

Working Paper 2012-05



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**Scaling up Secondary Unit Production
in the East Bay:
Impacts and Policy Implications**

**Jake Wegmann, Alison Nemirow, and Karen Chapple
October 2012**

IURD WORKING PAPER WP-2012-05

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Introduction

California's implementation of SB 375, the Sustainable Communities and Climate Protection Act of 2008, is putting new pressure on communities to support increased density and infill development. Numerous other factors are also supporting an increase in infill, including changing market preferences, the aging of the baby boomers, the decreasing availability of mortgage financing, and the continued loss of greenfields. But California regions present multiple barriers to scaling up infill development, including disproportionately high costs and the resulting lack of housing affordability, as well as the opposition of existing community residents.

One potential solution is secondary units (also called in-law units or accessory dwelling units). Self-contained, smaller living units on the lot of a single-family home, secondary units can be either attached to the primary house, such as an above-the-garage unit or a basement unit, or detached (an independent cottage). Secondary units are particularly well suited as an infill strategy for low-density residential areas because they offer *hidden density*, housing units not readily apparent from the street – and relatively less objectionable to the neighbors.

This paper is part of a series of working papers on secondary units that culminated in the summary report, *Yes in My Backyard: Mobilizing the Market for Secondary Units*. As established in WP-2012-02, *Yes, But Will They Let Us Build? The Feasibility of Secondary Units in the East Bay*, local regulations continue to impede development, even with the state requirement that each city institute a ministerial process for approving secondary units. This paper builds on that analysis first by investigating the viability of secondary units as an infill strategy in terms of smart growth, housing affordability, economic and fiscal, and transportation system impacts, and then by recommending regulatory and other reforms needed in order to scale up the strategy.¹

This paper begins by analyzing how many secondary units of one particular type, detached backyard cottages, might be built in the East Bay, focusing on the Flatlands portions of Berkeley, El Cerrito, and Oakland. We then investigate the potential impacts of scaling up the strategy with regard to housing affordability, smart growth, alternative transportation, the economy, and city budgets. A final section details policy recommendations, focusing on regulatory reforms and other actions cities can take to encourage secondary unit construction, such as promoting carsharing programs, educating residents, and providing access to finance.

Getting to Scale

In order to determine whether secondary units are a viable solution for infill development, it is first necessary to determine whether it is physically feasible to build significant new numbers of such units. This is no simple task in a fragmented, older urban area such as the East Bay. Since neighborhoods and even blocks were developed at different times in the last 150 years, parcel sizes are highly irregular. City zoning and building codes change over time and differ widely even in adjacent cities (see *Yes, But Will They Let Us Build?* WP-2012-2). Moreover, only limited data is

¹ The first working paper in the series, *Secondary Units and Urban Infill: A Literature Review* (WP-2011-02),

available on parcel characteristics; we cannot determine from the tax assessor's database whether there are secondary units on a given parcel. Such databases may not record the constant alterations made by individual homeowners on their properties. Thus, it is not possible to ascertain the number of units that can be built from publicly available data alone. As detailed in the methodological appendix to WP-2012-02, we supplemented parcel databases with field surveys of units randomly sampled, and then extrapolated to the five station areas under study. We then extrapolated those findings to East Bay cities, as described below, in order to determine the effects of pursuing citywide secondary unit strategies.

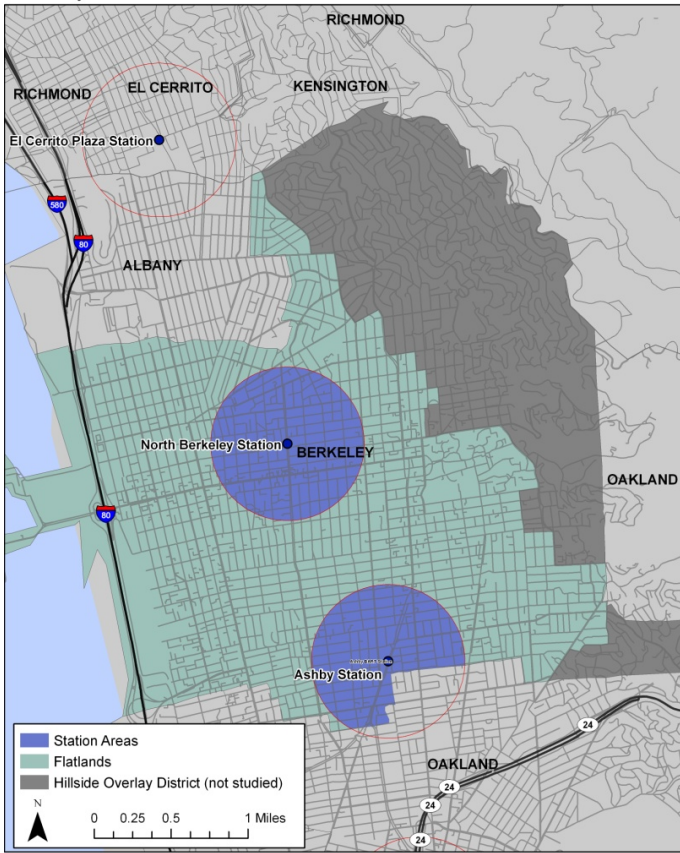
Methodology

After conducting a feasibility analysis of building backyard cottages in five Bay Area Rapid Transit (BART) urban rail station areas (see WP-2012-02), we extended our projections for the number of these units that could be potentially produced in the future to a broader area. This "Flatlands" region is mostly topographically flat, richly served by transit (including AC Transit and other bus systems), and in general shares many demographic, housing stock, and other characteristics with the station areas that we studied in the greatest detail. We omitted hillside districts from these calculations, because hillside neighborhoods are distinct from the Flatlands in terms of transportation (with much higher rates of car usage and lower rates of transit usage, cycling, and walking), demographics (the hillside areas have a much higher proportion of high-income households, with fewer renter households), and topography (travel behavior and the addition of secondary units is complicated by steep slopes). While we know from conversations with city staff that hillside areas have at least some secondary units, we could not reasonably extrapolate from the station areas to the hillside neighborhoods, as we could from station areas to adjacent Flatlands districts.

We defined the Flatlands for these purposes as the entirety of the flat-lying portions of the cities of Berkeley and El Cerrito and also North Oakland (i.e., that portion of Oakland that is flat-lying and north of the I-580 freeway, but excluding the Rockridge and Piedmont Avenue neighborhoods, which are distinct in terms of demographics, zoning regulation, and parcel configuration from the rest of North Oakland) (Figure 1). We omitted the cities of Albany and Richmond from the Flatlands analysis, since the station areas within these two cities are too limited in size to be plausibly extrapolated to the entirety of the Flatlands of these two cities. The "surrounding neighborhoods" for each city were defined as described below and in Table 1, based on zoning districts, topography, and characteristics such as lot size.

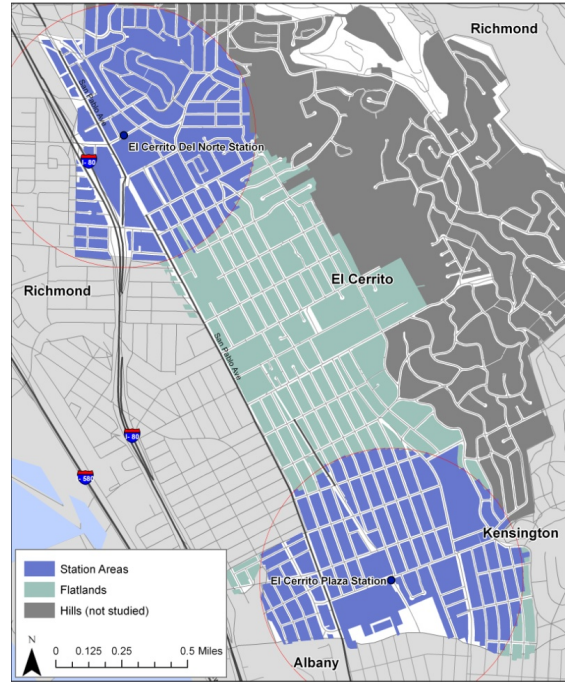
Figure 1. BART Station Study Areas and Flatland Neighborhoods.

Berkeley



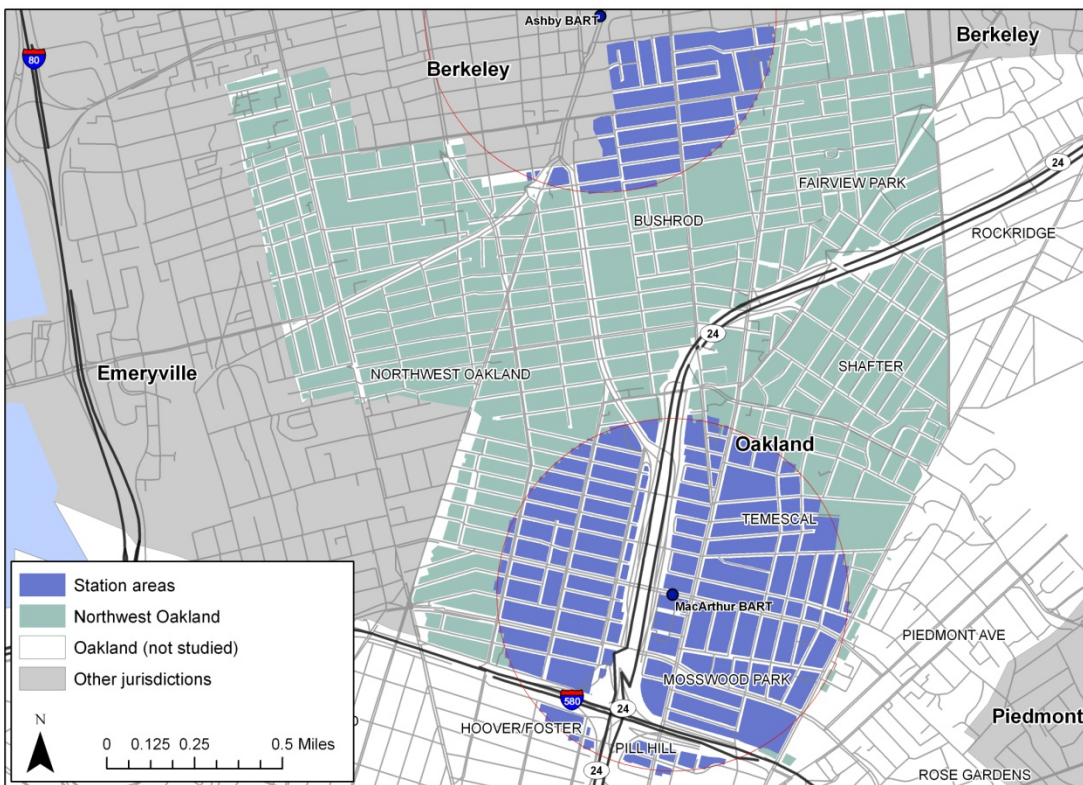
Sources: Center for Community Innovation, 2011; City of Berkeley, 1999

El Cerrito



Sources: Center for Community Innovation, 2011; CoreLogic, 2010; City of El Cerrito, 2010.

North Oakland



Sources: Center for Community Innovation, 2011; City of Oakland, 2011.

Table 1. Average Lot Size of Single-Family Residential Parcels in Station Areas and Flatland and Hillside Neighborhoods.

	BART Station Areas	Flatland Neighborhoods	Hillside Neighborhoods
Berkeley	North Berkeley: 4,268 s.f. Ashby: 4,353 s.f.	4,536 s.f.	6,950 s.f.
El Cerrito	El Cerrito del Norte: 5,224 s.f. El Cerrito Plaza: 4,536 s.f.	5,110 s.f.	8,598 s.f.
North Oakland	Ashby: 4,106 s.f. MacArthur: 3,865 s.f.	3,929 s.f.	Rockridge: 5,548 Piedmont: 8,546

Source: Alameda and Contra Costa county tax assessor, 2005.

- *Berkeley Flatlands:* All of Berkeley except the Hillside Overlay District as defined in the City’s zoning code. The average single-family residential lot size in the study areas is 4,268 s.f. in the North Berkeley BART station area and 4,352 s.f. in the Ashby station area. In comparison, the average single-family lot size in the surrounding Flatlands is 4,536 s.f., compared to 6,950 s.f. in the Hillside Overlay District.
- *El Cerrito Flatlands:* Excluded hillside neighborhoods based on topography, as shown in Google maps and reflected in the street grid. The average single-family residential lot size in the El Cerrito study areas is 4,857 s.f., compared to 5,110 s.f. in the Flatlands and 8,598 s.f. in the hills.
- *North Oakland Flatlands:* The area north of I-580, excluding the Rockridge and Piedmont neighborhoods, which includes about 11 percent of Oakland’s housing units. The neighborhoods included in the analysis² have an average single-family residential lot size ranging from about 3,700 to 4,200 s.f. – similar to the average lot size in the MacArthur BART station area (3,865 s.f.) and Oakland section of the Ashby BART station area (4,106 s.f.). The average year that the primary dwelling unit was built in these neighborhoods is 1915, the same as in the station areas. Rockridge and Piedmont were excluded because the lot characteristics were significantly different, with an average lot size of 5,548 and 8,456 s.f., respectively.³

For this analysis, we used 2010 county tax assessor’s parcel data provided by the City of El Cerrito, and an Alameda County assessor’s parcel database from 2005. To evaluate the potential for backyard cottage development in these Flatland neighborhoods, we began by screening each single-

² Bushrod, Mosswood, Temescal, Shafter, Fairview Park, Santa Fe, Golden Gate, Gaskill, Longfellow and Paradise Park, as defined by the Oakland Museum of California, http://collections.museumca.org/search_map.jsp.

³ Because of these larger parcel sizes, Rockridge and Piedmont may be able to accommodate even more backyard cottages than the neighborhoods we included in the North Oakland Flatlands analysis. However, Rockridge and Piedmont are too different from the Ashby and MacArthur station areas for us to feel comfortable generalizing our results to the two neighborhoods.

family residential (SFR) parcel for zoning district, lot size (Berkeley), and lot coverage. After determining which parcels met these basic zoning criteria, we extrapolated the results of the Google Earth and parking surveys conducted in the station areas, as described below:

- *Berkeley*: In the station area analysis, we found that 93 percent of the parcels that met lot size and lot coverage requirements for a secondary unit had sufficient backyard space to accommodate a detached secondary unit under current setback requirements. In order to generalize to the rest of the Flatlands, we first screened the Berkeley Flatland parcels for lot size and lot coverage requirements in ArcGIS. Of the 3,900 parcels that met the lot size and lot coverage requirements, we assumed that 93 percent (3,628) could accommodate a secondary unit.
- *El Cerrito*: Of the parcels in the station areas that met lot coverage requirements, 49 percent of those smaller than 5,000 s.f., and 72 percent of those larger than 5,000 s.f., had sufficient backyard space to accommodate a detached secondary unit under current setback requirements, disregarding parking requirements. When we screened parcels in the rest of the Flatlands, we found that 4,000 parcels met the lot coverage requirements. Of these, 695 were smaller than 5,000 s.f. and 2,300 were larger than 5,000 s.f. Therefore, we estimated that about 2,000 could accommodate a detached secondary unit disregarding parking requirements ($695 \cdot .49 + 2300 \cdot .72$). The parcel data indicated that just under a quarter of parcels that could accommodate a detached secondary unit, or about 459 total, could accommodate the required parking spaces.⁴
- *Oakland*: Of the parcels in the station areas that met lot coverage requirements, we found that 66 percent of those with a coverage ratio less than 0.33, and 33 percent of those with a coverage ratio greater than or equal to 0.33, had sufficient backyard space to accommodate a legal secondary unit under current setback requirements, disregarding parking requirements. In the North Oakland Flatlands, about 5,180 parcels met the lot coverage requirements. Of these, 1,770 had a coverage ratio of less than 0.33 and 3,400 had a coverage ratio of greater than or equal to 0.33. Therefore, we estimated that about 2,290 parcels could accommodate a detached secondary unit disregarding parking requirements ($.66 \cdot 1770 + .33 \cdot 3400$). Based the results of the station area parking survey, we estimated that 10 percent of these, or 229 parcels, could provide the required parking.

We applied similar observations from the sensitivity analyses to evaluate the impact of changing zoning regulations. For example, in Berkeley, we assumed that 72 percent of parcels that were smaller than the lot size minimum (4,500 s.f.) but met lot coverage requirements could accommodate a freestanding backyard cottage.

⁴ The parcel data provided by the City of El Cerrito includes a “parking area” field; this field was not included in the parcel data we purchased for the other cities.

Findings

Table 2 shows the results of the Flatlands analysis. In total, the Flatlands neighborhoods in the three cities could accommodate approximately 4,300 secondary units under current zoning. Many more could be built by eliminating or relaxing key regulations such as lot size minimums, setbacks, and parking requirements.⁵ Under the scenarios with the greatest degree of deregulation, the number of single-family properties in the Flatlands of El Cerrito, Berkeley, and North Oakland eligible to legally add secondary units could increase by nearly 140 percent, from about 4,300 under current regulations to over 10,300.

Making the regulatory changes assumed above leads to an increase in the number of SFR lots eligible for the addition of a detached, rear yard secondary unit by 66 percent in the City of Berkeley's Flatlands, more than three-fold in the El Cerrito Flatlands and nine-fold in the North Oakland Flatlands. If these changes were enacted and secondary unit development encouraged, we would anticipate substantial impacts in the areas of affordability, smart growth, local economics, and transit ridership. These potential beneficial impacts are dealt with in turn below.

⁵ Each scenario assumes that other zoning regulations would remain unchanged (e.g. the reduced parking requirement scenarios assume that the lot size minimum would remain and setback requirements would not be reduced).

Table 2. Estimated Number of Potential Detached Secondary Units in Berkeley, El Cerrito, and North Oakland BART Station Areas and Flatland Neighborhoods.^(a)

Scenario	Berkeley (c)			El Cerrito			Station Areas Oakland		
	Units	% of SFR	% increase over current zoning	Units	% of SFR	% increase over current zoning	Units	% of SFR	% increase over current zoning
Current zoning	1,070	36%	N/A	244	9%	N/A	52	4%	N/A
Modification (b):									
Eliminate lot size minimum	1,991	66%	86%	N/A	N/A	N/A	N/A	N/A	N/A
Reduce setback req. to 4 feet	N/A	N/A	N/A	441	17%	81%	86	7%	65%
Relax parking requirement (d)	--	--	--	1,008	39%	313%	516	40%	892%
Flatland Neighborhoods									
Scenario	Berkeley (c)			El Cerrito			Oakland		
	Units	% of SFR	% increase over current zoning	Units	% of SFR	% increase over current zoning	Units	% of SFR	% increase over current zoning
Current zoning	3,628	36%	N/A	459	11%	N/A	229	4%	N/A
Modification (a):									
Eliminate lot size minimum	6,040	60%	66%	N/A	N/A	N/A	N/A	N/A	N/A
Reduce setback req. to 4 feet	N/A	N/A	N/A	792	18%	73%	359	7%	57%
Relax parking requirement (d)	--	--	--	2,001	46%	336%	2,289	43%	900%

N/A: Not applicable

--: Not studied

(a) Estimates assume that existing detached structures would be converted, or if necessary, replaced. Estimates do not account for existing second units.

(b) Each scenario assumes that other zoning regulations would remain unchanged (e.g. the reduced parking requirement scenarios assume that the lot size minimum would remain and setback requirements would not be reduced).

(c) Berkeley: Assume that homeowners could obtain Administrative Use Permits (AUPs) to reduce setbacks to 4 feet, allow tandem parking, and/or waive parking requirements as necessary.

(d) El Cerrito: Waive requirement for primary unit to come into conformance with parking standard; Oakland: Waive parking requirement for secondary unit.

The impacts of increased secondary unit production

In this section we examine four types of impacts on the three Flatlands cities that would be expected to accrue from increased legal backyard cottage production as outlined above. First, we project increases in the available stock of affordable rental housing stock. Second, we look at the contribution of these new secondary units to the furtherance of “smart growth,” or the redirection of region-wide housing growth to areas close to the urban core that have already been developed rather than to undeveloped land on the exurban fringe. Third, we examine the economic impacts of increased backyard cottage production according to the dimensions of a stimulus to the local economy via construction activity and the fiscal benefit that could redound to local governments from property taxation of the new dwellings, or from taxation of existing, newly regularized properties. Finally, we explore the increases in transit ridership expected to result from placing new secondary units, and the households that will inhabit them, in close proximity to BART stations and bus lines.

It should be noted that the figures presented herein are rough estimates, and are in most cases derived from the upper end scenario of increased backyard cottage production shown above in Table 2, assuming that regulations are relaxed to the greatest degree that we modeled. In some cases, data uncovered as part of this study, whether from the homeowner survey, the hedonic study (both discussed in WP-2012-03), or otherwise, are used as parameters in formulating the projections presented below. Overall, we found that increased secondary unit production would have major impacts on housing affordability, substantial impacts on the local economy and on the fulfillment of smart growth objectives, and only slight impacts on local transit system ridership.

Housing affordability impacts

The addition of modest housing units to well-established, often desirable low- or medium-density residential neighborhoods that are close to transit, shopping and other amenities suggests a major affordability benefit, particularly since secondary units can often be installed cheaply enough that homeowners can afford to rent them for much less than would be the case for other types of rental units. One of the results of the market study relying on Craigslist rental data (described at length in WP-2012-03) provides some supporting evidence for this contention. Whereas, on average, rental apartments that are *not* secondary units rent at a level affordable to a household earning 69.3 percent of Area Median Income (AMI) for the Oakland-Fremont HMFA, secondary units are, on average, affordable to a household earning only 62.8 percent of AMI.⁶

⁶ The calculations of affordable rent as a percentage of Area Median Income are described at greater length in WP-2012-03. They are crafted to mimic the methodology that is widely used when calculating affordable rents in subsidized housing of the sort that is common in the Bay Area and elsewhere in the United States. Note that the figures cited above differ slightly from those in WP-2012-03. This is because they have been adjusted to conform to the practice of *not* charging for off-street parking, as is the common practice for low-income housing subsidized by Low Income Housing Tax Credits (LIHTC). This adjustment allows the figures presented above to be usefully compared to the Regional Housing Needs Assessment (RHNA) production targets discussed further along in this section.

The wide variation in the affordability of both the secondary and non-secondary units drawn from the data set of online apartment advertisements, along with some of the prevailing trends, can be seen in Table 3. While unsubsidized non-secondary and secondary rental units alike are almost completely unrepresented in the Extremely Low-Income category (which generally corresponds to the income stratum served by public housing and Housing Choice Vouchers), and while they both have roughly the same share of units affordable only to those who make above 80 percent of AMI, the story differs in the Very Low-Income (roughly 30 percent to 50 percent of AMI) and Low-Income (roughly 50 percent to 80 percent of AMI) categories. Secondary units are significantly more concentrated in the Very Low-Income category (30 percent of the total) than non-secondary units (12 percent of the total). And the disparity is likely to be greater than these figures suggest, since it is probable that many of the non-secondary rental units that were not captured in the data set are disproportionately apt to be part of larger or more upmarket properties unlikely to use Craigslist in order to solicit tenants for vacant units.

Table 3. Affordability of the non-secondary and secondary units from the data set of online apartment advertisements described in WP-2012-03.

<u>Income Category</u>	<u>Non- Secondary Units</u>	<u>Secondary Units</u>
Extremely Low-Income (<=30% of AMI)	1%	1%
Very Low-Income (30.01% - 50% of AMI)	12%	30%
Low-Income (50.01% - 80% of AMI)	67%	49%
Moderate- and Upper-Income (> 80% AMI of AMI)	<u>21%</u>	<u>20%</u>
Total	100%	100%

Relying on the results from Table 2, and assuming that the income splits cited in Table 3 for the existing stock of secondary units apply to new backyard cottages, we can predict how many backyard cottages could be potentially added, by income category, if the regulatory reforms that we recommend were to be undertaken by Berkeley, Oakland, and El Cerrito.⁷ These results are shown in the rightmost column of Table 4.

We can also make an estimate of the number of *existing* units by affordability category; these are shown in the central column of Table 4. Because the vast majority of these units are almost certainly unpermitted, they could not, at present, be counted against official affordable housing production goals, but they could be if they were to be retroactively permitted under hypothetical amnesty programs in the three cities. The affordable housing targets, from the Regional Housing

⁷ One might expect that newly-built secondary units would be less likely to be affordable than the existing stock of secondary units, many of which have experienced physical deterioration and therefore rent for less than they would if new. This is undoubtedly true. However, one would also expect that a large number of secondary units, added to the existing housing stock, would eventually revert to the overall affordability distribution over the long term.

Needs Assessment (RHNA) produced by the state Department of Housing and Community Development (HCD) and distributed to Bay Area cities by the region's Metropolitan Planning Organization (MPO), the Association of Bay Area Governments (ABAG), are shown in the leftmost column of Table 4.

Table 4. RHNA affordable housing production targets for 2007-14 compared to the existing and potential new stock of secondary units in the Flatlands of Berkeley, El Cerrito, and North Oakland.

	RHNA Targets (2007-14)	Existing Flatlands Secondary Units (All Types)	Potential New Backyard Cottages in Flatlands
Berkeley			
Units with free, in-kind or reduced rent	-	519	2,501
Extremely Low-Income units	164	9	26
Very Low-Income units	164	256	772
Low-income units	424	419	1,260
Moderate- and Upper-Income units	<u>1,679</u>	<u>171</u>	<u>514</u>
Total	2,431	1,374	5,074
El Cerrito			
Units with free, in-kind or reduced rent	-	224	829
Extremely Low-Income units	*	4	9
Very Low-Income units	93	110	256
Low-income units	59	180	418
Moderate- and Upper-Income units	<u>279</u>	<u>74</u>	<u>170</u>
Total	431	592	1,681
North Oakland			
Units with free, in-kind or reduced rent	-	274	948
Extremely Low-Income units	108	5	10
Very Low-Income units	108	135	292
Low-income units	238	221	478
Moderate- and Upper-Income units	<u>1,204</u>	<u>90</u>	<u>195</u>
Total	1,657	724	1,923

Note: RHNA targets are determined from Housing Elements published for the three cities. The targets shown here for Berkeley and El Cerrito are citywide totals, whereas the North Oakland target is calculated by applying the share of North Oakland's share of the entire city's housing units (about 11%), as of the 2010 Census, to the RHNA targets for all of Oakland.

* El Cerrito does not split its Very Low-Income production targets between Extremely Low- and Very Low-Income, as do Berkeley and Oakland.

The estimates shown in Table 4 rest on three assumptions. First, secondary units are assumed to already exist on 16 percent of all SFR parcels, as reported in the homeowner survey results in WP-2012-03. Since it is unlikely that cities would ever approve more than one permitted secondary unit on any particular SFR parcel, we assume that no additional units are created on these properties. Second, the number of SFR parcels eligible for legal secondary unit production in the Flatlands of

Berkeley, El Cerrito, and North Oakland is assumed to have increased, to the amounts depicted in the rightmost column of Table 4, via the implementation of all of the regulatory changes that we hypothesize in WP-2012-02, and whose results correspond to the maximum level of production shown in Table 2. Lastly, we rely once more on the homeowner survey results to estimate that only about 49 percent of the newly-produced secondary units used for housing are rented to strangers on the open rental market.⁸ The remaining 51 percent of the units are assumed to be rented to family members, friends, or acquaintances for free or for reduced rents, or in exchange for in-kind labor such as childcare, lawn maintenance, and the like.⁹

Note that the figures reported in Table 4 presume that *all* SFR parcels in the Flatlands that currently lack secondary units, and that could become eligible for new backyard cottages under foreseeable land use regulatory changes, receive new cottages. Obviously, in reality, not all homeowners who become eligible to install a new backyard cottage will choose to do so, nor will all be able to do so, for a variety of reasons.¹⁰ As such, the figures shown in Table 4, and the figures calculated from them in the remainder of this document, should be properly interpreted as *potential* magnitudes for backyard cottage production and their attendant impacts, rather than as actual amounts likely to be observed in the near future. Nonetheless, future unseen events, such as sudden spikes in demand for low-cost rental housing in the Flatlands (as occurred historically during the rapid wartime industrialization in the early 1940s), strengthened mandates for greenhouse gas emissions reductions, or any number of other possible scenarios could cause cottage production to increase towards its maximum potential. For these reasons, we believe that it is useful to report *potential* rather than near-term *likely* levels of addition to the housing stock.

In El Cerrito, estimated existing secondary units exceed that city's total RHNA targets and its Very Low-Income and Low-Income subcategories for the years 2007-14. In Berkeley and North Oakland, Very Low-Income and Low-Income RHNA production targets are either exceeded or almost

⁸ In the homeowner survey, 26% of occupied secondary units were reported to be occupied by all or part of the homeowning household, while an additional 25% were occupied by at least one person that the respondent knew prior to move-in. The 49% figure cited above is calculated by subtracting the sum of these two proportions from 100%.

⁹ The informal manner in which many secondary units are rented can be construed, depending on one's point of view, as a strength or a weakness. On the one hand, opportunities for free, reduced or in-kind rent can be tremendously beneficial to the tenants who are lucky enough to receive them. On the other hand, a prospective tenant must personally know a homeowner willing to offer such opportunities in order to avail herself of them, which raises issues of access for tenants lacking such relationships. For our purposes here, we have excluded the informally rented units that we estimate would come onto the market in order to facilitate as direct of a comparison to subsidized rental housing as possible. At the same time, it is worthwhile to remember that the informally rented units are producing benefits to substantial numbers of homeowners and tenants, albeit at levels that are difficult to quantify.

¹⁰ The homeowner survey results showed that about 30% of homeowners who do not currently have at least one secondary unit are at least somewhat interested in installing one. In addition, the results showed that 85% of currently existing secondary units are being used as housing units, with the remainder used as storage, home offices, guest quarters, and so forth. If the 30% and 85% factors are applied, the total increase in occupied units in backyard cottages in the Flatlands would drop to 2,213, as compared to the total level of potential production of 8,677 shown in Table 4.

matched by existing secondary units. In all three cities, the potential backyard cottage production levels would easily exceed RHNA targets, and by numerous multiples in the Low Income category.

What do these results tell us? One finding is that the Flatlands cities each *already* have substantial reservoirs of affordable housing in the form of their secondary units, most of which are currently unpermitted. The cities in the Flatlands could make substantial inroads into their RHNA production requirements by undertaking the expansion of legal secondary unit production or by the retroactive permitting of existing units (a technique already used by Marin County), or both.¹¹ This is because secondary units appear to create many opportunities for low-income rentals, particularly in the underserved Very-Low and Low-Income categories.

While Oakland and Berkeley have historically been able to meet their RHNA targets, secondary units could still be used to further these cities' commitments to providing diverse and affordable housing stocks for their residents, particularly those seeking small units on predominantly low-density streets. El Cerrito could use a secondary unit strategy to help it meet its RHNA production targets.

Finally, since secondary units appear to largely leave the Extremely Low-Income (less than 30 percent of AMI) market segment unserved, as does the non-subsidized rental market in general, one could make the case that a secondary unit strategy would help to redirect scarce affordable housing subsidies for the most urgently needed affordable housing developments. These are the ones that cannot be built without deep subsidies: those serving the lowest income tenants, tenants with disabilities, and other vulnerable populations whose needs have the least chance of being adequately met in the private housing market. Thus, a secondary unit amnesty or production strategy, or a combination of the two, could help to "free" the private residential real estate market to better serve Very Low- and Low-Income households, and in the process redirect scarce public-sector housing subsidies to where they are most urgently needed.

Smart growth impacts

In addition to bolstering the stock of affordable housing, a secondary unit strategy could help to further the more general goal of concentrating projected regional housing growth in centrally-located urban core areas that have already been developed, thereby lessening the amount of housing growth taking place on undeveloped land on the fringes of the Bay Area (a set of objectives generally referred to as "smart growth"). In this section, we undertake a comparison of the levels of

¹¹ Experience in Marin County shows that at least in this one jurisdiction, secondary units have already made a major contribution to fulfilling RHNA obligations. For instance, the 127 legal secondary units permitted from 2000 to 2007 contributed to fulfilling almost one quarter of the 2000-2007 RHNA obligation for the unincorporated portion of the County. Marin was able to claim that most of the newly-produced secondary units were affordable by relying upon results from a survey that had been mailed out to the homeowners of the new units, which showed that 62% are rented for less than 80% of AMI (a somewhat lower proportion than what we found in our rental advertisement analysis, possibly because of the value of secondary units as tourist rentals in parts of Marin County).

production for backyard cottage units with overall housing production targets resulting from a major regional planning initiative currently underway in the San Francisco Bay Area.

FOCUS is a regional, Bay Area-wide planning and visioning process undertaken by a collaboration between ABAG; the region’s transportation planning body, the Metropolitan Transportation Commission (MTC); and two other regional bodies. FOCUS is intended to fulfill the mandate for a regional Sustainable Communities Strategy (SCS) required by state Senate Bill 375. FOCUS assumes continued robust economic and population growth in the nine counties in the San Francisco Bay Area between the baseline year, 2010, and 2040. Importantly for our purposes, FOCUS assumes that the lion’s share of the region’s growth will be concentrated into Priority Development Areas (PDAs), which are locations designated by their local governments as well-suited to absorbing large amounts of household and employment growth as a result of some combination of a strategic location, good transit access, available land, and so on.

Comparing the growth in housing units that could result from a secondary unit strategy with the ambitious citywide production targets for the PDAs can give us a gauge as to how significant backyard cottage production could be from a Smart Growth standpoint.¹² The results are summarized in Table 5.

Table 5. Potential levels of backyard cottage production compared against the citywide household (HH) growth targets.

	Berkeley Flatlands	El Cerrito Flatlands	North Oakland Flatlands	Total
Potential backyard cottages created	5,074	1,681	1,923	8,677
HH growth target (2010-2040)*	8,490	1,440	4,413	14,343
Share of citywide HH growth (2010-2040) accommodated by new backyard cottages	59.8%	116.7%	43.6%	60.5%

Source for citywide HH growth targets: Jobs-Housing Connection Strategy, May 2012, available at www.onebayarea.org. * HH growth targets shown here are citywide for Berkeley and El Cerrito, and for Oakland the target is calculated as the citywide total multiplied by North Oakland’s share of the citywide housing stock as of Census 2010 (about 11%).

The figures in Table 5 show that in all three Flatlands cities, backyard cottages could represent an important smart growth strategy. In addition, during periods with depressed real markets, such as what exists at the time of writing, very little non-subsidized housing production occurs in the form of the multifamily structures that FOCUS envisions making up most of what will be added to the PDAs. Amidst depressed residential real estate market conditions, very high per-unit construction

¹² It should be noted that the citywide household growth targets quoted herein are preliminary numbers and will be subject to comment and possible amendment in the near future. There will be no “final” targets until these have been formally approved by the bodies participating in the FOCUS planning process, and by extension, the local governments that comprise them. The preliminary targets are, however, the most up-to-date household growth projections currently available.

and soft costs, along with lengthy regulatory processes cause many planned housing developments to be shelved by their profit-minded sponsors. Secondary units, by contrast, while not immune to effects of market conditions, offer at least the potential of continued production amidst market downturns, thereby possibly allowing cities to continue to chip away at their housing production targets under FOCUS even during the cyclical downturns that will inevitably recur before 2040.

Economic impacts

The first economic effect we analyze is the stimulus to the local private economy that would occur from increased construction and other activities related to the production of secondary units. The second is the positive fiscal impact to local governments that would accrue from newly built or legalized secondary units. Both cases are treated in turn below.

Stimulus to local private economy

While homeowners make widely divergent decisions about what sorts of secondary units to install, depending on their budgets, individualized needs, and other factors, \$100,000 is perhaps a reasonable assumption for the cost of the average new backyard cottage installed within the Flatlands of Berkeley, Oakland, and El Cerrito. (This figure emerged from interviews that we conducted.)

Construction of a backyard cottage, or any type of secondary unit, impacts the local economy in three ways, creating *direct* jobs, through the purchase of design and construction services and retail goods; *indirect* jobs, as design and construction firms, as well as retailers, purchase their own inputs; and *induced* jobs (as the workers holding the direct and indirect jobs consume goods). We used IMPLAN to analyze the economic impacts of a \$100,000 construction project to install a secondary unit, finding that it stimulates about \$81,000 of indirect and induced spending in the local economy. When multiplied by the potential level of secondary unit production shown in Table 4, there are substantial total impacts to the local economies of Berkeley, El Cerrito, and North Oakland, as shown in Table 6, ranging from \$304 million (El Cerrito) to \$919 million (Berkeley).

Table 6. Economic impacts and construction jobs created from the full Flatlands backyard cottage build-out.

	Berkeley Flatlands	El Cerrito Flatlands	North Oakland Flatlands	Total
Potential backyard cottages created	5,074	1,681	1,923	8,677
Direct, indirect and induced local economic impacts	\$919 million	\$304.4 million	\$348.3 million	\$1,571.7 million
Direct, indirect, and induced jobs created	8,626	2,858	3,269	14,753

The model also indicates that the direct spending on a \$100,000 construction project creates the equivalent of 1.7 jobs, 0.8 jobs for the construction alone and 0.9 jobs associated with indirect and

induced spending. The resulting job creation figures for the three cities corresponding to the full secondary unit build-out scenario are shown in the bottom row of Table 6, ranging from 2,858 job-years in El Cerrito to 8,626 in Berkeley.

Fiscal impacts

If we assume the same levels of production of new secondary units in the Flatlands as in the previous section, along with the same new unit average cost of \$100,000 and a typical total property tax rate of 1.2 percent, we obtain the fiscal impacts shown in Table 7. It is apparent that the resulting incremental property tax collections would be non-trivial when compared against the actual citywide Fiscal Year 2008-2009 collections for the three municipalities. In the case of El Cerrito, the added tax base would amount to a 36 percent increase in property tax collections. While the lion’s share of property tax revenues do not go to city governments, cities would realize at least some fiscal strengthening. In addition, school districts, counties, special districts and other local governmental entities would all benefit from the increased property tax revenue. Although we did not conduct a true fiscal analysis, it is conceivable that secondary units could represent a net fiscal gain for some if not all local governmental entities. For instance, our homeowner survey indicated that fewer than one fifth of secondary unit households have children. At the same time, K-12 and community college districts in California captured 53 percent of statewide property tax revenue in 2006-07.¹³ Thus there is a good chance that school districts could realize a net fiscal benefit from the new secondary units.

Table 7. Projected increases in assessed value and property tax collections resulting from full Flatlands secondary unit build-out.

	Berkeley Flatlands	El Cerrito Flatlands	North Oakland Flatlands
Potential backyard cottages created	5,074	1,681	1,923
Increment in assessed value @ \$100k/unit	\$507.4 million	\$168.1 million	\$192.3 million
Annual revenue increment @1.2% tax rate (nearest \$1k)	\$6,088,000	\$2,017,000	\$2,307,000
Actual property tax collections (Fiscal Year 2008-2009)	\$42,757,143	\$5,641,087	\$10,394,719 *

Source for property tax collections for Fiscal Year 2008: www.californiacityfinance.com.

* The actual property tax collections figure for North Oakland is the citywide total in 2008-2009 multiplied by North Oakland’s share of citywide housing units as of Census 2010 (about 11%).

Meanwhile, local governments in the Flatlands are *already* bearing the costs related to providing services to thousands of secondary unit residents, even as the unpermitted majority of the units escape property taxation altogether. An estimate of the potential fiscal benefits of amnesty should be viewed with caution, for several reasons. First, experience in Marin County suggests that it is

¹³ The full allocation of statewide property tax was as follows in Fiscal Year 2006-07: cities, 11%; counties, 17%; school districts (K-12 and community college districts), 53%; and special districts, 19%. Source: “California Property Tax: An Overview,” California Board of Equalization, August 2009.

difficult for a realistic amnesty program to be able to legalize the majority of unpermitted units that currently exist. Second, reduced property taxation (whether for a limited or permanent duration) could be an inducement to entice homeowners into participating in an amnesty program (although this was not done in Marin). If this technique were used, the resulting revenue boost would be lessened.

With the foregoing limitations in mind, and assuming that roughly 90 percent¹⁴ of existing secondary units lack permits and are untaxed, Table 8 provides a rough estimate of the property tax revenues that are currently going uncollected for secondary units. This estimate assumes that the average existing secondary unit is worth \$40,000, rather than \$100,000 as in the new construction scenario, since most (82 percent, according to the homeowner survey results) existing units are more than five years old and have thus have likely undergone a substantial amount of depreciation. The bottom two rows of the table provide an estimate of foregone property tax base and foregone annual property tax revenues, respectively, resulting from the failure to collect property tax from the secondary units that currently exist in the Flatlands of Berkeley, El Cerrito, and North Oakland. The foregone revenues are not insubstantial; for instance, in El Cerrito they represent over 5 percent of the citywide property taxes collected in Fiscal Year 2008-2009. Note that the foregone revenue figures should not be interpreted to mean that it would be likely that these amounts could actually be collected following an amnesty program. They are intended, rather, to provide an estimate of the size of the universe of uncollected property taxes stemming from unpermitted secondary units.

Table 8. Estimate of Foregone Revenue from Existing Secondary Units.

	<u>Berkeley</u>	<u>El Cerrito</u>	<u>North Oakland</u>
Total number of Flatlands SFR lots	10,100	4,350	5,323
Estimated number of lots with existing secondary units	1,616	696	852
Existing unpermitted secondary units @ 90% of total	1,454	626	767
Increment in assessed value @ \$40k/unit (nearest \$1k)	\$58,176,000	\$25,056,000	\$30,661,953
Annual foregone revenue @ 1.2% property tax rate (nearest \$1k)	\$698,000	\$301,000	\$368,000

¹⁴ This estimate is computed from the following: the number of single-family residential (SFR) Flatlands lots in Berkeley (10,078); the proportion of Berkeley station-area SFR lots that have at least one secondary unit (21%, survey result); the proportion of survey respondents who report that their secondary unit has been installed within the past five years (18%, survey result); and the number of secondary unit permits reported citywide by Berkeley planning staff in recent years (3-5, with the higher level of 5 assumed). This estimate assumes that station area survey results “scale up” to the Berkeley Flatlands and conservatively assumes that none of the legal permits in recent years have gone to secondary units in the hillside neighborhoods. The precise estimate of a 93% rate of illegal secondary unit installation should be treated with caution, but the finding that the overwhelming majority of installations are unpermitted is likely robust and squares with the perceptions of Berkeley staff. Interviewees described a similar state of affairs in El Cerrito and Oakland.

Transportation system impacts

The final of the four impacts of increased backyard cottage production that we study in this working paper is that of increased bus, BART, and carshare ridership that would be expected to obtain from placing increased numbers of secondary units within our transit-rich study area. The analysis shows that there is minimal benefit to alternative transportation modes from increased secondary units.

Let us start by assuming that the cities within the study region focus their energies on stimulating secondary unit production within the five BART station areas that we have studied. Using the same methodologies as we used in the Affordability and Smart Growth impact sections earlier in this chapter, the 3,515 SFR lots in the Berkeley, El Cerrito, and North Oakland portions of the five station areas eligible for legal secondary unit development under our recommended regulatory changes could potentially yield 2,953 new, occupied secondary units used for housing. Assuming that the average household occupying the new units consists of 1.5 persons earning \$40,000 per year, and including a number of other assumptions,¹⁵ the increase in annual BART ridership in the five stations would be about 88,215, and the increase in annual AC Transit bus ridership would be around 267,095.

These ridership increases can be compared against current ridership data, which for BART is available for the five study area stations, and which for AC Transit is available system-wide (since it was beyond the scope of this study to model the increase of ridership on particular bus lines). Using figures published by the two transit districts of about 8.6 million riders per year using the five BART stations (as of July 2011) and 61.2 million annual riders for the entire AC Transit system (as of Fiscal Year 2009-10), our increased station area secondary unit production in Berkeley, El Cerrito, and North Oakland yields a BART ridership increase of 1.03 percent for the five stations and an AC Transit system-wide ridership increase of 0.44 percent.

When the analysis is repeated with the more aggressive assumption that the entirety of the Berkeley, El Cerrito, and North Oakland Flatlands are built out with secondary units (much as was

¹⁵ The website coolclimate.berkeley.edu provides an online tool that can be used to compute annual bus and rail ridership, expressed in miles traveled, for households of a given income and size. We averaged the values for households earning between \$30k and \$40k, and between \$40k and \$50k, and consisting of one and two people. The average household income of \$40k was derived from the average income of \$40,666 that corresponds to the average AMI affordability level of 62.8% found for secondary units from the Craigslist rental listing data set. The average secondary unit household size of 1.5 comes from the homeowner survey (which showed an average secondary unit tenant household size of 1.54). The online tool provides transit ridership broken down into the categories of bus, light/urban rail, and commuter rail. We assumed that 90% of bus ridership went to AC Transit, 100% of light/urban rail ridership went to BART, and 75% of commuter rail ridership went to BART. Finally, we used average trip lengths of 3.56 miles for AC Transit and 13.46 miles for BART for 2006 from Table 1.4(b) of "Travel Forecasts Data Summary" for the "Transportation 2035 Plan for the San Francisco Bay Area" published by the Metropolitan Transportation Commission (MTC). For the final step, we boosted assumed transit ridership by 22/17, to reflect the fact that the homeowner survey revealed that 22% of secondary unit tenant households are car-free, versus 17% in the census tracts of the study area (as discussed in WP-2012-04).

done in the previous three sections), the ridership increases rise to 3.02 percent for BART and 1.28 percent for AC Transit.

The new secondary unit residents would also be disproportionately likely to become members of carsharing services. If we make a conservative estimate that 25 percent of the new tenant households would include one carshare member apiece, and use the carsharing industry standard that 20 active members support one carshare vehicle, the full Flatlands build-out scenario could bring 108 new carshare vehicles to the Flatlands. This is a major expansion when compared to the approximately 55 cars currently operated, at the time of writing, in the Flatlands by City CarShare, one of the two large carshare providers active in the Bay Area. In addition, secondary unit residents could help assure the viability of the expansion of carsharing to locations where it currently does not exist, such as in the Del Norte BART station area.

Summary of secondary unit impacts

If the sole justification for seeking to increase secondary unit production in the study corridor were to boost transit ridership on BART and AC Transit, such a program would likely not be undertaken. While increased levels of secondary unit production would certainly increase transit ridership, our results show that the effects would be modest at best, for both BART and AC Transit, although the effects could be more substantial for local carsharing providers.

The picture, however, is quite different for the other three impacts that we studied in this section. Secondary unit construction would provide a major boost to smart growth efforts, providing a valuable assist in a policy arena in which every contribution is needed to achieve the Herculean task of reorienting the growth patterns of an entire metropolitan region. The economic impacts could be said to be even more substantial: backyard cottage construction could provide a much-needed jolt to moribund local labor markets and retail economies, and in the medium- and long-terms could provide much-needed fiscal boosts for cash-strapped local governmental entities, and even more so if coupled with amnesty programs.

The biggest impact of all, arguably, is on housing affordability, a perennially vexing issue in the San Francisco Bay Area. Our analysis shows that for some of the cities in our study areas, a backyard cottage production strategy has at least the potential to provide more than all of the small units needed in the Very Low-Income (30 percent to 50 percent of AMI) and Low-Income (50 percent to 80 percent) categories, with few subsidies or even none at all. With subsidized multi-family developments often costing upwards of \$350,000 per unit, and with the preponderance of these projects' total development costs financed by a complex array of federal, state and local subsidies, it would be very beneficial indeed if a local program to produce more secondary units could help liberate scarce (and dwindling) public sector housing dollars to serve the households with housing needs that can only be met by such developments.

Our analysis, it must be stressed, focuses on *potential* levels of production for backyard cottages, and therefore on the potential impacts across the four dimensions that we have explored. The assumed levels of production in the full backyard cottage buildout scenario in the Flatlands, along

with their attendant impacts, would in reality be difficult, if not impossible, to achieve in the short term. However, it is at least conceivable that future events could alter the housing market so much that actual backyard cottage production could increase to a point that is much closer to the level of potential than what is currently possible. Our analysis shows that this potential is large.

Policy Implications

To gain the significant positive impacts from secondary unit infill development described in this working paper, cities must relax their formidable regulatory barriers. While these barriers may have arisen from a sincere and well-intentioned desire to protect the character of low-scale, residential neighborhoods, they have greatly limited the production of secondary units. Overzealous regulation has in essence forced secondary units into a black market where, paradoxically, health and safety standards can be ignored. Most obstructionist among the regulations are parking requirements. As a former city council member from a city that has liberalized its land use laws told us, “Until we have an ordinance that says that you don’t have to park in your garage, we don’t have an ADU [secondary unit] policy. That’s the line.” Other regulations, such as minimum lot sizes and 20’ setbacks, do not have a clear purpose and may be redundant.

In places where secondary units have broad political support, like Santa Cruz, Seattle, and Marin County, planners have found it possible to enact not just regulatory reform but comprehensive secondary unit reform packages. These include public outreach, design of prototypes, loan mechanisms, amnesty programs, and other initiatives. These comprehensive approaches have resulted in dramatic increases in secondary unit production. However, most planners believe that it is the regulatory reforms that have made the most difference.

In order to develop policy recommendations, we analyzed the effect of different approaches (WP-2012-02), focusing on regulatory reforms, and then met several times with staff and elected officials in the five cities under study to vet our findings and recommendations. The following describes the approaches that emerged from this process.

Regulatory Reforms

Our analysis of East Bay zoning codes revealed a number of regulatory barriers to building secondary units, including lot size minimums, setback requirements, and parking regulations. A sensitive approach to regulatory reform would not only address these specific barriers, however, but also adjust regulations and streamline the permitting process in recognition of the unique characteristics of this type of small-scale infill development. Most fundamentally, secondary unit “developers” are homeowners, not the development specialists who sponsor traditional infill projects. Indeed, those who might stand to benefit the most from building secondary units – low-income and elderly homeowners – are most likely to be deterred by complex permitting processes and fees.

In general, secondary unit regulations must protect the character of existing single-family neighborhoods, while also recognizing the constraints imposed by historic development patterns and the way homeowners actually use their garages, driveways, and backyards in real life. For example, the detached garages that date back to the early 20th century were often built within a few feet of the lot line. Today's setback requirements prohibit a homeowner from converting such a garage without moving the structure. Even in cases where a detached garage can be converted, the homeowner would typically need to provide replacement parking – despite the fact that many of these older garages are too small to accommodate a modern car and are instead used for storage. Similarly, several of the zoning codes we studied do not “count” parking spaces located in the required front setback towards meeting parking requirements, even though homeowners all over the East Bay park their cars just off the sidewalk in their driveways.

Finally, no matter what regulations a city imposes, homeowners can – and do – go ahead and build their secondary units anyway. Indeed, studies have found that secondary units, many if not most of them illegal, account for anywhere from eight to 25 percent of the housing stock in California cities (Chavez and Quinn, 1987; Hare, 1989; SPUR, 2001). For health and safety reasons, cities have an interest in ensuring that as many secondary units as possible are built legally and comply with zoning and building codes. Strict zoning regulations may push secondary unit development underground, creating units that may be substandard. Illegal units can also result in lost tax revenue, cause neighborhood disputes and anxiety for homeowners who rely on rental income from their secondary units, and place a strain on code enforcement resources.

With these challenges in mind, we worked with city staff to tailor recommendations for each city. In general, the recommendations fell into several common categories.

Simplify the permitting process to allow more secondary units to be built “as of right,” and to minimize hurdles for homeowners who do not have experience with the planning and development process.

- Minimize reliance on administrative use permits (AUPs), conditional use permits (CUPs), and variances. In particular, cities should consider granting by right those exceptions that are most commonly approved in the current AUP, CUP, or variance processes – for example, allowing reduced setbacks or tandem parking. For those reductions that are tied to meeting particular conditions (e.g., allowing parking waivers for units located within a half-mile from a transit station or carsharing pod), provide review and certification on an over-the-counter basis wherever possible.
- Clarify zoning language and provide accessible information on how to plan and build a secondary unit. In Santa Cruz, creating user-friendly guides helped more than triple legal production of secondary units.¹⁶

¹⁶ Antoninetti, Maurizio. (2008). The Difficult History of Ancillary Units: The Obstacles and Potential Opportunities to Increase the Heterogeneity of Neighborhoods and the Flexibility of Households in the United States. *Journal of Housing For the Elderly*, 22(4), 348-375.

Remove regulatory barriers that prevent many homeowners from legally building secondary units altogether.

- Eliminate requirements that a parcel meet the zoning district's lot size minimum in order for the homeowner to create a secondary unit.
- Eliminate requirements that the existing primary unit be in conformance with parking regulations in order for the homeowner to build a secondary unit.
- Reduce required setbacks for secondary units to four feet from the rear and side lot lines, or further as allowed by building codes.¹⁷
- Allow homeowners to convert garages to living space without providing replacement parking if the garage is not large enough for modern cars, or does not meet other current standards for covered parking spaces.

Modify off-street parking requirements.

Parking requirements are among the most significant barriers to secondary unit development. Although many secondary unit residents do not own cars – 23 percent of respondents to the homeowner surveys who own and rent secondary units reported that their tenants parked no cars at all, whether on- or off-street – planners must address the perception that secondary units will cause neighborhood parking problems. However, the small-scale, incremental nature of this type of housing makes it challenging to apply the strategies that planners typically use to mitigate the parking impacts of infill development. For instance, cities often reduce parking requirements in exchange for the developer's implementation of transportation demand management strategies, or reserving units for low-income tenants. Beyond the issue of homeowner capacity, individual secondary unit projects do not have anywhere near the scale required to subsidize a carsharing pod or qualify for bulk-price transit passes.¹⁸ Moreover, cities would probably need to devote scarce resources to enforcing requirements for homeowners to buy annual carsharing memberships for their tenants, or to rent only to low-income households.

In order to capitalize on economies of scale, cities would ideally relax parking requirements for secondary units as part of a comprehensive approach to reducing automobile ownership in moderate-density residential neighborhoods. Such a strategy might include implementing policies to improve transit service, supporting the expansion of carsharing pods, educating residents about alternative transportation modes, creating residential parking permit districts where they do not already exist, and pricing residential parking permits to better manage the availability of on-street parking. In the absence of such comprehensive reform, however, cities can still take steps to minimize the impact of reducing secondary unit parking requirements. The following recommendations range from some that could be implemented individually, to others that would likely need to be part of a broader approach.

¹⁷ Standards may vary depending on construction types and window placement; see section R302.1 of the California Residential Code, Title 24. Four feet is the minimum necessary for life safety access.

¹⁸ AC Transit's EasyPass program allows residential communities to purchase bus passes for all residents at discounts of more than 90 percent, but only groups purchasing 100 or more passes at a time are eligible.

Provide flexibility in how homeowners may meet parking requirements.

- Allow tandem parking as of right, if not in all situations then at least in those where residents of each unit can independently access at least one off-street parking space (e.g. where there are two parking spaces for the primary unit that are not arranged in tandem).
- Allow homeowners to provide required parking spaces in existing driveways, including in the front-yard setback. In Berkeley, eliminate the requirement for a two-foot landscaped buffer between the lot line and legal parking spaces.
- Reduce parking requirements for secondary units with square footage below a certain threshold.
- Eliminate requirements for covered parking.

Eliminate parking requirements for secondary units (as the City of Seattle did within its designated Urban Villages (even though Seattle's rail system is far more limited than BART), or allow applicants to choose from a menu of options in lieu of providing off-street parking spaces.

- For example, cities could allow homeowners to choose to:
 - Demonstrate proximity to a transit station or car-share pod.
 - Provide bicycle parking.
 - Conduct a parking survey and demonstrate the availability of on-street parking.
 - In neighborhoods with residential permit parking, agree to restrict parking permits for residents of the secondary unit.
 - Agree to rent only to tenants earning 50-80 percent or less of area median income (AMI).
 - Pay an in-lieu fee to support alternative transportation improvements. Combined one-time fees could subsidize the startup costs of new carsharing pods in the neighborhood. Alternatively, low ongoing annual fees could fund the purchase of bulk transit passes and discounted carsharing memberships for households paying the fee.

The last three options would likely require the city to provide on-going administration and enforcement. However, creating such systems need not be prohibitively difficult or expensive. Berkeley has already implemented parking permit restrictions for certain multi-family buildings, building on the existing system for administering its Residential Permit Parking (RPP) program. The Cities of Santa Cruz and Piedmont enforce restrictions on tenant income by sending a letter to each homeowner once a year, requiring homeowners to reply with a certification of the tenant's annual income and rent payments.

Policies to Promote Carsharing

Facilitate the expansion of carsharing services in moderate-density residential neighborhoods.

- Explore reserving on-street parking spaces for carsharing pods.
- Subsidize the expansion of carsharing services into new neighborhoods, perhaps with the in-lieu fee discussed above.

- Encourage the development of new carsharing innovations, such as services that allow individual car owners to share their cars with neighbors (known as “distributed carsharing”). As these services become more widespread, include providing access to distributed carsharing or other new innovations on the menu of options that homeowners can implement in exchange for the city waiving parking requirements.
- Promote carsharing along with other alternatives to car ownership. Information about carsharing options could be included as part of a package of information for homeowners considering building secondary units.

Other City Actions: Education, Marketing and Finance

Supplement deregulation of secondary unit installation with active encouragement.

The City of Santa Cruz is well-known for its efforts to encourage the legal production of new secondary units. While local officials interviewed suggest that zoning changes (in particular, the liberalization of parking restrictions) were the single most important factor, they also emphasized the importance of taking positive steps towards *encouraging* secondary units as well as ceasing to *discourage* them. In the case of Santa Cruz, these steps included: i) creating an easy-to-follow “how-to” manual for homeowners, available online; ii) hiring architects to design secondary unit prototypes with advance approval from the building department; iii) establishing a loan fund (discussed below); and iv) conducting community workshops in order to educate homeowners about the possibilities of secondary units and to generally “change the conversation” concerning them. These programmatic actions were paid for via funds from an external grant. In addition, Santa Cruz subsequently instituted waivers of certain planning fees in exchange for affordability commitments from homeowners, enforced with an annual certification.

Establish a secondary unit amnesty program.

The case of Marin County shows that a well-conceived secondary unit amnesty initiative can produce solid results. In this case, the primary impetus for Marin’s program was a desire to deal with an existing code enforcement backlog of secondary units, and also to receive RHNA credit for affordable secondary units. Factors underlying Marin’s success (which resulted in the legalization of 60 previously unpermitted secondary units over a two-year period) included: i) a limited duration for the program coupled with fee reductions and regulatory concessions available only for that limited time, to give homeowners a strong incentive to act; ii) extensive coordination with utility providers, many of whom also offered reduced connection fees during the amnesty window; iii) identification of staff for participation in the program who displayed the flexible and creative mindset needed on a day-to-day basis for an amnesty program to succeed; and iv) the creation of an internal “firewall” between planning staff running the amnesty program and code enforcement staff, so that homeowners were assured that unsuccessful permit applications would not be reported to code enforcement except in cases of imminent threats to health and safety.¹⁹

¹⁹ Source: Interview with a Marin County planner.

Set up a loan fund for secondary units.

While reforming mainstream home finance industry practices towards secondary units is generally beyond the power of local governments, cities do have the potential to “step into the breach” and help fill the financing gap for their local citizens by establishing revolving loan funds that are specifically equipped to deal with secondary units. We learned from interviews that the City of Santa Cruz’s revolving loan fund, operated as a partnership with a local credit union, was one of the few areas of Santa Cruz’s secondary unit policy efforts that did not meet with success. The loans came with affordability restrictions, and were offered at a time when mortgages were easily obtainable by homeowners. We were also informed, however, that if Santa Cruz’s loan program or a variant thereof were to be resurrected amidst today’s much tighter lending environment, it would likely be much more successful.

And whatever you do, “know your market!”

In the 1980s, various state governments established secondary unit loan programs targeting elderly homeowners to encourage them to “age in place” in their current homes. These efforts were largely unsuccessful, mostly because senior citizens had difficulty with the bureaucratic complexity of the programs and the stresses of managing a construction project and selecting tenants, as well as a reluctance to take on debt, even with generous terms.²⁰ The authors of one review of these programs concluded that efforts to spur secondary unit installation would have been much more productively aimed at younger homeowners (including the so-called “young old”), and would still have managed to better serve the needs of the elderly (by, for instance, facilitating the aging in place of younger homeowners with secondary units over the longer term). The lesson from this cautionary tale is that a program with a well thought-out policy rationale can fail if it is not well-matched to the appropriate target market. It is our hope that the information that we have provided about the market for secondary units can be helpful to cities in appropriately tailoring secondary unit production and amnesty programs to local needs, so that the benefits of secondary units can truly be “scaled up.”

²⁰ Retsinas, Joan, and Nicolas P. Retsinas. 1991. Accessory apartment conversion programs. *Journal of Aging and Social Policy* 3(1), 73-89.