



Accessory Dwelling Units Playing a significant role in Market Based Affordable Housing

Introduction

Purpose of Research

The extraordinary rise in house prices in recent years and a continuing shortage of development land has meant that many people on low to moderate incomes are unable to access housing appropriate to their needs and financial capacity. The Accessory Dwelling Unit Study, which commenced in 2003 emerged from the preliminary view that this modest form of accommodation could be one of a number of innovative, market-based solutions aimed at offering lower cost housing to the market.

In addition to affordability, Accessory Dwelling Units (ADUs) can achieve a range of other social sustainability outcomes, such as providing choice for multigenerational and blended families, enabling ageing in place, and providing home office opportunities. They also have the potential to assist the State government compact cities and urban regeneration objectives in established residential areas.

The purpose of the research was to identify opportunities and constraints for the widespread adoption of ADUs as a market based affordable housing option. Four separate pieces of research were commissioned including:

1. the market for ADUs covering demand and supply issues, design, and perceptions of local government;
2. planning and regulatory issues associated with ADUs;
3. Building Code of Australia issues ; and
4. finance and taxation issues associated with building and renting out ADUs in the private market

Note: This research was commissioned before Landcom started to consider ADUs on separate title such what has been proposed at the redevelopment of the Narwee High School. The Narwee Loft Apartments would not strictly be considered an accessory dwelling unit, due to separate titling.

Definition of Accessory Dwelling Units

For the purposes of the research undertaken by Landcom, the definition of Accessory Dwelling Units is:

"A self contained, but not separately titled, dwelling that is not larger than 60 square metres or 40% of the total floor area (excluding enclosed garage space) of the existing principle dwelling (which ever is greater) and is located within, attached to, or detached from, an existing or proposed principle dwelling."

ADUs should have the option of being either detached from the principle dwelling, or attached to/part of the principle dwelling. The below images illustrate both attached and detached ADU's.

Parramatta City Council recently re-introduced 'granny flats' into all residential zones, and have a similar definition to that used by Landcom:

Granny flat means a dwelling:

- (a) that has self-contained cooking facilities and a gross floor area not exceeding 60 square metres, and
- (b) that is subordinate to another larger dwelling on the same lot whether physically attached to the other dwelling or not.

Source: Parramatta LEP 2001(Amendment No.8, 17 June 05)

Accessory Dwelling Units versus Dual Occupancy

ADU's must have its own definition, to ensure they are differentiated from dual occupancy development.

The key difference between the two types of development is in the size of the accessory dwelling, being either 60 square metres or 40% of the size of the principle dwelling. The purpose of this requirement is to ensure that the accessory dwelling does not impact on the surrounding residential amenity. ADU's are designed for low density residential areas, so should always be significantly smaller than the principle dwelling.

Examples of New and Old Accessory Dwelling Units



Hunterford, Oatlands



Park Central, Campbelltown



Mosman



Turrumurra

The multiple roles of Accessory Dwelling Units

The purpose of accessory dwelling units is to:

- increase the supply of affordable rental accommodation available to low to moderate-income earners,
- increase access to independent housing opportunities for a variety of contemporary households,
- encourage more efficient use of the existing housing stock,
- provide supplementary income for dwelling owners on limited incomes, and
- contribute to the creation of socially sustainable neighbourhoods.

'Secondary suites' in Canada and 'accessory dwelling units' in the USA have been successfully used to significantly increase stock in cities suffering from a declining supply of affordable rental housing. In British Columbia, Secondary Suites account for 20% of the private rental market, and local governments are being actively encouraged to facilitate more Secondary suites as a market based affordable housing solution. They demonstrate a housing policy outcome that can bring more accommodation to market reasonably quickly and without resort to government funding.

Study Findings

The ADU model represents a viable and affordable supply option for small (1-2 person) households on low to moderate incomes. Its widespread introduction is, however, limited by poor awareness of its benefits among developers and builders, the State government, local Councils and the community.

Existing ADU Provision

ADUs are not a new concept, they are a traditional form of affordable housing, but have fallen into disuse in the recent decades. The Study revealed that in 2001, there were 6,400 ADUs in the Sydney region — a very small proportion of the city's dwelling stock. One bedroom ADUs are most common, but there are an almost equal number of 2-3 bedroom ADUs. Average occupancy is 1.8 persons per dwelling.

Lone person households occupied almost 50% of ADUs, while couples with no children occupied 18%, and single parent families occupied 5% of the ADUs. The main age groups occupying ADUs were not the expected students, retirees and empty nesters. Just over half of ADU residents were aged between 25 and 54 years. The median rent levels paid by the majority of ADU occupants in 2001 was between \$150 and \$199 per week. This is significantly lower than rents paid by similar households in other dwellings (i.e. units, houses) who paid \$200 - \$299 per week (2001).

Potential Demand

The Study noted ABS projections suggesting that the majority of household growth over the next 20 years will be for lone persons, couples without children and single parent households and that these groups will need between 583,000 and 839,000 dwellings over the next 20 years.

Based on single incomes, pensions and superannuation, and in concert with continued economic restructuring and the growth of low paying part-time and casual work, many of these households will simply not be able to afford to purchase or rent market rate housing, appropriate to their needs, within reasonable distance of their work and close to their social networks and relations.

The Study estimated (from 2001 Census data) that, in the Sydney metro area, there were approximately 61,000 privately renting single parent, couple without children and lone person households in housing stress who could benefit from access to affordable ADU accommodation.

The potential ADU demand based on income, suggested that in 2001, there were between 44,000 and 96,000 single parent, couple without children and lone person households earning low to moderate incomes.

Potential Supply

The ADU Study estimated that, in 2001 there were around 87,000 three and four bedroom detached houses in the Sydney Statistical District fully owned by over 65 year old lone person and couple without children households. Households earning less than \$350 per week occupied around 26,000 of these three and four bedroom dwellings with some 20,000 three and four bedroom dwellings occupied by one person.

Converting these theoretically under-utilised separate houses into ADUs represents a significant potential supply and suggests that well over 26,000 houses in the Sydney SD have unoccupied or unused bedrooms and the potential to be converted into self contained ADUs.

Large land lots, where an ADU could generally be comfortably added to an existing dwelling, also represent a further opportunity for increasing the stock of modest, affordable rental housing. An of such lots (>600 sq m) in selected middle and outer ring LGAs suggested that in the order 157,000 lots could potentially be 'harvested' to create additional ADUs. Most of these, however, are in outer ring LGAs and not necessarily close to the employment and social networks of the most likely potential occupants. Clearly, there was significant ADU supply potential, even if only a minority of the under utilised housing stock and existing residential lots were used for ADU creation.

The supply of ADUs in greenfield areas is limited by local government planning regulations. Many councils impose restrictions on ADUs, often due to the association with dual occupancy. However, the ADU's built at Hunterford, Newbury and Park Central, clearly demonstrate that ADUs can be built with minimal impact on the neighbourhood character, and are popular with both home buyers and developers.

ADU Benefits

The Study examined the range of community, owner, and tenant benefits that might accrue from ADUs:

- ADUs can offer market rate but affordable housing to meet the needs of a rapidly growing number of low and moderate income single parent, lone person and couple without children households;
- Major planning interventions or public funding are not required;
- The land on which they can be built already exists and has, in most cases, the necessary services and community support infrastructure;
- Encouraging the development of ADUs offers an additional *urban consolidation* policy model that can be far more locally sensitive in its built form and social outcomes than single or multiple lot redevelopment.
- ADU rental income can supplement house owners' incomes, especially retirees and ease social welfare cost pressures of an ageing society; and
- Existing residents, or their children, can benefit from modest, affordable and independent accommodation in a socially sustainable and diverse community.

ADUs do not require the assembly of the large parcels of land needed for the high quality design outcomes now demanded by the community. If proper controls are put in place it does not need to have a substantial impact on local environmental amenity or existing and familiar streetscapes.

Planning Regulations and Local Government Support

Local planning provisions are generally restrictive in regard to ADUs, with only a few councils permitting them in residential areas. However, the Council officers interviewed as part of this study indicated they were supportive of the ADU model, but only if a range of concerns were overcome including: design quality, further subdivision, BCA interpretations and Councillor and community attitudes.

There is growing support amongst councils for the 'reintroduction' of ADUs in terms of both affordable housing and meeting the social needs of their communities. Some examples include:

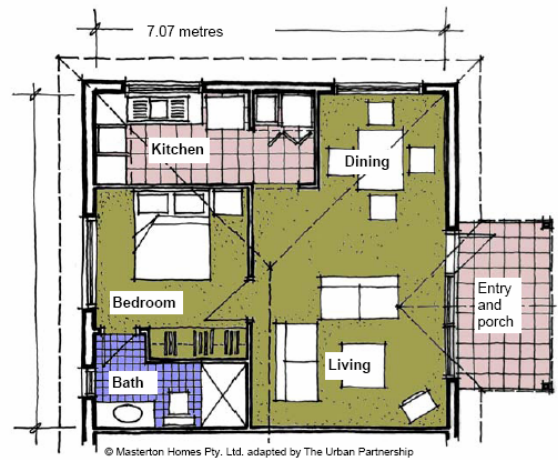
- **Pittwater Council** considers ADUs as the only solution to provide affordable housing in an area of high property prices. Council has prepared an LEP to enable ADUs, but will not introduce provisions until council is able to increase rates collected on properties that rent ADUs in the private rental market.

- **Parramatta Council** has recently reintroduced granny flat provisions in its LEP as they 'add to the rich character of our residential areas, [and] help keep families together'. Council will also produce design standards to accompany LEP and DCP.
- **Hurstville Council** is supportive of ADU style development, and are working with Landcom to permit separately titled Loft Apartments at the Narwee High School development.
- **Camden Council** has provisions for 'two dwelling developments' enabling attached granny flats on lots greater than 400sqm
- **Kogarah Council's** 'extended family flats' can be attached or detached from the principle dwelling
- **Ku-ring-gai Council** permits 'family flats', enabling attached granny flats with a maximum floor space ratio of 50sqm

Design and Regulatory Issues

To test the practical design potential of ADUs, the Study developed a number of floor plans illustrating how an adequate small dwelling can be provided within the 60 square metre area limit. The study included designs of ADUs from 25sqm to 60sqm that could be detached or attached to principle dwellings. The study also looked at designs associated with converting an existing dwelling into two small dwellings without enlarging the existing building envelope.

Design 1 is a one bedroom ADU, adapted from a 'granny flat' offered by Masterton Homes in the early 1990's, and is 48sqm in size. It is designed to be a ground level attachment to the rear of a single or double storey dwelling. According to the Study, it appears that Masterton withdrew this product range due to opposition from various councils.



Design 1: Example of a one bedroom ADU at 48 m²

Design 2 shows how an existing dwelling could be converted into two dwellings, with no external changes.



Source: Sydney Morning Herald, 8 October 1998

Design 2: Conversion of 3 bedroom house into 2x1 bedroom dwellings

Subdivision of ADUs

Landcom commissioned research into the regulation of ADU in terms of subdivision. The purpose of the study was to investigate planning controls that would ensure that adhoc subdivision would not be possible.

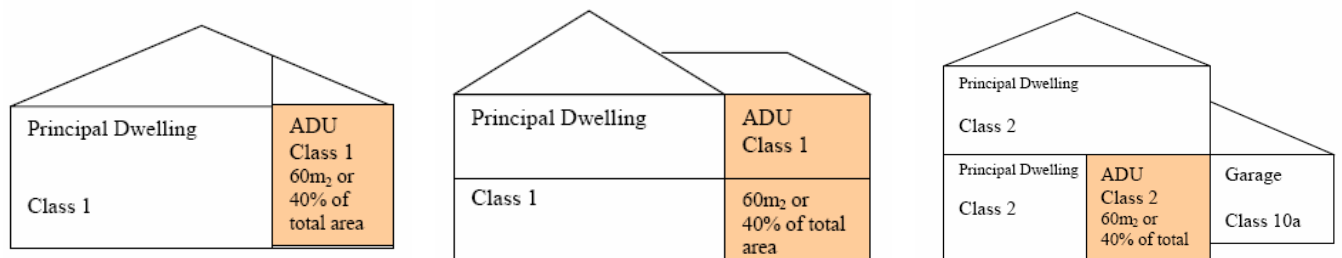
The key to ensuring certainty in regard to subdivision is to refer to the ADU as being secondary or subordinate to a principle dwelling. This would ensure that the ADU could not be referred to as a separate dwelling that could then be subdivided.

Building Code of Australia

The purpose of the study was to identify implications and requirements of the Building Code of Australia, in relation to fire separation, sound transmission and insulation, and access requirements.

The study found that ADU developments generally fall within Class 1a or 2 Classification of the Building Code of Australia. It was considered that the most practical and cost effective configuration of this type of development would be Class 1 construction. This is due to such factors as simplicity of design, in most cases vertical fire separation would not be required and the fire rating of building materials required for Class 1 buildings is lower than that for Class 2 buildings.

The below diagrams illustrate 3 possible building scenarios for Accessory Dwelling Units



Tax and Finance Issues

Landcom commissioned an additional study into tax and finance issues associated with ADUs. The tax and finance issues are particularly complex, and vary due to different types of purchasers, the type of ADU and circumstances of individuals.

A study looked at the tax and finance implications of four key market segments who may consider constructing ADUs including: pensioners; pre-retirees; families with children; and young couples. The study found that each of these market segments face different financial and taxation issues to negotiate when purchasing or building an ADU.

ADUs are perceived as being financially beneficial to the property owner, both as an investment that will increase the value of the property and due to the ability to generate extra income through rental of the ADU. However, when the ADU is rented on the private rental market, it attracts both capital gains tax when the property is sold, and income tax on the rental income. These taxes often exceed the financial benefits of renting the ADU. As a result, these taxes are a significant disincentive to property owners looking at ADUs in terms of investment and income potential.

Financial institutions have recently started offering reverse mortgage finance products to property owners to own their home, but have limited liquid assets. Such a finance product will be advantageous for retirees and pensioners who may consider building an ADU. However for those not eligible for reverse mortgages, such as younger couples would need to bring substantial equity to manage loan repayments even with ADU rental income. Moderate income pre-retirement households might not be able to afford ADU loan repayments (even with rental income) because of a limited term allowed on their loan.

In addition to tax and finance issues, if social security or pension recipients were to use ADU rental income to supplement pension payments, CentreLink could assess the recipient under 'granny flat interest provisions', which could reduce pension payments.

SGS Economics considered that the disbenefits associated with income and capital gains tax were unanticipated when tax laws were drafted. As such, SGS believes that there would be a strong case to lobby taxation agencies to amend the tax framework in order to remove disincentives associated with renting ADUs on the private rental market.

Despite the tax and finance issues, ADUs still offer significant benefits to the community, property owners and tenants. However, the removal of capital gains tax will remove a key disincentive to private investment in accessory dwelling units.

Study Conclusions

The Urban Partnership Study demonstrated that ADUs are an attractive affordable housing solution for small, low to moderate income households and that they can improve access to independent housing opportunities for a variety of other contemporary households. The Study, importantly, has demonstrated the availability of significant public benefits as a result of ADUs, which in themselves warrant promotion of the model and action to support its implementation.

To realise the potential of ADUs, local government and general community support is required. In this respect, the ADU model must demonstrate that it offers clear benefits to a local community without the potentially detrimental impacts of poor design and inadequate regulatory control. The core reasons for any opposition will not be complex: most communities have seen the outcomes of State and local government urban consolidation policies (i.e. dual occupancy, SEPP 5) and expressed discomfort with the consequent physical and social changes.

A strategy to gain support for the ADU model and introduce appropriate changes to local planning controls should therefore be based on identifying a wide range of potential advocates, providing them with proper briefings and coordinating their activities.

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