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California's Invisible Housing Solution

California's housing crisis is a nightmare, millions of people have to choose between having a roof over their head and paying rent. There simply isn't enough housing being built for everyone. This is where ADUs come into place, they're silent and can be built quickly in dense neighborhoods. In 2017, California passed two laws that made ADU development easier and clearer. A.B. 2299 and SB 1069 removed local restrictions on ADUs in residential neighborhoods. As a result of these laws, do cities that expand ADU policy influence housing outcomes? Additionally, are ADU policy incentives associated with an increase in total housing supply in California counties, comparing pre-2021 and post-2021 implementation? To answer this question, I decided to make a comparison. The comparison is between 2017 to the beginning of 2021, and the average number of permits issued when the incentive program was not in effect, and the end of 2021 to 2024 when the program began and ended. I find that counties with access to the grant program showed a statistically significant increase in ADU permits issued, suggesting financial incentives can boost development.

Context & Significance:

California faces a housing shortage. California is one of the hardest states to own a home in. This is the result of several problems, increased rent, a growing population, and slow additions to the housing supply. Evidence suggests these issues are only worsening in California. According to the Public Policy Institute of California, "Since 1990, the state has added 3.6

million housing units and 9.4 million residents, California's median values for owner-occupied housing have increased 56% since 1990." The population is growing rapidly. Affordable housing is harder to achieve when the housing supply is limited. Growing property values make it even harder to achieve secure housing for low income families, or first time home buyers. California ranks second for lowest home ownership rates, only behind New York. Construction is often unappealing to developers, with the average cost to build housing to be in the millions. With the construction of new housing lagging behind the increasing population, it's natural for the price renters pay to increase. Compared to national values, California home values are twice the national median, and renters pay 50% more than the median. Decades ago, a solution was proposed. The solution was ADUs. While the housing crisis wasn't nearly as bad several decades ago as it is now, it was still considered a viable housing alternative. In 1982, S.B. 1160 was the first piece of legislation to address ADUs. "It granted cities the ability to permit ADUs, while still allowing cities to limit where ADUs can be located and the standards by which they had to abide." (Bipartisan Policy Center 2023)

Local cities were given the power to set standards for receiving a permit for ADUs, a big step in the direction of encouraging ADU development. There was a drawback with the permitting process however. ADUs had already been utilized by residents as viable affordable housing. The problem was that thousands of residents living in ADUs were living without permits. "In 2014, there were 50,000 unpermitted ADUs in Los Angeles alone, by one estimate. In 2016, a little over 1,000 ADUs were permitted across the state." (Bipartisan Policy Center 2023) The California Legislature recognized this problem, and aimed to address and create a sense of clarity through several laws, each with their own incremental importance. In 2016 the legislature passed A.B. 2299 and S.B 1069, companion bills that were complementary to each other. These laws had several implications and one of the most important changes was the fact that they overrode local ordinances. Barriers were also reduced in many ways to speed up permitting for residents with ADUs but no permit. The laws require that ADUs must be allowed on most residential lots. Together they also reduced several barriers, for example, parking, water and utility fees, and creating state preemption, in other words the state law trumps local ordinances. Aside from the barrier reductions, these laws passed by-right permitting, setting a one hundred twenty day time limit or maximum for zoning commissions to speed up the approval process to receive a permit.

The laws streamlined the permitting process, and by lowering barriers, it only became easier for people who could afford ADUs to develop. On top of this streamlining process, ADUs themselves can be attractive to homeowners. In 2021, an ADU Grant Fund was established, allocating up to $40,000 to "reimburse pre-development and non-recurring closing costs associated with the construction of an ADU." (California Housing Finance Agency, 2023) A total of $100 million dollars was allocated to 44 counties across California, on a first come first serve basis. The program had two separate phases, the first with the initial $100 million dollars, was from 2021 to 2022. The second phase allocated an additional $25 million dollars and began in 2022 and ended in early 2024. Since then the grant hasn't received additional funding. It was expected that the grant would help "2,500 homeowners add an accessory dwelling unit to their primary residence." (California Housing Finance Agency, 2022) California unfortunately ran into a budget shortfall in 2022/2023, and this may explain why the program has not received additional funding or maintained a high priority for legislators.

Literature Review:

The best way to organize the information for my topic is by using thematic organization. A few themes that I will be looking into regarding my topic are, the financial barriers that might prohibit people from developing ADUs. Next will be the policy implementation, at either the local or state level. As well as policy effectiveness, and how effective an ADU policy is at solving or alleviating housing issues or other positive factors that might change as a result.

Policy is not the only characteristic that impacts ADU development. “Overall, the ordinance positively influenced the likelihood of property building an ADU. We also found that property characteristics are stronger predictors of ADU development compared to neighborhood-level characteristics.” (Kim et al., 2023) These authors reviewed the impact of a local level ordinance on the development of ADUs. A strategy I was using in my own research, was to look at the characteristics of the county, and this study took it a step further and analyzed the characteristics of the neighborhood. The gap this research covers is based on a local level ordinance, specifically the Los Angeles area. My contribution will be the impact of the implementation of a state level initiative, the California ADU Grant Program. The existing research provides valuable local level characteristics, and the insights a neighborhood or household property can contribute that can offer more insight to the likelihood of ADU development. My research will aim to answer whether or not an incentive will have a more widespread impact at the county level. The gap that I want to fill is whether the state level initiative is more or less effective than a local level ordinance. Characteristics worth keeping track of, because they might hint at future development plans, include, property value, property size, location, and local ordinance.

Other literature takes a different approach, by looking at the goals that homeowners have when considering ADU development. “Focus group participants expressed interest in building

ADUs to create flexible, affordable living arrangements for extended family or to add an income stream.” (Chapple et al., 2022) One of the major contributing factors homeowners have to developing an ADU, is the purpose it serves. In this study, it was to house elderly parents, alternatively serving as an extra income stream. This aligns with the path that California has taken to further existing laws, although they are still relatively new. Other findings refer to the difficulties of beginning construction, homeowners aren’t developers, even if the construction project is small, it can be daunting for first time builders. The first piece of literature covers the impact of policy at the local level, this research contributes to the motivating factors that homeowners have before construction starts. Aside from traditional developers, some homeowners have to do their own research and work with their community. “ Some focus group participants worked with community-based organizations that supported them through the process” (Chapple et al., 2022) While working with community members can support some people in the development stage, these resources are not available to every city or county. The barriers that continue to prohibit or prevent development can be having limited access to information and limited access to community resources. Motivating factors often consider the purpose of the development, and depend on the homeowners individual goals. A gap in the research to offer contributions to, is the driving factors that lead to a homeowner beginning development. Specifically, the goals that outweigh the daunting, costly, and often time consuming development process.

An area of research that hasn’t been explored, but is increasing in relevance, is the ability to finance an ADU and the options available. The process to construct an ADU can be increasingly difficult, if not impossible for some homeowners. Not having access to the proper information or access to suitable financing options can create headaches for homeowners and slow progression. “ADU financing is mostly geared toward financing units with existing ADUs, not facilitating the construction of new ADUs” (Goodman, 2024) While California has made successful attempts at chipping away existing legislation that previously served as a barrier to construction, new financing options are not available. Financing options are available, the issue is that they aren’t tailored to the needs of the homeowner who wants to build ADUs, rather they’re tailored to someone who has already completed the construction process. A majority of the financing options are from an individual's liquid assets. The next largest financing option that homeowners used were through mortgage products. This essentially suggests that financing itself is a barrier that needs to be addressed. This is complementary to the research done by Chapple, that the development process is often daunting for homeowners with limited access to information, community resources, and now financing options. The gap I want to contribute to, is the ways someone can finance an ADU. Development takes time, planning, and dedication. It’s often strenuous, and many homeowners have no previous experience with development. Financing can be one of the most deterring factors to whether or not an ADU is developed.

This section of research covers the contributing factors to ADU approvals. “One of the most common premises against affordable housing development in residential neighborhoods is the fear of declining property values or alteration of neighborhood character.” (Madrigal et al., 2025) The first factor that contributes to the decline of ADU properties, is called a NIMBY. NIMBY stands for “not in my back yard” and characterizes opposition by local residents to proposed real estate development. Homeowners are concerned about the price of their properties, and how the prices will fluctuate if development occurs. The research covers that in low income neighborhoods, when an ADU was developed, the price of properties increased. For properties that were more expensive, when an ADU was developed the price decreased. An additional study found no relationship between ADU legalization and an effect on property values. (Gnagey et al., 2023) There is a similarity between NIMBY property owners, and local ordinances, they both offer a level of prevention. Previously, local ordinances made it difficult for prospective developers to begin construction on their property, until subsequent state legislation reduced these barriers. NIMBYs act as their own local level barrier, even if ADUs are stealthy alternatives to traditional homebuilding. Another gap exists between development and community pushback. In each of these studies, the issue has been with the individual homeowner, such as the impact of local ordinances and the financing options that may reduce permit applications. I believe these overlook the role the community plays in development, when community pushback occurs for large scale projects, it's not difficult to imagine the same may happen when developing an ADU, depending on the neighborhood and its characteristics.

The last research article being covered looks at the barriers that someone can see in the initial stages of developing an ADU. "Even though many cities allow for ADUs, specific regulations and other barriers often make it difficult for ADUs to be built." (Stacy et al., 2020) Although laws and incentives can make ADU development more feasible, current residents should still be kept informed, and their preferences should be heard. If laws are developed without the public being formed, the opposite effect might occur, less development. One suggestion from this article is to hold review processes, where residents can voice their concerns. Depending on local regulations however, this can strongly delay the development process. This correlates to other research on developmental barriers. The residents in this study wanted to increase flexibility, although there were varying degrees of support and opposition to different characteristics. The characteristics with the most noticeable positive sentiment were as follows, "tax breaks/fee waivers, process/flexibility, and affordability options for aging parents." (Stacy et al., 2025) This highlights the interest the community has with furthering development, as long as it aligns with their own goals. The most positive support from the community was toward the idea that development can offer a greater sense of flexibility. Greater flexibility is a goal homeowners can agree on, and incentive programs that build on this sentiment might see greater success. The gap I plan to fill is on the effectiveness of an incentive that aligns with the communities interest.

Theory, Hypothesis, & Causal Mechanism:

My null hypothesis is, there is no relationship between the ADU Grant Fund policy incentive and ADU permits issued. The conceptual hypothesis is that counties that implement the ADU Grant Fund policy incentive will have a higher number of ADU permits issued. My operational hypothesis is that California counties with access to the ADU Grant Fund should show a statistically significant increase in the number of ADU permits issued. The independent variable is the California ADU Grant Fund that went into effect in 2021. I hypothesize that the ADU grant fund will result in an increase in the number of permits issued by county. This is because the program offers up to $40,000 in pre-construction costs, which can be incredibly convincing and helpful financially, to anyone trying to develop an ADU. This is because the average cost of developing an ADU in California is around $150,000, this grant program was providing a quarter of the cost of construction. California counties can access grant funds on a first come first serve basis. The grant then provides lower financial barriers for homeowners to develop ADUs. Over time, I imagine that more permits are issued for ADU development. The causal mechanism would be the California counties accessing the ADU Grant Fund. By accessing these funds, reductions in financial barriers for homeowners to develop ADUs occur. As a result of these reductions, more permits should be issued, because more people should be incentivized to start developing ADUs.

Research Design:

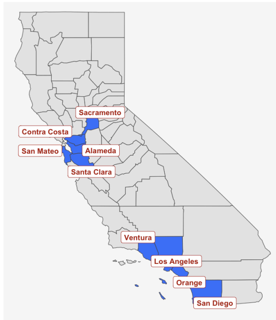
The independent variable is the ADU policy incentive, in my case it's the ADU Grant Fund. The measurement I went with for the ADU grant fund is a binary, a yes or a no for whether or not the county received funds. Every county that I examined had funds allocated to them, although how much funding each received isn't available. Only forty three out of fifty eight counties received funding on a first come first serve basis. The operationalization of the independent variable, is whether a California county accessed the ADU Grant Fund between 2021-2025. The data for these values is coming from the Department of Housing and Community Development, and the California Department of Finance. The dependent variable is the number of ADU permits issued. The measurement for the dependent variable is the total number of permits issued by each individual county. The operationalization is the number of ADU building permits issued per year. The data sources for the dependent variable come from the California Department of Housing and Community Development annual progress report.

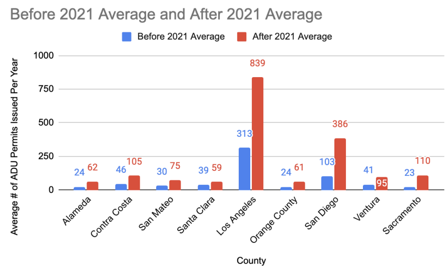
The control variables are population, and area median income. Area median income relates to the ability to afford ADU construction, because typically homeowners with higher incomes are more likely to develop ADUs. Population is also important, more populated areas often have higher pressure to meet demand for housing overall. Data about population comes from each individual county and the U.S. Census. Area median income data comes from the data that each county reports yearly to the California Department of Housing and Community Development. AMI or Area median income is calculated by HUD, and the values that I've collected are based on a four person household. Tracking data such as area median income, it may be possible to infer what counties are influenced based on their area median income. This study examines nine counties across California, the unit of analysis is counties. The temporal scope for this study is eight years, from 2017 to 2025. The regions covered are four counties from Southern California, four counties from the Bay Area, one from the Central Valley. The timeframe allows for comparison of permit trends in the four years before and four years after the grant fund's 2021 implementation. The design structure for this research is the nine counties over eight years. I will be looking at multiple cases over time, to measure a change in the number of permits issued before the 2021 Grant Fund, and the change in permits issued after the Grant Fund has been allocated. The plan to find if the data is significant, is to run a comparison in the average number of permits issued by county for the years 2017-2021 when the program was not in place, and late 2021-2024 when the program was in place, and ended.

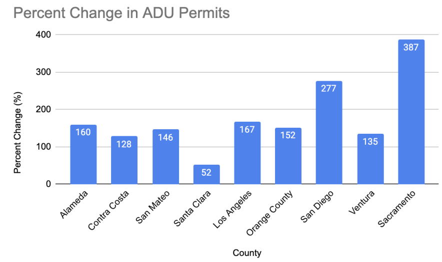
The independent variable is a binary, whether or not they have grant access is a yes=1, no=0. The y variable is the continuous count, in my case it's the number of ADU permits issued. The control variables are population, and area median income. To test the results and ensure they are statistically significant, I ran a point-biserial correlation, in the form of a t-test.

Results:

The results from the t-test were that the incentive program did have a positive effect on the average number of permits issued across the California counties examined. The values calculated that support this interpretation are the t-statistic and p-value. The t-statistic I calculated was 2.13, and 2.13 > 1.96. 1.96 is the typical threshold to have 95% confidence. The p-value that was calculated was 0.0401, essentially there was only a 4% chance that the difference in the average number of permits issued was due to random chance.







From left to right. Figure 1 covers the unit of analysis, or the counties covered; Alameda, Contra Costa, San Mateo, Santa Clara, Los Angeles, San Diego, Orange County, Ventura, Sacramento. Data source: California Department of Housing and Community Development Annual Progress Reports, map generated using AI assistance. Figure 2 is a bar plot highlighting the comparison in the average number of permits issued, by county, of the years 2017-2021 and 2021-2025. Data source: California Department of Housing and Community Development Annual Progress Reports (2017-2025). This is the clearest comparison of the average permits issued by year set, it's also where the most growth by county can be seen. Figure 3 is another bar plot, highlighting the average increase, by percentage, each county saw in their number of permits issued. Data source: California Department of Housing and Community Development Annual Progress Reports (2017-2025).This figure is helpful in highlighting how much each county increased in the number of permits, from before and after, in percentage. The average percent increase in the number of permits was 178.22%. Sacramento had the highest percent increase proportionally, but Los Angeles had the highest increase in the number of permits issued.

Discussion and Research Implications:

The original research question, how has the Accessory Dwelling Unit incentive program affected the number of permits issued across California counties from 2017-2025? It was interesting to see the percentage increase in the number of permits issued across the counties.

Most of these counties have relatively high incomes on average, so it's not surprising that the program was taken advantage of. Higher income counties often have more homeowners, leading to more people that can develop an ADU. It would be interesting to look at the percent increase of all California counties, and to compare that with their respective average median income to see if any conclusions could be drawn from there. The results support my original hypothesis, because the t-statistic found did result in a 95% confidence interval, and the low p-value highlights that the data isn't due to random chance. If more research were conducted, I believe that individual city level incentive programs could be tested in the future. I offer this as an alternative to the state level program, because California has been in a budget deficit, recognizing that housing grant programs may not be highest on the priority list.

Limitations and Research Extensions:

One limitation is not having direct access to the amount of funding each of the counties reviewed received from the ADU grant funding. The data was requested through a supervisor and to the Department of California Housing Finance Agency, but the data was not provided. This is one of the data collection issues, and without the data it's difficult to measure the exact effectiveness of the program on the local level. A second limitation is the relatively narrow sample size. Several counties from northern and southern California offer a snapshot into the effectiveness of the program. It would be more beneficial to look at all 43 counties in California that participated in the program, and to test the overall effectiveness of the program throughout the years it was active through another comparison.

Conclusion:

This research examined whether California's ADU Grant Program effectively increased the number of permits issued across nine counties from 2017 to 2025. The findings demonstrate that these counties with access to the program had a statistically significant increase in the number of permits issued, with an average increase of 178%. These findings carry important implications for California's ongoing housing crisis. As people look for alternatives to traditional housing, with more time, ADUs can serve as a viable solution. The success of the incentive program demonstrates that with moderate financial support from the state and reduced barriers such as time to receive a permit and ways to finance development, homeowners respond with increased development. The ADU Grant Program serves as an effective starting point for future policy, with proper policy support going forward, we can see an increase in production and development. Future policy should consider developer and individual financial incentives, similar to what was implemented on the state level, but instead introduced to individual cities. This analysis demonstrates strategic financial incentives targeting homeowners can result in measurable increases in housing supply. After fiscal conditions improve, the state and local governments should prioritize this kind of financial incentive to ease the housing shortage seen in the past few years.

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