ADU Event

March 24, 2023 at CMAP

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On March 21, 2023, the Preservation Compact, Chicago Cityscape, the Chicago Metropolitan Agency for Planning (CMAP), and Sightline Planning and Zoning hosted "From Policy to Practice: ADUs in the Chicago Region." The following people made this event possible: Steven Vance of Chicago Cityscape, Emily Bloom-Carlin of the Preservation Compact, Cassidy Kraimer of the Preservation Compact, Community Investment Corporation's Stacie Young and their program Community Initiatives, Inc.

The Chicago Metropolitan Agency for Planning has historically been charged with regional planning around transportation and land use. The new transportation bill, however, says that regional agencies shall be involved in developing regional housing strategies. CMAP's Executive Director Erin Aleman shared that "the role of stable housing in economic recovery is crucial to our region's success. CMAP is excited about the dozen communities who have changed zoning requirements to better support an inclusive and thriving region by allowing for different housing types."

The Preservation Compact's mission is to preserve the region's stock of affordable housing, and sees ADUs as a tool to increase naturally occurring affordable housing stock. ADUs increase property value, provide rental income, and allow for flexible housing options for families. The Chicago region's existing basement-unit Additional Dwelling Units (ADUs) are often affordable but have outstanding maintenance needs. Preservation Compact Director Dunni Cosey Gay applauded the work by Dianne Limas and Communities United, who have catalyzed conversations on ADUs in the Chicago area. She also thanked Stacie Young, former Director of the Preservation Compact and Steering Committee Member of the Urban Land Institute's ADU Initiative Task Force, as well as government partners like Daniel Kay Hertz and the Chicago Department of Housing team who have implemented ADU policies.

Keynote speaker Swasti Shah, Director of Community Engagement at the Urban Land Institute (ULI) sees ADUs as a crucial tool to encourage intergenerational living. From research and conversations, Shah has concluded that ADUs: provide housing choice and housing stability; are sustainable; and increase neighborhood vibrancy. The challenges they bring include restrictive zoning and lengthy or difficult permitting, high cost of construction, scarce financing options, and an absence of guidance or expertise for homeowners. Shah emphasized that continued interventions and educational opportunities are necessary to see higher take up rates. She concluded with: "There's lots of opportunity to make this program more widely available and have a more equitable impact than what we currently have."

Three panels

Municipal policy panel

- Moderated by Jake Seid
- Daniel Hertz, Director of Policy (Chicago Department of Housing)
- Kurtis Pozsgay, Director of Community and Economic Development (Village of Bensenville)
- Craig Failor, Village Planner (Village of Oak Park)

The **Municipal Policy panel** focused on the planning, politics, and public policies of ADUs, with panelists representing Chicago, Oak Park, and Bensenville. While coach houses have been part of the Chicago region's built environment for many years, new ADU regulations have spread more gradually over the last several years. Chicago City Council introduced a citywide ordinance for ADUs in Spring 2020, which was passed as a pilot program with 5 areas. Chicago prioritized diversity in housing types, density, racial demographics, and socioeconomic profiles when building the program. Despite efforts to equitably implement this pilot program, advocates like Diane Limas have stated that the policy will never be truly equitable without being citywide. Since launching the pilot, the Department of Housing has seen increased support for a citywide ordinance, including from aldermen previously resistant to the idea.

The DOH is hiring ADU-specific staff, a sign people hope points to the program's expansion. One of Chicago's challenges is addressing existing, informal ADUs which will require owner outreach and encouragement, additional funding, and zoning changes. It will be difficult to bring these existing ADUs up to code without displacing current tenants. The 2:1 parking ordinance for single family homes in Chicago poses another challenge, as it requires detached ADUs to be coach houses above the garage. These units aren't accessible to people with disabilities and don't serve the aging population targeted for ADUs. The city will also need to standardize the owner-occupancy requirement before expanding citywide, as currently 3 out of the 5 pilot sites require owner occupancy.

Oak Park, which has always had coach houses, first included ADUs in the zoning code in 2017. That ordinance was updated in 2022 to include attic and basement conversions and allow ADUs on any single-family lot. Starting this year, Oak Park will monitor the tax impact of the program. All ADUs built so far are detached coach houses, mostly above garages. These detached ADUs are generally considered second single family homes in property tax assessments. If an attached, attic, or basement unit were to be built in Oak Park that would be considered a duplex for tax purposes.

Bensenville has not yet passed an ADU ordinance, despite evidence that ADUs would benefit the community. An absence of community-based champions to support city planners had impeded passage of an ADU ordinance. In planning for a future ordinance, Bensenville is hoping to implement a pilot using 5 pre-approved plans for 2-flats that will allow for quicker approval of applications.

Outstanding questions

- What is the tax impact of ADUs?
- The high price tag of ADUs makes them inaccessible to many homeowners, are we making wealthy homeowners already wealthier?

- How can we incentivize landlords to legalize their informal ADUs and bring them to code?
- How can we do so without displacing the current tenants?
- In Chicago, what else is needed to push the pilot program to become a citywide ordinance?
- What interventions are needed to encourage uptake of the program in other municipalities?

Design & Construction

Moderated by Katherine Darnstadt

The **Design and Construction panel** included panelists with experience designing or constructing ADUs. Robbie Markus likes to first ask people interested in ADUs the reason for their interest, which allows him and his team at Evanston Development Collaborative (EDC) to give realistic and specialized design, budget, and site plans. EDC focuses on all-electric construction, as they see ADUs as a tool to address the climate crisis. They currently use batted insulation but are transitioning to closed-cell insulation in the future, and these airtight structures are very energy efficient. Russ Rydin's primary concern when approached by someone interested in ADUs is if they are prepared for the real financial cost of an ADU. As a housing development corporation, the Chicago Metropolitan Housing Development Corporation utilizes capital and credit lines and relies on banking partners to raise capital to convert units to ADUs. They have lending partners and are well-capitalized, which has allowed them to raise the money for their larger conversion projects. However, for private homeowners, the high cost of construction is a primary concern and often inhibits the project. Markus saw this as an opportunity to educate people on different ADU options with lower price points, like basement or attic units instead of detached structures. Monica Chadha also struggles with the increased cost to bring non-conforming units to code under the ADU ordinance. Katherine Darnstadt has seen this happen most often with basement units, which have more restrictions, and thus are harder to get funding for. Nicolle Wood, who built her own coach house, struggled to get financing for her project because banks did not understand the project. Only through a WUGN talk show host was she able to refinance her 2-flat to fund the coach house's construction. Despite challenges getting funding for private homeowners, Chadha argued that these ADU projects should rely less on City subsidies in order to be more sustainable. Markus argued for national-level financing reform to make ADUs more financially accessible to all homeowners but encouraged a focus on homeowners of color to reduce the racial wealth gap.

Regarding changes to increase ADU construction, Chadha and Rydin advocated for a citywide ordinance. Chadha said the first question she has to ask interested clients is their address, to determine if they fall in Chicago's pilot areas. She also supports removing the owner-occupied requirement that currently stands in three of the five pilot sites. Rydin encouraged a standardized process and expedited permits for ADUs. Incorporating pre-approved template plans may also reduce design fees and design time, like standardizing foundation or framing plans. This would not be perfect, though, as Markus noted that zoning, utilities, and other details would require individual evaluation for each project. Chadha recommended that the City calculate and publicize the average cost for certain parts of ADU construction, as well as a government-created checklist of things to examine before beginning an ADU project. Markus also suggested more accessible public tools for people to understand if they are eligible, and then to find resources to begin their project. Wood, who was subject to confusing instructions from the Department of Buildings while constructing her coach house, encouraged clear, transparent guidelines and staff in aldermanic offices designated as ADU point people.

Outstanding questions:

- How do we support homeowners in managing the cost of constructing an ADU?
- Are subsidies the answer, or does there need to be educational work in the private sector to encourage banks to lend more in this category?
- How much does an ADU cost?
- Can we estimate the average cost to share with homeowners?
- How do modular builds fit with ADUs and could that be further explored to reduce costs?
- How do we use ADUs to increase wealth in communities of color without increasing the wealth gap for people who are already homeowners?

Financing & Resources

The **Financing and Resources panel** focused on equitable access to financing, financial supports, and benefits of ADUs. Each panelist works with financing ADUs in a different capacity. Jesse Byrer with Guaranteed Rate specializes in renovation financing. Byrer largely uses FHA financing for its low downpayment acquisition and rehab financing. CIBC's Housing Initiative provides acquisition and rehab financing to small-scale developers of foreclosed, vacant, or abandoned single family homes in lower to moderate income census tracts. The developers sell to homeowners upon completion of rehab work. CIBC provides 14-month financing at a prime interest rate, with no origination or prepayment penalty, and no payment on money drawn in advance. The program is designed to return blighted homes to homeownership to revitalize already stabilized neighborhoods.

They currently face challenges due to the high interest rates, which makes projects more expensive and reduces the time for developers to sell before the loan is due. Ros Meerdink at Community Investment Corporation focuses on refinancing, acquisition, and rehab lending for multifamily buildings. The capacity and awareness of multifamily owners to access credit, liquidity, and contractors makes them a key part of the solution to the housing shortage and to increasing ADUs across Chicago. Meerdink suggested relaxing the owner-occupancy restrictions to enable more multifamily owners to construct ADUs. She also highlighted the cost of working with an attorney and the lengthy bureaucracy time to complete these projects as a major impediment to people's completion of ADU projects. Donna Clarke and Neighborhood Housing Services (NHS) worked with the City of Chicago to craft the pilot and administer the first round of ADU grant funding. The City created the pilot grant program which gives $10,000 planning grants to cover costs related to architects and engineers, and a second $75,000 grant for construction. NHS helped develop the grant eligibility criteria, and ensured technical assistance was included given that much of Chicago's old housing stock has deferred maintenance.

So far these grants have gone to 1-4 unit structures at least 20 years old, mostly owner occupied. Finding additional funding to cover the rest of the project (which typically have a total project cost of $150-200,000) is challenging for their clients, who usually have incomes at or below 80% AMI, the cutoff for projects funded by the city's grant program.

Once homeowners have funding, Bryer notices clients struggle to get information for completing their project. However, he and Guaranteed Rate are not allowed to recommend contractors to clients. He encouraged an investment in publicly available resources for homeowners. Clarke suggested an ADU desk within the City government. Regarding opportunities for partnerships, Rogers encouraged the City

of Chicago to put a larger portion of the budget towards fixing up homes and bringing them back up to code. Clarke called for the end of the pilot project and an expansion to a citywide ordinance.

Appraisals for ADUs are challenging given the lack of institutional education or guidelines. Many people don't know what ADUs are, or how to categorize them. Adam Rogers has found that appraisers typically value a finished basement higher than a basement-unit ADU, adding an extra challenge for appraisal. Though both Guaranteed Rate and CIBC underwrite to a building's future value, undervalued appraisals impact the equity homeowners can build. CIBC's properties often sell for much more than appraised, due to a lack of sales comparisons. Coach houses are particularly challenging to identify comparable properties or "comps" for, since a 2-unit with an attic or basement ADU could then be compared with 3-units. Meerdink hopes that more ADUs will provide additional comps for underwriting, thus easing hesitations from appraisals and underwriters. Clarke highlighted that appraisal bias contributes to the racial wealth gap because homes being under-valued are reducing the equity that homeowners can access. She also suggested a process to move forward with applications using currently-illegal units, since they account for 97% of denied applications seen by NHS. Clarke and Byrer mentioned high property taxes as another barrier for their clients.

Outstanding questions:

- What is the goal of the ADU ordinance – racial equity, building or preserving wealth, stabilizing housing stock?
- How do we improve education for appraisers?
- How do we improve equity in the appraisal process to ensure it builds wealth?

The event concluded with a discussion led by Steven Vance of Chicago Cityscape. **Unanswered questions from that discussion are below**.

- How are we proactively designing basement units to prepare for extreme weather events and risk of flooding?
- Why is there no repeat pattern to the flooding across Chicago after major storms?
- What is the goal of the ADU ordinance? Is it still to help the affordable housing crisis?
- Are there objectives or metrics for Chicago's ADU pilot program?
- What's the best way to get 100 new affordable units?
- What does the next ADU ordinance look like?
- What else do you want to do with the information learned today?
- Can the City compile the reasons ADUs aren't being built?
- Is there too much regulation with the current ADU ordinance?
- What would a path to legalize illegal basement units look like?
- How will we create affordable units with the ADU?
- How can we use federal money to fix up existing basement units?
- Do we need to strengthen the size and ability of the region's construction workforce?
- Should Chicago require testing for contractors?
- Does the City grant need to increase funds or eligibility range for construction funding?