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SOLUTIONS

Overview

Seminar Description

This seminar provides an overview of the valuation of accessory dwelling units (ADUs) and would be of value to any appraiser involved in residential valuation where accessory dwelling units are part of the growing trend to meet housing needs in a market. The primary emphasis is on the description, legal concerns, valuation methods, and techniques needed to value ADUs.

Many markets are reporting a housing shortage in all price ranges but particularly in the affordable housing sector. To combat specifically affordable housing needs, more municipalities are updating their zoning to legally and relatively easily allow single-unit housing to add one or more ADUs.

From 1957 until late 2020, accessory dwelling units were forbidden in Chicago. Due to the housing shortage and affordability concerns, the city council passed an ADU ordinance on December 16, 2020, that allows ADUs in five districts known as North, Northwest, West, South, and Southeast. Within these districts, it includes all R zones, except RS-1.¹ These areas are part of a pilot project. The referenced website in the footnote provides a downloadable FAQ on the ordinance.

In a growing number of states with urban metropolitan centers, the market has excessive demand for housing. This demand drives the price of homes higher, pushing out more affordable housing options. Examples of such markets include San Francisco, California; Portland, Oregon; and Seattle, Washington. These states and others like Minnesota and Michigan have all adopted zoning changes to provide relief to the housing affordability challenge and combat the rising cost of housing. These markets and others will be highlighted in this seminar.

Some may argue that ADUs will not provide large numbers of housing units for low or very low income families. Most agree that there is no one solution to affordable housing. However, combined with other options, ADUs are and still continue to be a part of the solution. The Pros: ADUs can be permitted and developed faster than large multiunit apartments. The cons: ADUs can only provide one unit at a time. Nonetheless, the growing construction of such units provides appraisers with an opportunity to add this type of business to their practice when they acquire the knowledge to understand what constitutes an ADU, appropriate methods for valuing ADUs, and solutions to dilemmas that can occur.

The following is an overview of the seminar content. Part 1 provides a review of the definitions and various names used around the country to describe ADUs. It dives into why this living unit is playing an important part in meeting the shortage of housing and sets the stage for identifying the markets where ADUs might be very popular and the most likely buyer of an ADU.

1. <https://blog.chicagocityscape.com/chicagos-adu-ordinance-explained-in-a-4-minute-video-62c765c45640>

Part 2 focuses on zoning restrictions and ordinances that materially affect ADUs and how they are valued. Such zoning ordinances may affect the income-producing capability of an ADU and thus the highest and best use. ADUs were not addressed in many local ordinances in the early 2000s, but changes are taking place to allow such options in residential neighborhoods or communities.

Part 3 addresses the various secondary mortgage market appraisal guidelines and government agency appraisal guidelines that set the basis for lending on this asset/collateral type. Emphasis throughout this part and in the overall seminar is on the importance of recognizing and valuing the highest and best use accurately for properties with ADUs. The end of Part 3 includes a discussion of common zoning requirements versus the common appraisal guidelines and requirements associated with the loan.

Part 4 is an overview of the complexity of data to adequately value ADUs. Multiple Listing Services (MLSs) often do not have searchable data fields to find sales or listings with ADUs. The market is not consistent in the names applied to ADUs, further complicating the data search. Assessor's records often do not have ADUs identified, which eliminates these records as a potential resource.

Part 5 gives an overview of the approaches to value followed by a variety of real-life ADU dilemmas, allowing the class to put into practice the valuation methods and concerns covered in the previous four parts.

Learning Enhancements

The seminar has been designed with a variety of elements to enhance your learning experience.

- **Preview.** To give you a taste of what is to come, each part begins with a *Preview* page, which includes a brief overview of the content, learning objectives to consider as you move through the content, and, where appropriate, learning tips that will assist you in understanding the material you're about to cover.
- **Learning Objectives.** Each learning objective covers information required for understanding the concepts in the seminar. Look them over before the part begins so that you have a frame of reference as you move through the material. At the end of each part, reread the objectives. Are you able to do what is stated? If not, this is the time to ask your instructor for help or review the concepts that you do not understand.
- **Examples and Problems.** Supplementing the discussions, we've included examples and problems to provide everyday illustrations and help you visualize and practice what you are learning.
- **Discussion Questions.** To foster further discussion, we have included discussion questions that may or may not have a definitive correct answer, but they will elicit opinions.

- **Dilemmas.** To supplement the discussions, we've included dilemmas of varying length and complexity to help you apply what you are learning.
- **Review.** Each part concludes with a *Review* page, which repeats the learning objectives and lists key terms and concepts that have been covered. Also, where applicable, we've provided recommended readings from textbooks, which will reinforce what you have learned in class.
- **Solutions.** A tabbed section of Suggested Solutions appears at the end of the Seminar Handbook. This section contains solutions to the discussion questions, problems, and dilemmas. Working through the problems and dilemmas before looking at the suggested solutions helps you determine if you understand the concepts or if you need to ask additional questions.

USPAP References in this Seminar

All references in this seminar to the Uniform Standards of Professional Appraisal Practice (USPAP) are taken from the 2020–2021 edition (Washington, D.C.: The Appraisal Foundation).

Classroom Guidelines

To make the seminar a positive experience for everyone attending, we have some guidelines for your consideration:

- 100% attendance is required. No exceptions.
- Limit use of computers and wireless devices to classroom projects.
- Communicate with business associates during break time instead of class time.
- Put away reading materials such as newspapers and books that are not used in class.
- Please silence cell phones and other communication devices.
- Please do not record the lectures. Recordings are not permitted.
- Refrain from ongoing conversations with those seated near you and other distracting behavior.

Learning Objectives

After completing this seminar, participants will be better able to:

- Define and describe an accessory dwelling unit (ADU).

- Understand the role ADUs play in the housing market.
- Identify reasons ADUs are commonly added to an existing improvement.
- Recognize characteristics of the most common buyers and renters of ADUs.
- Apply the appropriate highest and best use analysis for ADUs as improved properties.
- Identify the zoning criteria that may limit ADUs.
- Understand secondary mortgage market appraisal guidelines and government appraisal guidelines and requirements.
- List data challenges that complicate the assignment.
- Solve short ADU dilemmas using valuation methods.

General Information

- **Calculator.** None required.
- **Breaks.** There will be two 10-minute breaks during the morning session and two 10-minute breaks during the afternoon session unless noted otherwise by the course sponsor. The lunch break is one hour.
- **Attendance sheets** will be distributed during class to verify your attendance during the morning and afternoon sessions.
- **Certificates of completion** may be downloaded after completion of the seminar.
- **Attendance during the entire seminar** is required.

Recommended Textbooks

The Appraisal of Real Estate, 15th ed. Chicago: Appraisal Institute, 2020.

The Dictionary of Real Estate Appraisal, 6th ed. Chicago: Appraisal Institute, 2015.

Scope of Work, Third Edition, Chicago: Appraisal Institute, 2020.