

Affordability of Secondary Dwelling Units

21 Elements

Recommendation

Rents and Affordability

Overall, secondary units are a more affordable option for lower income households, largely because approximately 25-55 percent of secondary units are available for free to family members or domestic workers. After reviewing all available data, this study makes the following conclusions:

- Approximately 25-60 percent of secondary units are affordable to Extremely Low Income households.
- An additional approximately 10-25 percent of secondary units are affordable to Very Low Income households.
- Another approximately 15-20 percent of secondary units are affordable to Low Income households.
- Approximately 10-20 percent more of secondary units are affordable to Moderate Income households.

The table below presents two options for assumptions about affordability. Jurisdictions are encouraged to choose the results most appropriate for their community. The left column is most applicable in wealthier communities where secondary units are more likely to be available to domestic help or family members at free or heavily subsidized rates.

Affordability Assumptions for Secondary Units for Housing Elements

Income	Communities with More Affordable Second Units	Communities with More Market Rate Second Units*
Extremely Low Income	60%	25%
Very Low Income	10%	25%
Low Income	15%	20%
Moderate Income	10%	20%
Above Moderate Income	5%	10%
Total	100%	100%

* These numbers represent the most conservative estimates.

An alternate methodology would be to estimate secondary unit affordability based on rents in a jurisdiction. Rents for secondary units listed on Craigslist were 20-40 percent below the overall rates for similarly sized apartments in San Mateo County, with a median of \$1,350.

Affordability of Secondary Dwelling Units Study

Secondary units are independent homes located on the same lot as a primary, larger dwelling unit. Secondary dwelling units are also known as accessory, in-law, converted garages or garden units. Often, secondary units are typically more affordable than other rentals.

This study assesses the affordability of secondary dwelling units throughout San Mateo County using rental data from Craigslist in June 2013 and December 2013, as well as Hillsborough's secondary dwelling unit surveys conducted in 2010, 2011 and 2012. We also reviewed older surveys from Portola Valley, Los Altos Hills, and Woodside, as well as research from Dr. Karen Chapple at University of California, Berkeley.

The data from Craigslist represents a more conservative estimate applicable to most jurisdictions in San Mateo County. However, for jurisdictions that are similar to Hillsborough in size and affordability, the Hillsborough data may be more applicable.

Defining Affordability

The U.S. Department of Housing and Urban Development (HUD) and the California Department of Housing and Community Development (HCD) use household income categories to help standardize analysis of housing needs. The income categories are summarized below and are based on a household's percentage of San Mateo County's area median income.

HCD uses these categories, sometimes with minor adjustments, to establish the annual numerical income limits for San Mateo County, also listed below.

HUD defines an affordable unit as one where a household pays 30 percent or less of their annual pre-tax income on housing. The definition of affordable housing therefore shifts with income category and household size, as well as geography.

According to the HUD/HCD income limits and HUD's definition of affordability, the maximum affordable rents for lower income households in San Mateo County are as follows:

San Mateo County Affordability Definition and Limits 2014					
Income Category	HUD Definition	Annual Income Limit		Maximum Affordable Monthly Rent	
		One Person Household	Two Person Household	One Person Household	Two Person Household
Extremely Low	Below 30% of area median income	\$23,750	\$27,150	\$594	\$679
Very Low	30%-50% of area median income	\$39,600	\$42,250	\$990	\$1,056
Low Income	50%-80% of area median income	\$63,350	\$72,400	\$1,584	\$1,810
Moderate Income	Above 120% of area median income	\$86,500	\$98,900	\$2,163	\$2,473

source: HCD State Income Limits 2014.

Affordability of Secondary Units- 21 Elements

Prepared by 21 Elements — April 9, 2014

Secondary Unit Rentals on Craigslist

Based on a December 2013 Craigslist survey of 39 secondary dwelling units (see Appendix A for details), the median rent for paid secondary rental units in San Mateo County is \$1,350. Rents range from \$500 to \$2,650, and units vary in size from studios to two-bedroom units.

Craigslist only lists secondary units that charge rent, and not the estimated 50 percent or more of secondary units that are available at no rent. The following are conclusions based on the affordability of paid units and excluding units available with no rent or below market rents:

- Approximately 3 percent of paid secondary units in San Mateo County are affordable to Extremely Low Income one and two person households.
- Approximately 12 percent of paid secondary units in San Mateo County are affordable to Very Low Income one and two person households.
- Approximately 57 percent of paid secondary units in San Mateo County are affordable to Low Income one person households, and approximately 64 percent of secondary units are affordable to Low Income two person households.
- Approximately 18 percent of paid secondary units in San Mateo County are affordable to Moderate Income one person households, and approximately 16 percent of paid secondary units are affordable to Moderate Income two person households.

The number of units identified by the Craigslist study is small, and therefore the findings should be viewed in light of the sample size.

Unpaid Secondary Units

A significant number of secondary units are offered for free, or in exchange for in-kind work. Though it is difficult to determine exactly how many units are available for free, research by Karen Chapple and Jake Wegmann at U.C. Berkeley (2012) indicate that approximately half of all secondary dwelling units are unpaid.

Older surveys from Woodside (2000), Portola Valley (2001), Los Altos Hills (2002) also indicate that many secondary units are available for free or well below market rate rents. These surveys indicated between 62 and 74 percent of units are available to very low or extremely low income households.

San Rafael conducted a survey in 2008 which found that approximately 25 percent of secondary units were available for free and another 25 percent were available to very low income individuals. These numbers are lower than the previously cited estimates, and represent the availability of secondary units in mixed-income communities.

Some second units are not available for housing, for example those used as a home office. These units were excluded from the analysis wherever possible, and therefor do not affect the affordability assumptions.

Secondary Units in Hillsborough

Hillsborough annually surveys property owners who have approved secondary dwelling units. Hillsborough's 2010-2012 surveys found the median rent for paid secondary units to be in the \$883-\$1,470 range. Rent ranges rather than specific rents were reported, so only rough estimates of median rent and affordability can be calculated.

Rough affordability ratios for households based on this data, which include unpaid secondary dwelling units occupied by family members, caretakers, or household employees, are as follows:

- Approximately 74 percent of secondary units in Hillsborough are affordable to a one person Extremely Low Income household, and 76 percent of secondary units in Hillsborough are affordable to a two-person Extremely Low Income household.
- Approximately six percent of secondary dwelling units in Hillsborough are affordable to a one person Very Low Income household, and nine percent of secondary units in Hillsborough are affordable to a two-person Very Low Income household.
- Nine percent of the secondary dwelling units in Hillsborough are affordable to a Low Income one person household and 12 percent are affordable to a Low Income two person household.

For those units that charged rent, rent ranges were as follows:

Hillsborough Secondary Unit Rents (2010-2012)	
Rent Range	Number of Units
\$0-\$882	4
\$883-\$1,470	4
\$1,471-\$2,352	3
Total	11

source: Hillsborough Second Unit Survey, 2010-2013

Additionally, Hillsborough found that 68 percent of secondary dwelling units are available at no rent. Out of 34 secondary units surveyed, 23 units were occupied by family, domestic help or caretakers who do not pay rent.

The above analysis should be seen as a starting point for other cities in San Mateo County for several reasons. First, the survey has a small sample size (34 units), so not all secondary dwelling units were included. Second, the research cited above, as well as anecdotal evidence, suggests that wealthier communities are more likely to supply secondary units at free or very low rents. Since Hillsborough is one of the wealthiest jurisdictions in San Mateo County, it is likely that Hillsborough provides a larger number of unpaid secondary units than elsewhere in San Mateo County.

Affordability of Secondary Unit Rentals Compared to All Rentals

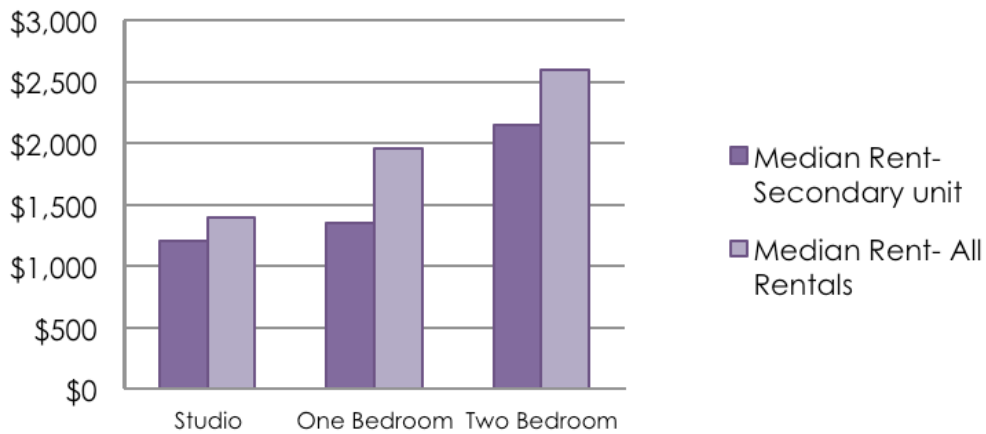
Two 2013 craigslist surveys, one including all units in June 2013 and one focused specifically on secondary units in December 2013, reveal that secondary dwelling units are less expensive than other available rental units with the same number of bedrooms.

The following table and graph compare average costs of secondary units to costs of other rental units of the same size:

Monthly Rent of Secondary Units Compared to All Rentals in San Mateo County			
Size of Unit	Median Rent Secondary unit	Median Rent All Rentals	Percent More Affordable
Studio	\$1,200	\$1,395	16%
One Bedroom	\$1,350	\$1,954	45%
Two Bedroom	\$2,150	\$2,598	21%

source: Craigslist Survey, June 2013, December 2013

Monthly Rent of Secondary Units vs. All Rental Units



source: Craigslist Survey, June 2013 and December 2013

The percent of secondary units affordable to lower income households is universally higher than the percent of all apartment rentals affordable to those households:

Affordability of Secondary Units Compared to All Rentals in San Mateo County					
Income Category	Secondary Units		All Units		
	One Person	Two Persons	One Person	Two Persons	
Extremely Low Income	3%	3%	0%	0%	
Very Low Income	15%	15%	2%	1%	
Low Income	72%	79%	21%	29%	

Source: Craigslist data- June 2013, December 2013.

Secondary Units Rents Have Not Changed Significantly in Recent Years but Income Has Fallen

A Craigslist survey from 2008 found that secondary units rented for a median price of \$1,225, which is \$1,326 when adjusted for inflation to 2013 dollars. This is not significantly different than the \$1,350 median price that secondary units rented for in the 2013 Craigslist survey. In contrast, traditional apartment prices have increased since 2008.

However, incomes in San Mateo County fell from 2008 to 2013. According to HUD, the median income fell by almost 15 percent after adjusting for inflation.

Because affordability is affected by rents and income, secondary units were less affordable than in 2008. This fact is taken into consideration in the recommendations at the start of this report.

Sources

American Community Survey one year estimates, 2008, 2012.

www.census.gov/acs

California Department of Housing and Community Development. State Income Limits for 2013. <http://www.hcd.ca.gov/hpd/hrc/rep/state/inc2k13.pdf>

Chapple, Karen and Jake Wegmann. *Understanding the Market for Secondary Units in the East Bay*. UC Berkeley: Institute of Urban and Regional Development. Oct 2012.

Craigslist, June 2013, December 2013. www.craigslist.com .

Hillsborough Secondary Unit Survey, 2010, 2011, 2012.

Los Altos Hills Secondary Unit Survey, 2002

Portola Valley Secondary Unit Survey, 2001

San Mateo County Department of Housing Statistics.

http://www.co.sanmateo.ca.us/portal/site/housingdepartment/menuitem.6109920e9c1feaa53f5f1585d17332a0/?vgnnextoid=1ed26739ee1aa110VgnVCM1000001d37230aRCRD&vgnnextchannel=fdd26739ee1aa110VgnVCM1000001d37230a___&vgnnextfmt=DivisionsLanding

San Rafael Secondary Unit Survey, 2008

Woodside Secondary Unit Survey, 2000

Appendix A: Secondary Units Listed on Craigslist (December 2013)

Secondary Units, San Mateo County December 2013		
Price	City	Size
\$500	Daly City	studio
\$750	Menlo Park	studio
\$800	Daly City	1 br
\$850	Half Moon Bay	RV
\$850	Redwood City	-
\$900	Menlo Park	studio
\$1,110	Daly City	1br
\$1,199	Daly City	studio
\$1,200	San Mateo	1 br
\$1,200	Daly City	1br
\$1,200	Millbrae	1br
\$1,200	Burlingame	studio
\$1,200	Millbrae	studio
\$1,250	Daly City	1br
\$1,300	Daly City	1br
\$1,300	Pacifica	1br
\$1,300	Pacifica	studio
\$1,320	Pacifica	studio
\$1,350	Belmont	1br
\$1,350	Millbrae	1br
\$1,350	S San Francisco	1br
\$1,350	S San Francisco	1br
\$1,395	Burlingame	1br
\$1,500	Belmont	1br
\$1,500	Daly City	1br
\$1,500	Half Moon Bay	1br
\$1,500	Half Moon Bay	-
\$1,550	Daly City	-
\$1,600	Half Moon Bay	1br
\$1,700	Half Moon Bay	1br
\$1,750	Redwood City	1br

\$1,800	Pacifica	2br
\$2,000	Woodside	1br
\$2,150	Mllibrae	2br
\$2,175	Atherton	studio
\$2,400	Atherton	1br
\$2,400	Atherton	1br
\$2,500	Woodside	-
\$2,650	San Carlos	2br

Source: Craigslist Survey, Dec 2013

This data is based on 39 Craigslist posts dated Dec 1-Dec 23 2013. The posts were selected from apartments for rent based on including the term “in-law,” which is a clear, consistent indicator of a secondary unit.

Appendix B- Hillsborough Secondary Unit Survey 2010, 2011, 2012

Hillsborough Secondary Unit Survey, 2010-2012								
	2010		2011		2012		Total	
	Number	Number Paid	Number	Number Paid	Number	Number Paid	Number	Number Paid
Family Member	2	0	13	3	6	2	21	5
Rental	3	3	2	2	0	0	5	5
Domestic Help	3	0	5	1	0	0	8	1
Total	8	3	20	6	6	2	34	11
Percent paid		38%		30%		33%		32%

Source: Hillsborough Secondary Unit Survey, 2010, 2011, 2012

This table is based on the responses to a survey of homeowners administered by the Department of Planning in Hillsborough, Ca. Not all secondary unit owners responded to this survey, and the sample size is small, so these numbers should be seen as a guide only. Hillsborough is one of the more expensive jurisdictions in San Mateo County, and it is likely that more affordable jurisdictions will have more affordable secondary unit options for lower income households

