

# Accessory Dwellings

A one-stop source about accessory dwelling units, multigenerational homes, laneway houses, ADUs, granny flats, in-law units...

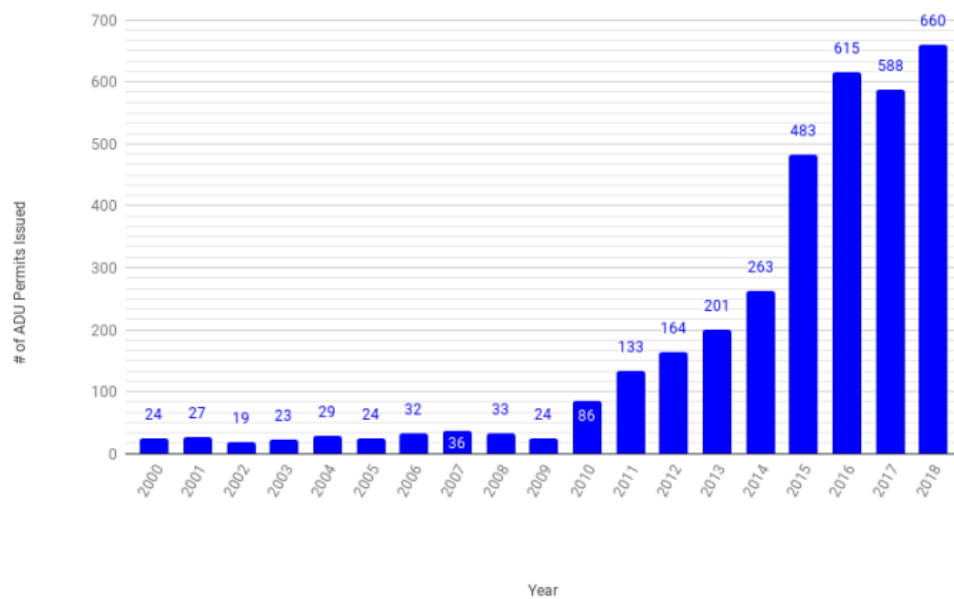
## ADU Permit Trends in Portland in 2017 and 2018

### ADU Annual Permit Trends in Portland

This post details some findings about recent ADU permit trends.

We'll start with the lead- the latest data on the number of permits issued by the City of Portland for ADUs from 2000-2018. **In 2017, 588 permits were issued. In 2018, 660 were issued, totaling 1,248 ADU permits issued in 2017 and 2018.**

ADU Permits Issued in Portland from 2000-2018



2015-2018 were all pretty big years for total ADU permits in Portland, collectively accounting for 68% of all ADU permits ever issued in Portland.

Note that this post explores 'permits issued', not completed ADUs. Based on historic averages, 85% of the ADU "permits issued" will eventually receive a "certificate of occupancy". Statistically, the rest won't ever get built or completed.

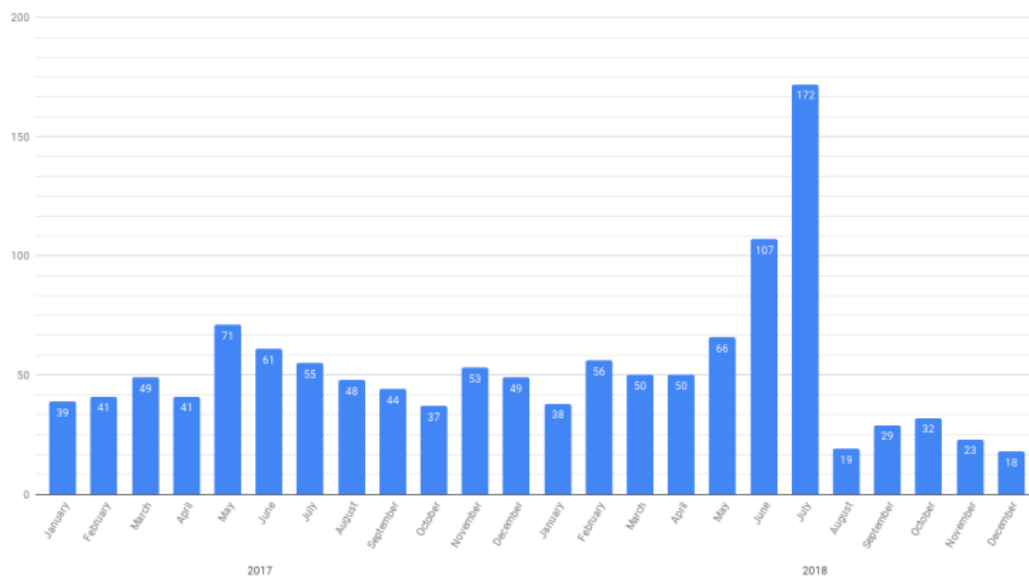
If 85% of these 1,248 permit holders from 2017 & 2018 will actually complete their ADUs, by the time all of these permitted actually get built by approximately the start of 2020, Portland will have roughly 2,900 permitted ADUs on the ground by then. Conversationally, it's fair to say that **Portland has roughly 2,900 completed ADUs**.

Notably, the number of Portland ADU permits has leveled off over the last three years at ~600 per year. For now, let's consider this new rate of development (621 permits/year) the current state of ADU development, a number which is influenced by a variety of market and regulatory variables.

For 2000-2009, Portland issued an average of 27 permits a year. From 2016-2018, the average was 621/year. That's an extremely impressive 23-fold increase.

The development rate is now apparently at a new, matured 'quasi-stable' state given the current market conditions. Next, we'll dig in and explore some of the nuanced policy intel revealed from this dataset, which was provided to me by the City of Portland. Let's start with interpreting the month-by-month permit history for 2017 and 2018. And then, I'll quickly refute why Portland is not actually not in a quasi-stable development state at all!

Portland ADU Permits by Month from Jan, 2017-Dec, 2018



## The New Normal-Not Really

The average number of permits issued for 19 months from January, 2017- July, 2018, was 59 permits/month. But, from August, 2018 to December, 2018, that number dropped precipitously to 24 permits/month.

This sudden drop was due to the end of the historically relevant 'temporary SDC waiver' incentive period that Portland had from 2010-2018. That period ended precisely and acutely on July 31st, 2018.

Interestingly, the 'temporary SDC waiver' ended, and was replaced by a permanent SDC waiver. So, a casual outside observer would not think this policy change should cause any drop in ADU development. But, there were two specific and predictable reasons why it did cause a drop.

1) There was an important psychology of a *temporary time-limited incentive* which effectively spurred an strong flurry of activity and interest in ADUs up to 2018.

It is notable that there 45 ADU permits on July 30th and 31st alone! That's 2.8 ADU permits per hour. The permit intake staff was probably hustling to keep up with the stressed out ADU applicants for those two days.

Though the City announced that the SDC waiver was going to be extended indefinitely, the anticipation regarding the deadline loomed large for homeowners who had learned about the waiver years ago. Anyone who had been sitting on the fence about developing an ADU, was motivated to pursue their SDC free option, while the getting was good, even if maybe they weren't feeling *quite* ready to do it. These fence-sitters proactively jumped into action in advance of July 31st, 2018, due to the psychology imposed by a *time-limited incentive* lapsing.

And, some of these homeowners had started their design development process well in advance of the May, 2018 announcement that the SDC waiver incentive would be indefinitely extended. So, they were already set to make that July 31st deadline regardless of the permanent waiver announcement.

Some of those fence-sitters who may have not built till 2019 or 2020, preemptively got in on the action in 2018- an artificial acceleration of ADU activity resulting in a 'boom' of ADU permits.

2) Secondly, some more well-researched homeowners fully understood that the new permanent SDC waiver policy which began on August 1st, 2018, carried with it a new provision that stipulated that they could no longer use their property for short-term rental without incurring the SDC fee of \$14-19K (see policy description below).

This 10-year deed restriction also played into the unnatural fever to get ADU applications in to the City before the 'temporary SDC waiver' deadline. It's not clear exactly how strong a role the new short-term rental restrictions, specifically, played in inducing a flurry of permitting activity, but all things being equal, homeowners would clearly rather not have municipal deed restrictions dictate how they can use their property.

- ▶ Property owners who participate in the ADU SDC Waiver Program receive a waiver of SDC fees.
- ▶ The program requires the property owner to sign a covenant stating that neither the ADU nor the house will be rented as accessory short-term rentals (ASTRs) for 10 years.
- ▶ Listing any on-site structure on a short-term rental platform is a violation of the covenant. Participating owners who violate the covenant will be required to repay waived fees at a rate of 150 percent the current SDC rates.
- ▶ The program does not restrict the rental of on-site structures including the ADU; however tenancy must be arranged on a month-to-month basis or longer.
- ▶ Property owners who don't participate in the ADU SDC Waiver Program will pay full SDC fees and can list the ADU on a short-term rental platform.
- ▶ The revised ADU SDC Waiver Program goes into effect August 1, 2018 and doesn't have an expiration date. The program is not retroactive and does not apply to property owners who previously received ADU SDC waivers or who receive waivers prior to August 1, 2018.

From <https://www.portlandoregon.gov/bds/article/689356>

This granular monthly context is a precursor to my next prediction that for a year, beginning on 8/1/2018, Portland will have an anomalous and significant drop in ADU permits issued from its matured 'quasi-stable' state. Rather than 621 permits/year, I anticipate that 2019 will only see about 300 permits issued.

ADU designers around the City are already feeling the lack of ADU design work which is suddenly in short supply. Builders aren't feeling this same burn. Heck, some builders are still booked 6-12 months out with a 2018 backlog. But, ADU focused designers felt this precipitous drop in work like an ADU gut-punch.

ADU designers-it's not you, it's the market. Don't worry, you're awesome. Stay the course, but unfortunately, you may need to pick up some side hustles designing other things of beauty, or designing for ADU clients in CA and elsewhere for the next year if ADUs are what you want to do.

The *next* cohort of ADU permits will climb back up over the next couple years as the market replenishes with willing-and-able ADU homeowner developers who:

1. were generally unaware of the SDC waiver at the time of the temporary SDC waiver and are just learning about ADUs for the first time and want one for the standard range of reasons (largely a combination passive rental income potential and housing flexibility).
2. find themselves in a position where they are finally able to fund an ADU
3. are experiencing a strong social motivation to build one for an aging parent or other relative
4. developed a first ADU during the temporary waiver period, got the ADU bug, and now they *definitely* want to build another 😊

This new cohort of possible ADU homeowner developers would represent the natural market state of ADU development for our market. But, we may not observe that natural rate of ADU development for *too* long. Because, there are two other forthcoming changes in ADU development dynamics that will serve as very significant market factors that could likely each increase the numbers of permits issued.

**1. Portland's Residential Infill Project.** If and when Portland's Residential Infill Project comes into effect, this will positively affect the dynamic of the ADU development, enabling more ADUs to be developed. Rather than one ADU per primary dwelling, Portland will be allowing 2-3 ADUs per dwelling.

Needless to say, as that particularly regulatory change unfolds and become a real factor instead of just political speculation, we'll cover it here in detail. When this regulation comes to pass, it will be a big deal for ADUs. For now, it's just regulatory sausage-making and politics unless you're a total geek about single family residential zoning... like me and half of Portland...

...and probably you, if you're still reading this post.

**2. ADU financing.** More and more institutional lenders are paying attention to ADUs now, and it is likely that innovative financing and possibly even disruptive financing options will start to come to market in the next year. It is surprising to me how slow lenders and financial entrepreneurs have been to catch on and address this very obvious and very substantial market niche. But, between the maturity of the lending marketplace for ADUs, a more sophisticated understanding about ADU valuation on the horizon due to forthcoming appraisal research on ADU valuation, and innovative business models that

include financing in their business models, it's only a matter of time before more private equity and private and institutional innovation addresses the glaring financing gap. It's clear that financing is the next institutional barrier that is the restraining ADUs from advancing in a much bigger way.

Meanwhile, Fannie Mae's Homestyle Renovation Loan is becoming a more and more popular way to finance ADUs. This year, Fannie's conforming loan limit increased to \$484,350, an increase of \$31,250 from the 2018 baseline limit of \$453,100. For the Portland real estate market, this new limit is approaching a loan value whereby a Fannie Mae secured renovation loan option has more relevance for *vastly* more homeowners.

And, despite the somewhat restrictive conforming loan limits, more local banks and credit unions appear to be willing to use portfolio loans that aren't securitized by Fannie Mae for renovation/construction loan financing. Umpqua Bank appears to be the market leader in enabling its customers to use renovation loan financing for ADUs.

### 'Speculative' ADUs

Among a handful of legislators and citizens in local jurisdictions like Seattle, WA and in California, there's fear that ADUs will usher in a wave of speculatively developed ADUs, and that this will a) ruin the neighborhood character and b) adversely impact affordable housing.

There is not a single shred of data that supports this assertion. But, given that there is such a paucity of data to work with, and new things (ADUs) are threatening for people who haven't experienced them in person yet, I understand why people may fear the worst.

However, I can assure you that ADUs don't cause the sky the fall, and these theories about affordable housing are wrong.

Here's some data based on real-life facts which shows what is actually happening on the ground.

Electeds considering ADU legislation for your cities, listen up. This section is for you.

Of the 1,248 property owners, 1,129 (90%) only applied once in that two-year time frame. These **are likely amateur homeowner developers**.

Though it's probably not perfectly correlated statistical indicator, applicants that developed more than one ADU in a two-year time span can serve as a useful proxy to consider who was actually a *professional developer*. Most homeowners will only ever develop one ADU, and most professional ADU developers would be presumably be developing *at least* one ADU every year.

**10% of the ADUs were developed by professional developer** applicants who developed more than one ADU in a two-year time span.

Of the 1,248 new ADUs permitted, 150 of the ADUs were developed in conjunction with a primary dwellings (12%).

These 150 ADUs were primarily developed by 91 individual applicants who developed more than one ADU in a two-year time span.

Of those 150, 100% of the ADUs were physically attached to the primary dwellings, the majority of which were new construction that included ADUs in the basement. Some were ADUs above attached garages or ADUs on the main level.

- 105 (70%) of the 150 were part of single family detached dwellings
- 45 (30%) of the 150 were part of attached townhouse dwellings

Of these 91 developers, only 10 developed more than two ADUs in that two-year time span. Roughly 1/2 of those remaining 81 developers building only two ADUs applied under their own personal names, instead of applying under the name of an LLC. So, I'd personally classify 40 of those 'professional developers' actually as mom-and-pop homeowner developers adding ADUs to a small residential real estate portfolio.

The most prolific single homeowner applied for 9 ADU permits, and did them on the lower level of new construction. Here's the description of the ADUs they added. *"NEW SINGLE FAMILY RESIDENCE WITH ACCESSORY DWELLING UNIT ON LOWER LEVEL / THREE STORIES / TUCK UNDER"*.

Gasp! The terror.

A super-complicated economics chart I uncovered after years of laborious research in library archives that could help explain why more housing units helps address affordable housing.

I jest, of course. This aforementioned development means that one housing unit was replaced by two units, which is fundamentally a good thing if the goal is to increase the supply of affordable housing over the long run.

Furthermore, the ADU is likely to be a fairly modestly-priced rental unit due to its small size. Housing unit size is among the simplest policy measures to consider to help foster the presence of naturally occurring affordable housing development in a city experiencing an affordable housing crisis.

Another less useful proxy, but one that at least contextually validates the other data regarding the number of professional ADU developers, is that 116 ADUs used permit runners (9%). The use of professional permit expeditors is more likely to be a service that professional developers would use than

an average homeowner developer would use. This 9% figure conveniently validates that approximately 10% of ADUs were developed by professional developers in 2017-2018, and 90% were developed by amateur homeowner developers- a bonafide grassroots housing development phenomena.

## Legalizations

28 of the 1248 are legalizations of existing units (2%). This is a very small portion of ADU development overall. Of those 28 legalizations, 26 of them are legalizations of basement units, garage conversions, or ADUs above a garage.

For jurisdictions that are keen on 'ADU amnesty' programs, this nominal figure (2%) is useful to consider when weighing whether an amnesty program is worthwhile.

- These ADUs are challenging to deal with professionally in terms of the process for legalizing them.
- It's quite stressful, tricky and risky for the homeowner to navigate the process, and even riskier for a renter who may be removed from their housing as a part of this process.
- And, the real kicker is that these legalizations aren't even adding any new housing. Best case scenario, they're making those under-the-radar units slightly more expensive to rent due to the requisite improvements that the homeowners must make in order to comply with the formal ADU code.

I question whether any political and staffing capital used to focus on dedicated amnesty programs would be *much* better spent on any number of other ADU initiatives, such as relaxing the ADU code so people aren't compelled to build them under the radar in the first place.

## ADU Structural Types

Portland allows all structural types of ADUs, so it's helpful to understand what the natural breakdown of ADU typology is. In Portland, I find that these ADU structural types are largely dictated by homeowner economics and desire, and site form & constraints. It's extremely obvious to me in most cases what structural type of ADU a homeowner must build based on their cash on hand, and their intended use, and their site constraints. I'll refer to this as the 'demand for ADU structural type', but to be totally clear, it's not an emotional demand, it's primarily a demand embodied by a series of practical requirements and qualifications.

Portland has basements, so this is one environmental factor that may differentiate Portland's ADU stock from other cities. For example, Bend, Oregon and many Californian cities do not have basements. Aside from this geographic factor, the more relevant controllable aspect to consider here is the regulatory constraints that most cities have for ADUs.

Most cities require additional off-street parking for ADUs, which effectively precludes the option of doing garage conversion ADUs, and would effectively increase the relative demand for ADUs located above a garage. The off-street parking requirement effectively eliminates 11% of most affordable ADUs right out of the gate, forcing the development of more ADUs that are more both more expensive and inaccessible, striking a regulatory dagger at the heart of why many people may need to build ADUs in the first place.

Worse still, many cities, like *most of the eastern seaboard of the United States*, require that the ADU be an internal or attached ADU. Internal and attached ADUs represent only 31% of our ADUs (add together 'basement or other attached conversions' and 'additions' below). So, the eastern seaboard is effectively

shooting themselves in the foot by eliminating 69% of their citizens' ADU development potential through this restrictive ADU structural regulation.

So, with that context now spelled out, here's the natural demand for ADU types in Portland, which should be understood as a neutral regulatory environment for ADU structural types. ie. There isn't any entrenched regulatory or geographic bias towards one structural type over another, so in this regard, it's the perfect case study of 'demand' for ADU structural typology.

- 405 (32%) of the 1248 **are conversions of existing structures**, primarily basement and garage conversions- those that I classify as "true conversions".
  - 142 (35%) of those 405 are garage conversions
  - 264 (65%) of those 405 are basement or other attached conversions
- 131 (10%) of the 1248 ADU are actually more structurally complex—they **are additions to existing structures**, such as adding a story above a garage, house-lifts, basement expansions, or others bump-outs from the primary dwellings etc.
- 529 (42%) of the 1248 of the ADUs **are detached new construction**.
- 150 (12%) of the 1248 **were developed as new construction in conjunction with a primary dwellings**, as described above in the speculative ADU development section.
- 28 (2%) of the 1248 were legalizations, as described above.

That summarized some of the salient findings from an analysis of the latest permit data. This type of data analysis is only possible because the City of Portland does a decent job with its permit database so I was able to pull out salient and granular details. Thanks Portland!

One last editorial plea: Cities that care about ADUs should do a better job tracking granular data about ADUs in a structured permit database so that policy makers, advocates, entrepreneurs, and academics, can collectively start to make better decisions about ADU policy.

Every City I've dealt with on ADUs has tremendous room for new construction in this data tracking realm, or at least some room for additions or conversions. 😊

## About Kol Peterson





Kol is an ADU consultant, advocate and author of Backdoor Revolution: The Definitive Guide to ADU Development. Read more here: [AccessoryDwellingStrategies.com](http://AccessoryDwellingStrategies.com) and learn about building your own at [BuildingAnADU.com](http://BuildingAnADU.com). Email at [Kol@accessorydwellingstrategies.com](mailto:Kol@accessorydwellingstrategies.com)

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Andy

January 8, 2020



Can't use the dwelling as a short term rental for 10 years? Forget that! I have built two ADU's and I would have never done it had I not been able to rent them as I see fit.

[Reply](#)

John

February 1, 2020



Andy: You're free to build an ADU and rent it out as you see fit.

If, however, you want Portland to waive the System Development Charges, you need to be providing housing for Portland residents who need housing. There's nothing unreasonable about that.

Why should Portland taxpayers subsidize you to build an AirBnb?

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