

Financing still a hurdle for ADUs

New loan opportunities may be on the horizon for people looking to add units on their properties

By LEE FEHRENBACHER
lee.fehrenbacher@djcOregon.com

Two years ago, Sam Hagerman, owner of construction company Hammer and Hand, met with officials from several local banks to discuss a problem. Many potential customers were contacting him with interest in building accessory dwelling units, but they couldn't secure necessary financing.

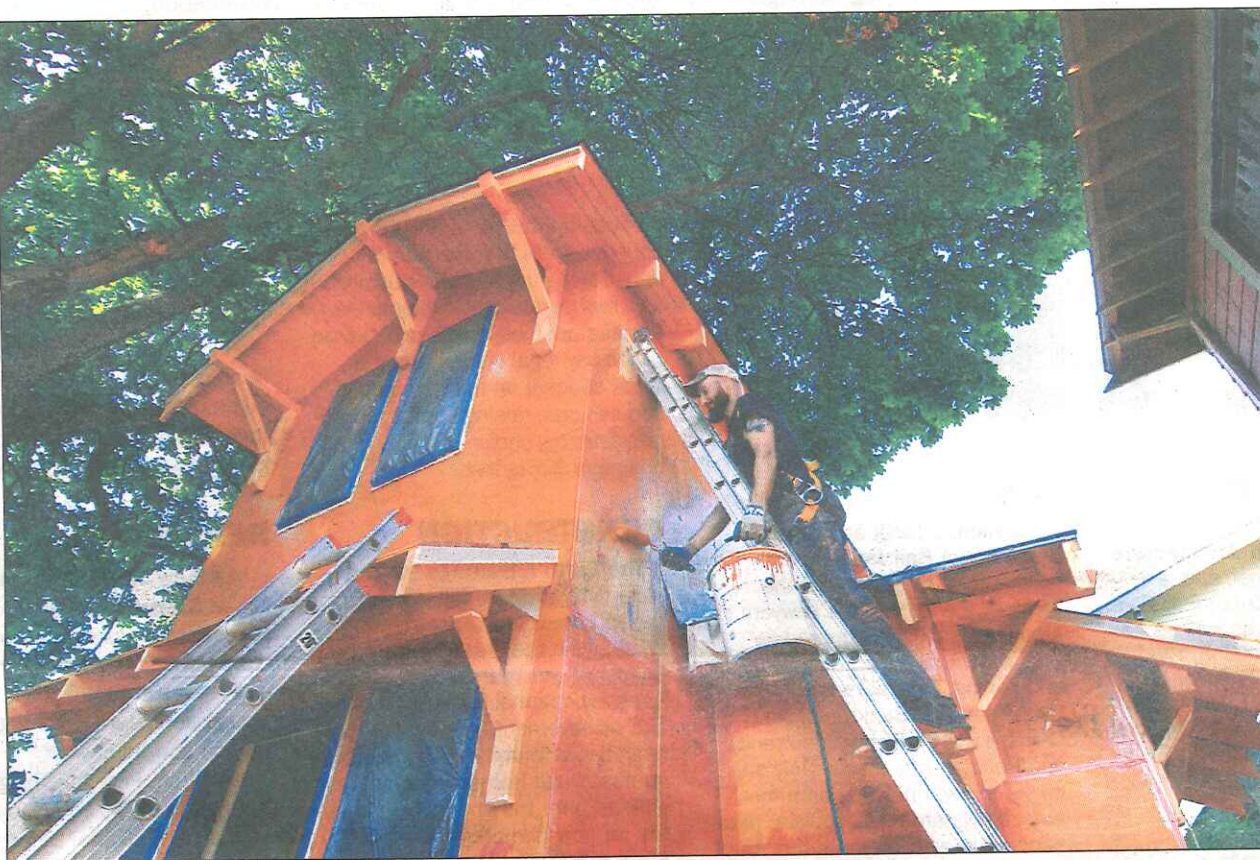
He put together a PowerPoint presentation on ADUs and how they worked. ADUs could not only pay for themselves, Hagerman said, but also generate income.

"They all looked at me and said, 'Great idea. We'll (offer loans for ADUs).' And none of them have," he said. "I've sent dozens of clients to these banks and none of (the financing) works."

The problem is that because ADUs are between a duplex and a single-family home, appraisers aren't sure how to value them and lenders aren't sure they want to finance them.

Jeff Miller, mortgage department manager for Rivermark Community Credit Union, said ADUs pose a bit of an enigma and therefore a risk.

"What it does is it presents collateral that is difficult for us to liquidate if we ever had to take it back," Miller said. "If they ever default, we have to be able to remarket that property. That's a smaller niche for someone that



Courtesy of
Hammer and Hand
Hammer and
Hand recently
completed a
600-square-foot
accessory
dwelling unit in
Alameda Ridge,
in Northeast
Portland. Builders
say more financial
tools are needed
to help property
owners interested
in adding ADUs.

would want to purchase that property than a normal four-bed, two-bath home. Now I've got this whole other house out there and what am I going to do with it?"

Hagerman said the funding difficulties also affect the city of Portland, which in April 2010 initiated a three-year moratorium on system development charges for ADUs in an effort to increase urban density. The waiver can generate project savings totaling approximately \$7,000 to \$14,000.

Only about 12 building permits were issued for ADUs in 2009 (before the moratorium), but nearly 200 permits are expected to be issued this year, Hagerman said. "That's pretty great," he said. "That's more than a tenfold increase in three years, but I think there'd be far more ADUs built if people could get financing to do them."

The cost to build a typical 500- to 800-square-foot ADU is approximately \$80,000 to \$150,000. Jason Siri, owner of Siri Con-

struction, also builds ADUs and said most of the projects he sees are either self-financed or funded via a home equity line of credit. But most people don't have that kind of money or equity available, he said.

Rivermark finances ADU construction via home equity lines of credit. But Miller said Rivermark is challenged to do more because it sells many of its loans to Fannie Mae and Freddie Mac. Both have stringent

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Financing: Advantis program similar to federal one

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requirements, and ADUs often are ineligible because too few comparable sales exist to support their appraised value.

Tom Unger, regional communications manager for Wells Fargo, said it faces the same issue. Taylor Watkins, an appraiser and the owner of Watkins and Associates in Portland, said that's because people aren't appraising ADUs for their best use.

"I think a lot of appraisers and underwriters have difficulty trying to get their hands around how to categorize a property with an ADU," he said. "Because at first blush, the zoning of single family makes it look like it's an illegal use when it's not. And so financing can be difficult; trying to explain to the bank that it's a legal use, that the highest and best use of many properties with ADUs is an income-producing property."

Next month, Watkins and Martin Brown will make that case in a report that examines 14 Portland properties. The report looks at properties' income value with an ADU, without an ADU and compares it to the sales price.

An income-based approach

"Inevitably, the question is:
'How do I pay for it if I can't write a check?'"

— SAM HAGERMAN
Hammer and Hand owner

(opposed to a sales-based one) yielded valuations that were more stable and approximately 7.2 percent to 9.8 percent higher on average. The report says that's a compelling argument for the creation of new loan programs.

One such program that can be used for ADU construction is Advantis Credit Union's Rehab Mortgage. The program lets people borrow more money than a home's purchase price in order to make improvements.

Darin Walding, a real estate loan manager for Advantis, said the program is based upon the Federal Housing Administration's 203K fixer-upper loan program, but is a lot more flexible. ADUs are allowed and buyers can borrow up to 90 percent of a home's "after improved" appraised value.

Portland resident Brian Fuller recently used the program to build a 670-square-foot ADU when he purchased a house on Northeast Ninth Avenue. Fuller borrowed

\$300,000 with a 4.5 percent, three-year adjustable rate mortgage.

Of that amount, \$204,000 went to purchase the property and \$82,000 went toward construction of the ADU — which was recently featured on the city's Build it Green! home tour. Fuller lives in the ADU and rents out the house.

"I've been a renter in Portland

for the past seven years and I knew approximately what I could rent the house for, or what I could rent an apartment-sized ADU for, and how much the mortgage would be for the project — and it just really made a lot of sense," Fuller said. "My rental income pays for about 85 percent of my total mortgage payment, which includes the financing for the ADU."

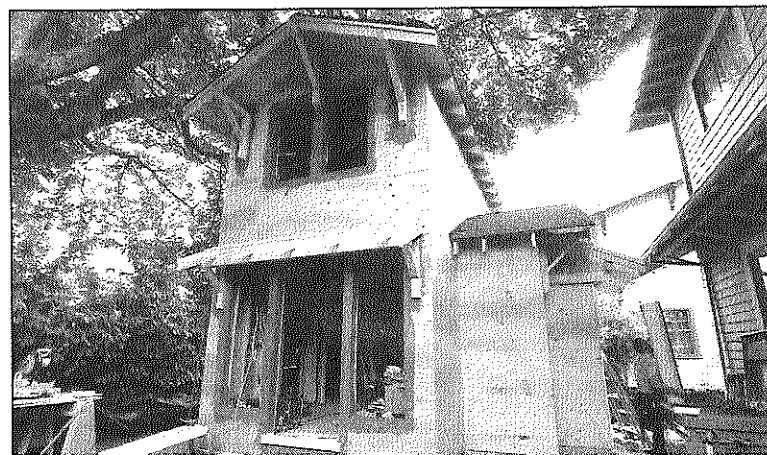
Hagerman also is hoping to get some new loan programs rolling.

He said he was recently contacted by a large national organization interested in making \$50

million available for ADU construction. It just needs a local retail partner to administer the money; Hagerman said he hopes to set up a meeting to accomplish that within the next three weeks.

That could be a boon for companies like Hammer and Hand. He said that of the approximately 150 homeowners he's visited in the past two years that were interested in building ADUs, only 10 or so have been able to afford it.

"Inevitably, the question is: 'How do I pay for it if I can't write a check?' " he said.



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