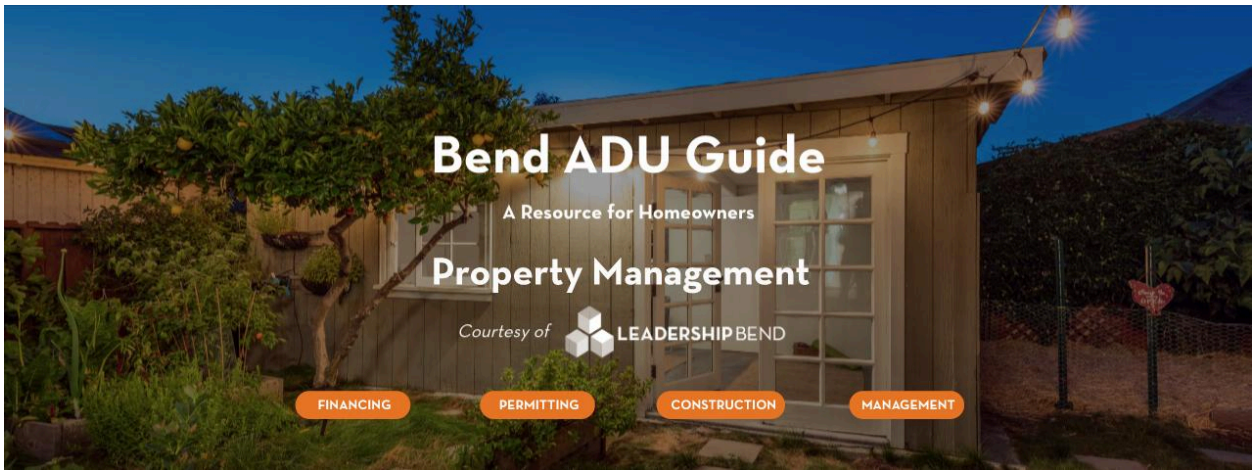
ADU Impact Project Outline 2.1

Leadership Bend 2022

Introduction Page



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"ADU" is an acronym for Accessory Dwelling Unit, essentially a secondary living space, i.e. an apartment or small home, constructed on a lot where there is already a primary residence.

With the recent adoption of **House Bill 2001**, homeowners have more options to add additional housing to their lots. This can provide homeowners with income to offset their mortgage and add more workforce housing to our community.

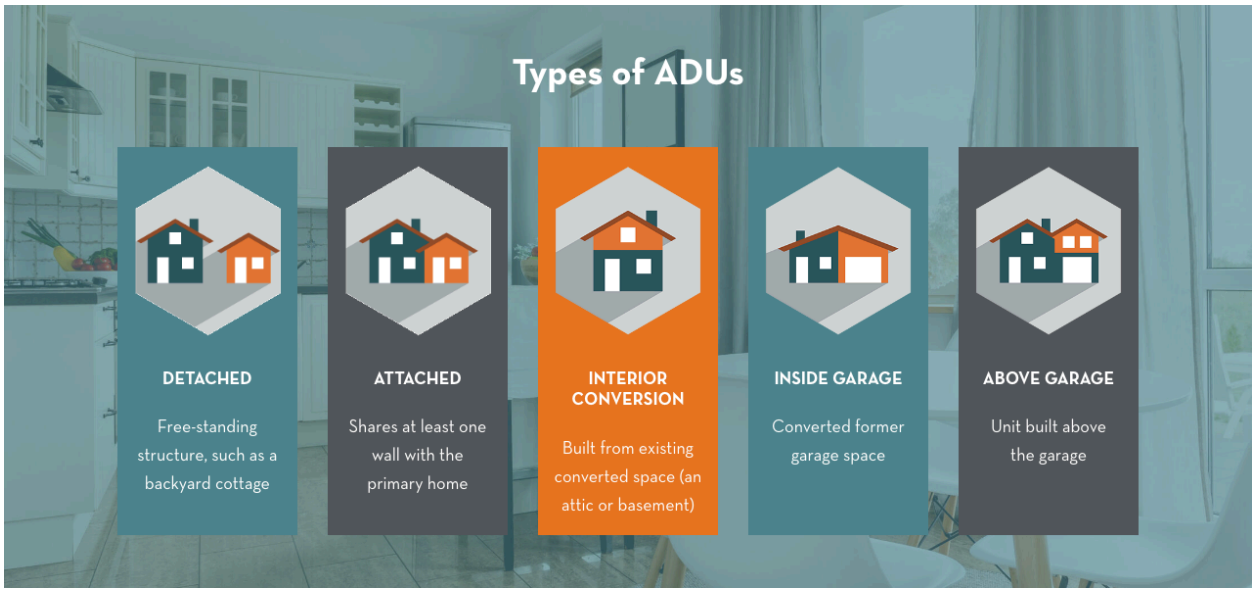
Workforce Housing

Increasing the supply of affordable and attainable housing to support Bend's growing population is one of Bend Chamber of Commerce's guiding policy principles. **Learn more.**

This guide was created by members of Bend Chamber of Commerce **Leadership Bend** Class of 2022. Our team met with **Katy Brooks**, CEO of Bend Chamber of Commerce to find out kind of project would make the most impact in our community. She said that after each of the

Workforce Housing webinars, attendees asked what they could do personally to help alleviate the housing crisis. We felt it made sense for us to create a project that utilized our individual strengths and realms of influence: city zoning and permits, design, construction, financing, property management, and marketing (and someone who's been through the process!) to create a resource for those people who wanted to help.

This guide is meant to answer some questions about the process of building, financing, and renting an ADU. It is not meant to be a comprehensive guide but it will direct you to resources that will help you as you build an ADU on your property.



Financing and Costs

How much does it cost to build an ADU?

The costs to build an ADU can vary quite a bit. Depending on the type of ADU, the square footage and the finishes, among several other factors, ADU costs can range from $80,000 to $400,000. For the purposes of this site and assuming the entire project is contracted out to a builder, the estimated amounts below are for Construction Costs only. (Other costs to consider: design/blueprints, permitting, lot preparation and utilities, and landscaping.)

	CONSTRUCTION COSTS:	
	As Low As:	Average:
 **DETACHED** *free-standing structure, such as a backyard cottage*	$120,000	$200,000
 **ATTACHED** *shares at least one wall with the primary home*	$110,000	$180,000
 **INTERIOR CONVERSION** *built from existing converted space (e.g., an attic or a basement)*	$80,000	$175,000
 **GARAGE APARTMENT** *converted former garage space*	$90,000	$190,000
 **ABOVE GARAGE** *unit built above garage*	$130,000	$200,000











IN

What financing options are available?

Cash

One of the easiest ways to finance your ADU is with your cash savings. Financing the construction of your ADU with cash may be a worthwhile investment alternative to leaving cash in low yielding investments, particularly if you plan to rent the unit. While financing the project with cash will provide flexibility during the construction process, it is not feasible for everyone and requires a significant amount of cash savings.

Cash-out Mortgage Refinance

A cash-out refinance allows you to access the equity in your home and can be an excellent source of cash to help finance an ADU project. A cash-out refinance will provide a lump sum payment that can be used to help fund construction costs. Since it is a mortgage, you will pay this amount back in monthly mortgage payments over time. This option could be especially attractive for individuals who would also like to refinance their existing mortgage, potentially lower their interest rate, or consolidate other debts into one monthly payment. Please note that these mortgage programs are subject to loan-to-value limitations imposed by lenders and not everyone will have enough equity in their home to make this a viable option for financing an ADU.

Home Equity Lines of Credit (HELOC)

Similar to a cash-out refinance, this option also allows you to access equity in your home that can be used to help finance an ADU project. Unlike a cash-out refinance which provides a lump-sum payment that is paid back over time, a HELOC is a line of credit that can be accessed and paid back as needed to help fund construction costs. In this respect, HELOCs provide more flexibility than cash-out mortgage refinances but typically carry a variable interest rate, which means that the interest that you pay could increase or decrease every month. The interest rates on HELOCs are also generally higher than mortgages. Similar to cash-out refinances, this option will also be subject to loan-to-value limitations imposed by lenders and therefore will not work for those without sufficient equity in their homes.

Construction or Renovation Loan

Another option to help finance the cost of your ADU is a construction or renovation loan. These loan programs are typically based on the future value of your property rather than the existing value, making this an option for those without sufficient equity for a cash-out refinance or HELOC. These loans typically have higher interest rates and closing costs than mortgages or HELOCs and can introduce complexity into the construction process. For instance, you may need to have your general contractor qualified with the bank, they may need to submit

construction draw schedules/requests to the bank, periodic inspections may be required, and there can be additional limitations on budget and cost overruns.

For a list of local lenders, see these Bend Chamber of Commerce member mortgage companies.

Other Options

Other potential options include personal loans, personal lines of credit, local/specialized financing programs with local banks or credit unions, or government grant and loan programs.

If I build an ADU, how will that affect my resale value?

An ADU will very likely affect your resale value. The exact rate will depend on comparison values in your neighborhood.

How does this impact my property taxes?

First let's define some common Oregon property tax terms:

Real Market Value (RMV)

This is the typical price your property would sell for in a transaction between a willing buyer and a willing seller on January 1, the assessment date for the tax year.

Maximum Assessed Value (MAV)

This is the taxable value limit established for your property. The first MAV for each property was set in the 1997–98 tax year. For that year, each property's assessed value was rolled back to its 1995-96 real market value, 10% less. This value can not grow faster than 3% per year unless activity, like new construction, occurs on the property.

Changed Property Ratio (CPR)

This is the method in determining how new improvements to a property are assessed. It is defined by the ratio of assessed to real market value of other property in the same area and class. If new construction occurs, the new property is added to the tax roll using the average changed property ratio.

For answers on how new construction will specifically impact your property, contact the Deschutes County Assessor's office:

https://www.deschutes.org/assessor

Deschutes County Property Tax Values informational video:
https://www.youtube.com/watch?v=Fo_hSySAC2A&t=6s

Informational Video; Understanding the Difference between MAV and RMV:
https://www.youtube.com/watch?v=w32cCFemPro&t=3s

Zoning and Permitting

Zoning

Common Definitions

The Bend Development Code has a comprehensive list but here are several to start:

Accessory Dwelling Unit (ADU)

An ADU is an ancillary or secondary living unit that has a separate kitchen, bathroom, and sleeping area existing within the same structure, or on the same lot, as the primary dwelling unit. The accessory dwelling unit may be a separate and detached unit, an attached unit to the principal structure, or a repurposed existing space.

Floor Area Ratio (FAR)

FAR is a measurement of building density calculated by dividing the gross enclosed floor area of a building measured to the inside of the external walls by the land area of the development.

Lot Coverage

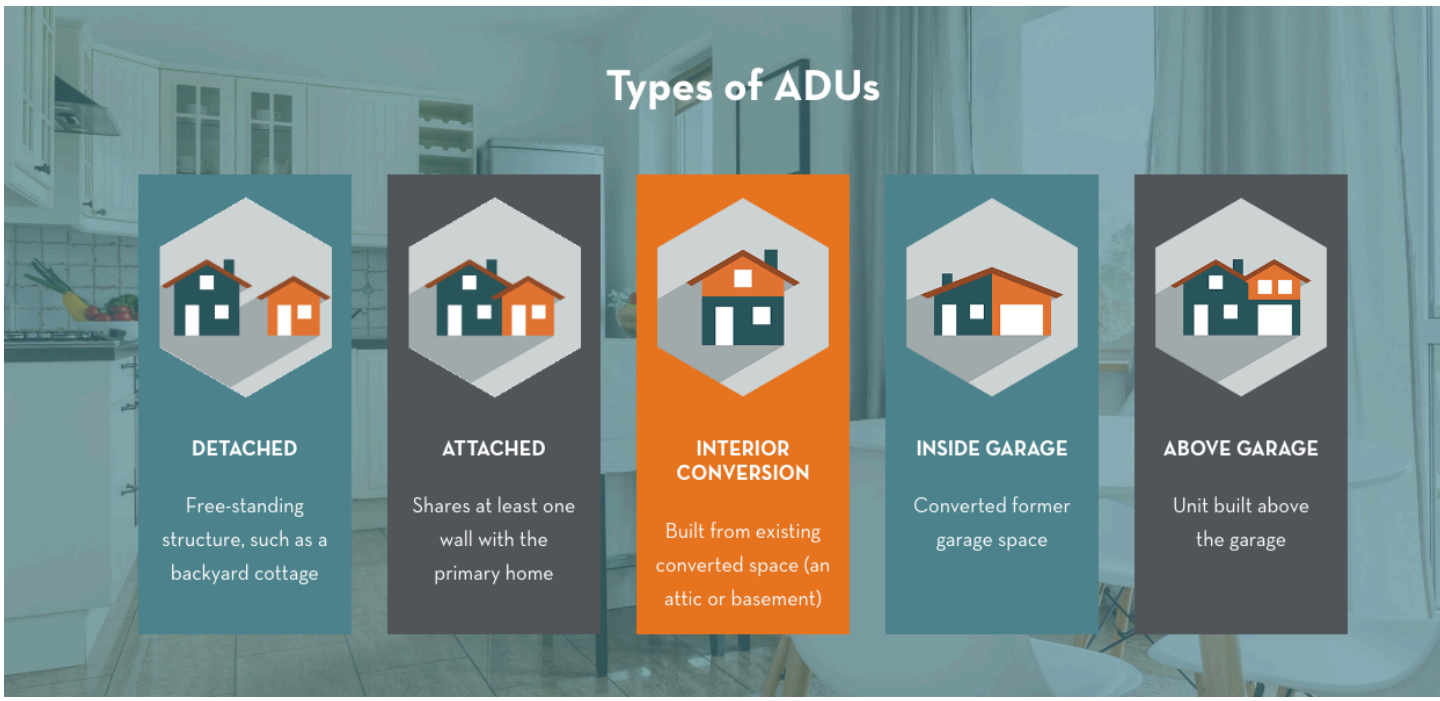
Lot coverage is all areas of a lot or parcel covered by buildings (as defined by building footprints) and other structures with surfaces greater than 18 inches above the finished grade, excluding unenclosed covered or uncovered porches, patios, decks, carports, balconies or stoops up to 10% of the total lot area. Eaves are not included in lot coverage.

Setback

Setback is the minimum allowable horizontal distance from a given point or line of reference, such as a property line, to the nearest vertical wall, building footprint or other element of a building or structure.

Can I build an ADU on my property?

If you don't already have an ADU on your property and you live in a residential area then the Development Code would likely allow it. ADUs are a permitted use in all Residential Zoning Districts, and to a degree, in Mixed-Use Zoning Districts. Only one ADU is permitted on a lot or parcel and the primary residence must be a detached home, townhome, or manufactured home.



There is not a "one size fits all" approach to ADU projects, so it is highly recommended that you contact a professional to discuss details. Codes can be nuanced and open to interpretation. This is only meant to be a starting point and does not cover all of the finer details in Bend's Development Code or Oregon's Residential Specialty Code. Also note that if your neighborhood has Covenants, Conditions, and Restrictions (CC&Rs) those often trump the Development Code and may not allow for ADUs so be sure to check those first!

How big of an ADU can I build?

You can build an ADU of up to 800 square feet of enclosed living space. You must comply with the Floor Area Ratio (FAR) and Lot Coverage restrictions of your Zoning District. You can only build one ADU on your property.

My lot is small but I think I can still fit an ADU. Can I construct one on top of my garage, attach it to my current home, or convert a room I no longer use?

ADUs come in all shapes and sizes and they don't have to be detached. However, if they are detached then in most circumstances they must be a minimum of 6'-0" from the primary residence. When building up, out, or within you will need to comply with the Setbacks and Height Limits of your Zoning District which you can find in the Development Code. There are requirements regarding separating the ADU from the primary residence from fire, sound, and utilities.

Can I park my camper on my lot, or build a tiny home on wheels, and call it an ADU?

ADUs must be built on a foundation and fully inspected by the City to be considered a legal dwelling unit.

Would I have to provide parking for the ADU?

You do not have to provide parking for an ADU. But it would be a nice thing to provide, since on-street parking spaces are in short supply in most areas of the city.

Permitting

Process and Timeline:

The City of Bend has put together a useful Accessory Dwelling Unit Quick Reference Guide that explains the permit process, timeline, costs and links to submit. The City has recently made the process more streamlined. Both planning and building can now be done with one submission.

You will need to create an account on the City of Bend's Online Permit Center to submit your documents. You can find that here: https://cityview.ci.bend.or.us/Portal/ At the top of the page you'll find the link to register. Once registered, navigate to the "Building, Permanent Signs, and SDC Estimates" section and click on "Apply".

To find a list of submittal items required, you can find them here: Residential Submittal Checklist

Once you apply, the process typically takes 4-8 weeks, but can be very dependent on the quality and completeness of the permit documents submitted and the swiftness of your response to any plan review questions and comments.

Once your permit is approved, you will need to pay for your Permit Fees and System Development Charges (SDC). Then you will be issued your permit and you may proceed with construction!

What are the costs for permitting?

You will need to pay Permit Fees to cover the costs of the review of your permit as well as inspections. You can request a Permit Fee estimate by emailing building@bendoregon.gov. They will also include System Development Charges (SDC) information in your fee estimate.

You will also need to pay for System Development Charges which are used to fund City infrastructure and community support services. These are updated annually on July 1st. Building Permits and Fees are based on construction cost, size, and the number of fixtures and utilities you install. They include Streets, Parks, and Water and Sewer if you are modifying service.

Design and Construction

Where do I find an architect and/or contractor to help me create my ADU?

The Bend Chamber of Commerce has a list of vetted architects* on their website through the 'Find A Business' link.

**Not all the architects listed are the right choice for an ADU on your property. We recommend reaching out to them or looking at their websites and the services and scope they typically provide.*

The Bend Chamber of Commerce has a list of vetted contractors* on their website through the 'Find A Business' link under Real Estate and Construction.

**Not all the contractors listed are the right choice for an ADU on your property. We recommend reaching out to them or looking at their websites and the services and scope they typically provide.*

Leadership Bend Class of 2022 researched some of the many builders who are Bend Chamber Business Members and found the following to be companies that specialize in or have experience in building ADUs. This is by no means a comprehensive list.

121 Tiny Homes - Bend, OR
Design and Build an ADU - Charles Sack Architect, Bend, OR
Hiatus Homes - Bend, OR
Neil Kelly - Bend, OR
Simplicity by Hayden Homes - Redmond, OR
Tiny SMART House - Albany, OR
Willis Built Construction - Bend, OR

(If you are a contractor or builder and would like to be added to this list, contact the Bend Chamber of Commerce.)

I have selected my architect and/or contractor, what form of agreement should I consider?

The design or construction professional may have their standard form of agreement. It is recommended that an Owner compare this agreement to industry standard forms. Standard forms for small projects can be reviewed and purchased through the AIA link.

AIA Short Form Agreement between Owner and Architect

AIA Short Form Agreement between Owner and Contractor.

Architects and contractors often include or attach their own qualifications, clarification and exclusions. Owners should be comfortable with the overall project expectations.

What payment procedures should I be aware of both during design and construction?

While payment procedures are often detailed in the agreement, it is not unusual for both design and construction to expect an initial down payment or mobilization. Additional payments are typically made when project milestones are achieved. This may include the conclusion of a specific design phase or reflect a percent of completed construction on a monthly basis.

For construction, it is not uncommon to hold back 5-10% of the monthly payments in retainage that is held until the project is completed. Where the retainage funds are held is something that should be determined prior to signing the agreement. If you have a lender, they may also have input on the payment procedures and retainage.

What should I know about construction liens, lien waivers and lien releases?

The State or Oregon requires a contractor to provide a notice to inform Owners about construction lien laws. This form is provided here and includes general information along with common questions and answers. It is important for Owners to familiarize themselves with construction liens as it may stall a project under construction or affect project financing.

If I signed agreements with both the architect and contractor for a total fee, stipulated sum, or contract amount, is that all that should be owed?

While having the scope clearly and completely documented in both agreements and construction documents is critical to minimize unexpected costs, there are often conditions that arise during both design and the course of construction that result in additional fees or costs. For these events, a contingency should be set aside to cover the cost increases. A contingency can cover late Owner-initiated design changes, unexpected field conditions, or even Owner requested changes during construction. Depending on project size and complexity, the contingency could be anywhere from 5-10% of the total project cost and should be accounted for in the project financing.

If there is a change during design that is beyond the original scope of work, the architect may charge for additional services. If the change occurs during construction it is known as a change order. A construction change order may include either a change in the contract time, increase the contract sum, or both.

The best way to protect a project from additional costs or changes is to have clear and complete documents from design to construction. If there is a scope item that is expected, but not clearly defined, the project team may decide to track the item as an allowance. Allowances are different from contingencies in that they are included in the project sum as a placeholder for a known amount. An allowance is for anticipated work rather than unforeseen work.

What other considerations may affect the success of the project?

The construction market is impacted by national and global events. Whether it is a hurricane in the gulf, unrest in other parts of the world or a health crisis that affects us all, the cost of material and labor can fluctuate. To account for the volatility, a project cost may also include escalation. Similar to contingency, escalation is often accounted for as a percentage of the project total.

Depending on the schedule, escalation may be higher if the project is a few years out or lower if construction is expected in the next several months. These same external events may also affect product procurement or the ability to secure materials and equipment for the project. Contractors should order materials with long lead times early in the project to ensure timely project completion.

I am unfamiliar with design and construction timelines, how long should this process take?

All projects should have a schedule for both design and construction. A schedule is used to track progress, payments and other interfaces with the project. Changes to the schedule should be documented through additional services or the change order process noted above. If

the Owner hires a consultant directly or purchases material, these efforts should be accounted for in the schedule to coordinate with the architect or contractor. A schedule is often included as part of the contract or form of agreements to establish clear expectations and responsibilities during design and construction.

Property Management

Should I manage the rental of my ADU myself, or should I find a property management company?

Managing a property is a big responsibility. To understand the tasks of managing an ADU, we've compiled a list of steps to rent out an owner-managed property. If you already know you need a property management company, see ***Where can I find a property manager to take care of some of these steps for me?*** further down this section.

Pricing the property

Arguably the most important step of managing a property is first pricing it relative to the market, and ensuring a return on your investment. Leadership Bend Class of 2022 created this free guide to building an ADU with the goal of increasing affordable housing. Please consider offering your completed ADU as an affordable long-term rental unit for our local workforce. You can find out more about Bend Chamber of Commerce's commitment to increasing affordable and attainable housing here.

To properly price your ADU, you need to conduct market research of your area pricing and area income. You can find up-to-date average rental prices at sites like Zumper, a rental pricing calculator at "Rent-O-Meter" and further resources: Central OR Rental Association

Create an Income / Expense Analysis so it's profitable for you and affordable for your tenant (see **Financing and Costs** page).

Listing the property

Create a marketing writeup that adheres to Fair Housing laws, while setting clear tenant criteria. Use other listings as a guide for attracting renters.

Choosing where you will list your property

The best way to reach the local workforce is through local publications such as Bend Source Weekly and Central Oregon Classifieds. Other online services include craigslist, Facebook Marketplace, Zillow, and Furnished Finder, among many more.

Accepting applications

Accept application fees to pay for your expenses to perform background checks, credit checks, rental history checks, etc. Under the Fair Credit Reporting Act, you must use an

approved Consumer Reporting Agency to obtain a criminal background check on a potential tenant. It's also a good idea to contact the applicant's employer to verify their stated wages.

Credit reports can be obtained online from the three major credit reporting bureaus: TransUnion, Experian and Equifax.

If you deny an applicant because of negative information on a credit report, you must send the applicant an "adverse action" letter, which informs the applicant of three things: the reason for rejection, the name and address of the agency that reported the negative information and, the applicant's right to obtain a free copy of the report by requesting it from that agency within 60 days.

Contact the applicant's previous landlords to verify tenancy and adherence to lease agreements. And remember, you must respond to all applicants who apply and pay the application fee.

Choosing a tenant

Again, we urge you to uphold the Bend Chamber of Commerce's objective of providing affordable housing. When choosing a tenant from among the applicants, you must adhere to Fair Housing Laws. These govern how you advertise your unit, how you create the lease, and how to conduct yourself in the property owner / property renter relationship. Adherence to these laws protects you from lawsuit, and provides dignity and respect to your tenants.

Creating the lease

A properly drafted lease sets clear expectations of responsibilities, both owner to tenant, and tenant to owner. It is recommended to use a Rental Lease Form created to comply with all local, state, and federal laws. You can find examples here: Rental Housing Alliance - Landlord / Tenant forms

Do I need to become a business to manage the property myself?

You do not need to form a legal entity in order to collect rent money, however, for liability purposes, it is recommendable. Please consult with your lawyer before doing so.

To register a legal entity/business in Oregon: State of Oregon - Register a business

To file your business taxes, you will need an Employer Identification Number (even if your business won't have employees), which you can do for free here: IRS - Apply for an employer identification number

Steps for this part of the process if self-managed:

Collecting rent

Accepting federal rental assistance (see **Housing Choice Vouchers** below)
Accepting credit cards, ACH electronic funds transfers, etc.
Setting up autopay

Maintaining the property

Providing routine maintenance
Conducting periodic inspections
Enforcing maintenance agreement stipulations

Giving / receiving notice to vacate

Conducting evictions in accordance with local and federal laws
Giving notice of property sale to new owner
Receiving notice of tenant intent to vacate

I'm trying to help alleviate the local housing crisis by providing affordable housing. How can I maximize my contribution?

A key to expanding access to affordable housing is through The Housing Choice Voucher Program, also called Section 8. This enables very low-income households to rent units from private landlords with federal subsidies. You can find out how to receive these federal subsidies by visiting Central Oregon Regional Housing Authority (Housing Works)

Benefits for landlords accepting Housing Choice Vouchers:

On time, reliable and guaranteed rental payments.

Housing Works pays a set portion of your tenant's rent directly to you on the first of each month. The renter pays the difference.

Potential for higher occupancy & lower turnover.

Participating landlords broaden their pool of prospective tenants. Since voucher holders sign a one-year lease, many become long-term, dependable residents.

Standard charges and fees.

The same security deposits and late fees in effect for private-market renters are applicable to voucher renters.

Learn more Housing Choice Vouchers at housing-works.org

Where can I find a property manager to take care of some of these steps for me?

You can find a local property manager in the Bend Chamber Business Directory. Here is a more compact version of that list (including only residential property management companies):

A Superior Property Management Company, LLC
Bend Dutch Property Management, Inc
Cobalt Property Management Group
Compass Commercial Asset & Property Management
Deschutes Property Management
EPIC Property Management LLC
High Country Property Management, LLC
Mountain View Property Management
Mt. Bachelor Property Management, LLC
Northwest Key Property Management
Plus Property Management
Velocity Property Management

Can my ADU become a vacation rental?

As always, check with your HOA to see if it's allowed. You can find more resources here: Short Term Rental Program

Where can I find more information about being a landlord?

Central Oregon Rental Owners Association
Fair Housing Council of Oregon
Oregon Eviction Moratorium FAQ (Portland site organizing Oregon state resources)
Oregon Landlord Relief Program
Oregon Law Help - Landlord and Tenant Law
Oregon Office of Economic Analysis - Rent Stabilization
Oregon Rental Assistance
Oregon State Bar - Landlord and Tenant Law

Fair Housing laws:

The Fair Housing Act protects people from discrimination when they are renting or buying a home, getting a mortgage, seeking housing assistance, or engaging in other housing-related activities.

US Department of Housing and Urban Development summary of the Fair Housing Act
State of Oregon Fair Housing Law
City of Bend Fair Housing Assessment