

Presentation on Affordable Accessory Dwelling Unit (ADU) Pilot Program

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LA-Más would like to share a new opportunity for homeowners in your community that can create affordable housing while also helping homeowners build equity. The Backyard Homes Project is an affordable accessory dwelling unit (ADU) pilot program led by LA-Más and a collective of partners - Genesis LA, Self-Help Federal Credit Union, Restore Neighborhoods LA (RNLA), Housing Authority for the City of Los Angeles (HACLA), LA Family Housing, St. Joseph Center, and Housing Rights Center. This incentive program offers homeowners a "one-stop-shop" for the design, finance, and construction of a new ADU in the City of Los Angeles.

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Want a backyard home?

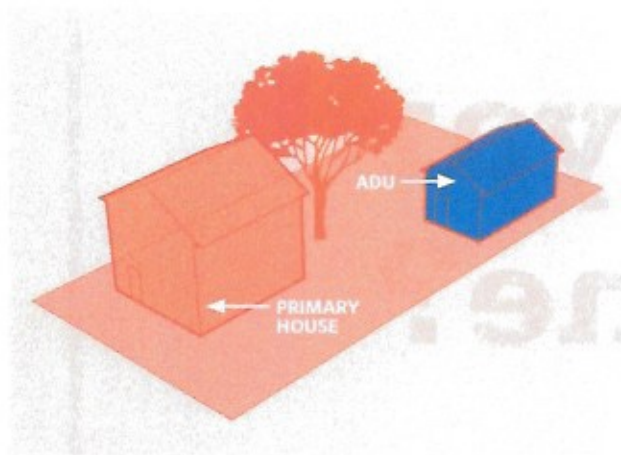
Are you a homeowner looking for a way to build home equity and earn additional income? **The Backyard Homes Project** can help you become a landlord by providing you with an easy and affordable pathway to build a rentable ADU (Accessory Dwelling Unit) on your property.

The Backyard Homes Project is a new affordable housing initiative that provides incentives to homeowners to create an affordable rental unit in their backyard. Run by a collective of established non-profit organizations, this incentive program is a “one-stop-shop” that offers homeowners support with financing, designing, permitting, and constructing a new ADU in the City of Los Angeles. Of the 10 homeowners that will be selected for this program, 4-6 units will have access to financing support offered by local finance partners.

In exchange for this support, homeowners are required to commit to renting their ADU to a Section 8 tenant for a minimum of five years.



What is an ADU?



An ADU is an **Accessory Dwelling Unit** — also called a backyard home, in-law unit, or granny flat. An ADU is a secondary residential unit that can be added to a lot with an existing single family home. ADUs are independent rental units that have their own entrances, kitchens, bathrooms, bedrooms, and living rooms. They can be attached or detached from the primary residence, or they can be garage conversions.

What are the benefits of building more ADUs?

Increase Homeowner Equity

Building an additional unit on your property can add a stream of rental income. Additionally, building a secondary unit will increase the overall value of your property.

Support Affordable Housing

Building an ADU is a quicker and more affordable way to build new housing units. Since you own the land, the primary costs are in construction. Since these units are cheaper to build, they can be paid off by renting to tenants at an affordable rate. This in turn increases the amount of affordable housing in the rental market.

Maintain Neighborhood Scale

ADUs are not large-scale developments; they are small-scale and increase housing in neighborhoods without compromising the character of the community. ADUs can also help keep families in their neighborhoods by accommodating adult children living at home, aging parents, or alleviating overcrowded households.

What is Section 8 & what does it mean to be a landlord?

Section 8

The Section 8 program is financed by the U.S. Department of Housing and Urban Development (HUD) and administered by the Housing Authority of the City of Los Angeles (HACLA) to **provide rent subsidies to private landlords** on behalf of extremely low and very low-income individuals/families, senior citizens, and persons with disabilities.

To be eligible, the household must be either a family or a single person whose income does not exceed the area limits as set by HUD. Only families meeting Extremely Low Income (ELI) and Very Low Income (VLI) standards are eligible for Section 8 assistance.

Los Angeles County

Area Median Income (AMI) = \$69,300

- ELI = 30% of AMI, or \$27,790
- VLI = 50% of AMI, or \$34,650

Landlords

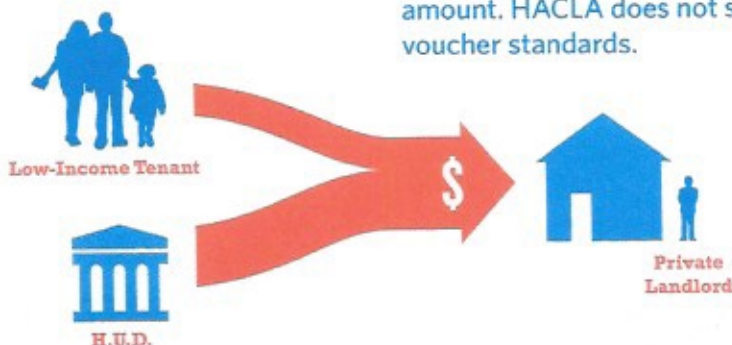
The responsibilities of landlords participating in HACLA's Section 8 program are to **provide decent, safe, and sanitary housing** to a tenant at a reasonable rent. The unit must pass the program's housing quality standards and be maintained up to those standards as long as the owner receives housing assistance payments. HACLA has agreed to streamline the application, inspection, and approvals process for homeowners participating in the Backyard Homes Project.

The rental amount received by the landlord is determined by the Section 8 Voucher Payment Standard (the maximum amount that the Housing Authority can pay to help a family with rent) and by comparable rents in the area.

Voucher Payment Standards are as follows:

- Studio = \$1,273
- 1 bedroom = \$1,522
- 2 bedrooms = \$1,970

The landlord will receive the full agreed-upon rent as determined by HACLA. The tenant is expected to pay 30% of their household income towards rent and HACLA is expected to pay the remaining amount. HACLA does not subsidize above the voucher standards.



Who are the partners behind the program?

LA-Más

Program Management, Design, Permitting

LA-Más is a non-profit urban design organization that helps lower-income and underserved communities shape their future through policy and architecture. LA-Más will serve as the project manager and take the lead in design & permitting for each ADU. LA-Más will partner with structural engineering firm Nous Engineering.

Restore Neighborhoods LA (RNLA)

Construction

RNLA's mission is to invest in local neighborhoods, improve the built environment, and advance environmental sustainability. RNLA will lead the construction management of each ADU and ensure they are built efficiently and affordably.

Self-Help Federal Credit Union (SHFCU)

Financing

Self-Help FCU's mission is to create and protect ownership and economic opportunity for all, with a focus on those who may be underserved by conventional lenders, including people of color, women, and low-wealth families and communities. Self-Help FCU will offer a permanent mortgage product that will allow a qualified homeowner to fund the costs of ADU construction by refinancing their existing mortgage and taking out funds to pay for ADU construction costs.

Genesis LA Economic Growth Corporation

Financing

Genesis LA Economic Growth Corporation's mission is to deliver financial solutions that advance economic and social opportunities in underserved communities. Genesis LA may provide pre-development funds to LA-Más to ensure permits and plans are successfully submitted for each homeowner. Any pre-development funding must be repaid by the homeowners once they close on their new loan with Self-Help FCU.

St. Joseph Center & LA Family Housing Leasing

Both of these organizations will support landlords by matching them with a pool of prospective Section 8 tenants, as well as providing supportive services when appropriate. These housing service providers will also help landlords navigate the Section 8 registration process. They will also work with landlords to access additional housing incentives (e.g. signing bonus, if available).

St. Joseph Center is a multi-faceted social service organization that offers outreach and engagement, housing, mental health, and vocational programs at multiple sites on the Westside and in South LA. Their mission is to provide working poor families with the resources to become productive members of the community.

LA Family Housing is one of the largest comprehensive real estate developers and homeless service provider agencies in Los Angeles and a regional leader providing solutions to end homelessness. Their mission is to help people transition out of homelessness and poverty through a continuum of housing enriched with supportive services.

Housing Rights Center (HRC)

Landlord Training

HRC's mission is to actively support and promote fair housing through education, advocacy and litigation HRC will provide up to 10 homeowners (who will likely be first time landlords) with required landlord training on best practices, new responsibilities, and what it takes to be a responsible and effective landlord.

Housing Authority of City of Los Angeles (HACLA) Section 8 Program Manager

HACLA is a state-chartered public agency that provides the largest stock of affordable housing in the City of Los Angeles and is one of the nation's oldest public housing authorities. HACLA will streamline the application, inspection, and approvals process for homeowners becoming Section 8 landlords and help with monitor the 5 year commitment period.

Many thanks to Wells Fargo Foundation + Los Angeles Local Initiatives Support Corporation (LA LISC) for providing grants to LA-Más to support program management and architecture services.



What is the Backyard Homes Project?



What

The Backyard Homes Project provides design, permitting, construction, and financing services for homeowners throughout the City of LA who would like to build a rentable ADU. This program will help up to 10 homeowners build an ADU that is up to 800 square feet in size. At any time, up to 4-6 units will benefit from financing support.

Why

The process of building an ADU requires a lot of time, expertise, and money to navigate through design, permits, and construction. In addition, the traditional financing system for constructing ADUs is not accessible to most homeowners. This program will test a new approach to support homeowners throughout this process. This program was informed by five focus groups with over 100 homeowners throughout LA and a working group of about 30 professionals with expertise in various fields related to housing.

How

The homeowner will enter into a contract with RNLA (Contractor) who will work with all project partners to ensure that the ADUs are successfully designed, permitted, and constructed within a 15-month time period.

Requirements

All participating homeowners in this program must work with LA-Más and RNLA for design, permitting, and construction. Financing support will only be provided for up to four to six homeowners at a time and is not required if homeowners have other sources of funding. Homeowners must meet certain eligibility requirements to qualify for financing through Self-Help FCU.

All homeowners will be required to rent their ADU to Section 8 tenants for at least five years after construction. Homeowners will also be required to participate in landlord training from Housing Rights Center and the Housing Authority of the City of LA (HACLA), which makes for successful participation with the Section 8 program.

Program Details

Program Offerings

Option A: Design + Construction Support

Option B: Financing + Design + Construction Support (*only 4-6 participants will be selected*)

For a limited number of homeowners with limited personal savings and not enough home equity to fund construction, Genesis LA will provide pre-development funding that will be repaid through Self-Help's permanent mortgage product, to enable the funding of the ADU.

Program Management

Each participating homeowner will have one primary point of contact from LA-Más who will be clear, communicative, and able to provide top-notch customer service. LA-Más will remain accessible to property owners throughout the duration of the project and provide updates on the status of the project.

Design + Permitting

LA-Más will design the new ADU and secure all necessary permits. These services are built into the total project cost and will remain more affordable than a traditional architecture firm.

Construction Management

RNLA will serve as the general contractor, which means that your construction costs will be streamlined and affordable. LA-Más will ensure the design intent of the project is carried all the way through the construction of your ADU. Through regularly provided construction reports, you will stay informed about the progress of construction.

Financing

Self-Help Federal Credit Union and Genesis LA will serve as the finance partners. Through a unique partnership, they have created a financial product that does not currently exist in the market, specifically for this program.

Size + Design

Size

Approximately 400-800 square feet



Type

- New detached construction or a garage conversion
- A studio, one bedroom, or two bedroom — each with a bathroom, kitchen, and living area
- ADUs will be delivered with the following appliances: stove, refrigerator, dishwasher, and washer/dryer
- Landscaping included

NEW CONSTRUCTION

OR

GARAGE CONVERSION



STUDIO

OR



1-BED

OR



2-BED

Design

- There will be pre-vetted design models to choose from, including site plans, elevations, materials and finishes, that will be adapted to each site.
- We are committed to both thoughtful design and affordable construction.
- Homeowners will have some options for materials and finishes.

Cost

Total Cost

The total cost of the ADU will be all inclusive of soft and hard costs.

New Construction:

The estimated costs for a new one-story ADU on a flat site are:

- One Bedroom (499–600SF): \$160–\$200K
- Two Bedroom (600–800SF): \$200–\$250K

Garage Conversion:

The estimated costs for an ADU garage conversion are:

- Studio (290–400SF): \$75–\$100K
- One Bedroom (400–500SF): \$100–\$140K

Please note that these budgets assume the existing garage has a solid foundation and is structurally sound.

Cost Variables

The following variables can increase the cost of the ADU. Homeowners will have a final proposal before any work begins.

- Structural and foundational integrity of garage
- Complicated access to sewer line
- Increasing electric panel capacity
- Demolition or site preparation
- Desire to separate utilities between existing home and new ADU

ADU Permanent Mortgage Product Terms

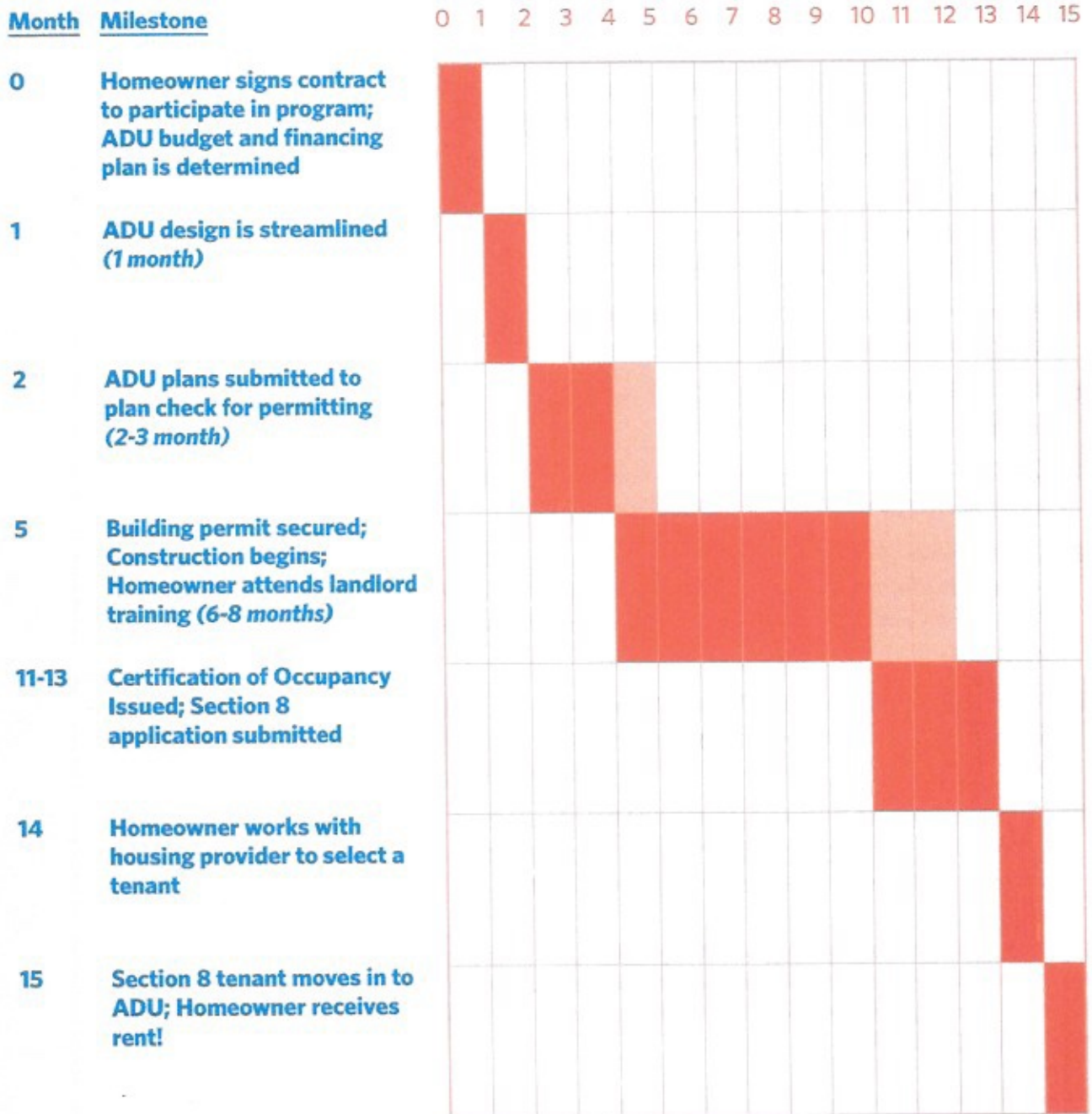
- Fully underwritten first mortgage, funded to enable an ADU project
- Fixed rate, no PMI; terms of 30, 20, 15 & 10 years available
- Interest Rate based on loan-to-value and credit score (minimum 580 required)
- Mortgage used to repay any existing mortgage(s) and to fund project costs for ADU construction not paid by homeowner's \$3500 cash contribution.

Things to Expect for Participants Seeking Financing

- You will need to submit two additional applications:
 - **1. Pre-Qualification Application** once selected to participate in the program
 - **2. Loan Application** once construction documents are ready for submission.
- You will be required to open a **savings account** with Self-Help FCU.
- You must pay costs associated with taking out a **new mortgage**:
 - **Startup Costs:** \$700 for initial mortgage costs
 - **Closing Costs:** Roughly 4% (of total project cost) closing costs that are folded into the mortgage amount
 - 2% for Origination fee
 - 1% for Title, Escrow, and Recording fees
 - 1% for one year of property tax and insurance payments
- The **final loan application** will need to be submitted when the construction documents are ready to be submitted. Once approved, the loan is locked in for 90 days, which is enough time to have permits approved and finalized.
- The **loan** will be enough to cover the remaining mortgage on the primary home, as well as take-out funds to pay for the cost of construction and closing costs, and (if applicable) repay the pre-development funds advanced by Genesis LA.
- A basic **financial analysis** of project revenue and expenses will be provided by Genesis LA for qualifying homeowner finalists to determine financial viability.

Timeline

Here is an approximate 15-month project timeline that can be expected once a homeowner signs a contract with us!



How to Participate

1. If you are interested in participating in this pilot program, please read through this booklet to ensure that your expectations are compatible with our program guidelines.
2. If you are ready to apply, please fill out our [online application](#) by May 1, 2019. If you qualify, we will then schedule a phone call and/or site visit with you to evaluate if you meet our criteria.
3. If you are interested in applying for financing as part of the program, you will complete an intake form for a mortgage refinance with Self-Help FCU. Once a homeowner is qualified for the loan, they will receive a pre-qualification letter with loan amount and terms and proceed to open a savings account with Self-Help FCU.
4. All homeowners are required to have at least \$3,500 of their own money to contribute towards pre-development costs. \$700 of this initial cost will contribute to the mortgage cost for those who will rely on a new mortgage to pay for ADU construction.
5. Before any design work begins, homeowner will sign a contract with RNLA that outlines the complete cost for building an ADU and details of program partnership.
6. After construction plans are approved, you will have a new rentable unit approximately 8-10 months from approval.
7. While construction is underway, each homeowner will be required to attend a landlord training administered by the Housing Rights Center.
8. You will enter into an agreement with the Housing Authority of the City of Los Angeles (HACLA) to register your unit with the Section 8 program. You will then work with a housing service provider (St. Joseph Center or LA Family Housing) to match you with a Section 8 tenant for your new property.
9. After you have successfully chosen a tenant, you will fill out necessary paperwork and have a Section 8 Inspector inspect and approve your unit for tenant move-in. HACLA will ensure that this process is completed more quickly for participants of this program.
10. The Section 8 rent for your ADU tenant should be enough to cover the difference between your existing mortgage and your new mortgage payments, and you will be helping to provide an affordable and beautiful home for your new tenant!

If you are selected to participate in this program, you will be expected to positively represent the team and to reflect the mission and values of this program. This means you will also be expected to participate in public relations related to this program, which may include photos, interviews, publications, and video.

For more information, please contact LA-Más at adu@mas.la.