

AB 976

ADU Owner-Occupancy Requirements

Assemblymember
Phil Ting
19TH DISTRICT



SUMMARY

Accessory dwelling units (ADUs) have the potential to be a powerful wealth building tool, but limited financing options pose significant barriers to ADU construction. Although the Legislature has worked to reduce obstacles to ADU construction, financing options remain very limited. Beginning January 1, 2025, local governments would be able to enact individual owner occupancy requirements, thus creating inconsistent policies across the state and posing greater risk for banks to finance ADU construction.

AB 976 creates predictability and stability for the ADU financing market by maintaining the status quo on ADUs.

BACKGROUND

Existing law prohibits local agencies from establishing owner occupancy requirements on ADUs until January 1, 2025. By allowing the ADU and/or the primary residence to be rental properties, homeowners are able to leverage the forecasted rental income for loans to build the ADU.

ADU adoption has been critical to promoting infill development, building generational wealth for homeowners, and to bolstering efforts for older Californians to age in place. Owner-occupancy requirements can increase risk for banks that provide ADU constructions loans. If a homeowner defaults on a loan and the bank forecloses the property, banks would need to evict ADU tenants because the bank cannot comply with the owner occupancy requirement. In more extreme cases, a local government could impose overly restrictive owner

occupancy requirements on both the ADU and the primary residence. Under this scenario, there is a higher risk to the bank that the homeowner will default because rental income cannot be collected on either unit.

To that effect, allowing local governments to impose owner occupancy requirements creates a patchwork of ADU policies across the state. These types of policies disincentivizes banks from offering lending products for ADU construction and could ultimately chill the ADU construction market.

THIS BILL

AB 976 removes the owner occupancy sunrise in current law. This will provide consistency for the emerging ADU market, encourage the continued growth of infill development, and promote the creation of affordable units in desirable neighborhoods.

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