

# A Practitioner's Guide to Appraising ADUs

An accessory dwelling unit (ADU) is a small self-contained dwelling, typically with its own entrance, cooking, and bathing facilities, that shares the site of a larger, single-unit dwelling. ADUs may be attached, as in the case of a basement apartment, or detached, as in the case of a backyard cottage. An ADU is not a separate property; it has the same owner as the primary dwelling.

Because ADUs are an emerging type of residential development with unique legal uses, real estate appraisers frequently misunderstand how to account for them. We recommend you follow these four steps when appraising any property with an ADU.

## 1 | **Ensure ADU is legal and confirm that main house + ADU can be rented.**

In the City of Portland and most parts of the Portland metropolitan region, *both* the main home on the property *and* a legally created ADU on the lot can be simultaneously rented. In other words, *the property owner does not need to live in either unit.* These legal, income-producing uses of the property with an ADU may affect your opinion of the Highest and Best Use (HBU) of the property. If the ADU is not in the City of Portland, then it is important to check with the local municipality to find out if both units can be rented. Typically, "owner occupancy" requirements will be listed in the ADU section of a city's zoning code.

### » FOOD FOR THOUGHT

*If only the main home or ADU can be rented, but not both simultaneously, consider how to best develop the opinion of contributory value of the ADU alone. Is income data available? Is cost data available? What is the usability of the ADU's square footage compared to the main home?*

## 2 | **Conduct the HBU.**

Consider these questions: What are market rents for the main home and the ADU? What are the Gross Rent Multipliers (GRMs) for the area and property type? Does a consideration of rents for the main home and the ADU affect the test of "maximally productive" for the property -- does it lead to a higher opinion of value through the income approach?

## 3 | **Decide on which approaches to value will be developed in the appraisal.**

Based on the HBU, will the sales comparison, cost, *and* income approaches be developed? The number of approaches being developed will inform the reporting format.

## 4 | **Report the findings.**

If all three approaches to value are developed, then Fannie Mae form 1025 (the 2-4 unit form) may be the best way to report your appraisal results because it provides a simpler income format than Fannie Mae form 1004. If using form 1004, remember to check the "One with Accessory Unit" box in the **Improvements** section, and add your rent schedules to the report.



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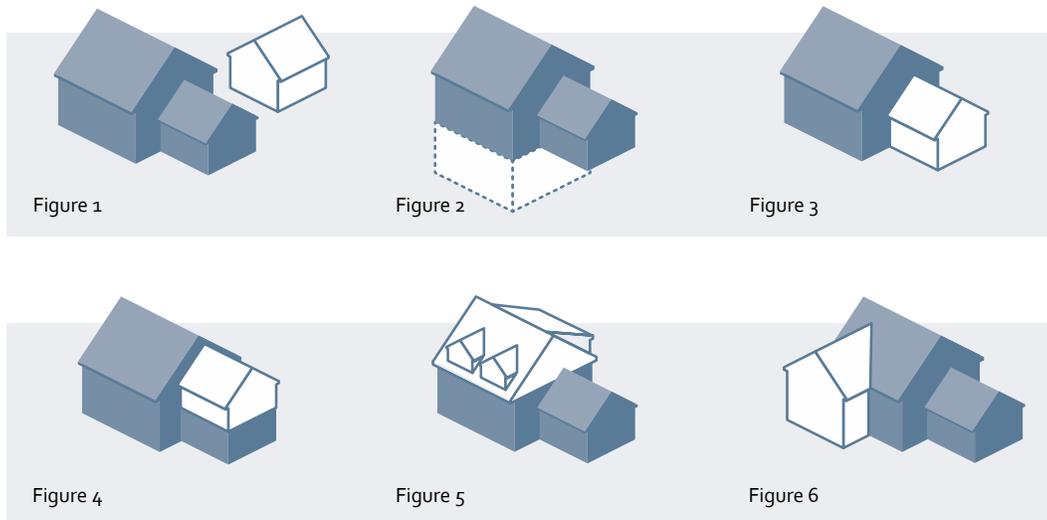


AccessoryDwellings.org



## ADU Configurations:

ADUs may be detached, as in the case of a backyard cottage (figure 1), or attached, as in the case of a basement (figure 2), garage conversion (figure 3), garage conversion above garage (figure 4), attic conversion (figure 5), or addition.



## Real-World Appraisal Considerations:

Most single-unit residential appraisals do not involve the income approach to value. Therefore, developing the HBU for an ADU property may result in a significantly more complex appraisal. When receiving an order to appraise an ADU property, it may be best to do a records search to determine if the ADU is legal. If it is, then the scope of work for the assignment needs to be adjusted to resemble that of a duplex property. For more information on how to value an ADU in the Portland area, please reference “Understanding and Appraising Properties with Accessory Dwelling Units” in *The Appraisal Journal*.

### Tips for Homeowners:

- Ask your lender to require an appraiser with knowledge of ADUs.
- Talk with your lender about different lending guidelines for single-family and income-producing properties.
- Provide the appraiser with information about the ADU that could be helpful in the appraisal process, including proof of the legality of the ADU, rental agreements, and cost breakdowns for building the ADU.
- Understand that the appraisal fee on a property with an ADU is likely to be higher than a normal appraisal, and always remember to tell the appraiser that there is an ADU on the property when he or she makes an appointment to see your home.