

Toward Mutual Gain: Boosting Housing Supply by Unlocking Trapped Value in Low-Density Neighborhoods

Culminating Report

May 2024



Brookfield Centre
in Real Estate & Infrastructure



SHS CONSULTING



Contents

1	Introduction	3
2	Unpacking the Current System	6
3	Solution 1 • Enhancing the ADU Financing Landscape	19
4	Solution 2 • ADU as a Service	31
5	Reflections and Conclusions	39
6	Appendix	44

The Solutions Lab entitled “Toward Mutual Gain: Boosting housing supply by unlocking trapped value in Racialized Neighborhoods” received funding from Canada Mortgage and Housing Corporation (CMHC) under the NHS Solutions Labs, however, the views expressed are the personal views of the author and CMHC accepts no responsibility for them.

« Toward Mutual Gain: Boosting housing supply by unlocking trapped value in Racialized Neighborhoods » a reçu du financement de la Société canadienne d’hypothèques et de logement (SCHL) en vertu des laboratoires des solutions de la SNL. Cependant, les opinions exprimées sont les opinions personnelles de l’auteur et la SCHL n’accepte aucune responsabilité à l’égard de telles opinions. |

Acknowledgements

Toward Mutual Gain: Boosting Housing Supply by Unlocking Trapped Value in Low-Density Neighborhoods is an NHS Solutions Lab hosted by the Brookfield Institute for Real Estate & Infrastructure, York University, in collaboration with SHS Consulting.

Lab Team

The following team members undertook the day-to-day work of this initiative.

Brookfield Institute for Real Estate & Infrastructure

Joseph Ogilvie, Head of Innovation Partnerships

Karen Shlesinger, Program Director, Sustainable Infrastructure Fellowship Program

Wale Iyinolakan, Researcher

SHS Consulting

Adrienne Pacini, Partner

Nandita Bijur, Senior Innovation Designer

Alexa Volkov, Senior Research and Policy Analyst

Christine Pacini, Partner

Lanxi Dong, Senior Design Researcher

Contact

For more information, please contact Joseph Ogilvie • **E**: jogilvie@schulich.yorku.ca • **A**: Rob and Cheryl Graduate Study & Research Building, Room G333, Schulich School of Business, York University, 45 York Boulevard, Toronto, ON, Canada, M3J 1P3 •

1

Introduction

This section provides an overview of the Solutions Lab process, methodology, and focus of our work.



Where We Started

The Solutions Lab

Solutions Labs are iterative, participatory design experiments aimed at challenging conventional wisdom and supporting the creation of innovative solutions to complex problems.

This Lab started with an interest in understanding:

- **Why accessory dwelling units (ADUs) are not being created at scale in the Greater Toronto Area;** and
- **How this type of development can be used to unlock trapped value in a property in a way that creates equity through spreading wealth-generating opportunities to more families.**

Through the Lab process, the Lab Team convened several key contributors to bring their lived experience, subject-matter expertise, and insight to addressing this challenge.

Our Objectives

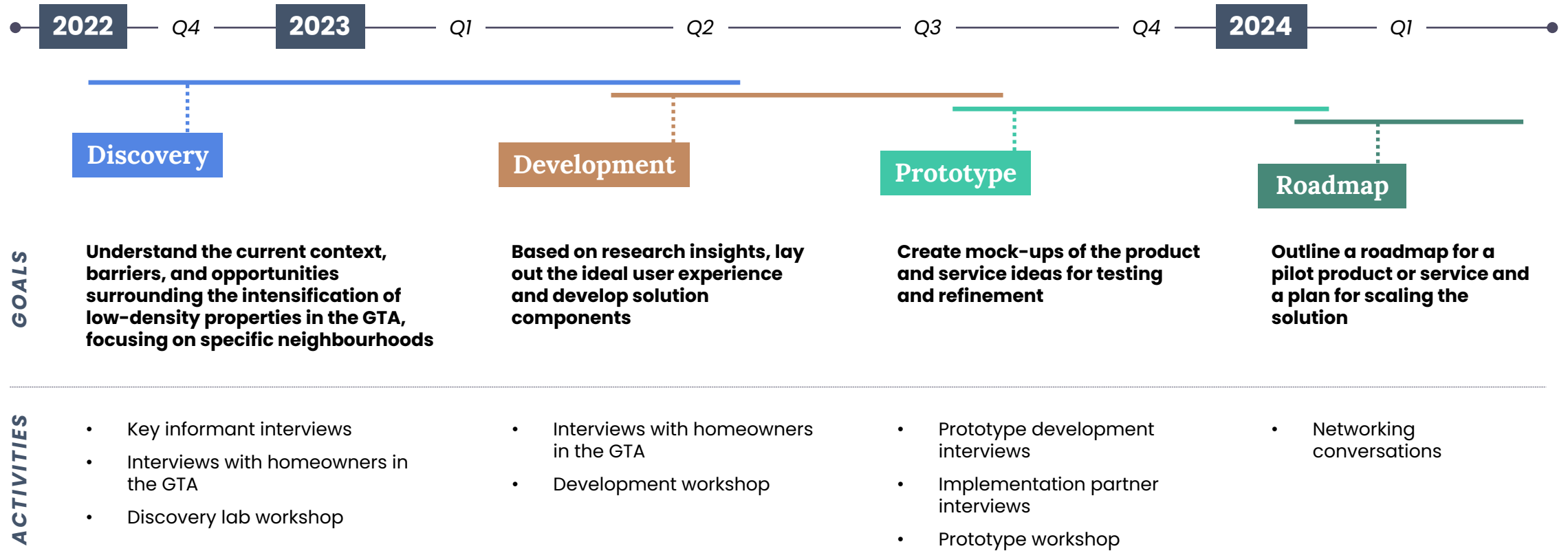
This Lab Team set out to design a desirable, feasible, and scalable solution to intensify low-density residential properties in the Greater Toronto Area (GTA) by provoking a wave of new accessory dwelling unit (ADU) developments.

Our objectives were to:

- 1 **Increase the stock** of rental housing in low-density neighbourhoods through a more balanced supply of housing;
- 2 **Improve housing options** for individuals and households that would benefit from these housing forms (e.g., seniors looking to downsize, multi-generational families, etc.); and
- 3 **Provide an economic opportunity** for homeowners and communities that may not typically engage in housing development, focusing on creating benefits for racialized and lower-income community members.



The 18-month Solutions Lab process took place over four key phases—Discovery, Development, Prototype, and Roadmap. The Lab activities involved diverse participants, including industry experts, housing professionals, and lived expert community participants. This page provides an overview of the key activities and engagement moments that took place.



2

Unpacking the Current System

The first phase of work—the Discovery Phase—endeavoured to map the current system to understand what it is like to undertake ADU development. We investigated the problems and barriers faced by homeowners looking to take on this big project.

Through this research, we gleaned a set of potential **opportunity areas** and **success criteria** for scaling ADU development in the GTA.



Problem Discovery

Understanding the Landscape

Accessory Dwelling Units

An accessory dwelling unit (ADU) is a smaller, independent residential dwelling unit located on the same lot as a larger primary residence.

ADUs can be:

- **Internal:** for instance, converted portions of existing homes
- **Attached:** such as additions to new or existing homes
- **Detached:** new stand-alone accessory structures or converted portions of existing stand-alone accessory structures such as garden suites, laneway homes, and garage conversions.




For this initiative, we chose to focus on enabling the creation of **detached ADUs**, as they often present more challenges around construction, financing, and overall complexity.

Setting the Stage

Early on in this process, we hosted initial conversations with housing developers and homeowners who have already undertaken an ADU development process. It was no surprise that the ADU development process is very costly, risky, and arduous.

This section provides an overview of our problem finding and framing process, including the key insights that informed the proposed solutions presented in this report.

We investigated the current system and its challenges and opportunities through three lenses:

-  **Desirability:** Does the person want to undertake the ADU development process? Does the potential value outweigh the effort and cost (emotional, physical, financial)?
-  **Feasibility:** How technically difficult is it to undertake this process? Does the person have the know-how and access to the technical expertise required?
-  **Viability:** Can the person afford to do it? Does it make financial and economic sense?



This Section

The next several pages in this report section illustrate the following elements of work:

- Mapping the **current ADU development journey**
- Framing the problems and roadblocks along the journey, including a set of **key problem insights**
- Mapping and prioritizing a **homeowner audience** of focus
- Defining **success** for our Solutions Lab
- Identifying potential **use cases** for a new ADU solution

Mapping the Current ADU Development Journey

Through a combination of desk research and interviews with real estate entrepreneurs and homeowners, we developed this current-state journey map to illustrate the key activities, barriers, and opportunities along the process of creating an ADU. This current-state journey map helps identify potential areas in the system where new innovations may support more ADU development.

	Phase 1 • Awareness	Phase 2 • Feasibility	Phase 3 • Development	Phase 4 • Occupancy
BARRIERS	<p>Sensing a need for and interest in creating an ADU; learning about ADUs and the process and potential</p> <ul style="list-style-type: none"> Lack of education about the opportunities and benefits—not knowing where to start Limited awareness of trusted contractors, architects, or firms working in the ADU space 	<p>Conducting research on options, determining feasibility (e.g., zoning, labour, cost), making the decision to move forward</p> <ul style="list-style-type: none"> Difficulty leveraging equity in property; lack of financing options from banks Uncertainty with the process (complexity of regulations) Feeling pressured to commit and move forward by companies when asking for quotes Fear of losing investment 	<p>Engaging professionals, drawing up plans, submitting applications, constructing the ADU</p> <ul style="list-style-type: none"> Lack of time to manage project Bad experiences with professionals Delays and additional costs due to unforeseen issues Construction challenges (e.g., tight downtown sites, living in home during construction) Long timelines 	<p>Using the ADU (e.g., housing family members, renting to tenants)</p> <ul style="list-style-type: none"> Fear of becoming a landlord Inability to sever the ADU from the main home in the future
OPPORTUNITIES	<ul style="list-style-type: none"> Increasing interest and awareness through policy changes and access to public-facing plain language resources about ADUs Recent City of Toronto approval of as-of-right zoning for multi-plexes of up to four residential units in all neighbourhoods across Toronto Signs of more start-ups focusing on modular construction of ADUs and similar modest housing (e.g., tiny homes) 	<ul style="list-style-type: none"> Information breaking down the costs of an ADU Connecting to homeowners who have already done this ADU-specific financing tools Long-term financial projections Creating a trustworthy and straightforward process 	<ul style="list-style-type: none"> Referrals for trustworthy companies to work with A “turnkey” approach Increasing the scale and efficiency of the modular ADU market Fast-tracking for ADUs 	<ul style="list-style-type: none"> Assistance with screening tenants and rental management

Key Problem Insights

We gleaned the following key problem insights from the Discovery Phase research and engagement activities. These problem insights served as creative fuel for the solution development and design process.

Overarching Issues

These **high-level overarching issues** served as a starting point for our research. While these problems will be of no surprise, they were assumptions we tested with our advisors, homeowner interviewees, and other experts:

- Building an ADU is expensive.
- Even for a small-scale development, navigating the real estate development process for an ADU is complex and requires industry knowledge and capacity.
- The municipal approvals process can be daunting and lengthy.
- There is a lack of centralized knowledge and expertise on how to create an ADU, how to find the right professionals to help, and who homeowners can trust in the process.
- There is yet to be a mature marketplace for ADU development support.

Finding a Customer

Insight 1 • Financial capacity and homeowner goals (motivations) are two key factors that must be considered when designing solutions for scaling ADUs.

There are many reasons a homeowner might be motivated to create an ADU. Designing a solution to scale ADU development must consider the unique financial circumstances and motivations of the target customer or audience for the solution. These factors have a significant impact on the success of any solution, as they help identify the core problem to be solved to relieve a pain point or barrier for a specific homeowner.

While well-intentioned, attempting to create a one-shot solution to address all of these potential audiences may not result in the most scalable and widely adopted solution.

Insight 2 • Due to the one-off nature of ADU development, disseminating the knowledge and capacity required may not result in widespread ADU development.

The typical homeowner seeking to build an ADU intends to undertake this process once.

They are not aiming to launch an ADU development business—they are pursuing this activity to satisfy one of their personal goals for their current property. When looking for a scalable solution to enable thousands of ADUs to be developed across the GTA, providing training and tools to bring thousands of homeowners up to speed on ADU development (only to undertake one development project) may not prove to provide the most scalable and replicable pathway to significantly contributing to an overall balanced supply of housing in the GTA.

Insight 3 • It is not realistic to expect every ADU creator to want to be a landlord or to rent out their home to a stranger. If we want to promote the creation of ADUs that contribute to a balanced supply of housing, we must address this barrier.

There are risks and responsibilities associated with being a landlord. To ensure we are creating safe and stable housing opportunities, the job of a landlord requires an understanding of tenant rights and standards. Operating a rental unit also requires time, dedication, and an interest in pursuing this business venture.

Problem Discovery

Insight 4 • As it stands today, ADU development is reserved for people with high financial capacity and risk tolerance. This limits our ability to spread this wealth-generating opportunity to more families with low-to-moderate incomes.

Building an ADU can cost upwards of \$400,000. Homeowners without significant equity can face many challenges in covering the upfront costs of building an ADU, especially when relying on traditional financing.

For homeowners who lack substantial financial capacity, there are few ways to fund the creation of an ADU other than borrowing against their home and taking on significant debt.

While the newly announced Government of Canada program offering low-interest loans (up to \$40,000) to create an ADU is a start, current ADU development costs can be in the hundreds of thousands of dollars, depending on the location. Taking on a home equity line of credit is likely out of reach for people without substantial equity in their home, elderly people with fixed or declining incomes, people who cannot secure favourable borrowing rates, or homeowners who do not have the risk appetite to take on more debt.

Insight 5 • The creation of multi-generational living opportunities, while not aimed at adding to the pool of market rental housing, has the potential to create an affordable non-market housing opportunity for a family member—this scenario is worthy of time and effort as it can make a meaningful positive impact on the housing system more broadly.

Homeowners are venturing into ADU development to create a home for a family member (whether the family member lives in the ADU or moves into the primary residence, with the homeowner moving to the ADU). This scenario can be suitable for people at different stages of life, such as a young adult moving out of their parent's primary home or an older adult looking to live near relatives.

This type of activity has value as it creates a scenario where a family pools its resources (access to land) to provide housing for more family members.

Scoping Decision

This Discovery Phase research helped us begin to scope our target audience and solution space.

From these insights, we decided:

We are not focused on creating ADUs purely for investment purposes or entrepreneurial pursuits.

While this type of development is still helpful in moving towards a balanced supply of housing, we have assumed this group has the tools, capital, and financial motivations to undertake ADU development. These homeowners may be less in need of our help.

Continue reading this section to learn more about our motivation-financial capacity matrix and our decision-making around our target homeowner audience.

Developing a Value Proposition

Insight 6 • The bespoke and small-scale nature of ADU development can make it difficult to make it financially viable. Looking at the system as a whole (e.g., thinking of a neighbourhood of ADUs as a portfolio) could provide an opportunity to achieve scale and scope.

A core mission of this solutions lab is to create a more balanced supply of housing by increasing the availability of below-market-rate rental housing in the GTA. The financial viability question is of importance, as it impacts affordability and uptake by homeowners. Without dramatically decreasing the cost of construction, it is worthwhile to investigate other ways of reducing overall costs and burden, such as through pooling resources across several ADU development projects.

Insight 7 • Finding a solution to making ADU development financially viable enough for an average person to add to the rental housing stock may require a drastic reduction in construction costs. There are several groups working on this problem. However, it does not lend itself to the capabilities of this solutions lab.

Bringing construction costs down is a worthwhile activity that can have promising impacts on the uptake of ADU development. For this solutions lab, however, this type of construction innovation solution does not lend itself to the capabilities of our team or our intended area of focus in the system. Any financial or policy solutions, however, would benefit greatly from being paired with solutions that reduce the cost of construction.

Existing Solutions

How-To Guides

There are many resources available online to help homeowners better understand and navigate the process. These include [Accessory Dwelling Units Principles and Best Practices](#) from Arpent, funded by CMHC (2018), Ontario's [Second Unit guide](#), and Bruce County's [Additional Residential Unit Toolkit](#).

Products and Services

In addition to informational resources, companies are developing new tools and products to help homeowners through the feasibility and development/construction phases of their ADU project.

- [ADU Search](#) is an online tool that gives homeowners customized information on what they could build on their property.
- [Happi Builds](#) is one of many companies working to bring prefabricated modular ADUs to the market, working with R-Hauz to deliver a seamless experience to customers.



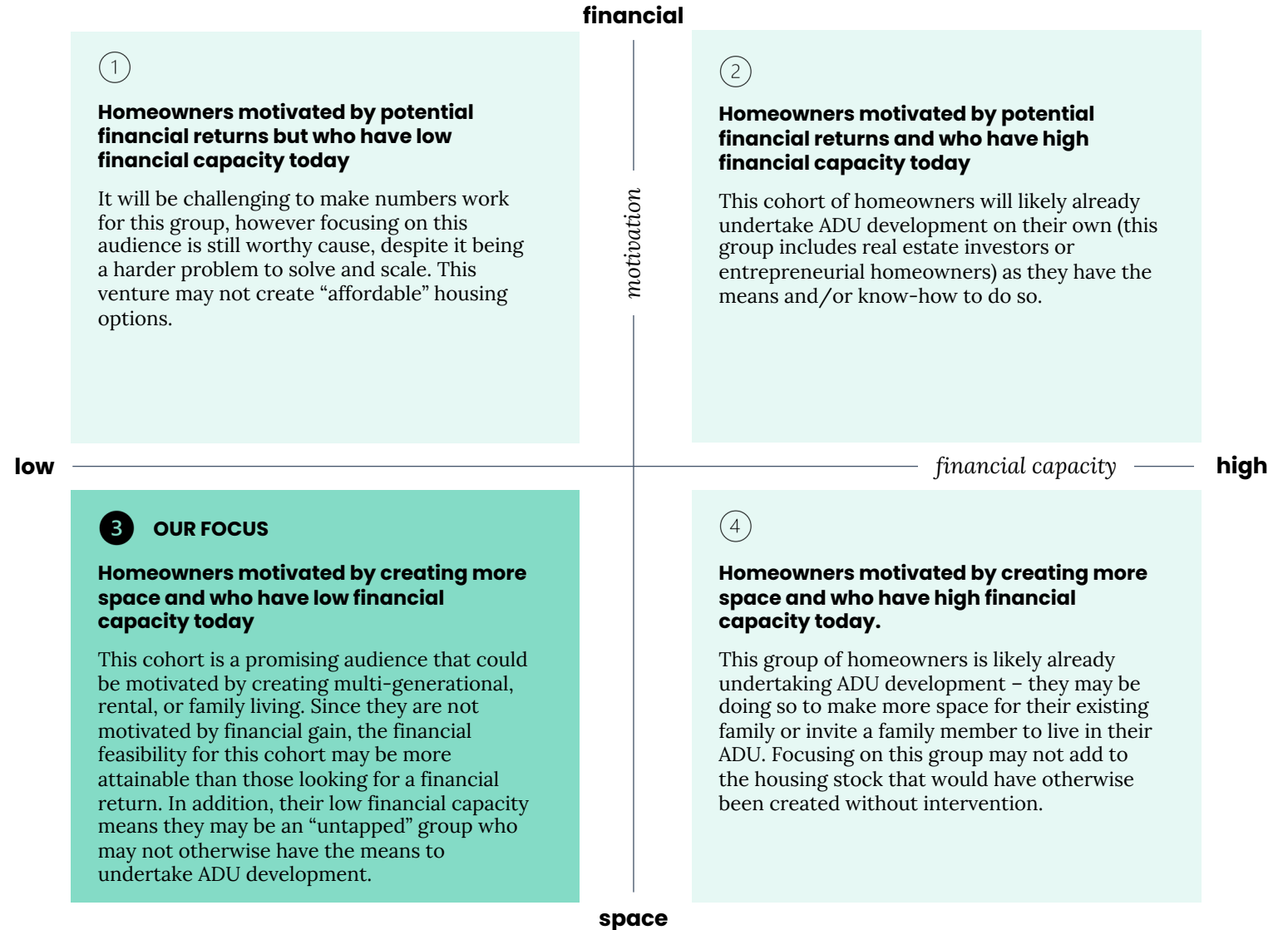
Mapping Potential Homeowner Audiences

This Discovery Phase research helped our project team establish a promising place where opportunities for new scalable solutions might be possible.

As highlighted in **Insight 1**, a homeowner’s motivation and financial capacity are two key factors in decision-making around ADU creation.

The matrix on this page highlights a desirable focus area for this Solutions Lab. The two key differentiators that showed up frequently in our research and exploration were:

- **Motivation:** the homeowner’s motivations were, in many circumstances, either **financial** (i.e., seeking to create an ADU to generate revenue either through rental revenue or increasing property value) or related to creating access to **space** (for instance, creating an office, guest suite, or home for a family member)
- **Financial capacity:** the homeowner’s financial capacity to take on their ADU project was a key factor in their ability and interest to move forward



Defining Success

The key insights from the Discovery Phase, paired with our team's organizational goals and mandates, helped narrow the range of possible solutions that might be **desirable**, **feasible**, and **viable**.

We crafted a suite of success criteria to help refine the most promising opportunities, design new value propositions, and evaluate their potential for success.

The success criteria on this page assist with opportunity and solution evaluation.

Success Criteria

Desirability

Our success criteria under "desirability" evaluate whether the proposed solutions solve a problem and can deliver a significant positive impact for homeowners and the broader housing affordability challenges in the Greater Toronto Area.

Our solutions must...

- **Magnitude:** Have the potential to increase the adoption of accessory dwelling unit creation in the Greater Toronto area (i.e., scale up ADU supply)
- **Speed:** Have the potential to decrease cost, burden, and friction for the homeowner by increasing the speed of ADU development
- **Innovation:** Provide a unique and commercially viable solution that is not already offered
- **Impact:** Create the potential for positive social impact by increasing the non-market housing supply and helping homeowners who do not typically have the means to create an ADU on their property

Feasibility

Our success criteria under "feasibility" evaluate whether the proposed solutions are technically possible and fit with the scope and mandate of the Solutions Lab team organizations.

Our solutions must...

- **Time-frame:** Have the potential to be designed and delivered within a reasonable time-frame of the Solutions Lab
- **Leverage existing:** Leverage or draw inspiration from existing products and services already or previously offered by CMHC (as funder of this initiative) or other incentives or programs
- **Partnership:** Consider the potential to secure partnerships for solution delivery and execute
- **Funding:** Provide a pathway to secure funding for future prototyping and implementation

From Problems to Opportunities

With our target homeowner audience in mind, we identified three core opportunity areas to explore where we believed promising solutions might emerge. These opportunity areas could be used as starting points for further exploration by others seeking to stimulate ADU development. The table on this page summarizes the **three core problem areas, opportunities, and potential solutions** of interest based on our prioritized homeowner audience and solution success criteria.

Problem	Opportunity	Potential Solutions
<p><i>The following problems are holding us back from scaling ADU creation:</i></p>	<p><i>There are opportunities to innovate in this area by:</i></p>	<p><i>The following design prompts are worth exploring, to build new solutions:</i></p>
<p>1 The prohibitive cost of building an ADU is paired with limited financing options and a mismatch between potential customers for an ADU development solution and those seeking to add to the non-market housing supply.</p> <p>Building an ADU can cost upwards of \$400,000 in the GTA (based on recent secondary research). Homeowners without significant equity or risk tolerance can face many challenges covering the costs of building an ADU. Existing financing options rely primarily on the homeowner taking on more debt (e.g., through home equity lines of credit).</p>	<ul style="list-style-type: none"> • Making it more affordable for homeowners to build ADUs (i.e., reduce the cost of building an ADU) • Modifying existing debt-oriented solutions to increase financial feasibility and create more flexibility for homeowners • Finding new financial models that reduce the financial burden on the homeowner by sharing the burden with another party • Designing new financing options with the low-to-middle-income homeowner as the core customer in mind 	<ul style="list-style-type: none"> • Offer creative financing options: design new models of securing financing for construction • Reimagine the relationship between the ADU builder and lender: Find ways to reduce the financial burden to the individual homeowner by matching them with investors or lenders in a mutually beneficial arrangement. • 'Buy an ADU' model: flip the script and leverage existing financing tools to enable ADU dwellers (the ADU tenant) to finance an ADU on a homeowner's property, allowing for the ADU dweller's income to be factored into the lending equation and ADU creation cost
<p>2 There is a lack of a well-known and trusted marketplace or platform for knowledge, expertise, and guidance on ADU development, perpetuating the lack of incentive to take on ADU development even as an investment property.</p> <p>Homeowners often rely on either their contractor or their architect to navigate the process. Given the unique nature of each ADU project, a lack of solid understanding of the process could lead to longer timelines and unforeseen cost escalations.</p>	<ul style="list-style-type: none"> • Creating a standardized or turnkey process to build an ADU, making it easier for a homeowner to get involved—reduce risk and burden to the homeowner, making it a process accessible not just to those with time and energy to undertake the process • Catalyzing a network of vendors to provide a standardized quality when it comes to the ADU development process and product • Streamline the process for a homeowner to <i>purchase</i> (rather than <i>develop</i>) an ADU—bring this experience closer to buying a condominium apartment 	<ul style="list-style-type: none"> • Bring ADU development closer to the experience of buying a condominium apartment • Create a network of trusted information and referrals: create a source for homeowners to access reliable business and financial advice—to understand financial implications and be able to make those decisions outside of the influence of their contractors who have a stake in the game • 'Lease an ADU' model: create a turnkey experience to get an ADU on a property by considering a model where the ADU is leased to the homeowner, rather than developed
<p>3 The complexity of the ADU development process is paired with an expectation that homeowners with limited development knowledge will take on this time- and resource-intensive initiative.</p> <p>If we believe it is of social value to increase the stock and availability of ADUs in low-density neighbourhoods, a one-ADU-at-a-time approach may not get us to scale.</p>	<ul style="list-style-type: none"> • Changing the role of the homeowner in the marketplace from ADU developer and owner to landowner and lessor • Considering the role of a third-party convener and player in the system—with a birds' eye view on the process • Reframe the challenge of making it possible for individual homeowners to build ADUs on their properties, rather, enable a portfolio of ADUs to be created 	<ul style="list-style-type: none"> • Consider an 'aggregator' model: introduce a social purpose (e.g., non-profit) organization that could oversee the entirety of the process, offering guidance, advice, and project management support, and able to create economies of scale • Aggregate ADU development: share the risk and reward with an ADU aggregator who can manage the entire process of building ADUs on a portfolio basis, at scale

Crafting Solutions Along the Development Process

The models articulated in this report are situated within the journey of ADU development from awareness to occupancy. Solutions are needed across the development process. The table below also illustrates the problem being addressed in relation to the lenses of desirability (would someone take on ADU development), feasibility (have we made the process more technically possible), and viability (is the process financially realistic).

Potential Solution	Development Process Phase				Success Criteria		
	This solution touches on the following phases of the development process.				This solution addresses a problem related to the following lens.		
	Awareness	Feasibility	Development	Occupancy	Desirability	Feasibility	Viability
1 Alternative Financing <ul style="list-style-type: none"> • 'Buy an ADU' model: leveraging existing financing tools to enable ADU dwellers to finance an ADU on a homeowner's property • Value Proposition: financing with the flexibility required for varied use scenarios 		★			★		★
2 Productizing the Experience <ul style="list-style-type: none"> • 'Lease an ADU' model: creating a turnkey experience to get an ADU on property • Value Proposition: financing burden off homeowner, knowledgeable builders 		★	★		★	★	
3 Scaling through a Portfolio Approach <ul style="list-style-type: none"> • 'Aggregator' model: social purpose organization that oversees the entirety of the process, offering guidance, advice, and project management support, and able to create economies of scale • Value proposition: system navigation, problem solving 	★	★	★	★		★	★

Use Cases

Our research identified two key scenarios and use cases that would benefit from the proposed solutions.

Use Case 1: Future Proofing

What's happening?

With rising costs of living in the Greater Toronto Area, more households are growing increasingly concerned about making ends meet in the future. They're able to make their current mortgage payments and maintain their desired lifestyle but can foresee this becoming more challenging over the coming years, with the evolving needs of their growing family. They recognize the need to future-proof their financial situation and are evaluating available opportunities towards this end-goal.

Since they own their property and identify under-utilized space on their land, they start exploring the possibility of adding an ADU to their property as a means of generating additional income to meet their financial demands.

Who is this target audience?

This homeowner would likely be a middle to high-income earning family, with a higher likelihood of being middle-income where opportunities for future-proofing are more limited. They are interested in leveraging existing land ownership to mobilize a secondary income stream. They would be residents of the Greater Toronto Area (GTA), Ontario, or a similar city in Canada.

What problems need to be solved?

Homeowners are faced with increasing financial stressors and volatility, and an underlying need to ensure they can continue to service their mortgage payments despite these pressures. Of key concerns are higher interest rates, inflation and the overall burgeoning cost of living.

This homeowner would have limited access to liquid capital and an eagerness to generate a secondary income stream.

How might our solutions help?

Solution 2 (Lease-an-ADU) would offer a low effort solution without high upfront cost to secure a secondary income source. The value proposition for this homeowner would primarily be the spread between the lease cost and the rental income.

Use Case 2: Affordable Housing for Family Member

What's happening?

With an aging population across the City and rising costs of care (home/community care, child care, etc.), households across the GTA are looking for affordable solutions to support their family members, including multi-generational housing. This homeowner begins exploring ADUs as she is nervous about her mother living on her own. Her mother can't afford to live in a retirement home, so they explore the option of a one-floor ADU on her property.

Who is this target audience?

The homeowner is interested in leveraging existing land ownership to create a housing solution for a family member. They can come from any income bracket but would most likely be a low to middle-income family with a smaller house that cannot comfortably accommodate an extra family member.

Why do they want to build an ADU?

The main motivation is a social trigger. This could be in the form of an aging parent or an adult child who is in need of affordable housing. There would be an added social benefit with regards to care and emotional wellness, and the possibility of a tie in with the benefits of built-in childcare/babysitting via the availability of an additional family member(s).

What problem needs to be solved?

The main problem to solve for is access to an affordable housing solution for a family member(s) who is in need. The homeowner has limited financial means to secure the capital to build an ADU; They are deciding between financing affordable housing for their relative in need or pay for ongoing lodging in a care home (which can incur high monthly costs.)

How might our solutions help?

Solution 1 (Buy-an-ADU) could address the problem of access to financing by mobilizing the income stream of the family member in need for an acceptable housing solution.

Solution 2 (Lease-an-ADU) would offer a low effort solution without high upfront cost.

Additional benefits of the housing solution could extend to care, emotional wellness and community. There are further financial benefits to the homeowner and the tenant, whereby living costs can be split to relieve financial stress on both parties.

Ecosystem Elements Required to Scale ADU Creation

The identification of key solution directions also enabled an exploration of the ecosystem required to support the proposed solutions. Scaling ADU creation is not a one-shot operation, it requires several interventions working together to change the landscape. This page provides an overview of some of the components and elements that would support this ecosystem.

1. Enabling Policy & Planning

Supportive policies that enable ADUs to be built. This can include:

- Removing owner-occupancy requirements
- Conditional land use standards
- Incentive programs that require affordable rental prices

2. Accessible Information

There is clear and easy to understand information available for all who might be interested and/or involved in order to build interest and buy-in among the public.

3. Navigation Support

Clear guidance to navigate and manage the multiple streams of work (permits, servicing, design, procurement, financing, etc.)

4. Network of Knowledgeable Vendors

Builders, planning lawyers, and other vendors that can easily work with each other to navigate the system and ensure a smooth process for the homeowner

5. Financing

Financing an ADU is tied inextricably to these other aspects of ADU development. While they individually make it easier to build an ADU, without proper financing infrastructure, rates of ADU development aren't increasing.

Our research found that while the entire process of building an ADU is complex, **financing is the biggest challenge homeowners face.** Even with existing municipal incentive programs, the math often doesn't work out.

Effective financing infrastructure is a key component of an enabling ecosystem for ADUs.

3

Solution 1

Enhancing the ADU financing landscape

This section presents our first proposed solutions, impacting the way ADUs are financed. This solution can be described as a “buy-an-ADU” model.



Finding Alternative Models to Finance ADUs

The process of developing an ADU can be complex, overwhelming, and expensive. Experts and homeowners identified financing as one of the largest barriers to building an ADU.

Key Challenges

- High upfront capital and monthly carrying costs leaves the burden of financing only on the homeowner
- Loan amounts need to be quite high to cover all the costs
- This can be near impossible for homeowners with low equity or those not able to access traditional loans

Key Needs

- **An ADU-specific financing tool**
- **Flexible financing** options for people in different financial situations
- **Less burden on homeowner** to finance the entire development
- Ways to **leverage other forms of equity or assets** available on the property

Problem Statement

How might we leverage all available assets on a property to finance an ADU to unlock the potential for mutual gain with low-to-medium income homeowners?

Gap in Current Financing Structure

Current financing options (detailed below) to build ADUs can limit access, especially for low to medium income homeowners. The gap exists for homeowners who have appropriate assets (property or some equity) but lack upfront capital.

Home Equity Loan or Line of Credit

A home equity loan, line of credit, or second mortgage is a type of secured loan where your home is used as collateral to ensure repayment of the borrowed funds.

Where this option falls short:

- Higher interest rate than first mortgage
- Shorter repayment period, leading to higher monthly payments
- High costs and fees to cover appraisal, lender fees, and credit reports
- Homeowners require a substantial amount of equity

Traditional Refinancing

Refinancing allows homeowners to directly access funds without the need for an additional loan beyond their existing mortgage.

Where this option falls short:

- Homeowners require a substantial amount of equity
- Current environment of high interest rates provides unfavourable terms, especially if financial institution doesn't recognize the future value of the ADU
- CMHC does not provide mortgage insurance for refinancing projects

Construction Loans

Construction loans are a short-term financing option as they typically must be repaid or refinanced when construction is complete

Where this option falls short:

- Higher interest rates than longer-term mortgages
- Require the lender to recognize the future value of the ADU
- More conditions and requirements compared to mortgages (e.g. financial institution may need to approve the builder, or funds are typically released in a series of draws requiring regular inspections when key milestones are reached)

The Model in a Nutshell

Description

This solution enables a prospective ADU owner to access a financing scheme to fund the development of their **modular mobile home**, in collaboration with a homeowner with underutilized space on their property.

The model focuses on supporting the prospective ADU dweller/ owner to finance a mobile ADU, leveraging the modular+mobile nature of the home.



Motivation to build an ADU was a key factor in determining the viability of this model.

Testing found this model was a better fit for those with a social trigger or need (e.g. housing a family member) rather than those with a financial motivation.


Assets Contributed




Prospective ADU owner



Income to finance the ADU



Property owner



Under-utilized land on property

Required Components



Land Lease: Property owner leases land to ADU dweller/ owner



Chattel Mortgage: ADU owner gets chattel mortgage, similar to financing a mobile home



Mortgage Insurance: The Chattel Loan Insurance Program (or similar product) insures the loan



Transportable home: ADU owner selects a pre-approved mobile ADU model

Case Study



ADUs for Intergenerational Living

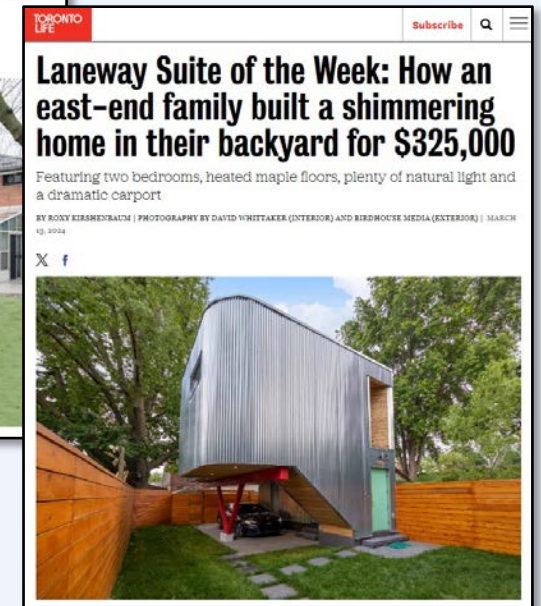
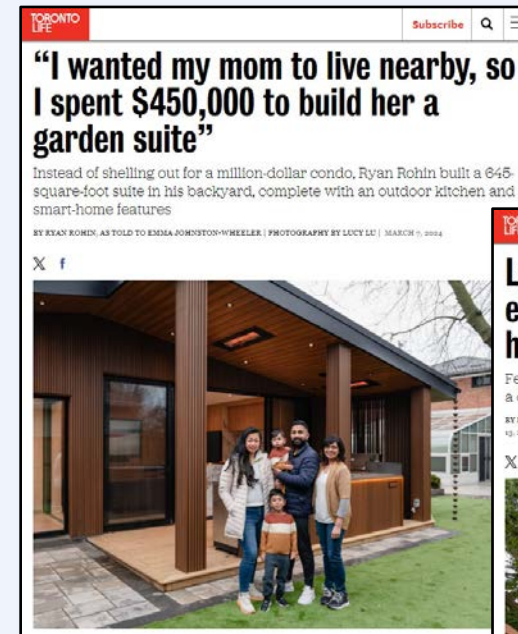
Recent examples have highlighted the value that ADUs bring in allowing families to customize their housing options to suit their needs – including expanded forms of intergenerational living.

“I kept Mom away from the suite for the last few weeks of construction. When we did the grand reveal, she was in awe. Even though the process was time-consuming, I knew it was completely worth it. She officially moved into the suite in October of 2023. Two nights later, our older son slept over at her house for the first time. She couldn’t believe how easy it was to spend time with him. The following week, she cooked us all a Thanksgiving dinner there.”

– Ryan Rohin, [Toronto Life](#)

“Bain expects her three kids (ages 11, 16 and 26) to save a ton on rent by living in [the laneway suite] one at a time. Right now, it acts as a spare bedroom for visiting family and friends.”

– Roxy Kirshenbaum, [Toronto Life](#)



The Model in Depth

This model could offer more affordable entry points to ADU development than the current state.

Value Proposition

The Buy-an-ADU model offers a unique model that leverages existing (and common) tools and products to:

- Leverage all available assets (including the ADU dweller's income) to finance the ADU
- Build housing supply in low-density neighbourhoods
- Create new opportunities for home ownership
- Set a precedent for an ADU-specific financing product, with terms and conditions that are flexible to account for different situations

Key Partners

This model would be implemented with the following key partners:

- Financial institution with a mandate for community development, such as a credit union or social enterprise to provide a chattel mortgage type product specifically for ADU development
- CMHC or another reliable mortgage insurance provider to provide a guarantee to the lender
- Modular ADU builder that could design and manufacture an ADU that meets the requirements to be eligible for chattel financing (e.g. VIN, portable, etc.)

Relevant Actors

This model will also involve engaging with the following actors:

- ADU Marketplace that can support connections with vendors and suppliers
- City of Toronto, or relevant municipality, to ensure alignment with regulations

Key Resources

This model will require the following resources to be successful:

- Lender expertise and experience with the various components of the model (i.e. chattel loans, CMHC's mortgage insurance, etc.)
- Access to ADU Sales Centres, education popup booths, etc.

How the Model Could Work

Grace and Megan's story



Prospective ADU Owner: Grace, a senior, is having trouble living independently but is not interested in moving to a care home. She has a pension that can pay for her housing in the future and is considering living with her daughter's family.

Property Owner: Her daughter Megan lives in a single-family home with her family, on a plot with under-utilized space in the backyard. She is interested in building an ADU for her mother to live in, but she is not able to take on more debt in her name, so needs to leverage her mother's income for the loan.

Example Scenario

1



Megan and Grace identify the potential to build an ADU

Megan has under-utilized space on her property. She invites her mother to live in an ADU in her backyard.

2



Megan leases the land to Grace.

Grace and Megan sign a land lease agreement that details agreements on site servicing, rent, utilities, and exit provisions

3



Grace and Megan choose a prefab mobile design to construct.

A prefab mobile ADU model provides clear expectations on how much design and construction will cost.

4



Grace applies for a chattel mortgage

Grace visits a credit union to get a chattel mortgage for her ADU

5



Lender applies for mortgage insurance

The lender assesses her eligibility for the Chattel Loan Insurance Program through CMHC

6



The lender assesses Grace's eligibility and LTV ratio

Underwriters consider Grace's income and household budget to determine if/how much to loan

7



Lender grants the mortgage!

Grace can now begin the process of building her home

8











Grace makes monthly mortgage and land lease payments

Grace uses her pension to pay her mortgage and rent.

Service Blueprint

A service blueprint helps identify the required elements of the business model, including the actors involved at each step, and the tools and infrastructures required for success.

Awareness		Prep		Financing		Pre-development									
<div style="border: 1px dashed black; padding: 5px; margin-bottom: 10px;"> Actions </div>															
1		2		3		4		5		6		7		8	
Megan and Grace identify potential to build an ADU		Megan leases the land to Grace		Grace and Megan choose a prefab mobile design to construct		Grace applies for a chattel mortgage		Lender applies for mortgage insurance		The lender assesses Grace's eligibility and LTV ratio		Lender grants the mortgage		Grace pays monthly mortgage and land lease payments	
<div style="border: 1px dashed black; padding: 5px; margin-bottom: 5px;"> Actors Involved </div> <ul style="list-style-type: none"> Homeowner ADU dweller 		<ul style="list-style-type: none"> Homeowner ADU dweller Lawyer 		<ul style="list-style-type: none"> Homeowner ADU dweller ADU Builder 		<ul style="list-style-type: none"> ADU dweller Lender (bank or credit union) 		<ul style="list-style-type: none"> Lender (bank or credit union) CMHC or other insurance provider 		<ul style="list-style-type: none"> ADU dweller Lender (bank or credit union) Homeowner (if guarantor) 		<ul style="list-style-type: none"> Lender (bank or credit union) ADU dweller CMHC or insurance provider Homeowner 		<ul style="list-style-type: none"> ADU dweller Homeowner 	
<div style="border: 1px dashed black; padding: 5px; margin-bottom: 5px;"> Backstage Actions </div> <ul style="list-style-type: none"> Researching the process and available options 		<ul style="list-style-type: none"> Working with lawyer to define key agreements 		<ul style="list-style-type: none"> Creating site plan Beginning municipal processes 		<ul style="list-style-type: none"> Collecting necessary documents 		<ul style="list-style-type: none"> Understanding underwriter expectations to prepare application 		<ul style="list-style-type: none"> Underwriters assess risk and eligibility 		<ul style="list-style-type: none"> Lender outlines terms of mortgage clearly for homeowner and ADU dweller 		<ul style="list-style-type: none"> ADU dweller making rent payments, if in lease agreement 	
<div style="border: 1px dashed black; padding: 5px; margin-bottom: 5px;"> Tools and Infrastructure </div> <ul style="list-style-type: none"> Clear information about model, who's involved 		<ul style="list-style-type: none"> Legal team or advice to draw up contract 		<ul style="list-style-type: none"> Pre-approved designs Estimate of total cost 		<ul style="list-style-type: none"> Financing product designed for ADUs 		<ul style="list-style-type: none"> CMHC guidelines for using chattel mortgages for ADUs 		<ul style="list-style-type: none"> Broader understanding of risk and future value of ADUs 		<ul style="list-style-type: none"> Requirements / mortgage terms explainer 			

Financial Modelling

Assessing Viability

A financial model has been created to explore the **financial viability of this solution**. The model compares a base scenario under current, conservative assumptions versus a scenario that incorporates certain interventions to improve viability.

The model follows a **modified Residual Land Values approach**, using the monthly ground lease payment as the residual. The maximum supportable ground lease payment is calculated based on the difference between the affordable shelter costs of different income deciles and the predicted monthly operating costs.

A complete breakdown of the financial model is included in the Appendix of this report.

Equity Contribution

Under the base scenario, **the high amount of equity required (approximately \$130,000) threatens the viability of this approach**. The main assumptions impacting this are the low loan-to-value (LTV) ratio (65%) and the fact that the total value to which the loan is applied is limited to the dwelling value (i.e. the total value of the security), leaving the purchaser on the hook for all other capital costs. These assumptions are based on the understanding that financial institutions currently attribute a high level of risk to chattel loans.

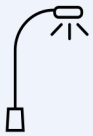
Under the intervention scenario, both a higher LTV ratio (80%) and additional financial support (\$50,000 grant) are required to bring down the upfront equity requirement (~\$50,000). When increasing the LTV, a lower interest rate and a longer amortization period are needed to maintain affordable monthly mortgage payments.

Monthly Costs

In the base scenario, the residual value the dweller has left to pay for their ground lease without exceeding 30% of their income, based on income deciles for all households in Toronto, is \$399 for the 4th income decile, \$860 for the 5th income decile, and \$1,601 for the 6th decile. For one person households in the fifth decile, this value is -\$256.

This shows that **those in the 5th decile or higher (among all households) can afford to pay a monthly ground lease of \$850 or higher** under this model.

Rates are similar in the intervention scenario, as improved loan terms are only enough to offset the higher loan value, with the monthly mortgage payment being only slightly reduced.



Case Study

Craft3 Credit Union

Craft3 Credit Union is a regional (Portland-based) community development financial institution that has developed a product for ADUs in response to the growing need and demand, supporting the improving policy environment in Oregon.

About the Product

Craft3 is a non-profit community lender, offering an ADU-specific loan product that primarily funds owner-occupied, single-family residences or residences of a family member of the property owner.

The product offers:

- Borrowing up to \$250,000
- No income restrictions
- No credit or down payment requirement
- Flexibility on what the funds can cover (e.g. design, permitting, and construction)
- Fixed interest rates, with reduced rates for lower-income applicants

How it Works

Craft3's ADU Loan program serves people in specific parts of Oregon.

The product is focused on increasing access to ADU financing for households that may not qualify for traditional financing. The rates and terms of the loan are determined by the household's annual income.

- Households at or above Portland AMI (Area median income) pay a fixed rate of 6.49%
- Households below Portland AMI pay a fixed rate of 5.49%

Features

- Craft3 prioritizes assessing a homeowner's current credit performance, rather than a credit score.
- Very few restrictions on what the financing can cover
- Amortization period is 20 years (240 months)

Loans are secured by a **Deed of Trust**, meaning the legal title for the property is transferred to a third party in trust.

**Craft 3 may be able to make the loan even if there is an existing mortgage or HELOC on the property.*

Roadmap

This **roadmap for implementation** provides some of the next steps for creating an **initial pilot**. The roadmap includes proposed major milestones along the journey, actions, and decision points that should be considered through the implementation process.

Timeline	Planning for the Pilot (Short-Run)		Pilot (Medium-Run)		Scaling Pilot (Long-Run)
Major Milestones	<p>Milestone 1 Establish partnerships with one lender and builder to implement pilot</p> <p>Milestone 2 Secured funding to design and develop a modular ADU design that meets requirements</p>	<p>Milestone 3 Elements of the model (e.g. land lease template, guidelines for underwriting, etc.) completed and ready for use in pilot</p>	<p>Milestone 4 Launched pilot - formal process for ADU dweller to apply for discrete components of the model</p>	<p>Milestone 5 ADU dweller successful in getting mortgage and building ADU</p> <p>Milestone 6 Developed an updated business model that can be applied in different jurisdictions</p>	<p>Milestone 7 Financing product / model adopted by 3+ lenders across Canada</p>
Key Actions and Capabilities	<ul style="list-style-type: none"> Host interviews to identify what else is needed to tie components in this model together Select one lender and one modular ADU builder to implement pilot 	<ul style="list-style-type: none"> Co-design elements of the model with partners Build awareness of the model with potential homeowners and ADU dwellers to pilot Select homeowner and ADU dweller pair to pilot the model 	<ul style="list-style-type: none"> Support the ADU dweller and homeowner through application process Follow up with lenders and CMHC underwriters on emerging challenges and gaps 	<ul style="list-style-type: none"> Support ADU dweller and homeowner to finalize construction of ADU Host post-pilot interviews with all actors involved to understand how t 	<ul style="list-style-type: none"> Socialize the refined model and financing product with relevant actors in the affordable housing system
Research and Evaluation	<ul style="list-style-type: none"> Engage relevant municipality to understand any limitations of model within their policy framework Refine list of socially-focused financial institutions and modular builders looking for innovative solutions to the housing crisis 	<ul style="list-style-type: none"> Continue researching potential limitations or opportunities of the model to support underwriting process and build expectations of all partners 	<ul style="list-style-type: none"> Develop an evaluation framework and plan to assess the process and impact 	<ul style="list-style-type: none"> Analysis and evaluation of pilot Identify opportunities to add, modify, or remove elements in the model 	<ul style="list-style-type: none"> Develop communication strategy to build awareness of model and who it can help
Policy and Resources	<ul style="list-style-type: none"> Socialize the model with potential funders who can invest upfront capital to design and build the ADU 	<ul style="list-style-type: none"> Refine and finalize the model design, including tools and resources to be used in implementation 		<ul style="list-style-type: none"> Share learnings from pilot with CMHC, lenders, and other partners 	<ul style="list-style-type: none"> Socialize the product model with multiple lenders (socially-focused) across Canada

Considerations for Implementation

Challenges and Barriers

In today's climate, financing has been, and remains, the greatest barrier for homeowners looking to build an ADU. As an example, the higher levels of risk and the low value currently associated with chattel mortgages may lead to high interest rates, low loan-to-value ratios, and other unfavourable lending terms.

As mentioned earlier, this solution would only be desirable for homeowners with a social need or motivation, such as housing a family member in need.

For this model to be successful, it requires lenders and institutional actors (e.g. CMHC) to be flexible and open to interpreting existing tools and products in new ways.

The success of this model is also enhanced by the rate of uptake. As more homeowners search for alternative models for financing and look to financing ADU as chattel, lender practices around risk assessment and underwriting will adjust to provide more favourable terms over time.

There are also legal considerations, as the land lease term is limited to 20 years in Ontario, to avoid triggering subdivision laws. The development of the land lease will be an important process to negotiate the key terms of the arrangement.

Opportunities

Growing interest in municipalities to support ADU development, creating a supportive policy framework. This openness is slowly indicating to lenders the need for an ADU-specific product or process.

For example, A-lenders (e.g. National Bank) are beginning to consider the post-construction value of an ADU in the underwriting process.

Existing programs in municipalities that promote 'pre-approved ADU designs (e.g. Collingwood) also provide an opportunity to build in portable, modular designs that may make it easier to access chattel financing.

Solution 2

4 | **ADU-as-a-Service**

This section presents our second proposed solution, impacting the way people create ADUs. This solution can be described as a “lease-an-ADU” model.



Photo Source: Toronto Life

Leveraging Rental Models to Redistribute Burden of Financing

Key Challenges

- Complexity of the process of developing an ADU, from awareness to occupancy
- High upfront capital and monthly carrying costs leaves the burden of financing only on the homeowner
- Financing structure and process are not transparent, making it difficult for individual homeowners to know what's right for them

Key Needs

- **Less burden on homeowner** to finance the entire development upfront
- **Low barrier model** for getting an ADU built
- Homeowners need an **accessible way to generate secondary income**, without concerns of losing their investment

Problem Statement

How might we reduce the complexity of navigating the financing process through a more streamlined and productized user experience?

The Model in a Nutshell

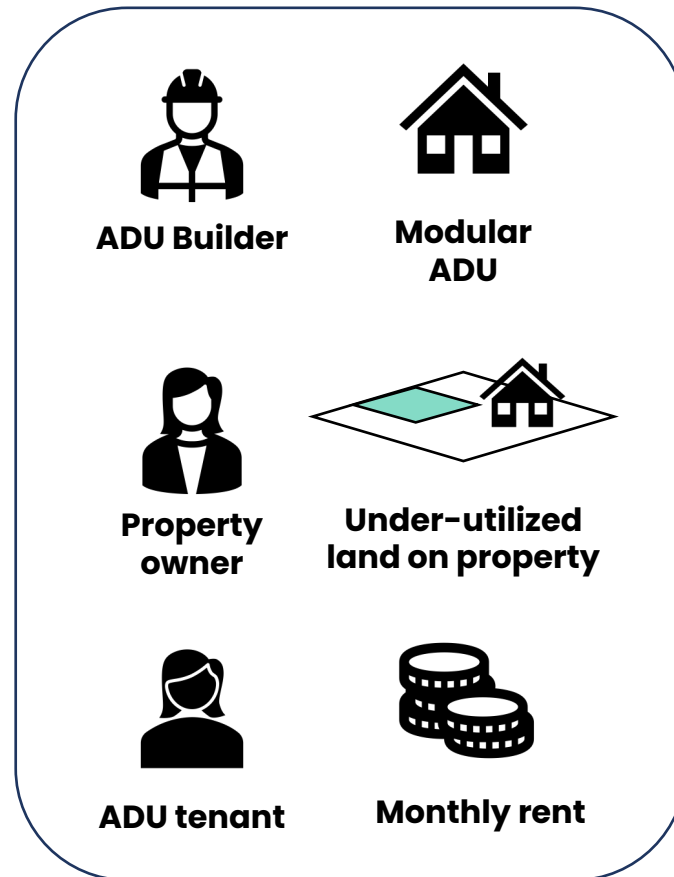
Description

This solution supports a homeowner to lease an ADU from a builder or ADU company, in order to rent it to a tenant.

This provides a private sector solution to accelerating ADU development, by articulating a new business model for a modular ADU builder.

For the homeowner, this removes the burden of financing the full cost of an ADU and looks to the private sector to create an appropriate business model to enable the leasing of ADUs.

Key Contributions



Required Components



Modular ADU design: An easy-to-build modular design that meets Ontario Building Code and other regulations



Leasing agreements: 2 leases are required in this model, 1) between ADU builder + property owner, and 2) between the property owner + tenant



Servicing and permitting support: Guidance and support from company on preparing the land for the ADU

The Model in Depth

This model demonstrates the possibility of renting an ADU as a way to streamline the financial and navigational burden on homeowners

Value Proposition

- Turnkey option for homeowners who do not have existing expertise, time, or capacity to oversee the process of financing and construction
- Creating rentable market housing supply for existing homeowners leveraging their existing land parcel.
- Generating a secondary income source for homeowners to enable future-proofing

Key Activities

- Market and promote ADU-as-a-Service
- Rent ADU units to homeowners
- Manage the relationship with the homeowners/clients
- Lead the development and maintenance of the ADU, including:
 - Evaluate the feasibility of adding the ADU to the proposed property
 - Installation of ADU unit on the homeowner's land adjacent to their house
 - Refurbish ADU units for rental program at the end of lease term
 - Maintain rented ADU units

Key Actors and Partners

- ADU marketplace to raise awareness and promote the service offering
- Municipalities will be vital actors in the system to engage and build a relationship with

Costs and Revenue Streams

Some of the **costs** associated with this model include:

- Training and human resources
- Marketing to build buy-in for the idea
- Upfront costs to design and build the ADUs

Some of the potential **revenue streams** include:

- ADU rental payment stream
- Maintenance subscription program
- Wear & tear insurance program

How the Model Could Work


ADU-as-a-Service allows homeowners to lease an ADU from a modular builder, and transitions the responsibility of financing from individual homeowners to the private sector.


Potential Impact


The ADU as a Service model offers multiple benefits for the ecosystem and the actors involved. This model is:


- Contributing to rental supply in residential neighbourhoods and building gentle density
- Offering low-barrier framework and structure for homeowners to acquire an ADU on their own property
- Expanding private sector models for providing affordable housing

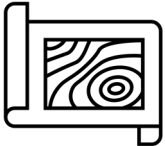
Example Scenario

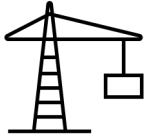
- 


Adam, a homeowner, is looking to future-proof by building an ADU. He doesn't have the upfront capital to build an ADU so he does research to find other options
- 


Adam finds a Lease-an-ADU service. In his research, he finds ADU4U, a modular builder that can lease him an ADU. He contacts them for a consultation
- 

Adam meets with ADU4U. Tara, a project manager from ADU4U, meets Adam to share the process, assess site feasibility, etc.
- 

Adam signs a contract with ADU4U. Adam hires ADU4U to lease him an ADU and manage the construction process, while choosing pre-approved ADU design. This agreement includes cost sharing arrangements.
- 

Adam and Tara prepare the property for an ADU. Tara supports Adam to acquire the needed building and servicing permits. Adam covers the costs of site servicing.
- 

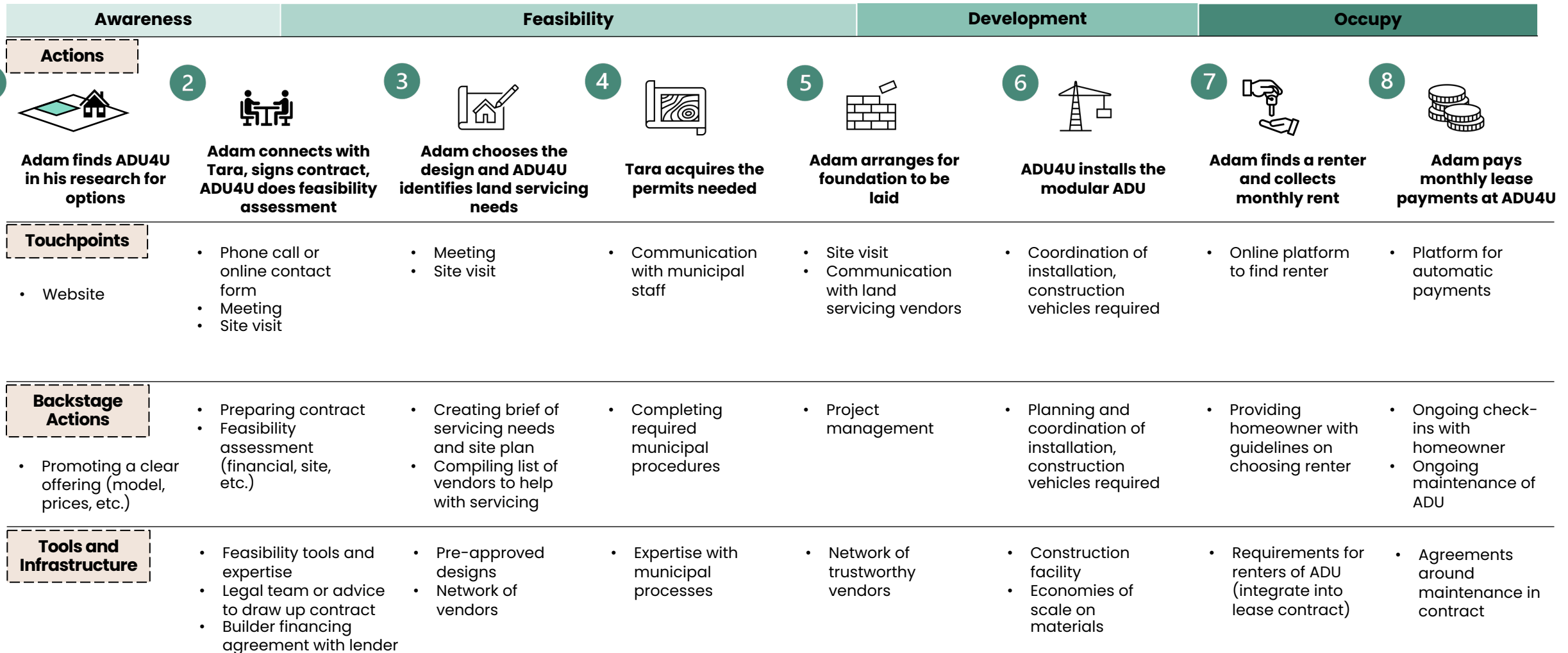
ADU4U builds the ADU. ADU4U completes the installation of the modular ADU and gets it ready for a renter
- 

Adam identifies Marge as a renter. Adam posts an ad and identifies Marge to rent the ADU. Marge and Adam sign a rental agreement, and Marge begins rental payments.
- 

Pay monthly lease payment to ADU4U. Adam, in return, pays monthly lease payments to ADU4U.

Service Blueprint

A service blueprint helps identify the required elements of the business model, including key interactions with the client (homeowner)



Roadmap

This **roadmap for implementation** provides some of the next steps for creating an **initial pilot**. The roadmap includes proposed major milestones along the journey, actions, and decision points that should be considered through the implementation process.

Timeline	Planning for Pilot (Short-Run)		Piloting the Idea (Medium-Run)		Scaling (Long-Run)
Major Milestones	<p>Milestone 1 Secured funding for real world demonstration</p> <p>Milestone 2 Selected builder for pilot and developed comprehensive business model</p>	<p>Milestone 3 Built an ADU model and business plan for pilot and begin building relationships</p>	<p>Milestone 4 Financial partner secured</p> <p>Milestone 5 Municipality has been consulted and has signed off on pilot project</p>	<p>Milestone 6 Launch pilot and secure lease with homeowner(s) (1-2 pilot projects)</p>	<p>Milestone 6 Bulk financing secured to expand model</p> <p>Milestone 7 Service is marketed and expanded to lease 5+ units</p>
Key Actions and Capabilities	<ul style="list-style-type: none"> Secure seed funding to support initial program design Select modular builder to implement pilot 	<ul style="list-style-type: none"> Establish partnership agreements with suppliers Design or choose prefabricated ADU suitable for leasing Have ADU design approved as required by regulations 	<ul style="list-style-type: none"> Establish key relationships with municipal staff; discuss feasibility, process, and any supporting funding that may be available The builder secures initial financing through a lender or investor 	<ul style="list-style-type: none"> Leases are secured between builder and homeowner and between homeowner and tenant Servicing and installation/construction begin 	<ul style="list-style-type: none"> The builder secures financing package that allows expansion of model Production is scaled based on feedback and market response and leases are offered to additional homeowners Product is promoted through digital marketing, real estate partnerships etc.
Research and Evaluation	<ul style="list-style-type: none"> Seek appropriate funding opportunities to implement pilot Identify builders with sufficient capacity and expertise that could implement pilot 	<ul style="list-style-type: none"> Continue researching potential limitations or opportunities of the model to support underwriting process and build expectations of all partners 	<ul style="list-style-type: none"> Develop an evaluation process and framework to ensure pilot is being measured for success on an ongoing basis Explore options for financing and ensure financial assumptions are met 	<ul style="list-style-type: none"> Develop operating procedures and mechanisms for feedback and improvement 	<ul style="list-style-type: none"> Review and refine service offerings based on initial pilots Explore target markets for promotion
Policy and Resources	<ul style="list-style-type: none"> Exploring existing precedents and models and connecting with actors with related experience (e.g. vendor financing) 	<ul style="list-style-type: none"> Design lease financing options, pricing strategies and broader business model Socialize pilot with municipalities, lenders, and other stakeholders and advocate for favourable products regulations 		<ul style="list-style-type: none"> Customer-facing platforms to support lease and project management Share learning with partners 	<ul style="list-style-type: none"> Develop marketing strategy focusing on benefits of ADU leasing Update and scale business and financial model

Considerations for Implementation

Challenges and Barriers

While this solution offers a low-barrier option for homeowners, it requires a private sector entity to take on significant risk, the costs of which may be passed on to the end consumer(s). As an example, the vendor may require a long-term commitment or higher lease payments to offset the upfront investment and to balance the risk of default or early exit.

Further, the upfront site servicing costs must be covered by the property owner, or, if covered by the vendor, translated into higher leasing prices. It is unclear how and whether this upfront investment will translate into long-term equity given financial institutions' hesitance to recognize the future value of ADUs.

Opportunities

While this is a new and unfamiliar model in the landscape of residential ADU development, there exist multiple opportunities that make it an exciting solution to explore further. These are:

- Established models of builder/ vendor financing may offer insight to ensure modular builders are protected and able to access savings through economies of scale, while still offering a unique and valuable product and service.
- Rising interest in ADUs combined with higher barriers to implementation can lead to sustainable demand for turnkey solutions.
- Municipal incentives may support upfront servicing costs in exchange for affordable rents for ADU tenants.

Unanswered Questions

Given the limited time to explore this solution, determining the feasibility and viability requires further exploration. Some key questions remain, including:

- What are the implications of a temporary/leased object on property tax assessment, home insurance, resale value or other considerations?
- Who's responsible for the permitting, land servicing, etc., and how does this impact ongoing costs?
- Does it 'pencil'? Is this solution ultimately viable for the builder, homeowner, and ADU tenant?
- Are there rent-to-own or similar options to purchase the unit outright in the future? Does this improve desirability or viability?

5



***Conclusions
and Reflections***



Conclusion

Our Journey

The majority of residential land in the Greater Toronto Area (GTA) consists of low-density neighbourhoods.

This Solutions Lab began with the intention of interrogating the potential impact of building density through ADUs in low-density neighbourhoods. Seeking to leverage the 'untapped potential' in these low-density neighbourhoods, the team focused on understanding the challenges and barriers experienced by homeowners who have built (or sought to build) an ADU on their property.

The initial idea for the Lab was to support homeowners to be better equipped to play the 'developer' role in building an ADU on their property.

However, engagements with homeowners and subject matter experts demonstrated the complexity homeowners must navigate, from finding appropriate financing to acquiring permits, and project managing the development process. From the discovery phase, financing was identified as the most challenging phase for homeowners to navigate.

These insights led to an opportunity to reframe from building homeowner capacity to designing entirely new models to finance and deliver ADUs. With a renewed focus on financing, the team learned about the gap in financing products that meet the unique needs of homeowners interested in building an ADU.

The financing ecosystem for ADUs was restrictive for low-to-middle-income earners and led us to explore 2 key solutions:

- **Buy-an-ADU:** Combining and leveraging existing tools and products in a new way to mobilize underutilized assets
- **Lease-an-ADU:** Creating a turnkey product experience to get an ADU built on a property to secure rental income

Given the complexity of financing, this Solutions Lab has forefronted some of the challenges and opportunities that emerge in an environment that is traditionally quite risk-averse. There is more work to be done on scaling ADU development through these new models.

Envisioning an Enabling Environment

This Solutions Lab has helped articulate key elements within an ideal ecosystem that could accelerate ADU development in the GTA. They are listed here within 3 important areas of the system – Development, Financing, and Policy.

Development

Factors that can enable homeowners to erect an ADU on their property

- Available and serviced land
- Development expertise
- Network of knowledgeable builders
- Catalogue of trustworthy builders and vendors

Solution 2:
Lease an ADU
business model

Financing

Factors that can enable homeowners and ADU dwellers to finance an ADU on their property

- Schemes to cover equity required for financing
- Down payment assistance programs
- Reliable (e.g. CMHC) Mortgage Insurance
- Lender creativity on assessing ADU projects / demonstrating value and demand

Solution 1: Buy
an ADU
business model

Policy Context

Factors that can enable ADU development on a broader scale

- CMHC guidelines on financing ADUs
- Expertise or guidance in property management
- Clear breakdown of permitting, rezoning, etc. costs
- Pre-approved ADU designs
- Research and precedents for ADU appraisals – build argument for increase in value
- Policies to support ADU development (e.g. as-of-right zoning)

Reflections

Reflections on the Innovation Process

Joe Ogilvie, Head of Applied Research and Industry Partnerships, Brookfield Centre Urban Lab, Schulich School of Business

Network Building

Connecting the dots between partners

In a still nascent landscape, there is a small group of people and organizations that are invested in accelerating the uptake of ADU development. It has been important, through this process, to start connecting the dots between these actors, especially when they occupy different parts of the system.

Connecting with Resimate, Aloft, and CMHC was a valuable experience as we were able to learn from their expertise and build on ideas together. Building trusting relationships across the system will be vital in accelerating ADU development in the GTA.

Innovating in a Risk-Averse Environment

Challenging traditional practices

Working at the intersection of finance, policy, and construction, it was challenging to test prototypes that called into question some key assumptions and traditional ways of working. Implementing models like this successfully requires a deeper interrogation of the process and inherent assumptions of underwriting and how risk is assessed in real estate financing. It also necessitates taking a change management approach that can build trust and comfort through the process.

Future work should focus on better understanding institutions that are risk averse, and what might be required to achieve the require change in mindset.

“The Solutions Lab process was invaluable to creating a meaningful experience and in arriving at valuable insights Our initial assumptions around the problem and opportunity set were shown to be only partially informed, and the exploration and discovery process led to a much more holistic understanding of the low-density neighborhood housing ecosystem.

The SHS facilitated process allowed us to effectively distill what felt like overwhelming information into sets of key, value-rich themes that were then manageable. As we stress tested each of those themes with experts through SHS facilitated workshops, we were able to converge on potential solutions, out of which high value prototypes begun to form.

I cannot speak highly enough about the CMHC solutions lab process and its value to us as a learning organization. We now feel confident that developing the solutions coming out of this process are achievable have the potential to create immediate impact on housing supply and affordability and are ultimately highly scalable and replicable across Canada! We look forward to continued collaboration with our partners, SHS and CMHC!”

Next Steps

Advancing the Solutions

This report includes proposed roadmaps to pilot and develop the solutions explored. Next steps include additional research, the creation of partnerships, and the development of new models and products, all of which will require appropriate funding and capacity.

In addition to the proposed roadmaps, the exploration of the enabling environment demonstrates how multi-sector interventions are needed to support ADU development in tandem with the proposed solutions.

Calls-to-Action

The following list includes a sample of broader interventions that could be undertaken by different sectors to support the uptake of ADUs.

Financial institutions:

- Innovative and targeted financial products that recognize the unique needs associated with developing an ADU.
- Inclusion of the future value of ADUs in appraisals for financing.

Industry:

- Expertise, guidance and knowledge dissemination surrounding planning, developing, and managing ADUs.

Government or public agencies:

- Mortgage insurance products that can be readily accessed for ADU development (e.g. updates to CLIP where needed to ensure it can apply to mobile ADUs).
- Funding and incentives to improve the viability of proposed solutions. This could include new targeted programs or adjustments to the eligibility criteria for existing programs (e.g. current CMHC programs tend to be limited to buildings with 5 or more units).
- Policy interventions that would remove barriers to long-term land leases.
- Continued implementation of policies to support ADU development (e.g. as-of-right zoning, pre-approved designs).

6 | *Appendix*

- **Financial Modelling – Prototype 1**
- **SWOT – Chattel Financing for ADUs**
- **Implementation Partner Profiles**
- **Prototype 3: ADU Aggregator**



Financial Model

Capital Cost Assumptions

The following capital cost assumptions are used to inform the financial model.

Item	Amount	Assumptions
Hard Costs		
Dwelling Cost	\$200,000	Pre-approved models from Collingwood Rapid ADU program cost between \$150,000 to \$300,000
Foundation & Servicing	\$35,000	Based on supplier estimate of \$10,000 - \$40,000 (NUVO; Collingwood Rapid ADU program)
Delivery Fees	\$2,500	Based on supplier estimate of \$1,500 from Hamilton to Collingwood with premium added for additional set-up constraints in Toronto (NUVO; Collingwood Rapid ADU program);
Soft Costs		
Mortgage Fees	\$1,950	1.5% origination fee (based on base scenario loan value)
Legal Fees	\$2,500	\$5,000 legal fee for lease draft split between tenant and landlord (cf. commercial lease negotiations)
Planning, Arch & Eng.	\$10,000	5% of dwelling cost based on 2-7% on supplier estimate (Honobo Corp; Collingwood Rapid ADU Program)
Building Permit Fees	\$910	Based on City of Toronto fees for a 50m ² unit
Tie-in Fees	\$749	Based on City of Toronto fees to upgrade water service and for requisite inspections
Contingency	\$5,072	2% of hard costs
Total Capital Costs	\$258,681	

Base Scenario

Item	Amount/ Rate	Assumptions
Lease Terms		
Interest Rate	8.1%	3% spread from 5-year average of Bank of Canada 5-year conventional mortgage (5.1% as of January 2024)
Amortization Period	20	Based on maximum legal lease period without subdivision as per Ontario Planning Act
LTV	65%	Conservative LTV for 'high risk' financing
CMHC Insurance Premium	0.6%	Total Standard premium for 86% LTV loans; Premium rate is applied to total value of loan and capitalized into monthly loan payments
Contributions		
Chattel Loan	\$130,000	65% of dwelling value (assumed total value cannot exceed the value of the dwelling as security)
Equity	\$128,681	Capital costs minus chattel loan value

Item	Amount	Assumptions
Monthly Operating Costs		
Mortgage Payment	\$1,090	As per above loan terms
Property Tax	\$111	2023 Property tax rate x dwelling value
Other	\$350	Utilities, maintenance, insurance, mortgage renewal fees
Total:	\$1,551	

Affordable Monthly Shelter Costs All Households			
Household and Decile	2023 Upper Income Limit ¹	Affordable Monthly Shelter Costs	Max Supportable Monthly Ground Lease
All Households, 3 rd Decile	\$60,928	\$1,523	-\$28
All Households, 4 th Decile	\$78,001	\$1,950	\$399
All households, 5 th Decile	\$96,444	\$2,411	\$860
All households, 6 th Decile	\$126,102	\$3,153	\$1,601
One-Person Households, 5 th Decile	\$51,830	\$1,296	-\$256

¹Income decile data for all households is estimated based on income distribution data from Statistics Canada and projected to 2023 using the Consumer Price Index

Intervention Scenario

= Modified Assumption

Item	Amount/Rate	Assumptions
Lease Terms		
Interest Rate	5.1%	Equals the 5-year average of Bank of Canada 5-year conventional mortgage (January 2024)
Amortization Period	25	Exceeds legal lease period without subdivision as per Ontario Planning Act (20 years)
LTV	80%	LTV closer to but still below standards for traditional mortgage
CMHC Insurance Premium	6.05%	Standard premium for 80% LTV loans; Premium rate is applied to total value of loan and capitalized into monthly loan payments
Contributions		
Chattel Loan	\$160,000	65% of dwelling value (assumed total value cannot exceed the value of the dwelling as security)
Incentive	\$50,000	To be provided by municipality, CMHC
Equity	\$49,140 ¹	Capital costs minus chattel loan value and municipal incentive

Item	Amount	Assumptions
Monthly Operating Costs		
Mortgage Payment	\$996	As per above loan terms
Property Tax	\$111	2023 Property tax rate x dwelling value
Other	\$350	Utilities, maintenance, insurance, mortgage renewal fees
Total:	\$1,457	

Affordable Monthly Shelter Costs All Households			
Household and Decile	2023 Upper Income Limit ²	Affordable Monthly Shelter Costs	Max Supportable Monthly Ground Lease
All Households, 3 rd Decile	\$60,928	\$1,523	\$67
All Households, 4 th Decile	\$78,001	\$1,950	\$493
All households, 5 th Decile	\$96,444	\$2,411	\$954
All households, 6 th Decile	\$126,102	\$3,153	\$1,696
One-Person Households, 5 th Decile	\$51,830	\$1,296	-\$161

¹Slight increase to capital costs due to higher mortgage origination fee

²Income decile data for all households is estimated based on income distribution data from Statistics Canada and projected to 2023 using the Consumer Price Index

Solution 1: SWOT Analysis

Strengths

- Centers the needs of those who cannot access traditional financing (e.g., low to no equity, etc.)
- Creates a new opportunity for home ownership, where there wasn't one before
- **(not sure if this is true anymore)** Can leverage CMHC mortgage insurance (CMHC Purchase) if ADU resident takes out the mortgage
- Removes the cost of land from the mortgage equation, requiring a much lower loan amount

Weaknesses

- Dwelling must be modular – lenders won't recognize as chattel if there's too much on-site construction required
- May be slow to scale since model is designed for individual households
- Incentive may be low for ADU resident, based on their need and motivations:
 - ADU resident may not build much equity
 - Resale may be difficult because of lesser known financing model
- This model requires the ADU resident to take on risk and homeowner to give up control
- The potential weaknesses of considering the ADU as a "mobile" dwelling are unclear

Threats

- CLIP was not designed for ADUs – potential exists that CMHC won't provide insurance for this
- Rising interest rates could impact openness of financial institutions to engage
- Land leases or any agreement on land past 20 years would trigger subdivision laws
- Most large banks (RBC, Scotia, TD) have backed out of chattel loans over the past few months
- Low uptake and high perceived risk could lead to unfavourable borrowing terms for ADU dwellers (e.g. low loan-to-value ratio, higher interest rates)
- Lack of enabling infrastructure (e.g. government incentive programs, organization to match interested landowners with prospective ADU owners, etc.)

Opportunities

- Existing models of land lease communities available as demos and proof of concept
- A-lender starting to recognize post-construction appraisal value of an ADU (e.g. National Bank)
- RBC was lending favourably if ADUs had a VIN (this may not be true anymore)
- Openness from builders to explore builder financing – certain builders (Tiny Homes on Wheels) have certain certifications that will help
- Eden (builder) can produce these homes for much lower price as their factories have achieved economies of scale
- Credit unions and boutique firms are quicker to innovate and more likely to be open to an innovative solution
- RBC changed underwriting requirements for chattel loans – from now on, they will require land leases in place
- Integrating portability and other relevant principles into a few 'pre-approved designs' could be an enabler

Buy-an-ADU: Implementation Partner Profiles



Banks and Credit Unions

How can they contribute?

- Help identify any gaps we need to close in the proposed financing tool.
- Identify any potential risks we need to address.
- To promote the proposed financial tool for ADUs. Support in the rebranding of ADUs.
- Offer the new financing tool as an option to customers.
- Evaluate potential customers and offer the tool as appropriate.
- Marketing and sales.



CMHC

How can they contribute?

- Support in bridging the gaps between the existing CLIP program and the proposed financial tool.
- Collaboration in creating a financing tool and loan insurance that can leverage both existing home ownership and a secondary income stream to finance an ADU
- Socialization and marketing with the banks and credit unions



ADU Manufacturers and Marketplaces

How can they contribute?

- Raise awareness of the proposed financial tool to support potential customers in achieving their goals of being able to afford an ADU.
- Connect with existing ecosystem for ADU supply that we need to be connected to, both for sales and marketing and for socialization and education.

Lease-an-ADU: Implementation Partner Profiles



ADU Manufacturer or Installer

How can they contribute?

- Help identify any gaps we need to close in the proposed financing tool.
- Feasibility assessment for whether the proposed parcel can support an ADU
- ADU manufacturing, installation and maintenance
- ADU refurbishing, such that the ADU can repurposed at the end of a lease term



ADU Marketplace (e.g. Resimate)

How can they contribute?

- Help embed our solution in marketplaces as valuable channels that create awareness of the offering.
- For potential customers that are unable to afford buying an ADU, the ADU-as-a-service model will offer a more affordable option.
- Support in raising awareness and marketing our offering.

***Knowledge
Dissemination***



Knowledge Dissemination Activities

Summary

This solutions lab initiative undertook ongoing knowledge dissemination activities and efforts. Our efforts were mainly focused on engaging potential implementation partners throughout the lab process.

The Lab Team engaged with the following potential partners:

- Financial institutions (2)
- Marketplace partner (1)
- Subject matter experts in real estate finance, development, and architecture (8)
- Public sector partners (4)

Next Steps

The Lab Team plans to continue disseminating the proposed solutions by participating in webinars and conversations through both CMHC and York University channels.

The key next steps in dissemination are to secure implementation and commercialization partners. Our roadmaps for the two solutions provide a detailed overview of these steps.

Anticipated Impacts

The lab process started with the intention to make it easier to scale knowledge and capacity around ADU development to more homeowners in the GTA.

Contrary to our initial assumptions, we found new pathways to “scaling,” which involve activating other players in the marketplace and reducing risk for the homeowner. Instead of relying on homeowners to carry the burden of ADU development, we found spreading risk, reward, and effort to be a more promising pathway.

This opportunity space opened up more potential for replication and scaling in other jurisdictions.

***Solution 3: ADU
Aggregator***



Centralizing Expertise and Creating Economies of Scale

The process of developing an ADU is expensive, complex, and risky. This makes a project like this out of reach for homeowners without the know-how and significant capital to invest. Training thousands of homeowners on the ins and outs of ADU development may not be a feasible, viable, or scalable undertaking.

This prototype emerged as a possible solution but was not explored further through the course of the Solutions lab.



Initial research found that previous attempts in the U.S. have found that a 3rd party development approach is not a viable option.

Firms/ organizations like Dweller in Portland and Rent the Backyard in Oakland have shifted their business model away from managing the financing and development to one that leverages partner expertise.

Key Challenges

- Individual homeowners find it difficult to manage all parts of the development process
- Successful development depends on the the expertise and know-how of builders, who can be hard to find

Key Needs

- **Economies of scale** for ADU development
- **Centralized source of expertise** that holds bird's eye view on accelerating ADU supply
- **Trusted referrals** to lenders, builders, and other vendors

Problem Statement

How might we centralize financing, development, and operation of ADUs, so the onus isn't on individual homeowners?

Model in a Nutshell

Description

In this solution, a new organization is created to scale the development of ADUs in a neighbourhood rather than relying on individual homeowners to undertake this activity.

This organization can take the form of a community land trust (CLT), a non-profit developer, or other private business. Specializing in ADU development, the organization holds the expertise to undertake the entire development process.

Key Features

An aggregator organization would have the following main functions:

- **Identify neighbourhoods** with high suitability for ADU development
- **Identify potential properties and homeowners** interested in partnering to undertake ADU development (and establish land lease agreements with these owners)
- **Finance the creation of ADUs at scale** through pooled equity or investment
- **Develop a dependable network of suppliers** to support working at scale within a neighbourhood
- **Manage the ADU after construction** by renting up the unit and acting as the ongoing property manager and operator

- **Facilitate an opportunity to buy the ADU back**, to enable homeowners to own the ADU through a pre-agreed price in the land lease, recycling funds for more ADU development

Value Proposition

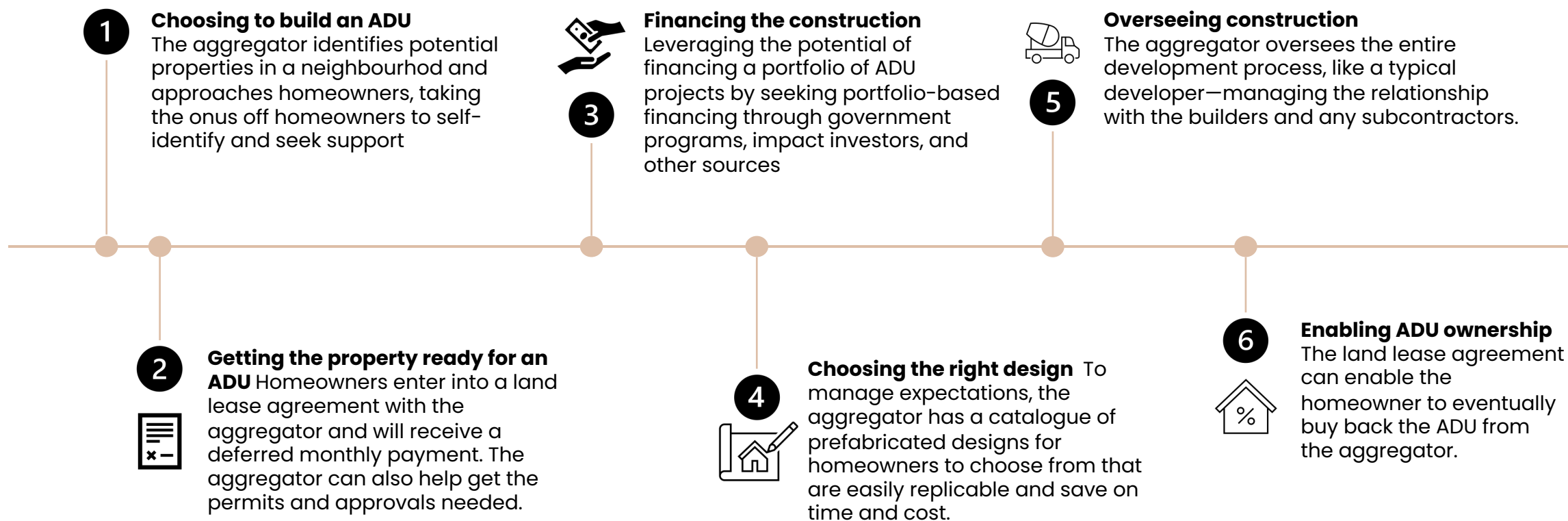
This organization would be the central expert on ADU development. This could offer homeowners a **turnkey deal on building an ADU on their property**, from financing to design to construction and property management. This model de-risks the process for homeowners.

This model also allows the homeowner to buy the ADU back at a pre-agreed price based on cost plus appreciation.

It can help people who are looking for an income generating source or revenue.

Example Scenario

How can the aggregator organization work with homeowners to scale ADU development in a neighbourhood?



Considerations for Implementation

Strengths

- High potential to scale and speed up ADU supply due to the portfolio-based approach
- A model that borrows from existing development models while focusing solely on ADU development
- Potential to relieve the homeowner from the burden of the ADU development process and financial burden, allowing for more sites to be made available for ADU development
- Providing a pathway for those otherwise excluded from this activity to own an ADU in the future

Weaknesses

- Requires upfront capital to take on multiple ADU development projects, with cashflow in the distant future (through rent-up and sale of ADUs to homeowners)
- Requires a critical mass of interest among homeowners in a neighbourhood
- Requires a savvy developer with experience in ADU development
- Reliance on developing trusting relationships with architects, builders, and trades professionals

Opportunities

- This model can draw on learnings from other community-focused governance and operating models from CLTs and non-profit housing providers in Toronto
- Partnership opportunities with other organizations working in similar spaces

Threats

- An economic environment that is not favourable to small-scale development (i.e., rising construction costs and interest rates)
- Past precedents of third-party development being non-viable in the current environment

Further Reading

Coalition for Smarter Growth. 2019. [How to finance your ADU.](#)

Goodman, L. and Ganesh B.. 2018. [Challenges to Obtaining Manufactured Home Financing.](#) Urban Institute.

Kirshenbaum, R. 2024. [Laneway Suite of the Week: How an east-end family built a shimmering home in their backyard for \\$325,000.](#) Toronto Life

PD&R Edge. 2022. [Alternative Pathways to Affordable Homeownership.](#)

Peterson, K. 2023. [Mission-Drive Affordable ADU Programs.](#) Accessory Dwelling Strategies LLC.

Pickel, J. 2023. [Mobile homes could provide affordable housing option, but industry says it needs help.](#) CTVNews Kitchener.

Rohin, R. 2024. ["I wanted my mom to live nearby, so I spent \\$450,000 to build her a garden suite."](#) Toronto Life

Town of Collingwood, 2023. [Pre-approved Detached ADU Design Gallery.](#)



Toward Mutual Gain: Boosting Housing
Supply by Unlocking Trapped Value in
Low-Density Neighborhoods

Culminating Report • May 2024