as the development manager and property representative; HUD-certified DHA and NEWSED housing counselors offer guidance and financial counseling in English and Spanish; and Habitat serves as the builder, managing the construction process from start to finish. The ADU pilot program development process includes the following phases of development:

1 -Pre-qualification

- For homeowners who meet the basic requirements, the WDRC team provides a preliminary review of site and zoning requirements, and then refers them to DHA or NEWSED counselors for housing counseling.
- Housing counselors provide project budgeting and income verification through a third-party certification (Colorado Housing Enterprises, CHE).

2- Financing

- Qualified homeowners are referred to lenders. All ADU pilot program participants are eligible for a forgivable subsidy of \$30,000 from the City.
- Upon pre-approval for financing, the WDRC team works with the homeowner to identify the ADU that best fits household needs, financing capabilities, and property requirements.

3 – Site Investigation

- The team visits the site to review conditions and discuss with homeowner issues such as zone lot complications and removal or permitting of unpermitted structures.
- With approval from the homeowner, the team orders a site survey, sewer scope, and soil analysis.
- The WDRC and Habitat predevelopment team identify variable site costs generated from soil, sewer, or site conditions and highlight any additional improvements the City could request during permitting.

4 – Development Cost Estimate and Contract to Proceed

- The team prepares an estimate of development costs for the site including possible variable costs.
- The homeowner signs a program contract with DHA confirming participation in the program and the affordability restrictions for 25 years and provides an earnest money deposit.

5 – Final Design and Financing

- The homeowner works with Habitat to finalize site design and submittal drawings for permitting.
- With initial permitting feedback from the city, final development costs are calculated, allowing the homeowner to finalize the loan financing with the lender.
- Housing counselors remain involved through closing to ensure that the final loan agreement establishes a stable financial future for the homeowner.
- The City issues a building permit to approve construction of the ADU. The homeowner signs a construction contract with Habitat, and the homeowner and lender close on a loan.

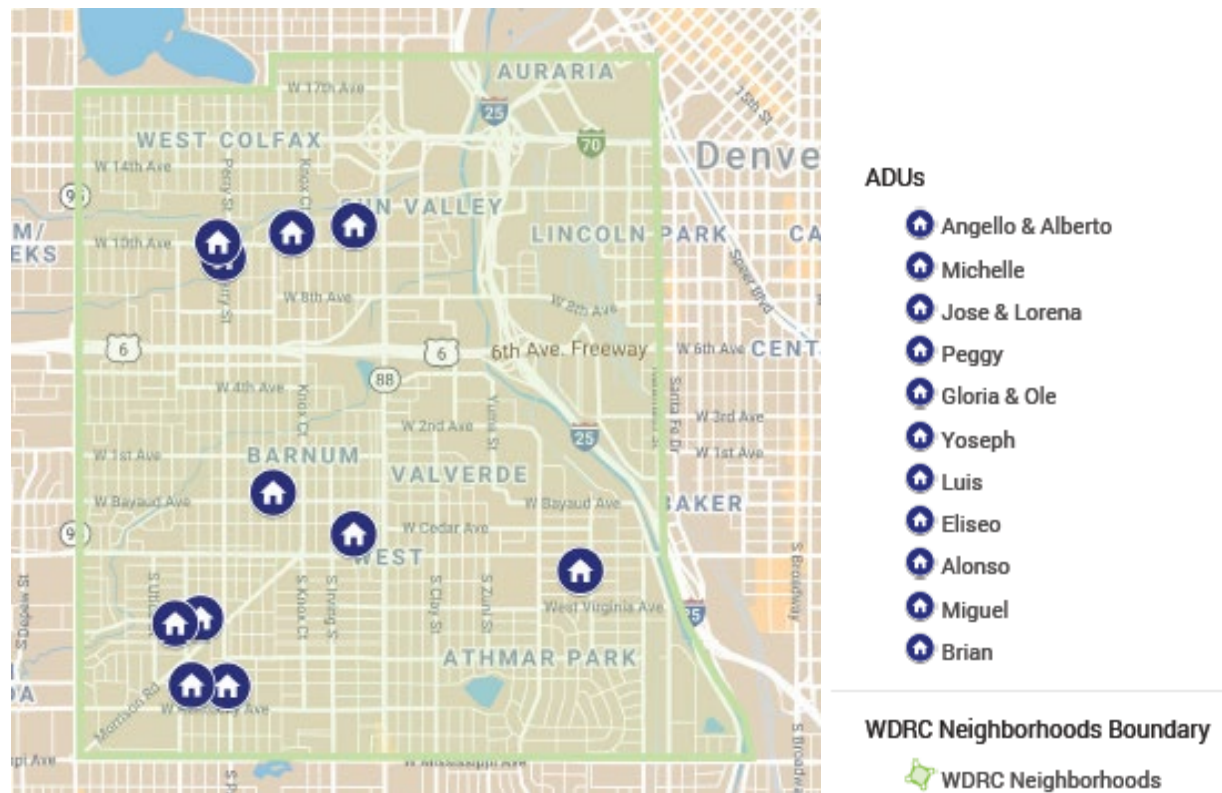
6 - Construction

- When the building permit is paid and pulled, construction begins.
- During construction, the homeowner participates in property management training including instructions on annual reporting.
- As construction is completed, the homeowner does a final walk-through and accepts the ADU.

Launched in 2019, the ADU pilot program was on track for beginning construction in 2020 until the Covid pandemic halted progress and created uncertainty for many of the first participants. Instead, 2020 became a year of pivots and strategic program refinements. The Covid pandemic impacted every aspect of the ADU pilot program, including delaying homeowner decisions, permitting, and construction materials and causing labor shortages and increases in construction costs. Delays set the program back by six months to a year. The pilot program is designed to construct ADUs within six months, faster than they are currently being developed, but pandemic-related obstacles have extended that schedule to at least nine months. With supply delays and limited subcontractors, private-market contractors could simply charge more to prioritize a project and keep construction on schedule. Aware that the pandemic could continue to impact the program, WDRC committed to keeping development costs affordable, which meant extending the construction timeline.

By December of 2021, the pilot program had overseen one full year of ADU development that included producing an early prototype and 10 ADUs—five in construction and five in permitting. By the end of January 2022, four new qualified homeowners were involved in the development process and several homeowners had indicated an interest in the program. WDRC’s goal is to have 20 ADUs in development by the end of 2022. Doubling the first-year number of units will be achieved by streamlining the program process, leveraging outreach that has raised west Denver’s awareness of ADUs, hiring another staff member, and adding market builders with ADU experience. WDRC plans to have up to 50 ADUs in development by the end of 2023.

Map of west Denver neighborhoods with locations of in-development ADUs.



Builders

Habitat for Humanity, the program's nonprofit design/construction partner, worked with WDRC and partners to create the ADU pilot program and led the architectural design of ADU models. In 2019, Habitat developed the ADU pilot program prototype on the site of a Habitat home, and it provided final design and permitting for all the projects in 2021. Habitat created an ADU-dedicated construction team and is committed to growing the number of high-quality, affordable ADUs it can build at price points that are accessible to low and moderate-income homeowners. Habitat can build below-market-rate ADUs because of its bulk purchasing and supply partnerships, creative approach to building ADUs with innovative construction methods, and support from construction volunteers.

Habitat's ADUs are solid, well-constructed, and energy efficient. They utilize an innovative hybrid-modular approach that combines off and on-site construction and has been proven to be the most effective way of reducing construction costs. The walls and roof trusses are fabricated offsite in a warehouse and assembled onsite. Energy-saving electric appliances such as a kitchen range, refrigerator, dishwasher, and washer-dryer are installed as part of the program. High-end materials and finishes are kept consistent to create cost savings, so the only individual customizations are the colors for exterior siding and doors. The ADU interior walls are painted warm gray, and both interior and exterior trim is painted white, similar in style to many homes in west Denver. Steadily rising single-family real estate values have priced out Habitat in most Denver neighborhoods, so ADUs provide the opportunity to add housing stock that stabilize homeowners and provides an affordable rental unit.

Construction Costs

The ADU pilot program has saved homeowners an average of \$50,000 to \$75,000 compared to market-rate ADU construction. However, though the program can build ADUs for less, construction costs continue to climb. Even with incentives, subsidies, and a streamlined process, the 2021 cost to develop a detached ADU under the program ranged from \$116,000 for a studio to \$188,000 for a three-bedroom unit. Construction costs increased 25 percent from 2020 to 2021 and an average of 50 percent from 2021 to 2022. This rapid escalation has been due to increases in the cost of materials and labor, delays in the supply chain, and lack of available contractors and subcontractors. Habitat and WDRC have worked together to create quarterly pricing for all future ADUs that includes price increase allowances to account for escalating construction materials, but also creates some pricing targets for marketing and cost estimating.

2021 ADU pricing

ADU MODEL	BASE Development Cost*	SITE Variables (estimated avg)	City Affordable ADU funding (Any income)	Habitat AMI waiver (120% AMI & below)	Total Cost
Linear Studio	\$142,000	\$25,000	-\$30,000	-\$21,000	\$116,000 - \$137,000
Studio	\$143,000	\$25,000	-\$30,000	-\$21,000	\$117,000 - \$138,000
1 Bedroom	\$161,000	\$25,000	-\$30,000	-\$21,000	\$135,000 - \$156,000
Small 2 Bed	\$163,000	\$25,000	-\$30,000	-\$21,000	\$137,000 - \$158,000
Large 2 Bed	\$191,000	\$25,000	-\$30,000	-\$21,000	\$165,000 - \$186,000
3 Bedroom	\$193,000	\$25,000	-\$30,000	-\$21,000	\$167,000 - \$188,000
1 Bed over Garage**	\$236,000	\$25,000	-\$30,000	-\$21,000	\$210,000 - \$231,000

*2021 pricing is shown above, 2022 pricing is different with construction costs up 50% and subject to quarterly increases

**not yet permitted or requested by a program participant

Note: The base development price includes predevelopment, professional costs, permitting, construction, materials, appliances (range, fridge, washer/dryer, etc). Pricing is locked in after predevelopment when signing a program contract. 2022 pricing will increase quarterly and may include an additional 'materials contingency'.

Impact on Families and Neighborhoods

In 2021, three of the 10 homeowners who participated in the program earned incomes below 67-percent AMI, three earned incomes between 68 and 80-percent AMI; four participants earned incomes 81 to 108-percent AMI. Nine homeowners plan to house family members immediately in their ADUs and the tenth will do so after having a renter help to pay off the cost of the ADU. Eight of the participants identify as persons of color. Most participants wanted to build the largest two- or three-bedroom ADUs, though 4 ended up building smaller units due to cost.

WDRC is seeing more inquiries from homeowners at higher income levels who are aligned on the importance of affordability and stability of their neighborhoods and appreciate the added value of the program's technical support, program partners, and cost efficiencies. Many west Denver residents have indicated that ADUs add housing to their single-family neighborhood in a manner that maintains character and affordability, unlike the increasing number of residential projects that demolish affordable homes and build large expensive single-family or duplex homes.

Homeowners in the ADU Pilot Program

The homeowner participants in the ADU pilot program are the unsung heroes with the foresight and commitment to stay in place and the patience to pursue their ADU vision for their family. A few of their stories are highlighted here:

- Jose and his daughter Lorena are building an ADU for Jose to live in as he ages, while Lorena and her family will move into the primary home to care for him.
- Eliseo is building an ADU for his daughter, her husband, and grandchildren and in honor of his son who passed away and had always wanted to build an ADU.
- Miguel has been unhoused in the past and wants to create stability and flexibility with his property. He will move his mother-in-law into the ADU to help care for his wife, who has struggled with health issues.
- Michele, a single mother with two boys, will build an ADU for long-term stability and income and to keep her family close but independent. She plans to rent to a nonfamily tenant until her older son graduates from college and moves in.
- Alonso is building a three-bedroom ADU for his adult daughter and grandson. The investment in his property will help the family stay in the neighborhood they love. The refinancing terms allowed him to eliminate four liens and create a better financial future.



ADU Pilot Program: 12 Lessons Learned and Key Pivots

The following lessons, solutions, and key pivots have led to the success of the ADU pilot program so far:

- One of the greatest strengths of the ADU pilot program is that it is a collaboration of partners and funders committed to the charge of lowering ADU costs, increasing access to ADU development, and advancing affordable ADUs within a struggling ADU market in Denver. The original \$930,000 in grant and award funding from SPARCC and Fannie Mae provided critical seed money to create the program and revolving funding to bridge predevelopment costs. Committed funding for homeowner financing came early in the program creation with \$500,000 from HOST providing qualified homeowners \$30,000 in affordable ADU funding, FirstBank's \$3 million earmarked for ADU financing, and a CHFA \$1.5 million line of credit for construction mortgages. Habitat invested in offsite production of ADU walls and continues to innovate and increase the number of ADUs they can build per year.

-Outreach and education are major needs due to broad unfamiliarity with ADUs, City standards, financing, and the general development process. WDRC found that west Denver homeowners were not familiar with or had misconceptions about ADUs, the benefits and flexibility they can provide, and the standards that guide their allowance and use. The ADU pilot team adjusted outreach efforts to provide more general education on ADUs and their benefits and facilitated ADU work sessions at community centers, RNO meetings in every neighborhood, and virtual and in-person town hall meetings. The need for extensive outreach is ongoing.



-Predesigned and approved ADU models save homeowners time and money and help participants visualize an ADU in their backyard. Predesigned and approved ADU models mean that homeowners do not have to find and pay for an architect to design their ADU and can simply choose the size they can afford and wish to build. Consistent design, without the option for modifications, creates predictability for cost estimating and construction pricing. In line with the *Blueprint Denver* 2019 policy to remove obstacles to ADU development, the models create the potential to expedite the permitting process and help the City's development review department understand recurring ADU obstacles and common permitting issues.

-Site variables add significant costs to the ADU construction budget, creating the need for a thorough review of site conditions, utilities, and infrastructure before determining the total costs of development and loan financing. Developing an estimate for the cost of an ADU for financing purposes requires a property survey, soils analysis, utilities inspections of sewer and water lines, and a structural engineering assessment. Site variable averages are incorporated into initial pricing but reconciled in predevelopment with site information. Costs for these site variables can amount to a large portion of the total cost to build an ADU, and at the predevelopment stage can be prohibitive and impact financing and the ability to build an ADU. The pilot program pivoted to pay homeowners' predevelopment costs up front, and they are later folded into the ADU loan amounts.

-Inadequate and poorly maintained city infrastructure is a key barrier to ADU development.

Homeowners building ADUs in Denver typically learn about new or replacement sidewalk requirements or alley dedications only once they have applied for a permit. These unpredicted costs can threaten the feasibility of an ADU project when the homeowner lacks the budget to cover such costs identified after loan underwriting. In early 2021, all homeowners in the pilot program faced City requirements to install or repair sidewalks, at costs ranging from \$15,000 to \$30,000. WDRC worked closely with the City's Department of Transportation and Infrastructure (DOTI) to create an affordable ADU-specific process allowing for early identification of additional sidewalk costs. DOTI also created a citywide ADU policy allowing homeowners to meet the hazardous and defective sidewalk criteria for repairs rather than being required to fully upgrade sidewalks to new city standards. This is significant because the pilot program ADUs are in historically disinvested neighborhoods where sidewalks and other public infrastructure typically fall short of city standards or do not exist. Four of 10 ADU sites in 2021 were corner lots (two sidewalk frontages), and DOTI's change had the most impact for these properties. DOTI policy updates have saved homeowners up to \$21,000 in additional development costs for corner ADUs sites and \$15,000 for midblock ADU sites.

-Homeowners need standard foundation solutions and costs for soil types. City requirements for soil testing and structural analysis of a site can lead to over-engineered and unnecessarily high-cost solutions for an ADU foundation. The west Denver neighborhoods have a variety of soil types that call for different foundation treatments, some of them quite costly. A preliminary soil bore test for one homeowner led to an estimate of \$46,000 for site and foundation work, with a proposal to install concrete piers 20 feet deep into bedrock to support a 576-square-foot, single-story ADU. This over-engineering prompted WDRC and Habitat, with a team of market builders and engineers, to create a menu of three foundation types that work for stable, medium, and unstable soils and determined a median foundation cost of \$25,000. Homeowners with an initial soil analysis can better understand their foundation costs from the three solutions to determine finance and project feasibility.

-Parking is not a requirement, which is beneficial for homeowners and the neighborhood. Single-family neighborhoods in west Denver have plenty of on-street parking, even with a high percentage of doubled-up households. In many situations, a new ADU will not add residents but rather will house people already living on the property and parking on the street. Not having an off-street parking requirement gives homeowners more flexibility and saves costs.

-A key to success was finding a community-focused financial institution partner. FirstBank was the lender chosen by all the homeowners in the first year because the bank understand ADUs, leverages existing home equity, and can combine refinancing and new property investment in one loan at an extremely competitive rate. FirstBank is mission-driven with a local decision-making approach, has Spanish-speaking lenders, is a strong and community focused program partner. The average interest rate for the first 10 participants was 2.725 percent.

-The deed restriction and accompanying promissory note that restricts ADUs as affordable for 25 years provide a balanced trade-off for lower-cost ADUs, program subsidies, and WDRC development services. They also include an alternative depreciating payoff safeguard for homeowners in case of a property sale before the 25-year term or a significant market drop that would impact home value and cause the homeowner to suffer a loss on the investment.

-In Denver, ADUs are hit with one-size-fits-all development requirements and fees that create disproportionately large cost impacts that limit how many get built. ADUs are asked to bear the burden of a complex code unique to this building form, to fix underinvested infrastructure, and to update any historical or current unpermitted structures to the same degree that larger development projects do, except that the improvements are too costly for the small ADU budget. Sewer tap and water fees for ADUs are the same fees for projects that demolish existing homes and redevelop a house three times the size with multiple bathrooms.

- A pilot program inherently includes learning and time to figure out new strategies and solutions. Many of the critical steps of ADU development have taken coordination and time that has made predevelopment, loan approval, and construction take longer than originally projected. Add on the COVID-19 impacts on material costs, supply chain delays, and labor shortages, and construction timeframes have been extended by at least five months. The program and participants are impacted by global and local market changes, creating the need for all partners to be creative, nimble, and resilient. The core ADU pilot program partners meet every two weeks to resolve and creatively address issues arising in financing, predevelopment, and construction. The team has brought on new builders six months earlier than planned, restructured the process for final pricing, and is integrating units constructed off-site to help with delays. Additional changes and solutions are expected and will improve on the program outcomes and ability to deliver for homeowners committed to building affordable ADUs.

Persistent Barriers to ADUs in West Denver and Citywide

Affordable ADUs can be built when the right partners and strategies align to overcome obstacles. Homeowners in west Denver and citywide will not be able to access opportunities to invest in their properties and provide additional housing by developing an ADU until key barriers are resolved:

- Lack of ADU zoning. A high percentage of west Denver residents interested in developing an ADU do not have the zoning to build one. Expanding ADU zoning will allow ADUs to be built by right if minimum lot size, percentage of undeveloped land on the lot, and other requirements are met. Homeowners without ADU zoning can apply individually for rezoning, but that can be a long and costly process, requiring up to six months, a public hearing, and a review fee of \$1,000 (plus a potential additional cost for a consultant or real estate attorney to handle the process) before any predevelopment steps can be taken. ADUs are currently allowed or are in the process of being allowed through legislative rezonings in several west Denver neighborhoods. The Denver City Council District 3 office, which encompasses five of the pilot neighborhoods, has proposed legislative rezonings in Villa Park, Barnum, and Barnum West, which if approved would allow ADUs on an additional 2,322 single-unit residential lots. The District 3 rezoning follows legislative rezonings in the Chaffee Park, Sloan's Lake, and East Colfax neighborhoods.

- Denver development policies and regulations limit the number of ADUs built across the City. Despite continued population growth, an undersupply of housing, rising housing costs, and increasing displacement of residents, the number of ADUs permitted in Denver has averaged only 34 units per year since 2010. Two primary reasons are ADU policy and City development regulations.

The construction industry in Denver and other American cities is experiencing unprecedented increases in materials costs and shortages caused by supply chain disruptions due to COVID-19. Labor gaps are also increasing subcontractor costs and creating significant construction delays. The projected timelines for

the first full year of construction have increased by four to six months. It is not an easy time to be learning and forging ahead with new ADU solutions and strategies impacted by both supply chain disruptions and rising interest increases. The pilot program cannot escape the current economic and labor disruptions and will continue to refine and deliver a much-needed housing option.

- City development regulations reflect values and conditions of the past. Current development requirements reflect the City’s past policy of areas of change and areas of stability where development was most often large-scale and needed to “pay its way.” The current housing crisis, displacement of residents, and need for equity or equitable access to opportunity are the current reality. The city needs development and a range of project types and sizes. Whole neighborhoods want the opportunity to build ADUs, but requirements add the price tag of also fixing or providing missing infrastructure, paying one fee for all unit sizes (one or five bathrooms), and bringing uses that were not permitted (but are usually decades old) up to current code. Altogether these requirements are game stoppers for ADUs and drive-up costs and the size of infill development that is impacting the character and affordability of neighborhoods.

There is not a path for small-scale neighborhood infill in the permitting and development review process where ADUs are reviewed as full-site projects, with full-size fees and requests for land dedications and upgrades. One-size regulations disproportionately drive up the costs of ADUs and reinforce that ADU development is accessible only to homeowners with significant financial means. In historically disinvested neighborhoods, these policies fuel displacement and inequitable access to investment solutions.

ADU development budgets are too small to bear the cost of fixing neighborhood infrastructure. ADUs are burdened with a disproportionate responsibility to fix urban design, infrastructure, and policy issues, including problems such as alley widths, rights-of-way, and sidewalks as conditions of construction. DOTI had the foresight to understand this impact by working with WDRC, which led to policy change and a process for previewing sidewalks for the pilot program.

-ADU policy is complex, has overlapping restrictions, and has unpredictable costs that add risk and complicate the ADU development process. A complicated code and layered restrictions for ADUs, determined lot by lot with rules for different circumstances in different zone districts, pose additional costs and risks. West Denver homeowners have had mixed experiences with the ADU permitting process. Some were able to get construction permits in four weeks while others waited for a year. In 2021, Covid pandemic restrictions, lack of staff, and a backlog of permit applications caused delays and inconsistencies, making the already complex process and regulations more daunting. Homeowners have indicated they do not have access to Spanish-speaking staff members or interpreters to help with zoning or permit questions, and homeowners must apply by computer (a barrier, as some WDRC homeowners do not have access to a computer). These are equity issues essential to achieving the *Blueprint Denver 2019*

ADUs permitted in the City & County of Denver since 2010

Year Issued	ADU permits
2010	2
2011	6
2012	9
2013	20
2014	12
2015	20
2016	44
2017	47
2018	56
2019	69
2020	54
2021	64
Total	403
Avg. per year	34
Source: City & County of Denver	

goal of reducing barriers to ADU development for homeowners in neighborhoods vulnerable to displacement.

Some west Denver homeowners with ADU zoning are not allowed to build a detached ADU because of the minimum lot size requirement. Eliminating lot minimums in favor of buildable area as defined by setbacks could allow for “right-sizing” of ADUs on all lot sizes so homeowners of smaller lots could build smaller ADUs. Many west Denver homeowners have unknowingly built sheds without permits or bought their homes not knowing that additions or separate structures were not permitted. There is no clear way to know whether structures on a property were permitted or grandfathered in before submitting for an ADU building permit, which means homeowners can spend thousands of dollars on predevelopment costs before they find out their property has problems. Some homeowners have had to take down small garages before they could receive a building permit for an ADU. If the City determines a structure is not permitted but is able to be permitted, the homeowner must hire an architect and prove that the structure has been built in accordance with current City code, not the code when the building was built. The City does not allow for a solution that meets the intent of the code. Researching and resolving such issues can take up to a year, delaying or creating cost impacts for the homeowner that have significant financial impact separate from an ADU. The path to get such structures permitted is complicated, and homeowners typically end up tearing them down. Site compliance issues such as these need dedicated City staff, policy standards, and reasonable-response timeframes to help homeowners achieve compliance without punitive costs and outcomes.

- Homeowners need technical support, predictable policy impacts, and committed ADU investments to personally take on the financial risks of developing an ADU. In contrast to other types of affordable housing, single-family homeowners carry most of the financial risk of developing and maintaining an ADU, while the City benefits by doubling the density on lots in single-family neighborhoods in a more affordable way. In 2021, the average total cost to build a two or three-bedroom ADU in the pilot program was \$207,000 not including a \$30,000 affordable ADU funding from the City for homeowners to lock in 25 years of affordability. This cost of developing an ADU is not insignificant but is less than half of the current average cost of \$375,000 to \$400,000 to develop an affordable two or three-bedroom apartment in a multifamily building using Denver’s low-income housing tax credits (LIHTC) from the State. And while both development options offer needed affordable housing at different scales, ADUs are restricted longer and offer opportunities for family stabilization and wealth-building in the predominantly single-family neighborhoods of west Denver, where “gentle infill” and intergenerational living are a good fit.

Scaling Affordable ADUs Citywide

The WDRC ADU pilot program success thus far indicates that ADUs should remain in the affordable housing toolbox and be expanded and supported on a larger scale. While the pilot program has shown ADUs can advance housing affordability and household stability, technical support services and policy solutions are needed to help interested homeowners and bring ADUs to scale as a tool for affordable housing development in vulnerable areas citywide.

In October 2021, the City published the *ADU Background Report*, calling ADUs an attractive housing option that is part of the housing-demand solution. The report addresses how ADUs are designed and fit in with different types of neighborhoods and block patterns and how updates to the zoning code may

reduce barriers to creating ADUs (<https://www.denvergov.org/files/assets/public/community-planning-and-development/documents/zoning/text-amendments/adus-in-denver/adu-background-report.pdf>.)

Denver Community Planning and Development (CPD) staff note multiple reasons for the relatively low number of ADUs that have been created citywide. Staff describes that ADUs can be costly for homeowners and are not typically built unless there is family need. Many ADUs are built as part of new home construction and are rented for a while to recoup construction costs. In single-unit zone districts, the owner of the property must live on the property, either in the ADU or in the primary house. To build a detached ADU, a property owner must comply with the ADU building form standards. The form standards currently do not consider different neighborhood contexts, and that can pose various challenges. Some lot sizes do not meet the minimum lot size standards for a specific zone district, which means an ADU cannot be built on that lot.

In 2019, the city updated *Blueprint Denver* with specific recommendations related to removing barriers to the construction of ADUs. As a result of these recommendations, the City in 2021 launched the **ADUs in Denver project** to produce a community-driven update to the Denver Zoning Code by the end of 2022 or early 2023. The project is looking at removing specific barriers to ADU construction and creating new regulations for ADUs to make sure they fit in different neighborhoods throughout Denver. The project will focus on the zoning barriers that can prevent property owners from building an ADU on their property, as well as ADU building form standards that can be updated to help make ADU construction less expensive. Less complex design standards will help, but without right-sizing development requirements, ADUs will be less expensive but still not accessible to moderate and low-income homeowners. This situation will be counter to the *Blueprint Denver* policy of equitable access to opportunity.

The pilot program has shown that a range of homeowners can and will build affordable ADUs, but pressure to increase production and scale to meet demand is limited by the same factors limiting citywide ADUs: development regulations, ADU standards, and regulatory factors that limit accessibility. Leadership and a coordinated City effort is needed to better balance the need and demand for affordable ADUs with development requirements that cull development to pay for needed right-of-way improvements and other regulatory fixes, especially in neighborhoods that have been historically lagging in infrastructure and where moderate and low-income homeowners are being involuntarily displaced.

Next Steps and Conclusion

There is increasing demand for ADUs from homeowners who want to stay in their neighborhoods and invest in their properties to keep families together, and there are neighborhoods that want ADUs as an affordable housing option in scale with their existing neighborhood character. The ADU pilot program has great potential for expansion in west Denver and citywide. As construction costs and the need for affordable housing continue to rise, WDRC and the program partners will continue to innovate and provide needed supports, incentives, and subsidies for affordable ADUs that stabilize and help to keep at-risk homeowners in place.

As the ADU pilot program enters its second year of development, WDRC and DHA also plan to pursue the following:

Data Update: To better focus homeowner retention and support efforts, WDRC is working with the Colorado Futures Center to update neighborhood data used to document how real estate investments

and transactions are tied to displacement of cost-burdened renters and homeowners. The update will include block-level details for displaced households following real estate transactions. This information will help to illustrate some of the economic impacts on households throughout west Denver.

Solar-Ready ADUs: WDRC received a grant from SPARCC to create an ADU-specific solar-readiness checklist. The team will use this standardized checklist to update the ADU program designs and construction. WDRC is waiting to hear whether another part of the grant will be awarded to install solar panels on up to seven ADUs in west Denver. Data has not been collected from photovoltaic (PV) systems installed on ADUs and collecting data will help compare actual energy usage with modelled energy usage. This data could illustrate overall energy cost savings and encourage homeowners to include PV systems as they build ADUs in Denver. The data also could help demonstrate how energy efficiency benefits both the environment and the homeowner budget and provides financial resilience against energy-cost increases for low and moderate-income homeowners.

WDRC anticipates a year-two construction summary report for the ADU pilot program by early 2023 and will address the issue of scaling the program within and beyond west Denver. The organization is reviewing proposals from several local and modular builders to increase construction capacity and build more ADUs. WDRC will continue to advocate for homeowners and seek additional strategies to reduce the cost of offsite improvements to help low and moderate-income homeowners overcome ADU obstacles. Economic and post COVID impacts will continue to create hurdles, but the program must go on just like the resilient residents of west Denver.

Under this pilot program, and with investments largely borne by homeowners, affordable housing units have been built at a cost significantly less than affordable units in multifamily buildings. But to continue this success, homeowners need predictable support to help them leverage affordable ADU development, like developers who are provided tax subsidies for building multifamily affordable housing. The next steps include continuing to solve for these challenges and bringing in new partners to deliver ADUs in greater numbers. Once the City's ADU policies and regulations have been updated, the market responds, and the ADU pilot program has two years of development experience, Denver will arrive at a tipping point where partners can begin to scale the affordable ADU program in low and moderate-income neighborhoods citywide and Denver will have accomplished what few cities have achieved.

DHA and WDRC would like to thank the many partners and west Denver leaders who are working to better understand how ADUs can be an affordable housing tool to minimize displacement and provide much needed wealth-building opportunities and affordable infill rental options. The homeowners building ADUs are early adopters and visionaries, and they inspire us every day. A special thank you is extended to Habitat, HOST, FirstBank, DOTI, CPD, CHFA, Denver Water, Colorado Housing Enterprise, our DHA and NEWSED Housing Counseling Team, Enterprise Community Partners, and Mile High Connects.

Report Contributors: Renee Martinez-Stone, Kathleen McCormick, Mara Owen, and select partners.

Related material on the West Denver Single Family Plus ADU Pilot Program

WDRC Website:

<https://www.mywdrc.org/adu-pilot-program>

Housing Colorado 2021, Eagle Award for Renee Martinez-Stone

https://vimeo.com/672943744?embedded=true&source=video_title&owner=16568565

Fannie Mae Innovation Challenge Award Video on the pilot program:

<https://www.youtube.com/watch?v=bvAApdbFsXM>