M E M O R A N D U M

To: Mayor and City Council

From: Rosie Truelove, Director
Housing and Planning Department

Date: June 25, 2021

Subject: Response to Resolution No. 20200409-080 regarding Accessory Dwelling Units

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The memo closes out Council Resolution No. 20200409-080 regarding the following items related to Accessory Dwelling Units (ADU):

- Explore eligible funding sources for low-interest loans for low- to moderate-income homeowners to build ADUs;
- Explore partnerships to provide a menu of pre-approved ADU models;
- Explore the viability of a tax abatement or grants for property owners who construct income- restricted ADUs; and
- Initiate conversations with local taxing authorities to explore the potential to minimize property taxes for property owners who construct income restricted ADUs.

City staff from Housing and Planning Department worked with staff from the Development Services Department, Austin Energy, Economic Development Department, Law Department, Finance Department, and Transportation Department to develop the response to the Council resolution.

Staff have developed a set of recommendations based on research and exploration of the direction regarding ADU development. These recommendations are based in part on findings from discussions with local community organizations, specifically Community Powered Workshop, and research partnerships with the University of Texas at Austin's Master of Business Administration program and Austin Energy's Data Analytics and Business Intelligence team.

The findings below add important context to the potential strategies included in the Council resolution:

- None of the staff recommendations below would be of benefit to property owners who cannot legally build an ADU due to private restrictive covenants on their properties. The City does not have the legal authority to waive or eliminate private restrictive covenants.
- Low-income homeowners, who were engaged through the referenced research and who are at risk of displacement, prefer strategies other than building ADUs to lessen displacement pressures;
- Even with improved permitting processes and other incentives, securing financing for ADUs will continue to be out of reach for many low- and moderate-income homeowners due to

lending limitations; Pre-approved ADU building plans will only streamline a portion of the overall development review process and will not be able to be used for all properties due to site-specific conditions; and

- Tax abatements are not recommended to achieve the goal of relieving property tax burden for homeowners who wish to build an ADU and lease or sell it as an income source.

Staff Recommendations:

In response to the Council direction to explore eligible funding sources for low-interest loans for low- to moderate-income homeowners to build ADUs, staff recommends the following to increase the feasibility for low- and moderate-income homeowners to finance an ADU and reduce displacement pressure:

- Continue partnering with community organizations and institutions to pursue grant funding and develop innovative loan products to make ADUs more accessible to low- and moderate-income homeowners.
  City staff will stay connected with local community organizations working to develop ADUs as well as local financing institutions who are open to innovation in lending products for homeowners to develop ADUs. The City values and relies upon the work of partner organizations such as Community Powered Workshop and recently selected them as a recipient of a capacity-building grant to further their work on the Alley Flat Initiative.
- Remove regulatory barriers to internal and attached ADUs.
  Financial modeling shows that even with improvements to overall development review processes, utilization of existing exemptions on property taxes, and streamlined construction techniques such as modular buildings, the biggest barriers to building ADUs for low- and moderate-income homeowners are still construction costs and prohibitive regulations. Construction costs for detached ADUs prevent most low- and moderate-income homeowners from being able to finance the overall cost of the ADU. Internal and attached ADUs provide an opportunity to lower construction costs, add design flexibility for site-specific conditions, and make financing more accessible to more homeowners. However, current regulations for attached or internal ADUs (defined in the land development code as accessory apartments) require at least one of the occupants to be a person who is 60 years of age or older or is physically disabled. Current regulations also specify that if space within a principal structure is converted to an accessory apartment, the accessory apartment may not include a converted garage space or a new entrance visible from a street. Removing the regulations noted above and creating a more flexible regulatory environment for internal and attached ADUs would reduce barriers to building ADUs.
- Continue to prioritize and implement the City's Displacement Mitigation Strategy
  Based on survey results, low-income homeowners facing displacement pressures identified property tax reductions, low or no-cost home repairs, and saving money on utilities as more helpful for staying in their homes than income from an ADU on their property. These findings align with a short-term priority action in the Displacement Mitigation Strategy to "Modify and expand home repair programs in gentrifying areas." The recently adopted Ordinances to (1) increase the residential homestead property tax exemption and (2) increase the residential homestead value exemption for individuals who are disabled or 65 years of age or older will benefit low-income homeowners.

In response to the Council direction to explore partnerships to provide a menu of pre-approved ADU models, staff recommends the following:

- Create menu of pre-approved building plans for detached ADUs that are created and owned by local designers or organizations.
  City staff recommend allocating sufficient staff time and resources from all relevant departments to:
  - Engage with community, specifically low- and moderate-income homeowners and renters as well as design professionals, to develop criteria and priorities for ADU designs;
  - Issue a public call for ADU plans from local design professionals or organizations that meet the criteria developed;
  - Review and approve qualifying plan submissions;
  - Partner with selected design professionals or organizations to establish pre-approved ADU plan guidelines for use and processes to complete design modifications and permitting processes; and
  - use affirmative marketing to inform eligible homeowners facing displacement pressures of the ADU building plan options.

In response to the Council direction to (1) explore the viability of a tax abatement or grants for property owners who construct income-restricted ADUs, and (2) initiate conversations with local taxing authorities and to explore the potential to minimize property taxes for property owners who construct income-restricted ADUs, staff recommends the following:

- Develop new Chapter 380 policy and/or program to provide a tax incentive for the construction or preservation of income-restricted housing, including ADUs.
  Potential property tax increases were noted as the number one concern for low- and moderate-income residents regarding using ADUs as an anti-displacement tool. Tax abatements are not recommended to achieve the goal of relieving property tax burden for homeowners who wish to build an ADU and lease or sell it as an income source because of the challenges and costs associated with administering abatements and the limited public benefit of them. Staff instead recommends consideration of a new Chapter 380 policy and/or program to provide a tax incentive for the construction or preservation of income-restricted affordable housing, including ADUs. The current Chapter 380 program is centered around business relocation and expansion projects and includes rules specific to business practices such as hiring and procurement. The current Chapter 380 program could not be used by individual homeowners who build and lease ADUs. Staff recommends a new Chapter 380 policy and/or program that is focused on affordable housing development or preservation that could include income restricted ADUs. This new Chapter 380 program should reside in and be managed by the Housing and Planning Department (HPD) and be used as a tool to further the creation of affordable housing as outlined in the Strategic Housing Blueprint. As part of the new Chapter 380 program, HPD could keep a running tally of ongoing property tax incentives, and City Council could set an annual limit for new property tax incentives as part of the annual budget process.

Additional detail about the recommendations and context is provided in the attached.

If you have any questions, please contact me at 512-974-3064 or rosie.truelove@austintexas.gov or Erica Leak, Housing and Planning Development Officer, at 512-974-9375 or via email at erica.leak@austintexas.gov.

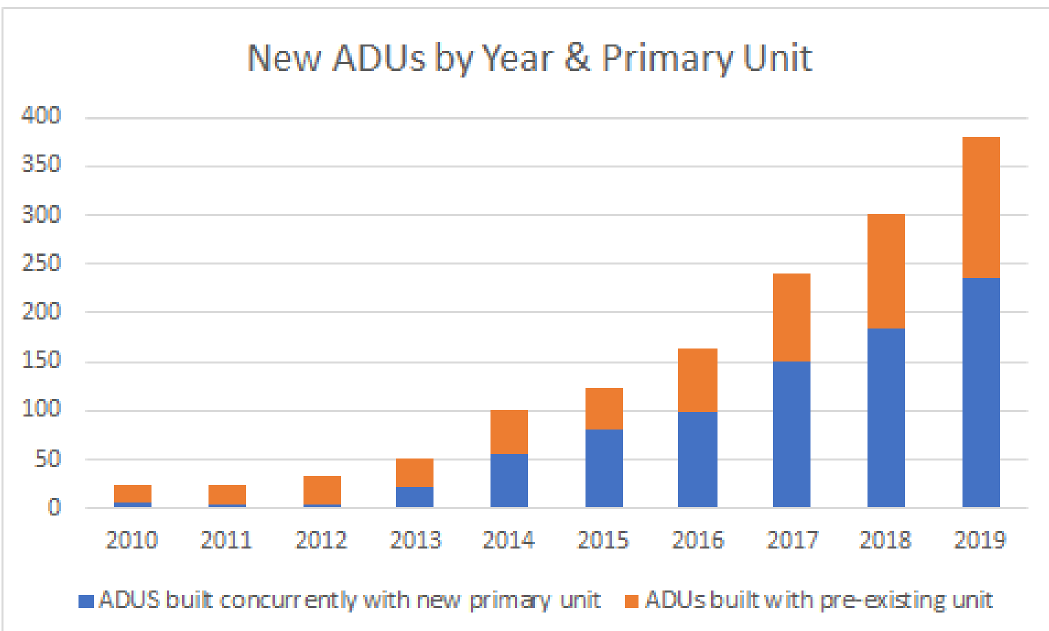
cc: Spencer Cronk, City Manager
J. Rodney Gonzales, Assistant City Manager

Additional Information and Context for the Response to Resolution No. 20200409-080 Regarding Accessory Dwelling Units

Background and Context

The Austin Strategic Housing Blueprint (ASHB) discusses the importance of ADUs within the broader context of increasing housing choice and diversifying the types of housing available in Austin. Specifically, the ASHB points to a need to eliminate regulatory barriers to both internal and external ADUs to make them legal and feasible in more parts of town. The ASHB also recognizes the role of pre-approved plans in catalyzing the construction of missing middle housing types that could create housing for all Austinites in all parts of Austin.

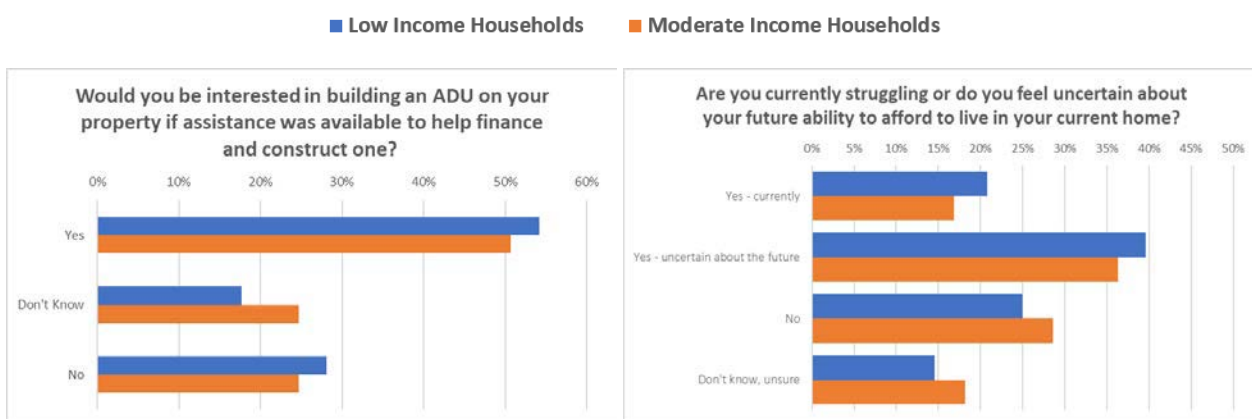
In 2015, Austin City Council made code changes to allow external ADUs to be built in more parts of town (Ordinance 20151119-080) including reducing the minimum lot size and parking requirements. As a part of the Land Development Code revision process, many efforts were made to further eliminate regulatory barriers for external ADUs while also legalizing internal ADUs. From 2010 to 2020, the number of ADUs constructed in the City has increased each year from about 20 in 2010 to over 350 in 2019. Almost all these ADUs, about 98%, were built within the urban core, meaning most are likely the result of infill development. Over half of new ADUs, about 60%, include the development of a new primary unit over the same ten-year period, likely concurrently.



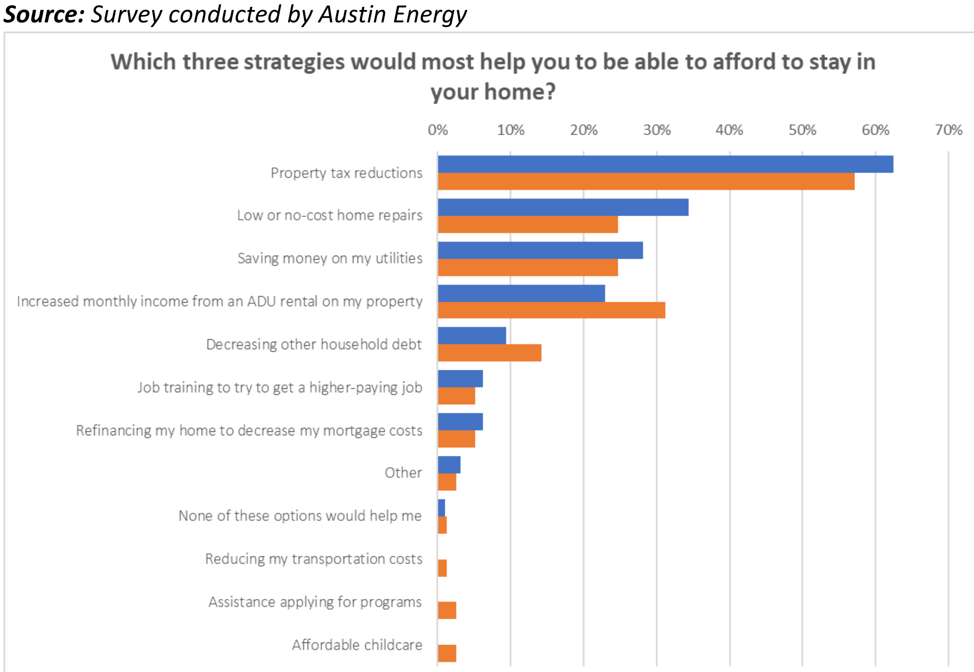
***Source**: City of Austin Permit Data*

Roughly half of the ADUs built in the past 10 years have separate owners from the primary unit. When the ADU is owned separately, the two units are sold through a condominium regime and the property taxes are shared between the units. In this instance, the two units are often advertised as an A unit and a B unit and the homebuyers may not necessarily perceive the ADU as secondary to the front unit. The average size of a newly constructed ADU is around 1,200 square feet (potentially including garage space or other non-habitable space), which can accommodate two to three bedrooms. Though 1,100 square feet is the maximum size per code, these square footage calculations can include a garage or other space that would be exempt from the floor area calculation.

As part of the response to this resolution, a cross-departmental team of City staff worked together to develop a survey to gain additional insights regarding low- and moderate-income households' thoughts and concerns about ADUs and other potential anti-displacement initiatives. Partnering with the Austin Energy Data Analytics team, a survey was distributed to over 7,900 Austin renters and homeowners in nine languages. A report summarizing the results of the ADU survey are attached. Though approximately 50% of low- and moderate-income homeowner responses indicated an interest in building an ADU if assistance were available to finance and construct one, low-income homeowners facing displacement pressures identified property tax reductions, low or no-cost home repairs, and saving money on utilities as more helpful for staying in their homes. Moderate-income households facing displacement pressures identified property tax reductions, income from an ADU rental, low- or no-cost home repairs, and saving money on utilities as most beneficial to help them stay in their homes.



Source: *Survey conducted by Austin Energy*



Source: *Survey conducted by Austin Energy*

Insight provided by the ADU survey from low- and moderate-income households reinforced conversations with local homeowners and organizations who work with low-income communities. City staff do not believe that financial and technical assistance for the construction of ADUs is a timely or effective solution for low-income households at risk of displacement. Our research and engagement do support the possibility of ADUs being a potentially viable option if accompanied with wraparound assistance for households at or near 80% of the Austin Median Family Income (MFI) to generate additional income that could facilitate economic mobility or provide a buffer to weather rising costs of living or unexpected costs. However, staff believe that financial and technical assistance for lower-income households to build an ADU comes with a relatively high opportunity cost, meaning it would require relatively high effort and yield low impact for preventing displacement due to gentrification. Providing staff time and financial resources for ADU financial assistance could preclude them from more effective measures for preventing the displacement of low-income homeowners. For this reason, ADUs were not prioritized in the City's 2018 Displacement Mitigation Strategy.

Homeowner Financing of ADUs

In service to this resolution, City staff partnered with a team of Master of Business Administration students from The University of Texas at Austin to conduct a financial analysis of the feasibility of low- and moderate- income homeowners to finance the construction of an ADU. The report generated by the MBA team, *Unlocking ADUs to Preserve Affordable Housing*, is attached to this memo in full. Their findings confirm that conventional lending products are not accessible to a majority of low- or moderate-income households seeking to finance an ADU. Through their research and analysis, the team found that under certain circumstances, some moderate-income homeowners could afford to finance the construction of an ADU with either a cash-out refinance loan or a Freddie Mac Home Possible construction conversion loan. The cash-out refinance loan product allows a borrower to have their equity paid out and replace their existing mortgage with a new loan. Homeowners in Austin with a consistent mortgage history for 15 years will likely have generated sufficient home equity to put towards the construction of an ADU due to the substantial rise in property values over the time period. The Freddie Mac Home Possible Loan is a highly specialized construction conversion or renovation mortgage for income-qualified homeowners or homebuyers that has low down payment requirements and accepts flexible sources of funds. Both of these loan products still have restrictions and borrower requirements that will prevent financing from becoming widely available such as minimum duration of mortgage payments, debt to income ratios, and credit score minimums. Some of the limitations of these loans are to protect at-risk communities from subprime lending or overextending their borrowing, which could increase their risk of losing their property with their primary home in addition to an ADU. The financial modeling outlined in the report highlights the combination of policies and players that would need to work together to allow some low- to moderate-income households to qualify for ADU financing.

City staff recommend working with community organizations and institutions to identify and minimize prohibitive regulatory barriers to the construction of ADUs while partnering with them to pursue grant funding and develop innovative loan products to make ADUs more accessible to moderate-income homeowners. Specifically, staff recommend removing regulatory restrictions on internal, or attached, ADUs, which would make financing more accessible to more homeowners due to the generally lower construction costs.[1] Progress on the financing side will require collaboration with financing institutions that are willing and interested in developing innovative loan products and working with non-traditional borrowers. Based on the UT MBA team's findings and conversations with community stakeholders, down payment assistance was identified as the most strategic opportunity for an injection of capital to make an ADU construction loan more accessible to moderate-income homeowners. While exploring the funding and financing landscape for ADUs, City staff worked with Community Powered Workshop (CPW), a local non-profit organization that co-founded the Alley Flat Initiative. CPW was recently designated as a recipient of a displacement mitigation capacity-building grant from the City to expand their work around ADUs. CPW is also currently in the running for the US Conference of Mayors Community WINS grant that, if awarded, would allow them to pilot a down payment assistance program specifically for construction loans for income-qualified homeowners.

As discussed in the response to Council Resolution No. 20160616-035, current Housing and Planning Department housing assistance programs are not well-suited to helping construct housing units that are not long-term, income-restricted for households earning at or below 80% of the median family income (MFI). The Rental Housing Development Assistance (RHDA) program prioritizes supporting the creation of affordable rental housing for those making less than 50% MFI and draws from a variety of funding sources to do so. The financial modeling conducted by the UT MBA team shows that ADU financing is already tight for moderate-income homeowners when an ADU is rent restricted at 80% MFI for 5-years in alignment with SMART Housing requirements; therefore, rent-restrictions that are any lower or for any longer period of time would make financing infeasible for homeowners. The Housing and Planning Department's Down Payment Assistance (DPA) program is funded using HOME funds and is exclusively designed to assist low-income, first-time homebuyers and would not be suitable for DPA on a construction loan for an investment property. The Housing Trust Fund is generally the most flexible funding source available and is most suitable to assisting low and moderate-income homeowners construct an ADU; however, the HTF is already heavily utilized for other needs, specifically implementation of the Displacement Mitigation Strategy. Further discussions about trade-offs would need to occur if funding were to be set aside for ADU construction.

In 2019, there were approximately 34,000 homeowners earning less than $50,000 annually in Austin, but only half of those homeowners had a mortgage. Of the homeowners with a mortgage, virtually all (96%) of them were cost-burdened or spending more than 30% of their income on housing costs[2]. These homeowners are unlikely to qualify for financing for an ADU due to income to debt ratio and credit requirements even with a consistent period of mortgage payments. If a household is already experiencing displacement pressure, it is likely manifested in forgoing routine maintenance or falling behind on property tax payments. In these instances, a homeowner would not be able to qualify for an additional loan but could potentially benefit from low or no cost home repair or rehabilitation, financial assistance for their primary home loan, or property tax assistance.

Funding from the 2018 general obligation bond for affordable housing is currently directed towards implementing a key displacement mitigation strategy to provide home repair programs in gentrifying

[1] Santa Cruz County Accessory Dwelling Unit Cost and Financing Guide (September 2018)

[2] American Community Survey 2019 1-year Estimates TABLES S2506 and S2507 for Austin city, Texas

areas. The City of Austin is legally prohibited from directly providing property tax assistance to homeowners; however, the City could develop a new Chapter 380 program to incentivize the preservation or development of income-restricted affordable housing by providing tax rebates.

Pre-Approved Plans for ADUs

A menu of pre-approved building plans can give homeowners several options while reducing the design cost of an ADU project. Pre-approved plans would save staff time during parts of the review process; however, most of the review process relates to site specific conditions. ADU plans require review in many areas such as trees, floodplain, historic, utilities, and zoning; therefore, a plan that is pre-approved per the building code may not significantly reduce the overall review time.

Other U.S. cities that have pre-approved plan programs have taken slightly different approaches. In 2019, the City of Seattle issued an open call for detached ADU (DADU) plan submissions, which were reviewed and selected based on several criteria including building cost and energy efficiency. The City selected ten plans to pre-approve while the rights to the plans were still owned by the original designer. Under their program, the cost to utilize a pre-approved DADU plan is a flat $1,000. Interested homeowners are directed back to the original design professional to complete the site plan and any design work at an additional cost. In other jurisdictions like in California's San Diego County, the City of Encinitas, and the City of Chico, pre-approved building plans for ADUs are available for free to residents. The homeowner is responsible for hiring someone to complete site-specific application materials; whether an engineer or architect's stamp is required for these plans varies per jurisdiction. The homeowner must also agree to release the City and the original designer from any liability related to the use of the plans.

Staff recommends City of Austin develop a selection of pre-approved ADU plans owned by individual design professionals. Staff will need to develop criteria, issue a public call for ADU plans, and then review, select, and approve the plans. By allowing the original plan creator to charge a fee per use of the plan and to finish the site-specific design, there would be no need for a release of liability for the plans.

Based on initial discussions, staff recommends that criteria for pre-approved plans include a limit on size and height for plans to meet the zoning requirements on multiple sites. Beyond base zoning requirements (setbacks, impervious cover, height, etc.) the following zoning standards and combining districts provide additional requirements or regulations that can affect ADUs:

- Residential Design Standards (McMansion) – adds FAR maximum for the property and additional height restrictions for two-story ADUs.
- Neighborhood Plan Combining District – includes design requirements regarding front porches, parking and garage placement that apply differently per neighborhood.
- Neighborhood Conservation Combining District (NCCD) – may include additional restrictions on ADUs such as setbacks or size limits.
- Restrictive covenants on property – may include prohibitions on the construction of ADUs.

Though further study is needed, staff believes that a one-story ADU at or below 900 square feet should meet most zoning requirements when added to a property with an existing house. This size can easily accommodate a 2-bedroom unit.

Because only building plans can be pre-approved, staff recommends the SMART Housing affordable housing incentive program is used in combination with pre-approved plans in order to streamline the permitting process. Under this program, plans are reviewed faster, and most fees are waived if the ADU is rented to a tenant at 80% MFI or below for 5 years. The ADU Review Process table in the Appendix outlines the review process for ADUs and the impact of utilizing the existing SMART Housing program and a potential Pre-approved Plan.

Property Tax Collection and Abatement for ADUs

Property taxes are based on the tax rate, the appraised value of a property, and any exemptions applied to the property. Generally, the addition of an ADU increases the appraised value of the property by the contributory amount, replacement cost new less depreciation, of the ADU unit. The classification of the ADU unit is specific to each property and can vary depending on construction type and quality, foundation and roofing type, utilities, unit size and other property characteristics. While most ADUs built from 2010 to 2020, are classified as “1 Family Dwelling” by the appraisal district, they are also often categorized as “Accessory Dwelling Unit” and “Garage Apartment” as well. A property owner is only entitled to claim a homestead exemption on that portion of the property they own and occupy as a homestead; therefore, if an ADU is rented out it cannot fall under the homestead exemption (the primary house and land do remain under the homestead exemption).

Tax abatement may not be the best tool to achieve the goal of relieving property tax burden for homeowners who wish to build an ADU and lease or sell it as an income source. Staff instead recommends consideration of a new Chapter 380 policy and/or program to provide an incentive for the construction or preservation of income-restricted affordable housing including accessory dwelling units. The current Chapter 380 program is centered around business relocation and expansion projects and may not easily be applicable to individual homeowners who build and lease ADUs. However, it could be possible to develop a similar Chapter 380 policy and/or program that is focused on the development or preservation of affordable housing, potentially including income-restricted ADUs.

Appendices

Exhibit A – Exploration of Funding Sources for Homeowner Financing for ADUs

Exhibit B – ADU Review Processes

Exhibit C – ADU Survey Results

Exhibit D – Unlocking ADUs to Preserve Affordable Housing in Austin, Texas

Exhibit A - Exploration of Funding Sources for Homeowner Financing for ADUs

Fund or Program	Description	Limitations	Current Uses	More information	Suitability
CDBG	Community Development Block Grants (CDBG) are federal funds issued by US Department of Housing and Urban Development for the purpose of providing affordable housing, anti-poverty programs, and infrastructure development.	All activities funded must meet one of the following national objectives: 1. Benefit to low-and moderate-income (LMI) persons; 2. Aid in the prevention or elimination of slums or blight; and 3. Meet a need having a particular urgency (referred to as urgent need).	Helps fund RHDA and meet other needs identified in the community developed Annual Action Plan	CDBG Guidebook	**Low**
HOME	The HOME Investment Partnerships Program (HOME)are federal funds issued by US Department of Housing and Urban Development for the purpose of providing decent and affordable housing for low- and very low-income Americans.	All housing developed using HOME funds must serve low and very low-income families. Each year, HUD publishes the applicable HOME income limits by area adjusted for family size. The resources found at this link HOME Regulations provide information on eligible project costs, property standards, income targeting for homeownership and rental units.	Helps fund RHDA, OHDA, Down Payment Assistance, and meet other needs identified in the community developed Annual Action Plan	HOME Rules	**Low**
RHDA	The Rental Housing Development Assistance (RHDA) program is funded by various funding sources such as HOME, CDBG, General Obligation Bonds, the Housing Trust Fund, and others with the purpose of expanding the community's supply of affordable rental housing for low- income households and to increase the availability of Permanent supportive housing.	There is a rolling application calendar of projects. The applications that score the highest based on RHDA Guidelines will be funded. RHDA recipients are required to participate in the S.M.A.R.T. Housing Program.	Provide gap financing for affordable rental housing developments for households making less than 50% MFI in alignment with goals in the Strategic Housing Blueprint	RHDA Guidelines	**Low**
2018 Affordable Housing Bonds	Voter approved general obligation bonds	The types of projects and programs undertaken with this bond are limited to land acquisition, rental housing development assistance, acquisition and development homeownership program, and home repair program.	RHDA, OHDA, Land Acquisition, and Home Repair	Resolution No. 20180809-061 includes the contract with the voters	**Low**
Homestead Preservation Reinvestment Funds	Austin has one Homestead Preservation Districts (HPDs) in Central East Austin. The purpose of the HPD is to help promote affordable homeownership and prevent the involuntary loss of homesteads for low- and moderate-income households.	HPRZ revenue must be spent to fund the development, construction, and preservation of affordable housing within the zone. All revenue generated from the zone will be expended to benefit households at or below 70% MFI, with at least 50% of the revenue expended to benefit households at or below 50% MFI, and at least 25% of the revenue generated by the zone expended to benefit households at or below 30% MFI.	Helps fund RHDA, Land Acquisition& Development, and Home Loan Rehabilitation programs within the district	Homestead Preservation Districts information	**Low**

Housing Trust Fund	Powers within the Local Government Code Chapter380 allow for the creation of the HTF from various funding mechanisms in order to contribute to the economic development of the City, revitalize neighborhoods, and create/preserve affordable housing opportunities.	There is a legislative history behind Austin's HTF, there are decision trees involving how the HTF can be utilized. Generally, it is a more flexible funding source than federal funding sources.	Helps fund RHDA and OHDA and is a major funding source for Displacement Prevention work including tenant stabilization services	History of Austin's HTF	**Medium**

Exhibit B - ADU Review Process

Type of Review			Applicability % of standalone ADUs (without a new primary house) built from 2010 through 2019 that would qualify for review	Review Fee[1] FY 2020-2021	Standard Residential Review The majority of residential projects (one and two units) go through this review.	SMART Housing This affordable housing program goes through standard residential review, however, the review isfaster and fees arewaived.	Pre-Approved Plans Design Professional goes through pre-approval process for specific plans that can be used on multiple sites.
	Building Code	Architectural	100%	Standard Review[2]: $1,119.04	Same as below.	Same as below.	Plans pre-approved by staff.
		Structural					
		Foundation					Plans reviewed by staff for individual project.
Site Specific	Zoning	*Site Development Stds*	100%		Plans reviewed within a goal of 15 businessdays. Applicant receives comments and followsup with relevant reviewers before submitting an update.	The same as Standard Residential Review, however, plans reviewed within a goal of 5business days. Fees waived.	Plans reviewed by staff for individual project.
		Lot size/Site Area					
		Setbacks					
		Impervious/Building Cover					
		Height					
		Res. Design Stds. (McMansion)	96%				
		FAR					
		Setback Planes (Tent)					
		Neighborhood Plan	89%				
		NCCD	6%				
		Capitol View Corridor (CVC)	3%				
		Visitability	100%				
	Non-zoning	Tree	40%	$569.92	Same as above	Same as above	Same as above
		Floodplain	8%	$383.76	Same as above	Same as above	Same as above
		Erosion Hazard	4%	$383.76			
		Historic	4%	$83.20 / $1020.24[3]	Same as above[4]	Same as above[4]	Same of above
	Utilities	Water Tap	New meter required if the existing house and the ADU exceeds 4.5 bathrooms and 48 water supply fixtures.	Varies	Same as above	Same as Standard Review Some fees waived.	Same as above
		Sewer	Upgrade may be required.				
		Electric	Upgrade may be required.				

[1]Includes 4% DSD surcharge. Does not include, revision, update, permit or inspection fees.
[2]Application Processing + Review Fee
[3]If ADU is under 600 sf: Application Fee only. / If ADU is over 600 sf: Includes Application, Public Hearing Preparation, Sign, and Basic Notification Fees.
[4]If ADU is over 600 sf, additional review by Historic Landmark Commission is required extending the review time.

Exhibit C - Survey Results

ADU – Homeowner and Renter Survey

October 2020 Results

Overview

Research was conducted for the Austin Transportation Department on the topic of accessory dwelling units (ADUs). The survey aimed to gauge renter and homeowner interest in ADUs as a source of additional housing for the City of Austin. Survey questions asked respondents their thoughts and opinions on various ADU and housing topics.

Summary of Results

- Renters – Rental cost is the most influential factor when considering housing options. The majority believe ADUs are a source of affordable housing. Those earning 50K-75K expressed a higher interest in ADU rentals.
- Homeowners – Individuals who reported earning 50K or less and 75K or more, expressed a higher interest in building ADUs on their property. The majority of homeowners believe ADUs are financially beneficial; most would utilize the addition of an ADU to generate income. The permitting process and Property taxes were the biggest concerns when considering constructing an ADU.
- The most discussed topic in open text comments was the permitting process and current building restrictions on ADUs. The permitting process in the city is viewed as difficult and complex. Respondents who viewed ADUs positively saw them as an affordable source of additional housing. Those who viewed ADUs negatively were concerned with the impact of ADUs on the quality of their neighborhoods, including added congestion and parking. Respondents were also concerned with the topic of property taxes when discussing housing affordability.

Survey Methodology, Reporting, and Calculations

This study surveyed renters and homeowners in the city of Austin. The survey was distributed via email to a sample size of 5,900 Austin residents in September 2020. The survey was by invitation only, respondents received a unique link to take the survey and had the option of completing the survey in one of nine available language translations. A second round of survey invites were distributed to a sample size of 2,023 renters in October 2020. In total 7,923 Austin residents were invited to participate in the survey, 1,220 surveys were started, and 1,139 survey responses were recorded.

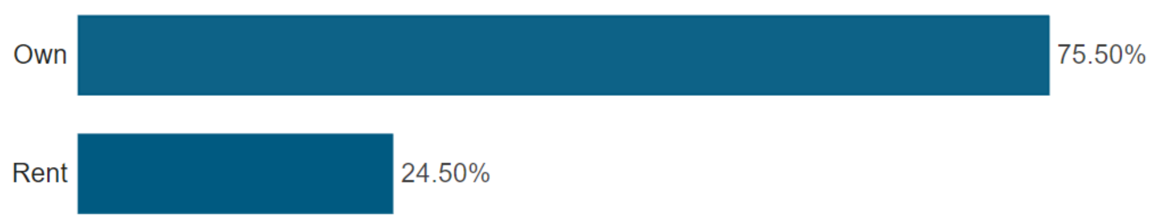
The survey is sectioned into three blocks: renter, homeowner, and demographic questions. The survey utilized logic and displayed some questions based on a particular response. Survey logic took respondents to their corresponding housing selection; demographic questions were asked to all respondents. Questions 12-14 in this report are filtered to only display responses of those homeowners that expressed an interest in building an ADU on their property.

The number of responses will vary by question. Income levels are self-reported. For the purpose of survey analysis, income levels were grouped into 4 categories: 50K or less, 50K-75K, 75K or more, and N/A. Respondents with no self-reported household income are designated as N/A. Questions that allowed multiple answers to be selected use respondent totals and not answer choice totals to calculate percentages.

Open text comments may have one or multiple topics depending on the text; topic percentages are calculated using respondent totals.

Q1: Do you rent or own your primary residence?

- Survey Response



- Total sample size of n =1139.
- The majority of survey respondents were homeowners.

Renter Questions and Responses

Q2: Would you be interested in renting an ADU?

- Interest by Income Group

- The 50K-75K income group displayed the highest interest in renting ADUs.

Q3: If all other factors were equal including price, location, and unit size, what kind of housing would you prefer to live in?

- Housing Preference

Answer	50K or less	50K - 75K	75K or more	N/A
Standalone house, single family house	**64.49%**	**82.76%**	**80.30%**	**69.57%**
ADU, alley flat, or backyard cottage	15.89%	8.62%	3.03%	0.00%
Townhouse, Duplex, or similar small multifamily	8.41%	1.72%	7.58%	17.39%
Medium or large apartment complex with amenities	5.61%	5.17%	7.58%	4.35%
Small apartment complex	5.61%	1.72%	1.52%	8.70%
Total	107	58	66	23

- All groups prefer standalone, single-family housing.
- Renters with income of 50K or less expressed a modest interest in ADU housing.

Q4: What are your top considerations when looking for housing? Please select your top three.

- Housing Considerations

Answer	50K or less	50K - 75K	75K or more	N/A
Monthly rental cost	**77.57%**	**84.48%**	**68.66%**	**73.91%**
Landlord accepts pets	36.45%	43.10%	35.82%	8.70%
Safety of surrounding area	33.64%	18.97%	28.36%	65.22%
Like the neighborhood	30.84%	46.55%	49.25%	30.43%
Proximity to work, school, or other daily needs	30.84%	41.38%	59.70%	39.13%
Monthly cost of utilities	18.69%	8.62%	2.99%	8.70%
Number of bedrooms	17.76%	17.24%	23.88%	26.09%
Close to friends or family	10.28%	12.07%	7.46%	13.04%
Housing voucher acceptance	8.41%	0.00%	0.00%	0.00%
Accessibility considerations	4.67%	1.72%	1.49%	4.35%
Eviction or criminal history acceptance	4.67%	0.00%	0.00%	0.00%
Other, please specify:	3.74%	5.17%	2.99%	13.04%
Proximity to transit	3.74%	6.90%	4.48%	0.00%
Apartment amenities like pool, workout spaces, or playground	1.87%	5.17%	4.48%	0.00%
Total	107	58	67	23

- Monthly rental cost is the top consideration across groups.

Q5: What is your price range when looking for housing to rent?

- Rental Price

Answer	50K or less	50K - 75K	75K or more	N/A
Under $600	7.41%	0.00%	1.49%	5.00%
$600 to $800	22.22%	10.34%	1.49%	5.00%
$800 to $1,000	**26.85%**	10.34%	10.45%	15.00%
$1,000 to $1,200	25.93%	**39.66%**	13.43%	**25.00%**
$1,200 to $1,500	12.96%	25.86%	**29.85%**	**25.00%**
$1,500 to $1,800	4.63%	12.07%	26.87%	10.00%
Over $1,800	0.00%	1.72%	16.42%	15.00%
Total	108	58	67	20

  - A higher rental price is associated with a higher income bracket.

Q6: What is your preferred square footage when considering the rental of a unit?

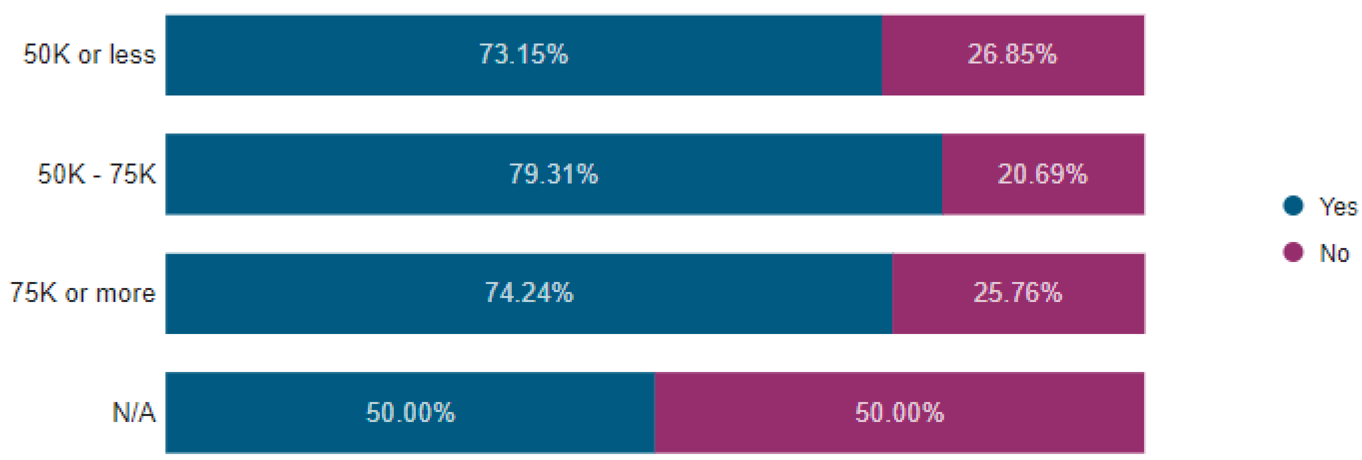
- Housing Size

Answer	50K or less	50K - 75K	75K or more	N/A
Under 400 square feet	0.93%	0.00%	1.49%	0.00%
400 to 600 square feet	9.35%	5.17%	4.48%	0.00%
600 to 800 square feet	19.63%	22.41%	5.97%	20.00%
800 to 1,000 square feet	**30.84%**	**31.03%**	**28.36%**	5.00%
1,000 to 1,200 square feet	14.95%	29.31%	25.37%	**40.00%**
1,200 square feet or more	12.15%	6.90%	25.37%	30.00%
Don't know, doesn't matter	12.15%	5.17%	8.96%	5.00%
Total	107	58	67	20

  - All self-reported income groups prefer housing between 800 to 1,000 square feet.

Q7: Do you believe ADUs to be a source of affordable housing for Austin residents?

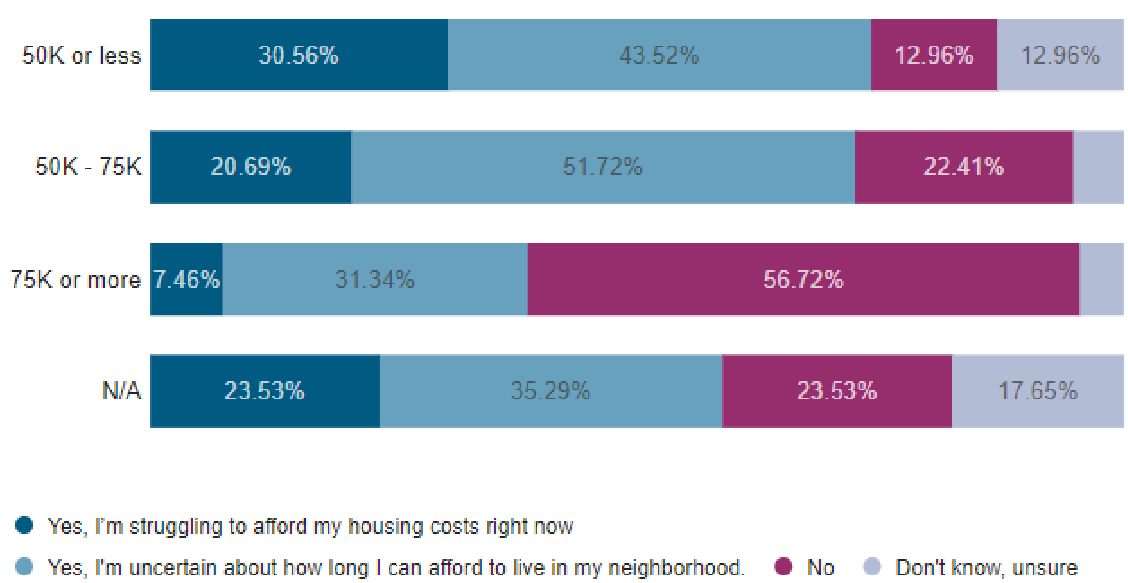
- Distribution by Income Group



- All self-reported income groups believe ADUs to be a source of affordable housing.
- Renters displayed similar beliefs across income groups.

Q8: Are you currently struggling to afford where you are living, or do you feel uncertain about your future ability to afford to live in your neighborhood?

- Housing Uncertainty



- Lower income brackets expressed higher levels of housing uncertainty and affordability.

Q9: Which of the following would help you afford to stay in your neighborhood the most? (select up to three)

➢ Housing Affordability Factors

Answer	50K or less	50K - 75K	75K or more	N/A
Limit rent increases year over year	**65.59%**	**88.89%**	**72.41%**	**71.43%**
Saving money on utilities	45.16%	28.89%	34.48%	42.86%
Decreasing other household debt, such as student loans, medical debt, or car payments (not housing related)	43.01%	48.89%	37.93%	57.14%
Job training to try to get a higher-paying job	18.28%	15.56%	10.34%	42.86%
Assistance applying for programs that provide free or reduced-cost food, utility assistance, job training, affordable housing, etc.	17.20%	2.22%	0.00%	0.00%
Sharing housing costs with roommates or in a cooperative	15.05%	17.78%	13.79%	0.00%
Basic repairs and maintenance on my apartment	9.68%	15.56%	3.45%	0.00%
Low cost childcare	5.38%	4.44%	6.90%	0.00%
Other, please specify:	5.38%	15.56%	10.34%	0.00%
Reducing transportation costs	3.23%	4.44%	10.34%	0.00%
None of these options would help me	2.15%	2.22%	6.90%	0.00%
Legal assistance during an eviction process	0.00%	2.22%	0.00%	0.00%
Total	93	45	29	7

- Renters believe rental limits would most assist their ability to afford housing.
- Groups exhibit similarities in what they believe to be most helpful, including saving money on utilities and decreasing household debt.

Q10: How much do you currently spend on housing costs each month including rent and utilities?

- Housing Costs

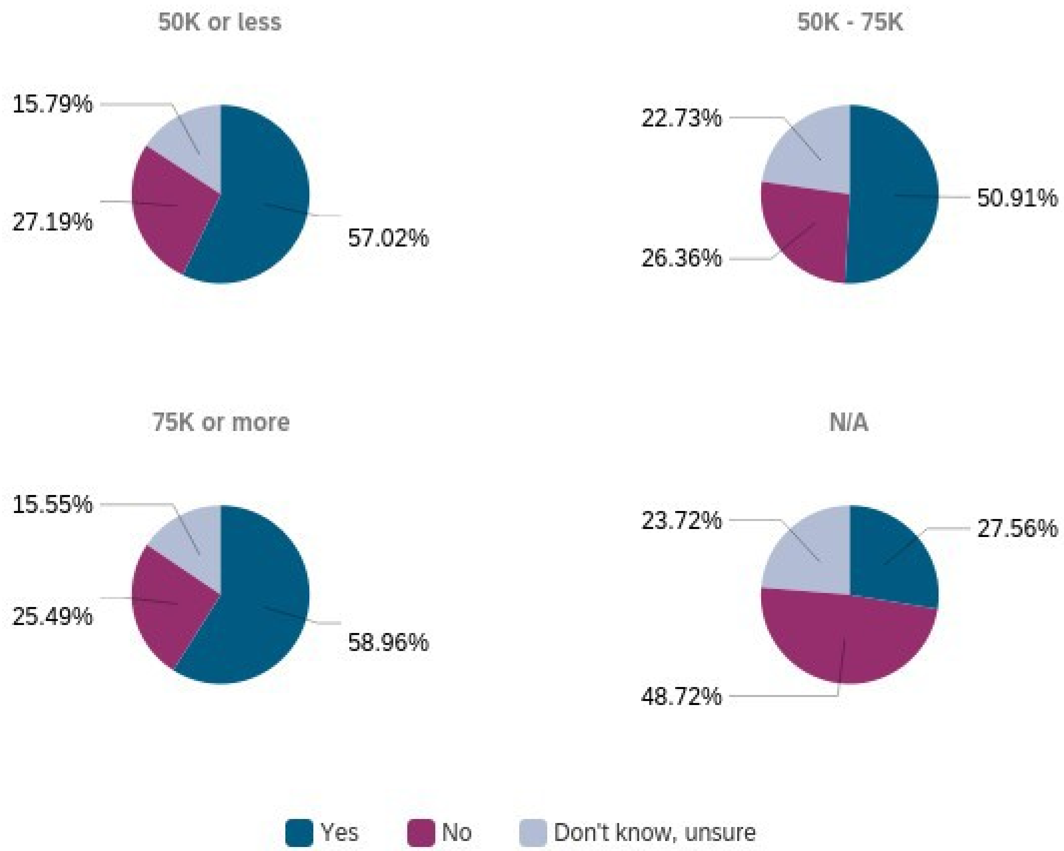
Monthly Expense ($)	Percentage
<1K	16.06%
1K to < 1.5K	**33.03%**
1.5K to <2K	27.98%
2K to <2.5K	16.06%
2.5K to <3K	3.67%
3K+	3.21%
Total	218

- Monthly housing costs varied for renters, the largest portion was in the range of 1K to under 1.5K.

Homeowner Questions and Responses

Q11: Would you be interested in building an ADU on your property if assistance was available to help finance and construct one?

- Interest by Income Group



- Homeowners earning 50K or less and 75K or more, expressed a higher interest in building ADU units.

Q12: If you built an ADU on your property, how would you use the space?

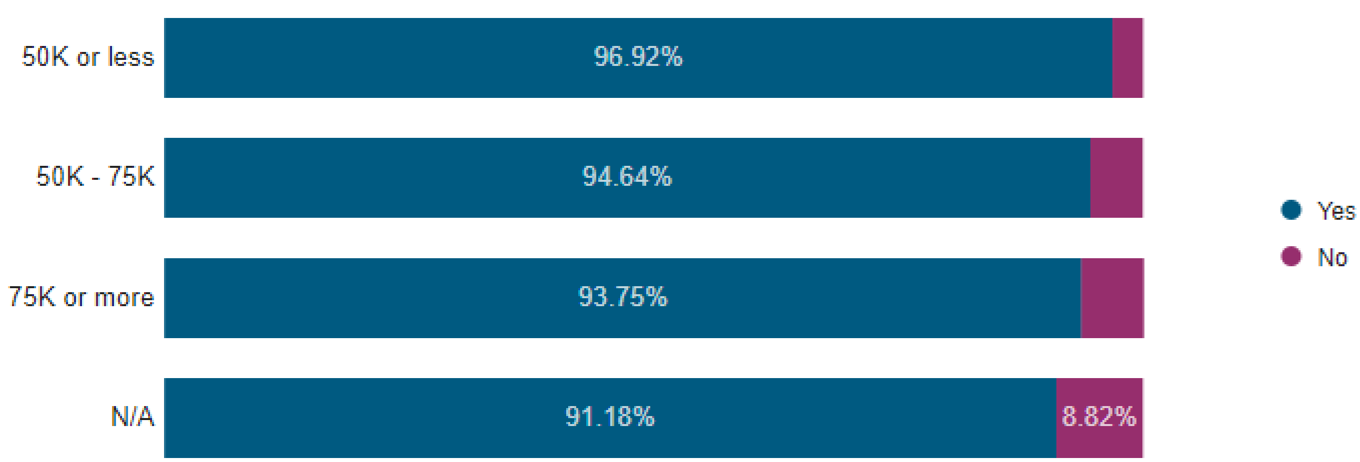
➢ ADU Usage

Answer	50K or less	50K - 75K	75K or more	N/A
To rent out to others for additional income	**58.46%**	**48.21%**	**53.48%**	**61.76%**
To house family member(s)	24.62%	17.86%	20.15%	17.65%
To use for guests when they were visiting	1.54%	16.07%	16.12%	14.71%
Other, please specify:	15.38%	17.86%	10.26%	5.88%
Total	65	56	273	34

- All groups are more inclined to utilize ADUs as an additional source of income.
- Homeowners earning 50K or less expressed a modest interest in utilizing ADUs to house family members.

Q13: Do you believe having an ADU on your property could help you financially?

➢ Distribution by Income Group



- Homeowners with an interest in ADU construction believe they would benefit financially.

Q14: Please select your top three concerns when considering building an ADU on your property from the following list.

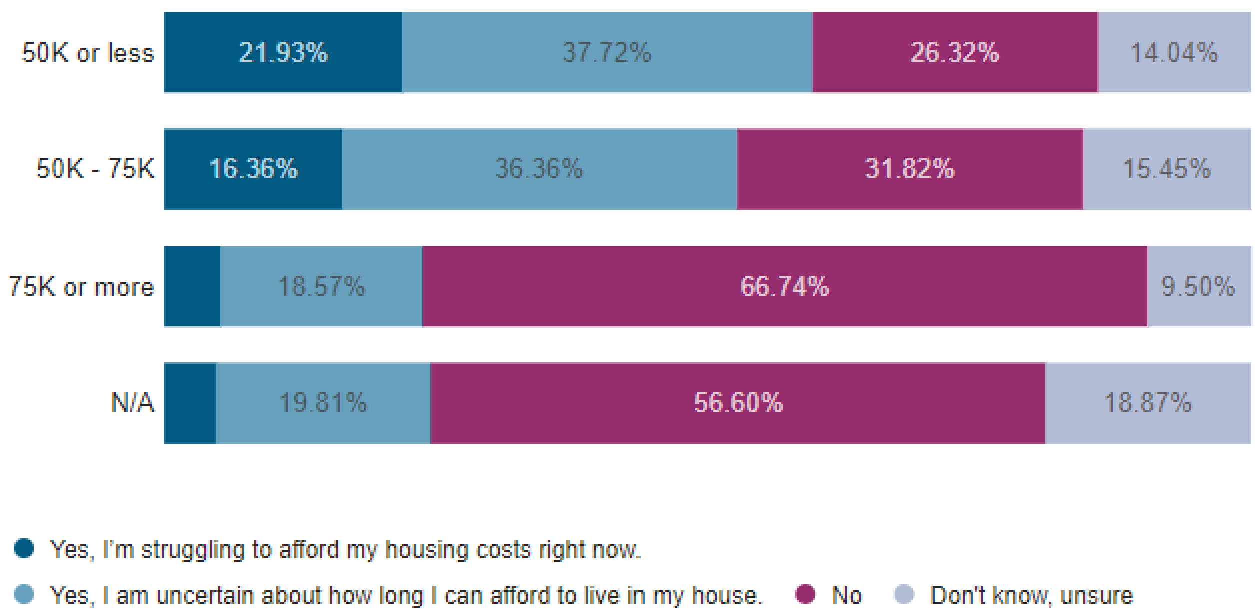
- Construction Concerns

Answer	50K or less	50K - 75K	75K or more	N/A
Permitting process to build an ADU	70.77%	**80.00%**	**76.56%**	68.75%
Property taxes might increase	**75.38%**	72.73%	66.30%	**78.13%**
Not enough money to build an ADU	70.77%	60.00%	53.11%	46.88%
Available space to build an ADU on my property	23.08%	25.45%	38.46%	50.00%
Personal privacy	7.69%	14.55%	16.12%	12.50%
Need for maintenance and repairs on my existing house	23.08%	10.91%	8.79%	6.25%
Taking on the responsibilities of being a landlord	4.62%	5.45%	8.42%	9.38%
Other, please specify:	6.15%	10.91%	5.49%	9.38%
Total	65	55	273	32

- The permitting process and the impact on property taxes are the top concerns for homeowners when considering constructing an ADU.

Q15: Are you currently struggling, or do you feel uncertain about your future ability to afford to live in your current home?

➢ Housing Uncertainty



- Lower income brackets expressed higher levels of housing uncertainty and affordability.

Q16: Which of the following would be of most help for you to be able to afford to stay in your home? (select up to three)

➢ Housing Affordability Factors

Answer	50K or less	50K - 75K	75K or more	N/A
Property tax reductions	**83.33%**	**84.00%**	**85.06%**	**87.50%**
Increased monthly income from an ADU rental on my property	34.52%	46.67%	40.91%	27.50%
Saving money on my utilities	35.71%	29.33%	31.17%	32.50%
Low or no-cost home repairs	45.24%	38.67%	19.48%	35.00%
Refinancing my home to decrease my mortgage costs	8.33%	9.33%	15.58%	12.50%
Decreasing other household debt, such as student loans, medical debt, or car payments (not housing related)	11.90%	18.67%	14.94%	17.50%
Affordable childcare	0.00%	2.67%	7.14%	0.00%
Other, please specify:	4.76%	2.67%	4.55%	2.50%
Reducing my transportation costs	1.19%	1.33%	3.90%	0.00%
Job training to try to get a higher-paying job	8.33%	6.67%	1.95%	2.50%
Assistance applying for programs that provide free or low-cost food, utility assistance, job training, affordable housing, etc.	8.33%	2.67%	0.00%	0.00%
None of these options would help me	1.19%	1.33%	0.00%	5.00%
Total	84	75	154	40

- Homeowners believe property tax reductions would most assist their ability to afford housing.

Q17: How much do you spend on housing costs each month including mortgage, taxes, insurance, and utilities?

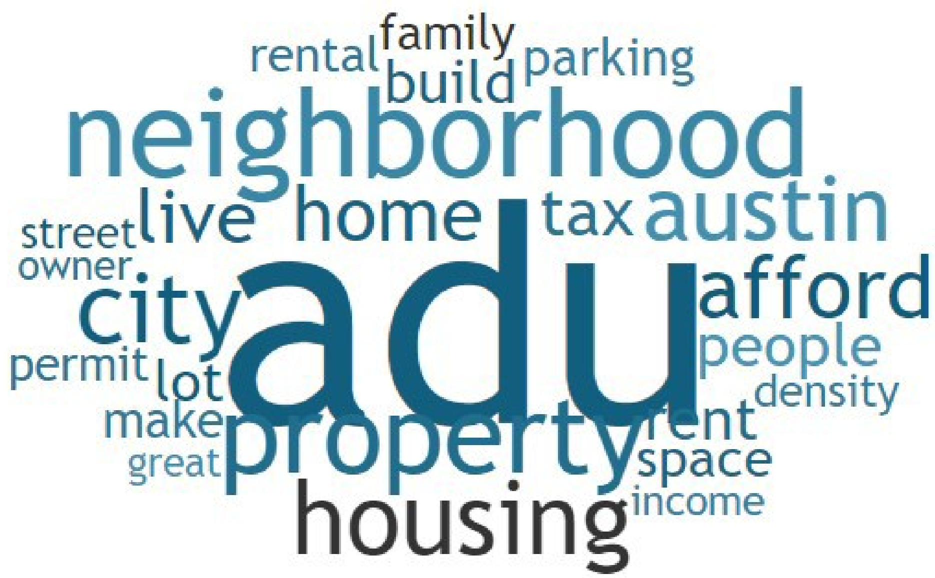
➢ Housing Costs

Monthly Expense ($)	Percentage
<1K	7.46%
1K to < 1.5K	9.45%
1.5K to <2K	15.42%
2K to <2.5K	**21.56%**
2.5K to <3K	15.09%
3K to <3.5K	10.61%
3.5K to <4K	3.65%
4K to <4.5K	6.30%
4.5K to <5K	1.49%
5K +	8.96%
Total	603

- Monthly housing costs varied for homeowners, the largest portion was in the range of 2K to under 2.5K.

Q18: Would you like to share any additional comments, questions, or concerns you have regarding the topic of ADUs? (open text)

- Top 25 Terms



- Topic Commentary

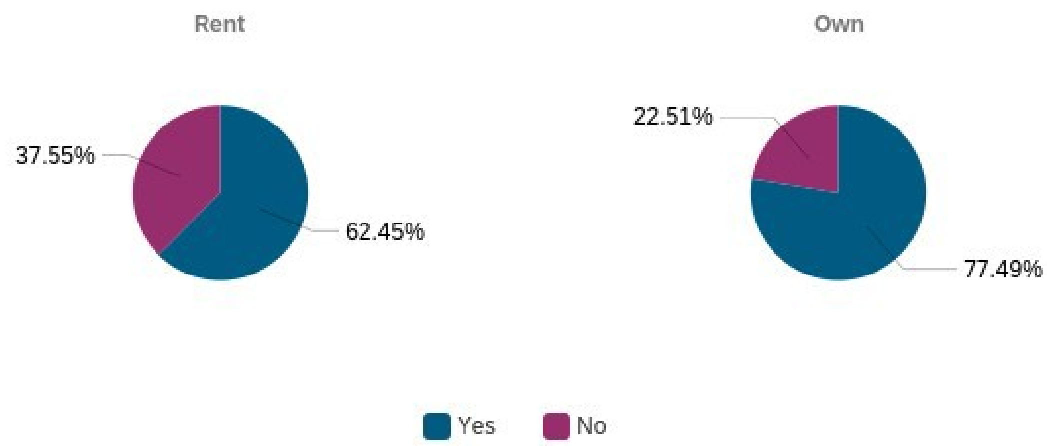
Topic	Percentage
Permitting & Building Restrictions	**24.22%**
Neighborhood & Congestion	13.66%
Parking, Traffic, Transit	11.49%
Taxes	11.18%
ADU - Additional & Affordable Housing	10.87%
Cost & Financing	8.39%
N/A	8.07%
ADU - Housing Cost & Availability	7.45%
STR	7.14%
Other	5.90%
Safety & Privacy	5.28%
ADU Info	4.04%
Total	322

- The most discussed topic was permitting & building restrictions. Comments discussed concerns about the complex permitting process along with current restrictions on ADUs.
- Respondents also addressed concerns about the impact of ADUs on neighborhood congestion, parking, and traffic.
- Property taxes was a topic of concern when discussing housing affordability in the city.

Awareness and Demographic Questions and Responses

Q19: Were you aware of ADUs before taking this survey?

- Awareness



  - Most respondents had previous knowledge of ADUs.

Q20: What is your race or ethnicity? Select as many as apply.

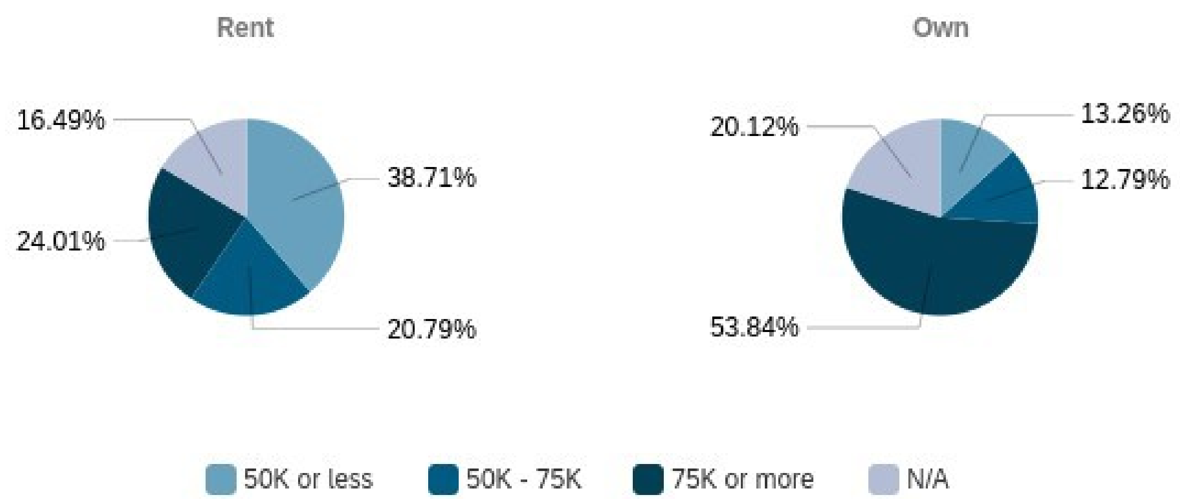
- Race/Ethnicity

Answer	Rent	Own
White, European, Caucasian	**69.49%**	**79.77%**
Black, African American, African	5.51%	3.85%
Hispanic, Latino/a/x, Chicano/a/x, Xicanx	25.00%	17.95%
Indigenous, Native American, American Indian, Alaska Native, Native Hawaiian	3.39%	2.99%
Asian, Desi, Pacific Islander	4.66%	5.13%
Middle Eastern, North African	1.27%	1.85%
Total	236	702

  - Most respondents were Caucasian.

Q21: What is your annual household income?

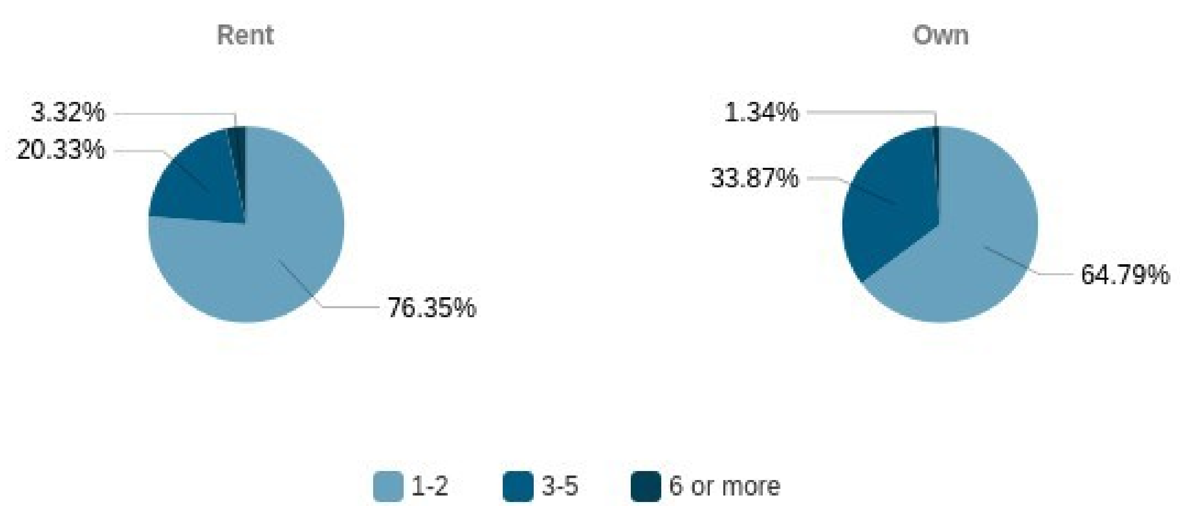
➢ Household Income



- Most renters reported earning 50K or less; most homeowners reported earning 75K or more.

Q22: How many people are in your household?

➢ Household Size



- Respondents were mostly in a 1 or 2-person household.

Q23 - How long have you lived in your current home in Austin?

➢ Time in Austin

Answer	Rent	Own
Less than 3 years	**56.74%**	22.18%
3 to 5 years	22.33%	10.49%
5 to 10 years	13.49%	18.73%
10 to 15 years	3.26%	14.87%
15 to 20 years	1.40%	11.29%
Over 20 years	2.79%	**22.44%**
Total	215	753

- Most renters have lived in their current home for less than 3 years; residency for homeowners showed more variation.

Survey Participation

➢ Distribution by District

District	Percentage
1	14.06%
2	10.08%
3	18.66%
4	5.66%
5	**21.93%**
6	4.07%
7	6.63%
8	4.51%
9	11.05%
10	3.36%
Total	1131

- District 5 had the highest participation rate among the districts.

- District Map

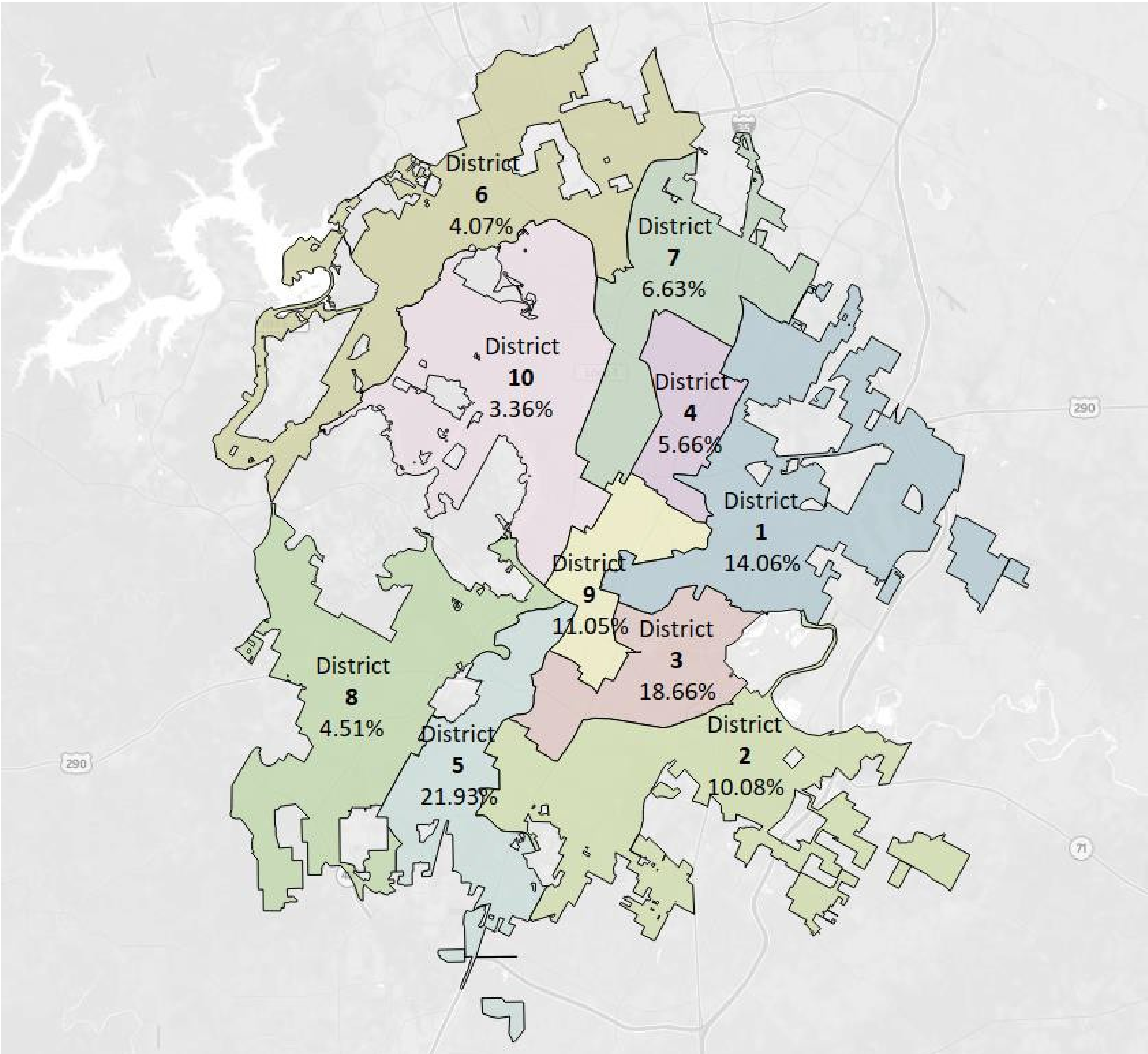


Exhibit D - Unlocking ADUs to Preserve Affordable Housing in Austin, Texas

Unlocking ADUs to Preserve Affordable Housing in Austin, Texas

Prepared by Paul Peterson, Tyler Lyons, Amelia Hetherington, Jeffery Batas,
William Fortney and Alexandra Applegate

August 2020

Project Introduction

As part of a coordinated response to Council Resolution No. 20200409-080, our team of MBA students worked alongside a cross-departmental team of planners at the City of Austin and Community Powered Workshop (CPW) to explore Accessory Dwelling Unit (ADU) affordability. In particular, we were tasked to assess ADUs' efficacy and accessibility as an anti-displacement tool for low to moderate income households. We created a comprehensive financial model with six various scenarios to evaluate ADUs' relative feasibility, and in every scenario found that the City of Austin, or its partners, will need to offset associated costs significantly. The following report summarizes these models, our contributions to a market survey on ADU interest in the target Austin communities, and our conversations with key stakeholders, including community lenders, Community Development Financial Institutions (CDFIs), and nonprofit advocacy organizations.

ADUs are feasible for low to moderate income households in Austin ("target clients") under a specific set of circumstances. We believe they may offer a subset of these target clients the opportunity to generate income and remain in their homes with substantial programmatic support and local policy advocacy.

Context

Austin is experiencing rapid population and economic growth, which has translated into increased housing costs and the rapid gentrification of many previously affordable neighborhoods.

Population growth in Austin from 2010-2019 (29.8%) is one of the highest in the nation. In particular, Austin is growing at a rate nearly twice that of Texas (15.3%) and almost five times higher than the national average of 6.3%.[1] Housing supply has not kept pace with this growth.

With this growth, the median housing cost increased from January 2015 ($240,000) to January 2020 ($384,750) by approximately $145,000.[2] Austin also ranks 7th in most expensive rental rates amongst U.S. cities, with the median rental cost increasing 38% since 2010.[3] This rise in housing costs has resulted in the displacement of many lower-income residents. The City of Austin designates a low income household at or below 80% Median Family Income (MFI). The number of low income households in the City of Austin has been declining since 2010, while the percentage of high income households has increased.[4]

[1] https://www.austinchamber.com/economic-development/austin-profile/population/overview#:~:text=Population.%20Because%20of%20its%20draw%20as%20a%20destination,one%20of%20the%20top%20destinations%20for%20migrating%20talent.
[2] https://www.abor.com/statsjan2020
[3] https://www.apartmentlist.com/research/national-rent-data
[4] https://www.austintexas.gov/page/demographic-data

The Urban Displacement Project worked in tandem with The Uprooted Project in 2018 to categorize and map the displaced low income households using U.S. Census data.[5] They established a scale of displacement typologies and found that of 200 Austin neighborhoods, 36 were in the early stages of gentrification, while 22 had markers of active and ongoing gentrification and displacement.

Proposed Intervention

Recognizing these trends in affordability and displacement, Austin's City Council has approved a series of ordinances to make ADUs more accessible by lessening zoning restrictions and other barriers to construction. ADUs are an attractive option because they simultaneously raise property value and offer additional density/housing in single family zoning while providing the opportunity to generate supplemental income. This may also possibly reduce a family's risk of displacement.

CPW and local builders have confirmed that ADUs are typically constructed by households with higher income or assets due to the high capital cost associated with construction.[6] In order to leverage their anti-displacement potential, we have explored financial, programmatic and permitting mechanisms that may further unlock ADUs as a resource for low to moderate income households.

In particular, we recognized several goals for our project, to better understand our target community's interest and improve ADU accessibility:

1. ***Confirm community interest in ADUs***
2. ***Lower construction and permitting costs; reduce construction time***
3. ***Identify an accessible financial product***

In collaboration with our City Project Leads, we established and outlined a methodology for our project:

1. ***Design and administer a community survey***
2. ***Identify ADU construction options, permitting requirements, and financial requirements***
3. ***Interview lenders & community partners***
4. ***Synthesize and create prototypical financial models***

Survey Design

Before committing to ADUs as an anti-displacement intervention, the City of Austin wishes to confirm community interest in, as well as understand community-identified barriers to, ADU development. Austin Energy drafted two versions of a survey, one for low to moderate income homeowners (our target client), and low to moderate income renters (the prospective tenant). Our team consulted with UT data scientist Dr. Michael Mahometa for suggested revisions to survey design and content. The surveys are currently being translated into Spanish and the seven most common languages spoken in Austin after English and Spanish to ensure a broad and equitable response. It will be disseminated online to primary Austin Energy account holders or by telephone. Austin

[5] https://www.urbandisplacement.org/map/austin
[6] Conversation with CPW.

Energy will first stratify according to income and then randomly sample within low to moderate income ranges. The stated goal is for 1,000 unique responses for each survey. The most recent versions of both surveys are included in **Appendix C.**

ADU Regulations and Construction

Accessory Dwelling Units are a class of secondary structures constructed on a parcel zoned for a single-family home. Austin City Council passed Ordinance 20151119-080 in 2015 to lessen zoning restrictions within city limits to encourage ADU construction. Details on ADU zoning requirements in Austin can be found in **Appendix B** of this report.

There are three typical build processes:

- Traditional design-(bid)-build, with an independent construction process
- Prefabricated ADU
- Partial prefabrication, including panelized or kit pieces, with a semi-independent construction

Given our twin goals of minimizing costs and construction time, we have summarized the timelines and cost milestones for these different build processes in **Appendix A**. While prefabricated ADUs can provide significant time savings and minimize property disruption over a traditional design-build process, they are more restricted in design customization and may not save on costs. Additionally, prefabricated homes are not always an option, depending on site offload conditions and crane access (e.g. power lines and trees). Lastly, it should be noted that an ADU buyer will experience diminishing cost-savings by reducing the size of their ADU due to the construction fixed costs.

Financial Analysis

Conventional Loan Requirements

There are a variety of conventional loans that may be used to finance ADU construction or purchase. A report by CPW (formerly ACDDC) detailed a number of these potential loan structures, including a 1st mortgage, construction loan to permanent mortgage, cash-out refinance, construction loan to permanent refinance, and home equity lines of credit (HELOC).[7] However, as Community Powered Workshop's Alley Flat Initiative concluded, and as our financial modelling confirms, ***these conventional lending products are <u>not</u> accessible to a low to moderate income household seeking to finance an ADU.***

Many of these homeowners would not meet many of the minimum financial requirements to qualify for the loan. Conventional home/construction loans require that the loan guarantor has a job with steady income, a debt to income ratio of no more than 45%, a fair credit score (deemed to be at least 680, but flexibly 620), and a minimum down payment (by law) of 3%. However, if the recipient of a loan cannot put forth at least a 20% down payment, then they will be required to pay for mortgage insurance, which can

[7] ACDDC *Design Matter Pro Forma Report*

equate to up to 2% of the loan amount each year and can become very costly.[8] It is our assumption that many low to moderate income homeowners may not qualify for the credit, income and cash-on-hand requirements in addition to a primary mortgage.

Table 1: Typical Conventional Loan Requirements

Conventional Loan Client (2020)	
Mortgage Term	30
Existing Mortgage Interest Rate	3.00%
FICO Credit Score	680+
Proven Income	$ 78,125
Monthly Household Income	$ 6,510
Debt to Income Level	<45%
Cash for 20% payment on $300k home	$ 60,000
Cash for 3% payment on $300k home	$ 9,000

Alternative Lending Products

After evaluating different loan products, we determined that a ***cash-out refinance loan or a construction loan similar to the Freddie Mac Home Possible Mortgage were the best options for low to moderate income homeowners in Austin.***

A cash-out refinance loan allows a borrower to replace the existing mortgage with a new loan. The borrower gets their equity paid out, which may then be put towards an ADU purchase or construction. There are some restrictions, however. Texas state law restricts the cash-out refinance to 80% of the appraised property value.[9] As a rule, lenders will also not factor projected future rental income into their equity considerations. Thus, the ADU is not seen by banks as a future cash flow generator but simply another piece of property on which the borrower must make payments. Despite these restrictions, we believe the cash-out refinance is the best conventional loan option for our client given the dramatic increase in Austin home values. We believe that our target client may still need additional financial and programmatic support to fund an ADU purchase or construction, based on the cost estimates in **AppendixA.**

The Freddie Mac Home Possible Loan is highly specialized and flexible. It allows a homeowner with an income at or below 80% MFI to qualify for a construction conversion loan with which to build an ADU. The loan requires a 3% down payment but is flexible about funding source and will accept grant funding or an unsecured loan. Other requirements include a minimum credit score of 660 and a five-year history of mortgage and mortgage insurance payments.[10]

[8] www.lendingtree.com
[9] ACDDC *Design Matter Report*
[10] https://sf.freddiemac.com/working-with-us/origination-underwriting/mortgage-products/home-possible

We modeled both proposed options above and concluded that these loans may allow some low to moderate households to qualify for ADU purchase or construction but will not make financing widely available.

Qualifying Requirements

South Star Bank assisted us in identifying a set of assumptions for both the cash-out refinance and Freddie Mac Home Possible Loan. If our target client has owned their home in Austin for 15 years, has a 620 credit score, has a debt to income level of 50%, has a dual annual income of $75,500 (80% Austin MFI), and has a consistent mortgage payment history, they could qualify for a cash-out refinance loan. It is worth noting that this product works because home values have increased in Austin on average 89% over the last 10 years.[11] As a result, many homeowners who have lived in Austin a decade or longer own homes that have nearly doubled in value, and they would have considerable equity to borrow against when applying for cash-out refinance loans. For the Freddie Mac Loan, a homeowner could have only owned their home for five years but would require a credit score closer to 660.

Table 2: Low to Moderate Income Loan Client Profile Assumptions

Low/Moderate Income ADU Loan Client	
Existing Mortgage Term	15 years
Existing Mortgage Interest Rate	5.75%
Existing Mortgage Payment	$ 770
Existing Mortgage Amount	$ 92,763
FICO Credit Score	620
80% Austin MFI	$ 62,500
Monthly Household Income	$ 5,208
Current Assessed Home Value	$ 305,250
Current Home Equity	$ 212,487
Debt to Income Level	50%
ADU Sq Footage	850 sq ft
Bedrooms	2 bedrooms

Existing City Financial Levers

To create an additional financial buffer for the cash-out refinance loan or the Freddie Mac Home Possible Loan (that is, to not overextend the borrowing of an at-risk group), ***we recommend that the City of Austin grant our target clients existing affordability benefits as outlined in the Safe, Mixed-Income, Accessible, Reasonably Priced, and Transit-Oriented (SMART) program and the Austin Homestead Tax Exemption program.***[12]

[11] www.noradarealestate.com
[12] https://www.austintexas.gov/page/development-incentives-and-agreements

Table 3 compares ADU construction costs with and without SMART program savings. Without the SMART program, a low to moderate income homeowner would have to have $23,500 available for a down payment, instead of $15,364.

Table 3: ADU Costs with and without SMART Program

ADU Conventioanl Loan Terms	
ADU Costs	$ 186,961
Closing Costs	$ 6,544
Total Costs	$ 193,505
Potential Cashout	$ 169,989
Cashout Requried	$ 193,505
Cash On Hand Required	$ 23,516
New Loan Amount	$ 286,268
Debt Level	93.78%
Equity Level	6.22%
New Loan Term	30 years
Interest Rate	3.00%
Monthly Interest Payments	$ 1,207
Monthly Payments w/PMI	$ 1,657

ADU Loan Terms w/SMART	
ADU Costs	$ 179,085
Closing Costs	$ 6,268
Total Costs	$ 185,353
Potential Cashout	$ 169,989
Cashout Requried	$ 185,353
Cash On Hand Required	$ 15,364
New Loan Amount	$ 262,753
Debt Level	86%
Equity Level	14%
Loan Term	30 years
Interest Rate	3.00%
Monthly Payments	$ 1,094
Monthly Payments w/PMI	$ 1,544

In our conversations with lenders, they emphasized ***decoupling homeowner and ADU tenant affordability caps*** to make ADUs accessible. Presently, in order to qualify for SMART, a homeowner must agree to cap their ADU rental at 80% of market rent. This will make it nearly impossible for our target client to cover their annual interest payments, let alone any unforeseen expenses. Table 4 shows the leveraged Internal Rates of Return (IRRs), debt coverage levels, loan amounts, cash on hand required, payback periods, and overall viability of each loan product when combined with different cost saving tools. The SMART program is an excellent start to help low to moderate income homeowners reduce ADU costs, but it only makes sense financially if homeowners-turned-ADU-landlords are provided the cost saving benefits of the SMART program while being *allowed to charge market rate rent*.

Table 4: ADU Financing Products Comparisons

Scenario Summary for $180k ADU	Loan Required	Cash Required	Monthly Pmt	Monthly ADU CF	Coverage Ratio	Breakeven	Levered IRR	Feasible
Financing w/conventional cash out re-fi	$ 286,268	$ 23,516	$ 1,207	$ 1,488	0.70	30 years	5.56%	No
Financing w/re-fi using SMART and 80% Mkt Rent	$ 262,753	$ 15,364	$ 1,094	$ 1,164	0.02	30 years	3.68%	No
Financing w/re-fi using SMART and Mkt Rent	$ 262,753	$ 15,364	$ 1,094	$ 1,488	0.81	29 years	6.54%	Maybe
Financing w/re-fi and Homestead tax break	$ 286,268	$ 23,516	$ 1,207	$ 1,488	0.87	28 years	6.55%	No
**Financing w/Freddie Mac Home Possible Style Loan	$ 182,399	$ 5,641	$ 769	$ 1,488	1.48	17 years	8.69%	Maybe
Financing w/Freddie Mac, SMART @ Mkt, and tax break	$ 182,399	$ 5,641	$ 770	$ 1,488	1.70	16 years	9.13%	Yes

Requires 660 minimum credit score

Table 4 also shows that tax breaks are essential to guaranteeing an ADU's financial viability. Presently, Austin has the eighth highest property tax burden in the country.[13] The

[13] http://sites.utexas.edu/gentrificationproject/files/2018/10/app5.pdf

Homestead Exemption would allow applicants to receive an annual 8% reduction in their property taxes, along with a capped increase on 10% of the appraised value from the prior year.[14] Table 5 demonstrates the savings a homestead valued at $300,000 would gain from the 8% Homestead Exemption. If this homeowner built an ADU on their property and increased the value further, the 10% annual increase cap would prevent property taxes from ballooning to an unsustainable level. Although our model does not include it, we believe the Property Redevelopment and Tax Abatement Act (Chapter 312 of the tax code) could also be explored to further support this ADU program for our target clients.

Table 5: Homestead Tax Incentive Savings

PROPERTY TAXES:	
Austin ISD	1.1220000%
City of Austin	0.4431000%
Travis County	0.3692930%
Travis Co. Health Dist.	0.1055730%
Austin Com College Dist	0.1049000%
Total Rate	2.1448660%
Initial Tax Amt.	$ 6,547.20
Homestead 8% Reduction	$ 6,023.43
Homestead 10% YoY Value Cap	**Included in Model*

The primary barrier to financing ADUs is the prohibitive construction costs. As Table 6 demonstrates, even after a prospective ADU builder secures a cash-out refinance loan, receives tax breaks and the cost savings of the SMART program, they still need a down payment of $15,364. With the Freddie Mac Home Possible Loan, however, our target clients could secure a construction loan with a down payment of $5,641. ***We recommend that the City of Austin (or Community Powered Workshop, or another designated partnership) devote dedicated grant funding for down payment assistance. The combined use of all these tools may make ADUs truly affordable for low to moderate income homeowners.***

Table 6: ADU Loan w/SMART, Homestead Exemptions, and Freddie Mac

ADU Loan w/SMART & Freddie Mac Loan		
ADU Costs	$	179,085
Construction Loan Required	$	179,085
Closing Costs	$	8,954
New Loan Amount	$	182,399
LTV		97.00%
Equity Level		3.00%
Cash on Hand Required	$	5,641
Loan Term		30 years
Interest Rate		3.00%
Monthly Payments	$	769
Monthly Payments w/PMI	$	961

14 http://sites.utexas.edu/gentrificationproject/files/2018/10/app5.pdf

Community Stakeholders

To ground our recommendations in the broader affordability conversation, we spoke with traditional lenders, CDFIs, and affordable housing advocates. We offer themes from these conversations below.

Traditional Lenders

As part of our research, we spoke to Business & Community Lenders (BCL) of Texas, SouthStar Bank, and JB Mortgage Group. Each of these banking and lending institutions expressed support for CPW and the City of Austin's work, and they are interested in exploring further partnerships to finance ADUs for our target community. Their main concern for underwriting requirements were debt and income limits, along with credit scores, low capital, and low home equity. In order to satisfy these requirements, they suggested not rent-restricting the ADU (that is, allowing it to rent at market rate), as well as a guarantor partnership with an institution such as CPW.

Local Community Partners

Our team spoke to three local Austin community partners: Austin Revitalization Authority (ARA), Blackshear Neighborhood Development Corporation (Blackshear), and Guadalupe Neighborhood Development Corporation (GNDC), all of whom serve the East Austin community.[15] All three organizations expressed that there is a general distrust of assistance that comes from outside of thecommunity.

Blackshear administers 3 properties and has collaborated with CPW in the past. Blackshear is not currently developing ADUs but wishes to reopen the conversation with their residents should a new program or initiative be forthcoming. GNDC participated in the Alley Flat Initiative and built ADUs on their property. GNDC shared that their residents are focused on perennial issues such as repairs and property taxes.

Other Nonprofit and Advocacy Organizations

For a national perspective on ADUs, we met with four regional partners who are actively developing or supporting ADU programs: Enterprise Community Partners – Denver (Enterprise), Grounded Solutions Network (Grounded Solutions), Housing Trust Silicon Valley (Housing Trust), and Local Initiatives Support Coalition – San Antonio (LISC).

All four organizations expressed qualified support of ADUs to increase housing density and deepen affordability but were split as to whether they could be effective as an anti-displacement tool. In particular, Grounded Solutions and LISC felt that ADUs could be appropriate to age seniors "in place" by encouraging aging households to build and then transition to the smaller, secondary dwelling. LISC further emphasized utilizing visitability principals to ensure the ADU's accessibility in this scenario. They noted that ADUs are rarely appropriate for households larger than 2 persons and that regardless of where the prospective landlord intended to live (continuing in the primary dwelling or moving into the ADU), ***not all homeowners have the inclination or means to fulfill a landlord's obligations.***

[15] https://www.guadalupendc.org/

Grounded Solutions best articulated concerns about ADUs as an anti-displacement strategy. Simply, ***homeowners on the edge of displacement need intervention earlier*.** If an individual or family is experiencing displacement pressure, Grounded Solutions noted that this may manifest in a homeowner foregoing routine maintenance or missing tax payments. In either case, the homeowner would not be able to qualify for an additional loan product. Further, even if they could qualify, code enforcement would not ignore issues with the primary dwelling while inspecting and permitting a second construction, which could add unplanned repair or upgrade costs. Instead, Grounded Solutions suggested using those warning signs, as well as community intelligence, to intervene before a family is displaced. They're advocating that the Federal Housing Administration (FHA) develop a program or policy to allow the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation (Fannie Mae and Freddie Mac) to take a "principal haircut" on their loans. ***This is recommended over the lose-lose process of foreclosure, in which both the evicted homeowner and mortgage corporation face substantiallosses.***

Enterprise supports the West Denver Renaissance Collective (WDRC) as a governance partner.[16] WDRC began an ADU pilot program for West Denver because of its stable, low income Hispanic population with low-density, single-family homes. This is an area that had been largely ignored, but recent attention and investment is leading to gentrification. Enterprise provides technical assistance to WDRC, and taps into dedicated funding through the City of Denver (of about $20,000 per ADU). Enterprise continues to collaborate with the City to ensure the program does not lead to further gentrification and is scalable (i.e. they do not want speculators and more attention to detract from the program goals, a concern also echoed by Grounded Solutions). ***The City of Austin must also ensure their ADU program does not foster speculation and gentrification at odds with its affordability and anti-displacement goals.***

Housing Trust is a CDFI that has developed a pilot program called Small Homes, Big Impact. ***The program offers educational workshops and financial assistance to homeowners wishing to build an ADU in San Francisco area.*** To get started, Housing Trust offers a monthly webinar series that covers frequently asked questions about construction. This covers design, permitting, the process of choosing a builder/architect, financing, and further Q&A. The information sheet in **Appendix A** shows an overview of this process. In addition to the educational foundation for the community, the unique financing solution they offer is a huge interest to us. Their financing solution is an assistance program in the form of a 3-year construction loan that is a second mortgage for a 36-month term at a competitive interest rate, amortized to 20 years. This 3-year loan allows the recipient to build the ADU in the first year paying only interest, and then the following 2 years will help the homeowner establish a rental income history for refinancing into the first mortgage. This also helps comply with the minimum 2-year affordability and tenant restrictions. The program recipient's income is restricted up to 120% of area median income ($118,920). The loan offered is up to $200k and can go up to 97% combined-loan-to-value (CLTV); however, note that in this area, $200k would not be enough to cover all costs to construct an ADU. The program is

[16] https://www.enterprisecommunity.org/where-we-work/denver

just now opening for initial applications and would be beneficial for close monitoring of its implementation. ***The City of Austin should explore this novel financing technique and ensure local nonprofits like CPW are empowered to educate and guide target clients through the entire ADU construction process here in Austin.***

Recommendations

Based on our research, engagement with stakeholders, and financial analysis, we propose the following recommendations to the City of Austin in order to make an ADU anti-displacement program feasible, accessible, and affordable for the city's target low to moderate income homeowners. Although the focus of our research was on addressing the financial barriers to loan products for ADU construction, our recommendations include other tools and programs we discovered in the course of our work that we believe are also critically important to the viability of this program.

The target low to moderate income client of this program must meet several base qualifications for this ADU program to be feasible. These include a minimum 620 credit score, $5,000 minimum monthly income, less than 55% debt-income ratio, and a minimum of 5 years or 15 years of home equity for a Freddie Mac Possible or Refi loan, respectively. Clients not meeting one or more of these criteria must be considered on a case-by-case basis for feasibility to successfully participate in this program without undue risk of defaulting on payments and being displaced sooner. For some clients, it may be too late for an ADU to be a viable tool to prevent displacement, and alternative support programs are recommended in these situations (e.g. a 'principal haircut' on an existing mortgage).

We recommend that the program's pre-approved designs be 800-900 square feet, 2-bedroom ADU designs. Traditional design-(bid)-build processes, as performed by CPW's Alley Flat Initiative, provide a flexible and guided approach, but prefabricated and kit home ADUs should be considered for clients needing a shorter completion timeline. While smaller ADUs do save constructions costs in terms of material and labor, we found diminishing returns on cost-savings due to the high fixed costs associated with the build process. Further, smaller 1-bedroom or studio floor plans will not bring in as much rental income to the client, further diminishing the utility of these options. Conversely, designing above 900 square feet may conflict with the regulatory size limitations as described in **Appendix B** and delay the permitting process. Although the city does not currently allow attached ADUs (e.g. living space above a garage), this option should also be considered by the city as a cheaper alternative or when a detached ADU will not work on the lot of a program client.

With regard to the City of Austin's tools to support this program, we recommend several actions. Details from our financial modeling informing our recommendations are provided in the **Financial Analysis** section above. First, the city should waive permitting fees for clients of this program in line with the SMART housing program; however, the 5-year affordability period *must be removed* for clients to not lose more in reduced rent than they gain in waived fees. Second, the city should use tax abatement tools such as the Homestead Tax Exemption and the Property Redevelopment and Tax Abatement Act (Chapter 312 of the tax code) to support program clients. Third, the city should facilitate a list of pre-approved ADU designs to streamline the permitting process, saving both time and cost to both the target client and city staff. Fourth, the city must ensure that homeowner affordability is considered *before* city infrastructure and investment plans are announced and executed. As Grounded Solutions informed us, many cities fail in their affordable housing goals by attracting speculators and gentrification with city investments before ensuring for affordable homes to remain after government investments are made. Since this ADU program is part of a long-term vision for the City of Austin, the city must consider homeowner affordability with regards to other city plans that invariably impact home prices and rent expenses. For this specific ADU program, this also includes promoting this ADU tool to neighborhood planning committees to avoid pushback or voted-for prevention of their use. Lastly, the city must partner with and/or support local nonprofits, CDCs, CDFIs, and other backers of this ADU program to ensure proper education and assistance is being given to clients; sustained support from city resources is provided; and other city initiatives continue to take this program into account. ***This support includes identifying a single point of contact or facilitator to help every client of this ADU program navigate the process from beginning to end.***

To support financing these ADUs, we recommend the following programs, tools, and techniques. First, the Federal Freddie Mac Home Possible Loan or a similar model provided by a local finance entity was identified as the best option to finance these ADUs. Other refinancing tools may work only with the extensive program support (i.e. SMART fee waivers and tax abatement) as outlined above. We do not recommend a HELOC due to higher down payment requirements and higher, variable interest rates. For grants to local nonprofits like CPW supporting this program, we recommend maximizing grant money efficacy by covering or assisting with the down payment versus loan guarantees or revolving loan funds. We recommend further exploring Housing Trust's 3-year construction loan to mortgage tool as a future grant model by a local nonprofit program supporter. The City of Austin should also consider creating a municipal fund to help subsidize the cost of these ADUs under this program with grants, as the City of Denver is doing for their West Denver ADU program.

Ultimately, the success of this ADU program will require implementing most or all of our recommended tools, as applicable to each client. The success of the program in preventing displacement and seeing recipients succeed in repaying loans will help convince lending institutions of its efficacy and promote its continued use to keep affordable housing in Austin.

Appendices

A. Homeowner Information Sheet with Financing Schedule & ADU Timeline
B. ADU Regulatory Information
C. Survey Design
D. Pro Forma Scenario Sheets (PDF)

Appendix A – Homeowner Information Sheet with Financing Schedule & ADU Timeline

<u>Step 1</u>: Identify if you are a fit for Austin's ADU Anti-Displacement Program

- Can I build an ADU on my property?
- Do I qualify for Austin's program assistance?
- Do I understand the requirements and feel I can meet them?
- Educational opportunities

<u>Step 2</u>: Enroll in a support program (e.g. Alley Flat Initiative)

- How to choose a support program
- Support services:
  - Financing
  - Permitting
  - Design & Construction
  - Landlord Management

<u>Step 3</u>: ADU Process – costs & timeline (based on 2-bed, 850 sq ft ADU); <u>Note</u>: These timelines will *not* include the time invested in researching ADU options and/or attending educational classes on ADUs prior to initiating the build process or any actions taken after a certificate of occupancy is issued.

Development Phase:	Design-Build	Cost Milestones
Property Eligibility & ADU type (construction style, size, & cost est.)	4-6 weeks	Pre-Qualify for Construction Financing
Design & Construction Documents	3-8 weeks	Design Deposit (varies by company)
Design & Site Permitting (w/ SMART)	2 weeks + 2 weeks for any revisions	Most or all fees waived
Design & Site Permitting (no SMART)	12 weeks + 2-3 weeks for revisions	Permit Application, Review, & Misc. Fees (as applicable)
(Bid +) Construction (incl. inspections & Cert. of Occupancy)	6-12 months, depending size, site, & labor	Down Payment & Financing Principal + Interest begins (incl. utilities & inspections)
Average Total Time & Cost	**9-17 months (SMART) 12-20 mo. (no SMART)**	**$180k* (SMART) $190k* (no SMART)**

Development Phase:	Prefabricated	Kit Homes	Cost Milestones
Property Eligibility & ADU type (construction style, size, & cost est.)	4-6 weeks	4-6 weeks	Pre-Qualify for Construction Financing
Design & Construction Documents	2-6 weeks, depending on desired customization	2-6 weeks, depending on desired customization	Design Deposit (varies by company)
Design Permitting	Expedited for standard floorplans or TDLR builds	Expedited for standard floorplans	Final Design & Permitting Fees (as applicable)
Site Permitting (concurrent w/ above)	2-4 weeks (w/ SMART) 12-15 weeks (no SMART)	2-4 weeks (w/ SMART) 12-15 weeks (no SMART)	Site Permitting, Reviews, & Misc. Fees
Construction	2-3 months in factory + 3-4 wk transport/finish time	1-2 week delivery (based on supply) + 2-3 mo. build	Down Payment & Financing Pri + Int
Inspection & Certificate of Occupancy	1-2 weeks, depending availability & revisions	1-2 weeks, depending availability & revisions	Utilities & Inspection Fees
Average Total Time & Cost	**5-9 months (SMART) 8-12 mo. (no SMART)**	**4-8 months (SMART) 7-11 mo. (no SMART)**	**$170k* (SMART) $180k* (no SMART)**

*Total average cost for prefabricated or kit homes depends on transportation and customization desired beyond standard design, and all average costs above do <u>not</u> include a 5-10% added normal contingency

Appendix B – ADU Regulatory Information

a. City of Austin Definition: An ADU is a secondary, detached living space (including kitchen + bathroom) on an existing property. The maximum size is 1,100 sq ft or 15% of lot size, whichever is smaller. For the purposes of this resolution, we recommend a smaller size cap of 850 sq ft, which would cost approximately $190,000 in total or $223/sq ft.
b. Current Types of ADUs: There are 3 primary options for an ADU – a standard design-build process on site, a prefabricated ADU emplaced and finished on site, or a kit ADU that must be assembled and finished on site. Despite cost savings with standardized components (kits) or a factory build environment (prefab), transportation, utilities, and permitting costs result in all 3 options being cost-competitive. Other pros and cons to each ADU option are in the following table.

Table 7: Comparison of ADU Options

Design-Build		Prefabricated		Kit Homes	
Pros	Cons	Pros	Cons	Pros	Cons
Most customizable design	Longest process	Fastest process (min weather impact / TDLR)	Limited to locations that support offload	Potentially the cheapest option for DIYers	Permits, labor, & transport costs can cut savings
Works on any properties	Most disruption to property	Energy efficiency savings (tenant)	More limited customization	Works on most properties	Limit to DIY ability (code)
Offers support throughout process	Customization can result in highest costs	Less and shorter disruption to property	Cost heavily dependent on transportation	Medium disruption & customization	Time dependent on weather & vendor supply

c. Space requirements: Austin ADUs are permitted on an SF-2 or SF-3 zoned lots at least 5,750 sq ft in size and must be 10 feet from all other buildings. Room for one parking space is required except within ¼ mile of an activity corridor.
d. Building process:
    i. Regulations – ADUs must comply with standard home-building permitting requirements (i.e. visit ability, historic and tree preservation, and utilities access). Use as short-term rentals is limited to Type 1 (owner-occupied) rules for a maximum of 30 days. Type 2 non-owner-occupied rentals are prohibited.
    ii. Permits – The permitting process for ADUs is slightly easier than that of a new primary residence build, but all permitting steps must still be followed. An issued permit expires on the 181st day if the project has not scheduled nor received an inspection. Permitting fees for ADUs may only be waived currently under the existing SMART housing program.
    iii. Costs – Including normal permitting fees as described above, the cost per sq ft of a design-build new construction project in Austin is approximately $200-223/sq ft. Due to the fixed permitting, utilities, and other costs, building a smaller ADU only saves the buyer on materials and some labor, resulting in diminishing cost-savings for smaller ADUs. Other measures to reduce costs for low- and moderate-income homeowners participating in this anti-displacement ADU program, as recommended above, might include:
        I. Waiving permitting fees as currently under the SMART housing program without the rent cap requirement.
        II. Property tax abatement after the ADU is constructed. Ideas include: locking in an affordable appraisal value similar to Grounded Solutions'

Shared Equity Homeownership Program[17]; Guadalupe NDC's program to charge property taxes on home improvements only (not land value appreciation); or using the Homestead Tax Exemption or Chapter 312 of the Texas Tax Code.[18]

III. Some kit homes offer do-it-yourself (DIY) opportunities for homeowners with trade skills to save on labor costs, although for most these are limited to finishes and fixtures after construction.

iv. Schedule – The timeline for constructing an ADU depends heavily on several factors, most notably the regulatory processes, the difficulty in tying into utilities, and the method of construction (design-build vs. prefab vs. kit home). The information sheet in **Appendix A** breaks down these timelines along with key financing milestones. These timelines will <u>not</u> include the time invested in researching ADU options and/or attending educational classes on ADUs prior to initiating the build process or any actions taken after a certificate of occupancy is issued.

[17] https://groundedsolutions.org/strengthening-neighborhoods/shared-equity-homeownership

[18] https://statutes.capitol.texas.gov/Docs/TX/htm/TX.312.htm

Appendix D – Pro Forma Scenario Sheets

Scenario 1: Financing with conventional cash out refinancing

BASIC: Assumptions

Client

Existing Mortgage Term	15
Existing Mortgage Interest Rate	5.75%
Existing Mortgage Payment	$770.32
Existing Mortgage Amount	$ 92,763
FICO Credit Score	620
80% Austin MFI	$ 75,500
Monthly Household Income	$ 6,291.67
Current Assessed Home Value	$ 305,250
Current Home Equity	$ 212,487
Debt to Income Level	50%
ADU Sq Footage	850 sq ft
Bedrooms	2 bedrooms

ADU Loan Terms

ADU Costs	$ 186,961
Closing Costs	$ 6,544
Total Costs	$ 193,505
Potential Cashout	$ 169,989
Cashout Requried	$ 193,505
Cash On Hand Required	$ 23,516
New Loan Amount	$ 286,268
Debt Level	93.78%
Equity Level	6.22%
Loan Term	30 years
Interest Rate	3.00%
Monthly Interest Payments	$ 1,207
Monthly Payments w/PMI	$ 1,657

ADU Loan Terms w/SMART

ADU Costs	$ 179,085
Closing Costs	$ 6,268
Total Costs	$ 185,353
Potential Cashout	$ 169,989
Cashout Requried	$ 185,353
Cash On Hand Required	$ 15,364
New Loan Amount	$ 262,753
Debt Level	86.08%
Equity Level	13.92%
Loan Term	30 years
Interest Rate	3%
Monthly Payments	$ 1,094
Monthly Payments w/PMI	$ 1,544

Market Factors

Expense Growth	2.25%
Rent Growth	2.25%
2020 Mkt Rent	$1,500
SMART Rent	$ 1,200

Year No. 7-29 hidden for clarity.

YEAR			0	1	2	3	4	5	6	30
Gross Potential			$ 18,000	$ 18,405	$ 18,819	$ 19,243	$ 19,675	$ 20,118	$ 20,571	$ 35,089
Vacancy Allowance	3%		$ (9,000)	$ (552)	$ (565)	$ (577)	$ (590)	$ (604)	$ (617)	$ (1,053)
EFFECTIVE GROSS INCOME (EGI)			$ 9,000	$ 17,853	$ 18,255	$ 18,665	$ 19,085	$ 19,515	$ 19,954	$ 34,036
RENTAL OPERATING EXPENSES:										
Insurance	$	450.00 unit/mo.	(2,700)	(5,400)	(5,400)	(5,400)	(5,400)	(5,400)	(5,400)	(5,400)
Maint. & Repairs		25 unit/mo.	(150)	(306.75)	(314)	(321)	(328)	(335)	(343)	(585)
Property Taxes		2.14% / year	(3,675)	(3,822)	(3,975)	(4,134)	(4,300)	(4,472)	(4,651)	(11,921)
Admin & Management Fee		0.0% gr. rents	-		-	-	-	-	-	-
Replacement Reserve		50 unit/mo.	(300)	(614)	(627)	(641)	(656)	(671)	(686)	(1,170)
Subtotal Operating Expenses			(6,825)	(10,143)	(10,316)	(10,496)	(10,684)	(10,878)	(11,079)	(19,075)
Other	4%		(273)	(279)	(285)	(292)	(298)	(305)	(312)	(532)
TOTAL EXPENSES			(7,098)	(10,422)	(10,602)	(10,788)	(10,982)	(11,183)	(11,391)	(19,608)
NET OPERATING INCOME (NOI)			1,902	7,431	7,653	7,877	8,103	8,332	8,563	14,429
LESS DEBT SERVICE:										
Closing Costs			(6,543.64)	-	-	-	-	-	-	-
Annual Payments			(19,883)	(19,883)	(19,883)	(19,883)	(19,883)	(14,483)	(14,483)	(14,483)
TOTAL DEBT SERVICE (DS)			(26,427)	(19,883)	(19,883)	(19,883)	(19,883)	(14,483)	(14,483)	(14,483)
Primary Residence "Rent"		$770.32 /mo. for term	9,244	9,244	9,244	9,244	9,244	9,244	9,244	9,244
EFFECTIVE DEBT SERVICE (DS)			(17,183)	(10,639)	(10,639)	(10,639)	(10,639)	(5,239)	(5,239)	(5,239)
NET OPERATING CASH FLOW FROM ADU			(15,281)	(3,208)	(2,986)	(2,762)	(2,536)	3,093	3,323	9,190
Sale ("YES")			-	-	-	-	-	-	-	YES
Total Amt Required for ADU			(193,505)	-	-	-	-	-	-	861,039
Selling Expenses			-	-	-	-	-	-	-	(51,662)
Outstanding Loan Balance (OLB)			-	-	-	-	-	-	-	0
Less Previous Mortgage OLB "Rent"			-	-	-	-	-	-	-	-
AVAILABLE CASH FLOWS			(208,786)	(3,208)	(2,986)	(2,762)	(2,536)	3,093	3,323	818,566
DSCR (NOI/DS)			0.07	0.37	0.38	0.40	0.41	0.58	0.59	1.00
ROI (CF/EQ)			-107.90%	-1.66%	-1.54%	-1.43%	-1.31%	1.60%	1.72%	423.02%
Break Even				0	0	0	0	0	0	1

Levered IRR (30 yr Hold) **5.56%**

PROPERTY TAXES:		
Austin ISD		1.122000%
City of Austin		0.443100%
Travis County		0.369293%
Travis Co. Health Dist.		0.105573%
Austin Com College Dist		0.104900%
Total Rate		**2.144866%**
TotalTax Amt.	**$**	**6,547.20**

Long-Term Projections	
Breakeven Period	30 years
Payoff Period	30 years
Avg. yearly Debt Coverage Ratio for 30-year Period:	0.70

ASSUMPTIONS		
Yr. increase in rent	2.25%	15YR PROJECTIONS FOR RESIDENTIAL (LESS THAN INFLATION DUE TO OBSELECENSE)
Yr. increse in expenses	2.25%	
Yr. increse in home value	4.00%	

Scenario 2: Financing with refinancing using SMART and 80% market rental rates

Using SMART and Reduced: Assumptions

Client
15
5.75%
$770.32
$ 92,763
620
$ 75,500
$ 6,291.67
$ 305,250
$ 212,487
50%
850 sq ft
2 bedrooms

ADU Loan Terms	
ADU Costs	$ 186,961
Closing Costs	$ 6,544
Total Costs	$ 193,505
Potential Cashout	$ 169,989
Cashout Requried	$ 193,505
Cash On Hand Required	$ 23,516
New Loan Amount	$ 286,268
Debt Level	93.78%
Equity Level	6.22%
Loan Term	30 years
Interest Rate	3.00%
Monthly Interest Payments	$ 1,207
Monthly Payments w/PMI	$ 1,657

ADU Loan Terms w/SMART	
ADU Costs	$ 179,085
Closing Costs	$ 6,268
Total Costs	$ 185,353
Potential Cashout	$ 169,989
Cashout Requried	$ 185,353
Cash On Hand Required	$ 15,364
New Loan Amount	$ 262,753
Debt Level	86.08%
Equity Level	13.92%
Loan Term	30 years
Interest Rate	3%
Monthly Payments	$ 1,094
Monthly Payments w/PMI	$ 1,544

Market Factors	
Expense Growth	2.25%
Rent Growth	2.25%
2020 Mkt Rent	$1,500
SMART Rent	$ 1,200

Year No. 7-29 hidden for clarity.

YEAR		0	1	2	3	4	5	6	30
Gross Potential		$ 14,400	$ 14,400	$ 14,400	$ 14,400	$ 14,400	$ 18,000	$ 18,000	$ 18,000
Vacancy Allowance	3%	$ (7,200)	$ (432)	$ (432)	$ (432)	$ (432)	$ (540)	$ (540)	$ (540)
EFFECTIVE GROSS INCOME (EGI)		$ 7,200	$ 13,968	$ 13,968	$ 13,968	$ 13,968	$ 17,460	$ 17,460	$ 17,460
RENTAL OPERATING EXPENSES:									
Insurance	450 unit/mo.	(2,700)	(5,400)	(5,400)	(5,400)	(5,400)	(5,400)	(5,400)	(5,400)
Maint. & Repairs	25 unit/mo.	(150)	(306.75)	(307)	(307)	(307)	(307)	(307)	(307)
Property Taxes	2.1449% / year	(3,675)	(3,822)	(3,975)	(4,134)	(4,300)	(4,472)	(4,651)	(11,921)
Admin & Management Fee	0.0% gr. rents	-		-	-	-	-	-	-
Replacement Reserve	50 unit/mo.	(300)	(614)	(614)	(614)	(614)	(614)	(614)	(614)
Subtotal Operating Expenses		(6,825)	(10,143)	(10,296)	(10,455)	(10,620)	(10,792)	(10,971)	(18,241)
Other	4%	(273)	(273)	(273)	(273)	(273)	(273)	(273)	(273)
TOTAL EXPENSES		(7,098)	(10,416)	(10,569)	(10,728)	(10,893)	(11,065)	(11,244)	(18,514)
NET OPERATING INCOME (NOI)		102	3,552	3,399	3,240	3,075	6,395	6,216	(1,054)
LESS DEBT SERVICE:									
Closing Costs		(6,267.99)	-	-	-	-	-	-	-
Annual Payments		(18,528)	(18,528)	(18,528)	(18,528)	(18,528)	(13,128)	(13,128)	(13,128)
TOTAL DEBT SERVICE (DS)		(24,796)	(18,528)	(18,528)	(18,528)	(18,528)	(13,128)	(13,128)	(13,128)
Primary Residence "Rent"	$770.32 /mo. for term	9,244	9,244	9,244	9,244	9,244	9,244	9,244	9,244
EFFECTIVE DEBT SERVICE (DS)		(15,552)	(9,284)	(9,284)	(9,284)	(9,284)	(3,884)	(3,884)	(3,884)
NET OPERATING CASH FLOW FROM ADU		(15,451)	(5,732)	(5,885)	(6,044)	(6,209)	2,511	2,332	(4,938)
Sale ("YES")		-	-	-	-	-	-	-	YES
Total Amt Required for ADU		(185,353)	-	-	-	-	-	-	861,039
Selling Expenses		-	-	-	-	-	-	-	(51,662)
Outstanding Loan Balance (OLB)		-	-	-	-	-	-	-	0
Less Previous Mortgage OLB "Rent"		-	-	-	-	-	-	-	-
AVAILABLE CASH FLOWS		(200,804)	(5,732)	(5,885)	(6,044)	(6,209)	2,511	2,332	804,438
DSCR (NOI/DS)		0.00	0.19	0.18	0.17	0.17	0.49	0.47	(0.08)
ROI (CF/EQ)		-118.13%	-3.37%	-3.46%	-3.56%	-3.65%	1.48%	1.37%	473.23%
Break Even			0	0	0	0	0	0	1

Levered IRR (30 yr Hold) **4.41%**

PROPERTY TAXES:	
Austin ISD	1.122000%
City of Austin	0.443100%
Travis County	0.369293%
Travis Co. Health Dist.	0.105573%
Austin Com College Dist	0.104900%
Total Rate	**2.144866%**
TotalTax Amt.	**$ 6,547.20**

Long-Term Projections	
Breakeven Period	30 years
Payoff Period	30 years
Avg. yearly Debt Coverage Ratio for 30-year Period:	0.24

15YR PROJECTIONS FOR RESIDENTIAL (LESS THAN INFLATION DUE TO OBSELECENSE)

ASSUMPTIONS	
Yr. increase in rent	2.25%
Yr. increse in expenses	2.25%
Yr. increse in home value	4.00%

Scenario 3: Financing with refinancing using SMART and market rental rates

Using SMART and Market Rate Rent:Assumptions

Client

Existing Mortgage Term	15
Existing Mortgage Interest Rate	5.75%
Existing Mortgage Payment	$770.32
Existing Mortgage Amount	$ 92,763
FICO Credit Score	620
80% Austin MFI	$ 75,500
Monthly Household Income	$ 6,291.67
Current Assessed Home Value	$ 305,250
Current Home Equity	$ 212,487
Debt to Income Level	50%
ADU Sq Footage	850 sq ft
Bedrooms	2 bedrooms

ADU Loan Terms

ADU Costs	$ 186,961
Closing Costs	$ 6,544
Total Costs	$ 193,505
Potential Cashout	$ 169,989
Cashout Requried	$ 193,505
Cash On Hand Required	$ 23,516
New Loan Amount	$ 286,268
Debt Level	93.78%
Equity Level	6.22%
Loan Term	30 years
Interest Rate	3.00%
Monthly Interest Payments	$ 1,207
Monthly Payments w/PMI	$ 1,657

ADU Loan Terms w/SMART

ADU Costs	$ 179,085
Closing Costs	$ 6,268
Total Costs	$ 185,353
Potential Cashout	$ 169,989
Cashout Requried	$ 185,353
Cash On Hand Required	$ 15,364
New Loan Amount	$ 262,753
Debt Level	86.08%
Equity Level	13.92%
Loan Term	30 years
Interest Rate	3%
Monthly Payments	$ 1,094
Monthly Payments w/PMI	$ 1,544

Market Factors

Expense Growth	2.25%
Rent Growth	2.25%
2020 Mkt Rent	$1,500
SMART Rent	$1,200.0

Year No. 7-29 hidden for clarity.

YEAR			0	1	2	3	4	5	6	30
Gross Potential			$ 18,000	$ 18,405	$ 18,819	$ 19,243	$ 19,675	$ 20,118	$ 20,571	$ 35,089
Vacancy Allowance	3%		$ (9,000)	$ (552)	$ (565)	$ (577)	$ (590)	$ (604)	$ (617)	$ (1,053)
EFFECTIVE GROSS INCOME(EGI)			$ 9,000	$ 17,853	$ 18,255	$ 18,665	$ 19,085	$ 19,515	$ 19,954	$ 34,036
				1,488						
RENTAL OPERATING EXPENSES:										
Insurance		450 unit/mo.	(2,700)	(5,400)	(5,400)	(5,400)	(5,400)	(5,400)	(5,400)	(5,400)
Maint. & Repairs		25 unit/mo.	(150)	(306.75)	(307)	(307)	(307)	(307)	(307)	(307)
Property Taxes	(218,058)	2.14% / year	(3,675)	(3,822)	(3,975)	(4,134)	(4,300)	(4,472)	(4,651)	(11,921)
Admin & Management Fee		0.0% gr. rents	-		-	-	-	-	-	-
Replacement Reserve		50 unit/mo.	(300)	(614)	(614)	(614)	(614)	(614)	(614)	(614)
Subtotal Operating Expenses			(6,825)	(10,143)	(10,296)	(10,455)	(10,620)	(10,792)	(10,971)	(18,241)
Other	4%		(273)	(273)	(273)	(273)	(273)	(273)	(273)	(273)
TOTAL EXPENSES			(7,098)	(10,416)	(10,569)	(10,728)	(10,893)	(11,065)	(11,244)	(18,514)
NET OPERATING INCOME(NOI)			1,902	7,437	7,686	7,938	8,192	8,450	8,710	15,522
LESS DEBT SERVICE:										
Closing Costs			(6,267.99)	-	-	-	-	-	-	-
Annual Payments			(18,528)	(18,528)	(18,528)	(18,528)	(18,528)	(13,128)	(13,128)	(13,128)
TOTAL DEBT SERVICE(DS)			(24,796)	(18,528)	(18,528)	(18,528)	(18,528)	(13,128)	(13,128)	(13,128)
Primary Residence "Rent"		$770.32 /mo. for term	9,244	9,244	9,244	9,244	9,244	9,244	9,244	9,244
EFFECTIVE DEBT SERVICE(DS)			(15,552)	(9,284)	(9,284)	(9,284)	(9,284)	(3,884)	(3,884)	(3,884)
NET OPERATING CASH FLOW FROM ADU			(13,651)	(1,847)	(1,598)	(1,347)	(1,092)	4,565	4,826	11,638
Sale ("YES")			-	-	-	-	-	-	-	YES
Total Amt Required for ADU			(169,989)	-	-	-	-	-	-	861,039
Selling Expenses			-	-	-	-	-	-	-	(51,662)
Outstanding Loan Balance (OLB)			-	-	-	-	-	-	-	0
Less Previous Mortgage OLB "Rent"			-	-	-	-	-	-	-	-
AVAILABLE CASH FLOWS			(183,640)	(1,847)	(1,598)	(1,347)	(1,092)	4,565	4,826	821,014
DSCR (NOI/DS)			0.08	0.40	0.41	0.43	0.44	0.64	0.66	1.18
ROI (CF/EQ)			-108.03%	-1.09%	-0.94%	-0.79%	-0.64%	2.69%	2.84%	482.98%
Break Even				0	0	0	0	0	0	1

Levered IRR (30 yr Hold) **6.54%**

PROPERTY TAXES:	
Austin ISD	1.122000%
City of Austin	0.443100%
Travis County	0.369293%
Travis Co.Health Dist.	0.105573%
Austin ComCollege Dist	0.104900%
Total Rate	**2.144866%**
TotalTax Amt.	**$ 6,547.20**

Long-Term Projections	
Breakeven Period	29 years
Loan Payoff Period	30 years
Avg. yearly Debt Coverage Ratio for 30-year Period:	0.81

15YR PROJECTIONS FOR RESIDENTIAL (LESS THAN INFLATION DUE TO OBSELECENSE)

ASSUMPTIONS	
Yr. increase in rent	2.25%
Yr. increse in expenses	2.25%
Yr. increse in homevalue	4.00%

Scenario 4: Financing with refinancing and tax breaks

Tax Breaks: Assumptions

Client	
Existing Mortgage Term	15
Existing Mortgage Interest Rate	5.75%
Existing Mortgage Payment	$770.32
Existing Mortgage Amount	$ 92,763
FICO Credit Score	620
80% Austin MFI	$ 75,500
Monthly Household Income	$ 6,291.67
Current Assessed Home Value	$ 305,250
Current Home Equity	$ 212,487
Debt to Income Level	50%
ADU Sq Footage	850 sq ft
Bedrooms	2 bedrooms

ADU Loan Terms	
ADU Costs	$ 186,961
Closing Costs	$ 6,544
Total Costs	$ 193,505
Potential Cashout	$ 169,989
Cashout Requried	$ 193,505
Cash On Hand Required	$ 23,516
New Loan Amount	$ 286,268
Debt Level	93.78%
Equity Level	6.22%
Loan Term	30 years
Interest Rate	3.00%
Monthly Interest Payments	$ 1,207
Monthly Payments w/PMI	$ 1,657

ADU Loan Terms w/SMART	
ADU Costs	$ 179,085
Closing Costs	$ 6,268
Total Costs	$ 185,353
Potential Cashout	$ 169,989
Cashout Requried	$ 185,353
Cash On Hand Required	$ 15,364
New Loan Amount	$ 262,753
Debt Level	86.08%
Equity Level	13.92%
Loan Term	30 years
Interest Rate	3%
Monthly Payments	$ 1,094
Monthly Payments w/PMI	$ 1,544

Market Factors	
Expense Growth	2.25%
Rent Growth	2.25%
2020 Mkt Rent	$1,500
SMART Rent	$1,200.0

Year No. 7-29 hidden for clarity.

YEAR			0	1	2	3	4	5	6	30
Gross Potential			$ 18,000	$ 18,405	$ 18,819	$ 19,243	$ 19,675	$ 20,118	$ 20,571	$ 35,089
Vacancy Allowance	3%		$ (9,000)	$ (552)	$ (565)	$ (577)	$ (590)	$ (604)	$ (617)	$ (1,053)
EFFECTIVE GROSS INCOME(EGI)			$ 9,000	$ 17,853	$ 18,255	$ 18,665	$ 19,085	$ 19,515	$ 19,954	$ 34,036
RENTAL OPERATING EXPENSES:										
Insurance	66,288	450 unit/mo.	(2,700)	(5,400)	(5,400)	(5,400)	(5,400)	(5,400)	(5,400)	(5,400)
Maint. & Repairs		25 unit/mo.	(150)	(306.75)	(307)	(307)	(307)	(307)	(307)	(307)
Property Taxes	(151,770)	2.14% / year	(3,381)	(3,517)	(3,596)	(3,677)	(3,759)	(3,844)	(3,931)	(6,705)
Admin & Management Fee		0.0% gr. rents	-		-	-	-	-	-	-
Replacement Reserve		50 unit/mo.	(300)	(614)	(614)	(614)	(614)	(614)	(614)	(614)
Subtotal Operating Expenses			(6,531)	(9,837)	(9,916)	(9,997)	(10,080)	(10,164)	(10,251)	(13,025)
Other	4%		(261)	(261)	(261)	(261)	(261)	(261)	(261)	(261)
TOTAL EXPENSES			(6,793)	(10,098)	(10,177)	(10,258)	(10,341)	(10,426)	(10,512)	(13,286)
NET OPERATING INCOME(NOI)			2,207	7,755	8,077	8,407	8,744	9,089	9,442	20,750
LESS DEBT SERVICE:										
Closing Costs			(6,543.64)	-	-	-	-	-	-	-
Annual Payments			(19,883)	(19,883)	(19,883)	(19,883)	(19,883)	(14,483)	(14,483)	(14,483)
TOTAL DEBT SERVICE(DS)			(26,427)	(19,883)	(19,883)	(19,883)	(19,883)	(14,483)	(14,483)	(14,483)
Primary Residence "Rent"		$770.32 /mo. for term	9,244	9,244	9,244	9,244	9,244	9,244	9,244	9,244
EFFECTIVE DEBT SERVICE(DS)			(17,183)	(10,639)	(10,639)	(10,639)	(10,639)	(5,239)	(5,239)	(5,239)
NET OPERATING CASH FLOW FROM ADU			(14,976)	(2,885)	(2,562)	(2,232)	(1,895)	3,850	4,202	15,511
Sale ("YES")			-	-	-	-	-	-	-	YES
Property Value			(169,989)	-	-	-	-	-	-	861,039
Total Amt Required for ADU			-	-	-	-	-	-	-	(51,662)
Outstanding Loan Balance (OLB)			-	-	-	-	-	-	-	0
Less Previous Mortgage OLB "Rent"			-	-	-	-	-	-	-	-
AVAILABLE CASH FLOWS			(184,965)	(2,885)	(2,562)	(2,232)	(1,895)	3,850	4,202	824,887
DSCR (NOI/DS)			0.08	0.39	0.41	0.42	0.44	0.63	0.65	1.43
ROI (CF/EQ)			-108.81%	-1.70%	-1.51%	-1.31%	-1.11%	2.26%	2.47%	485.26%
Break Even				0	0	0	0	0	0	1

Levered IRR (30 yr Hold) **6.55%**

Long-Term Projections	
Breakeven Period	28 years
Loan Payoff Period	30 years
Avg. yearly Debt Coverage Ratio for 30-year Period:	0.87

PROPERTY TAXES:		
Austin ISD		1.122000%
City of Austin		0.443100%
Travis County		0.369293%
Travis Co. Health Dist.		0.105573%
Austin Com College Dist		0.104900%
Total Rate		**2.144866%**
Initial Tax Amt.	**$**	**6,547.20**
Homestead 8% Reduction	**$**	**6,023.43**
Homestead 10% YoY Value Cap		**applied to model**

15YR PROJECTIONS FOR RESIDENTIAL (LESS THAN INFLATION DUE TO OBSELECENSE)

ASSUMPTIONS	
Yr. increase in rent	2.25%
Yr. increse in expenses	2.25%
Yr. increse in homevalue	4.00%

Scenario 5: Financing with Freddie Mac Home Possible style loan

FreddieMac Program: Assumptions

Client Profile for Cash Out Refinance Loan

Existing Mortgage Term	5
Existing Mortgage Interest Rate	5.75%
Existing Mortgage Payment	$770.32
Existing Mortgage Amount	$ 92,763
FICO Credit Score	660
80% Austin MFI (dual)	$ 75,500
Monthly Household Income (dual	$ 6,291.67
Current Assessed Home Value	$ 305,250
Current Home Equity	$ 212,487
Debt to Income Level	50%
ADU Sq Footage	850 sq ft
Bedrooms	2 bedrooms

Basic ADU Loan Terms

ADU Costs	$ 186,961
Closing Costs	$ 6,544
Total Costs	$ 193,505
Potential Cashout	$ 169,989
Cashout Requried	$ 193,505
Cash On Hand Required	$ 23,516
New Loan Amount	$ 286,268
Debt Level	93.78%
Equity Level	6.22%
Loan Term	30 years
Interest Rate	3.00%
Monthly Interest Payments	$ 1,207
Monthly Payments w/PMI	$ 1,399

ADU Loan Terms w/SMART

ADU Costs	$ 179,085
Closing Costs	$ 6,268
Total Costs	$ 185,353
Potential Cashout	$ 169,989
Cashout Requried	$ 185,353
Cash On Hand Required	$ 15,364
New Loan Amount	$ 262,753
Debt Level	86.08%
Equity Level	13.92%
Loan Term	30 years
Interest Rate	3%
Monthly Payments	$ 1,094
Monthly Payments w/PMI	$ 1,286

ADU Loan w/SMART & Freddie Mac Loan

ADU Costs	$ 179,085
Construction Loan Required	$ 179,085
Closing Costs	$ 8,954
New Loan Amount	$ 182,399
LTV	97.00%
Equity Level	3.00%
Cash on Hand Required	$ 5,641
Loan Term	30 years
Interest Rate	3.00%
Monthly Payments	$ 769
Monthly Payments w/PMI	$ 961

Market Factors

Expense Growth	2.25%
Rent Growth	2.25%
2020 Mkt Rent	$1,500
SMART Rent	$1,200.0

Year No. 10-29 hidden for clarity.

Sale ("YES")	-	-	-	-	-	-	-	-	-	-	YES
Total Amt Required for ADU	(188,040)	-	-	-	-	-	-	-	-	-	861,039
Selling Expenses	-	-	-	-	-	-	-	-	-	-	(51,662)
Outstanding Loan Balance (OLB)	-	-	-	-	-	-	-	-	-	-	0
Less Previous Mortgage OLB "Rent"	-	-	-	-	-	-	-	-	-	-	-
AVAILABLE CASH FLOWS	(195,775)	8,301	8,550	8,801	9,056	11,620	11,881	12,143	12,409	12,677	828,069
DSCR (NOI/DS)	0.17	0.92	0.94	0.96	0.98	1.26	1.29	1.31	1.34	1.37	2.02
ROI (CF/EQ)	-115.17%	4.88%	5.03%	5.18%	5.33%	6.84%	6.99%	7.14%	7.30%	7.46%	487.13%
Break Even		0	0	0	0	0	0	0	0	0	1

Levered IRR (30 yr Hold) **8.69%**

PROPERTY TAXES:	
Austin ISD	1.122000%
City of Austin	0.443100%
Travis County	0.369293%
Travis Co.Health Dist.	0.105573%
Austin Com College Dist	0.104900%
Total Rate	**2.144866%**
Total Annual Tax Amt.	**$ 6,547.20**

Long-Term Projections	
Breakeven Period	17 years
Loan Payoff Period	30 years
Avg. yearly Debt Coverage Ratio for 30-year Period:	1.48

15YR PROJECTIONS FOR RESIDENTIAL (LESS THAN INFLATION DUE TO OBSELECENSE)

ASSUMPTIONS	
Yr. increase in rent	2.25%
Yr. increse in expenses	2.25%
Yr. increse in home value	4.00%

Scenario 6: Financing with Freddie Mac Home Possible style loan, SMART, and tax breaks

Using SMART, Tax Breaks, and Freddie Mac: Assumptions

Client

Existing Mortgage Term	5
Existing Mortgage Interest Rate	5.75%
Existing Mortgage Payment	$770.32
Existing Mortgage Amount	$ 92,763
FICO Credit Score	620
80% Austin MFI (dual)	$ 75,500
Monthly Household Income (dual)	$ 6,291.67
Current Assessed Home Value	$ 305,250
Current Home Equity	$ 212,487
Debt to Income Level	50%
ADU Sq Footage	850 sq ft
Bedrooms	2 bedrooms

Basic ADU Loan Terms

ADU Costs	$ 186,961
Closing Costs	$ 6,544
Total Costs	$ 193,505
Potential Cashout	$ 169,989
Cashout Requried	$ 193,505
Cash On Hand Required	$ 23,516
New Loan Amount	$ 286,268
Debt Level	93.78%
Equity Level	6.22%
Loan Term	30 years
Interest Rate	3.00%
Monthly Interest Payments	$ 1,207
Monthly Payments w/PMI	$ 1,207

ADU Loan Terms w/SMART

ADU Costs	$ 179,085
Closing Costs	$ 6,268
Total Costs	$ 185,353
Potential Cashout	$ 169,989
Cashout Requried	$ 185,353
Cash On Hand Required	$ 15,364
New Loan Amount	$ 262,753
Debt Level	86.08%
Equity Level	13.92%
Loan Term	30 years
Interest Rate	3%
Monthly Payments	$ 1,094
Monthly Payments w/PMI	$ 1,094

ADU Loan w/SMART & Freddie Mac Loan

ADU Costs	$ 179,085
Construction Loan Required	$ 179,085
Closing Costs	$ 8,954
New Loan Amount	$ 182,399
LTV	97.00%
Equity Level	3.00%
Cash on Hand Required	$ 5,641
Loan Term	30 years
Interest Rate	3.00%
Monthly Payments	$ 769
Monthly Payments w/PMI	$ 961

Market Factors

Expense Growth	2.25%
Rent Growth	2.25%
2020 Mkt Rent	$1,500
SMART Rent	$1,200.0

Year No. 10-29 hidden for clarity.

Sale ("YES")	-	-	-	-	-	-	-	-	-	-	YES
Total Amt Required for ADU	(188,040)	-	-	-	-	-	-	-	-	-	861,039
Selling Expenses	-	-	-	-	-	-	-	-	-	-	(51,662)
Outstanding Loan Balance (OLB)	-	-	-	-	-	-	-	-	-	-	0
Less Previous Mortgage OLB "Rent"	-	-	-	-	-	-	-	-	-	-	-
AVAILABLE CASH FLOWS	(195,470)	8,618	8,941	9,271	9,608	12,260	12,612	12,973	13,341	13,718	833,297
DSCR (NOI/DS)	0.19	0.95	0.97	1.00	1.03	1.33	1.37	1.40	1.44	1.48	2.59
ROI (CF/EQ)	-114.99%	5.07%	5.26%	5.45%	5.65%	7.21%	7.42%	7.63%	7.85%	8.07%	490.21%
Break Even		0	0	0	0	0	0	0	0	0	1

Levered IRR (30 yr Hold) **9.13%**

PROPERTY TAXES:	
Austin ISD	1.122000%
City of Austin	0.443100%
Travis County	0.369293%
Travis Co. Health Dist.	0.105573%
Austin Com College Dist	0.104900%
Total Rate	**2.144866%**
Initial Tax Amt.	**$ 6,547.20**
Homestead 8% Reduction	**$ 6,023.43**
Homestead 10% YoY Value Cap	**apply to model**

Long-Term Projections	
Breakeven Period	16 years
Loan Payoff Period	30 years
Avg. yearly Debt Coverage Ratio for 30-year Period:	1.70

15YR PROJECTIONS FOR RESIDE

TIAL (LESS THAN INFLATION DUE TO OBSELECENSE)

ASSUMPTIONS	
Yr. increase in rent	2.25%
Yr. increse in expenses	2.25%
Yr. increse in home value	4.00%