



ADUs in North Carolina:

Examining the Proposed Legislation & Its Implications

By Lea Henry & Dr. Stephen Sills

Proposed legislation in North Carolina, Senate Bill 374, aims to allow the construction of ADUs by right in residential zones with minimal requirements, such as complying with building codes and not imposing restrictions on owner-occupancy or parking.

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ccessory Dwelling Units (ADU's) are a form of housing that has existed for many years and has recently gained increasing attention due to the scarcity of affordable

housing in the United States and the state of North Carolina. ADU's have potential to provide rental units for less than the new construction multifamily market; additional income and asset building for homeowners; and a way to accommodate multiple generations and caregiving for an aging population on the same property.

An Accessory Dwelling Unit (ADU), also known as a secondary suite, granny flat, or in-law suite, is a smaller, independent residential dwelling unit located on the same lot as a stand-alone (i.e., detached) single-family home. ADUs can be converted portions of existing homes (such as an attic or basement), additions to new or existing homes, or separate structures, such as guesthouses or converted garages. ADUs are often used for housing family members (hence the names "granny flat" or "in-law suite"), or they may be rented out for extra income.

ADUs provide a flexible form of housing, as they can be used to accommodate changing family needs or generate a rental income stream. They are also considered a form of sustainable urban development because they can provide additional housing without the need for new infrastructure or further land development. However, there can be restrictions and regulations surrounding ADUs, such as zoning laws, building codes, and homeowners association rules, which vary by location.

Opponents of ADUs worry about increased construction in residential areas and its potential to disrupt neighborhoods. They also express concerns about local governments losing control over regulations that have been put in place to address traffic, safety, and other concerns. There is also a concern about the potential for properties to be turned into short-term rental homes, which could exacerbate housing affordability issues.

The National Institute of Minority Economic Development supports the development and equitable financing of accessory Dwelling Units to increase the supply of affordable and mid-priced rental housing and provide wealth-building opportunities for homeowners.

North Carolina Context

Many North Carolina cities have passed or are considering ADU rules and have created a regulatory framework for them in the last two decades. Changes are often accompanied by specific guidelines and restrictions related to things like the size of the unit, parking, owner occupancy, and so forth. The vast majority of ADU's created have been in Charlotte, Raleigh and Durham. A few cities in North Carolina that have regulations concerning ADUs including:

- Asheville: The city allows for both attached and detached ADUs, subject to certain requirements.
- Durham: Durham also allows ADUs, subject to certain restrictions.
- Charlotte: Accessory dwelling units are permitted under the city's Unified Development Ordinance, which was adopted in 2021, with restrictions.

- Raleigh: Raleigh also allows ADUs in certain zoning districts with some restrictions.
- Chapel Hill: ADUs are permitted with some restrictions.
- Greensboro: The land development code permits internal, attached, and detached accessory dwelling units (ADUs) by right in in all residential districts, subject to use-specific standards.
- Carrboro: Carrboro has regulations permitting ADUs in certain zoning districts.
- Winston-Salem: The city permits ADUs in some residential districts with certain conditions.
- Wilmington: This city also allows for ADUs under specific zoning conditions.
- Fayetteville: Fayetteville allows ADUs and has recently loosened restrictions.
- Rocky Mount: Allows both ADU's and tiny homes with restrictions.

NC Senate Bill 374

Senate Bill 374 (=H409) Regulation of Accessory Dwelling Units is currently working through the legislative process of the 2023 North Carolina General Assembly. It would allow the construction of ADU's by right in any location that allows single family or duplex residential structures, with minimal requirements beyond what local building codes require for any single residential structure. If enacted by the state legislature, the new law will take effect on October 2023. Key points from the proposed legislation include:

- Local governments must allow the development of at least one ADU, which complies with the North Carolina Residential Code for One- and Two-Family Dwellings, for each single-family detached dwelling in residential zones.
- Local governments cannot require owner-occupancy of the ADU, placement in a conditional zoning district, or establish minimum parking requirements or restrictions.
- Local governments cannot prohibit connecting the ADU to existing utilities systems serving the primary single-family detached dwelling unit, provided there is capacity to serve both dwellings.
- Local governments cannot charge fees for permitting an ADU that exceed those for a similar single-family detached dwelling.
- Local governments may set a setback minimum for ADUs of 10 feet or the general setback minimum in the same zoning classification, whichever is less.
- Except as otherwise provided in this bill, local governments can regulate.
- This legislation does not apply to private covenants or agreements among property owners, properties located in historic preservation districts, or properties designated as a National Historic Landmark.
- This legislation defines an ADU as an attached or detached residential structure that is used in connection with a primary single-family detached dwelling and has less total square footage.
- The legislation becomes effective on October 1, 2023, and applies to applications for ADU permits submitted on or after that date.

Local governments must adopt development regulations and amend their comprehensive plan to implement the provisions in this act no later than October 1, 2023 if passed.



ADU Pros	ADU Cons
Allows extended families to be physically close	Can be difficult to finance affordably
Accommodates caregiving	Wealthier communities and covenant-protected communities frequently don't allow them
Allows homeowners to increase income/build wealth	Construction can be expensive on a square-foot basis
Provides rental options where there currently are none	May lead to increased pressure on street parking where off-street is not available
Requires less land clearing and new infrastructure than greenfield development	May hasten transition from majority homeowner to majority renter neighborhoods

These self-contained, smaller living units on the property of a single-family home have become particularly relevant in regions like North Carolina, where land use restrictions and fast-growing populations pose a challenge. However, while there are multiple potential benefits of ADUs, there are also potential drawbacks and unresolved policy questions that need to be addressed.

ADUs present an array of benefits, especially in accommodating diverse housing needs and facilitating sustainability. ADUs enable extended families to live close to each other, promoting intergenerational interaction and providing a valuable option for caring for aging relatives or adult children seeking independence.

ADUs can also increase homeowners' income and wealth-building opportunities by providing rental options. A 2018 study by Freddie Mac estimated that ADUs comprise 1.4% of the nation's housing stock, thus contributing to affordable housing. In North Carolina, where the median advertised rents just hit \$1,925 per month (Zillow, May 2023), ADUs can provide cost-effective alternatives for renters and supplemental income for homeowners.

Moreover, ADUs are a form of infill development, reducing the need for land clearing and new infrastructure. In North Carolina, a state with vast rural areas and valuable ecological assets, this could help conserve environmental resources and protect biodiversity.

Despite the numerous benefits, ADUs are not without challenges. Financing the construction of an ADU can be difficult and expensive due to their high per-square-foot costs. A lack of industry standards for appraising and financing properties with ADUs further complicates this issue. These hurdles may pose particular problems in North Carolina, where the median household income is \$60,516, slightly below the national median.

Furthermore, zoning regulations and covenant-protected communities often resist ADU integration, hindering their potential for addressing housing needs. In wealthier neighborhoods in cities like

Charlotte or Raleigh, such restrictions could perpetuate socioeconomic segregation.

ADUs might also lead to an increased pressure on street parking and transition neighborhoods from homeowner majority to renter majority. These changes could potentially disrupt the neighborhood dynamics and contribute to increased transience, particularly if ADUs are used primarily for short-term rentals.

Various policy solutions could be implemented to facilitate ADU integration. Waiving permitting and infrastructure system connection fees would incentivize developers, and allowing larger units would enhance their livability and rental potential.

However, it is also essential to reconsider owner-occupancy requirements. While these may be intended to maintain neighborhood character, they limit rental unit availability and impede wealth-building opportunities for small property owners.

Significant questions remain to be addressed. The implications for fair housing need clarification: are homeowners, for instance, permitted to discriminate when choosing who can rent their ADU? Policies must ensure that the growth of ADUs does not undermine fair housing laws.

Moreover, to enable more homeowners to construct ADUs, new loan products or financial support mechanisms may be needed. Lastly, concerns remain over how increased ADU development will affect neighborhood stability and whether it will lead to increased short-term stays and transience.

Accessory Dwelling Units may present a multifaceted solution to housing and environmental challenges but also brings with it a series of potential drawbacks and policy conundrums. As North Carolina and other states explore the potential of ADUs, they must continue to examine these questions and seek balanced policies that maximize their benefits while minimizing potential harms.

Policy Considerations:

1. Waiving permitting and infrastructure system connection fees is an attractive incentive for developers.
2. Size matters: allowing units of more than 400 square feet makes the ADU more livable and more rentable.
3. Requiring owner-occupancy in the main dwelling stifles rental unit availability and wealth-building opportunities for small property owners.
4. Owner-occupancy requirements make financing the ADU, or the purchase of a property with an ADU, more difficult and riskier.
5. There is no industry standard for appraising and financing a property with an ADU as a single-family or multifamily dwelling.
6. There is no industry standard for how ADU income or potential income is treated in underwriting. A buyer or owner may need lots of equity, lots of other income, or both, to qualify to get a loan to build an ADU.
7. Lenders want to be able to rent one or both of the units as owner in the case of a foreclosure.