

# AGENDA ITEM – 3E



## MEMORANDUM

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**DATE:** March 9, 2026  
**TO:** Honorable Mayor and City Councilmembers  
**FROM:** Jake Reilly, Community Development Director  
**SUBJECT:** Accessory Dwelling Units (ADUs)

Budgeted Amount:  
N/A

Actual Amount:  
N/A

Funding Source:  
N/A

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### **Council Should Consider**

Council should consider the information provided on Accessory Dwelling Units (ADUs) and provide direction to Staff on next steps.

### **Background**

In 2025, the City Council requested a work session agenda item to allow for discussion of Accessory Dwelling Units (ADUs). Council is asked to consider the information below and provide direction to Staff on next steps and/or other information that is needed for future discussion.

### ***Defining accessory dwelling units***

An Accessory Dwelling Unit (ADU) is a self-contained residential unit located on the same lot as a primary single-family or small multifamily home.<sup>1</sup> Also known as carriage houses, in-law suites, granny flats, backyard cottages, basement apartments, or secondary dwelling units, ADUs include their own kitchen, bathroom, bedroom(s), and private entrance.<sup>2</sup> AARP's Livable Communities program describes them as small homes that exist on the same property lot as a single-family residence and highlights that they come in many shapes and styles.<sup>3</sup>

ADUs may take several physical forms, each permissible to varying degrees depending on local zoning ordinances:<sup>4</sup>

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<sup>1</sup> Family Housing Fund. "ADUs: Housing Options for a Growing Region." February 2019. [fhfund.org/report/adu/](http://fhfund.org/report/adu/)

<sup>2</sup> American Planning Association. "PAS QuickNotes No. 19: Accessory Dwelling Units." 2009. [planning.org/pas/quicknotes/](http://planning.org/pas/quicknotes/) (accessed March 2026)

<sup>3</sup> AARP Livable Communities. "All About Accessory Dwelling Units." [aarp.org/livable-communities/housing/info-2019/accessory-dwelling-units-adus/](http://aarp.org/livable-communities/housing/info-2019/accessory-dwelling-units-adus/) (accessed March 2026).

<sup>4</sup> APA (2009)

- **Internal/Conversion ADU:** Space within the existing home converted to a separate unit (e.g., finished basement, attic, or interior room suite)
- **Attached ADU:** An addition built onto the side or rear of the primary home with a separate entrance
- **Detached ADU:** A freestanding structure in the backyard or built above a detached garage
- **Junior ADU:** An internal ADU of no more than 500 square feet of floor area, defined and enabled by state law in some states, such as California

What ADUs are NOT: ADUs are distinct from rooming houses, group homes, short-term vacation rentals, or duplex conversions that subdivide ownership. They remain secondary in scale to the primary dwelling, are owner-created and privately financed, and are not subsidized affordable housing developments. They are scattered throughout residential neighborhoods rather than concentrated in a single location.<sup>5</sup>

### *Reasons municipalities allow ADUs*

#### A. To address the regional housing need

The Twin Cities metropolitan region must add nearly 13,000 units of housing annually through 2040 to meet anticipated workforce growth and demographic change.<sup>6</sup> Vacancy rates for studio and one-bedroom units in the metro area hover around 2.1% and 2.3% respectively — far below the healthy threshold of 5% — creating intense cost pressure for renters.<sup>7</sup> ADUs offer a market-rate mechanism to expand housing supply without public subsidy, expensive land acquisition, or large-scale rezoning.<sup>8</sup>

If ADUs in the seven-county metro area achieved the same prevalence as Portland, Oregon (approximately 1.5% of single-family homes), the region could produce an estimated 11,000 new housing units — potentially meeting most of the regional need for households earning \$40,000–\$50,000 per year.<sup>9</sup>

Nationally, ADUs remain rare despite growing interest. The AARP/APA survey of planning directors found that more than half of jurisdictions had fewer than 500 ADUs, and nearly three-quarters issued less than 5 percent of all residential permits for ADUs in a given year.<sup>10</sup> Despite widespread policy adoption in Minnesota, actual production has lagged significantly, underscoring the importance of removing regulatory and financial barriers.<sup>11</sup>

#### B. To address affordability and cost burden

Research consistently shows that the monthly housing costs for an ADU are affordable to households earning below \$56,000 annually — within reach of many working families, young adults, and lower-income seniors.<sup>12</sup> Because ADUs are built on existing lots using private capital, they add housing supply without the overhead costs associated with land purchase or public subsidy programs. The greatest demand over the next 20 years will be for units with mortgage or

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<sup>5</sup> APA (2009).

<sup>6</sup> Metropolitan Council. Thrive MSP 2040 Housing Policy Plan. July 2015, p. 9.

<sup>7</sup> Marquette Advisors Apartment Trends, 1st Quarter 2018.

<sup>8</sup> Family Housing Fund (2019).

<sup>9</sup> Family Housing Fund (2019).

<sup>10</sup> APA ADU Survey of Planning Directors, October 2018.

<sup>11</sup> HKGi. "ADU Research Summary: Accessory Dwelling Unit Guide for the Twin Cities Metro Area." 2019.

<sup>12</sup> Family Housing Fund (2019).

rent payments priced below \$1,875/month (in 2019 dollars), a range in which ADUs typically fall.<sup>13</sup>

Homeowners who rent their ADUs benefit financially: rental income can offset mortgage costs and help lower-income homeowners remain stably housed over time. ADU construction is a significant upfront investment, however, ranging from \$50,000 to more than \$150,000 depending on type and scale.<sup>14</sup> Financing mechanisms — including home equity lines of credit, ADU loan programs, and municipal fee waiver programs — are therefore critical enablers of homeowner participation.<sup>15</sup>

### C. To offer more choices for aging in community and multi-generational living

ADUs directly address the evolving demographic composition of American households. Four-fifths of projected household growth in the Twin Cities will be in households headed by individuals aged 65 and older, many seeking options to downsize in their own neighborhoods.<sup>16</sup> ADUs allow older homeowners to move into an accessory unit, rent out the primary home, or house a caregiver nearby — supporting independent living without displacement from one's community.<sup>17</sup>

The AARP Home and Community Preferences Survey (November 2021) found that while only 4 percent of respondents had an ADU on their property, 26 percent of those without one said they would consider adding one if they had the space.<sup>18</sup> AARP emphasizes that ADUs can help ensure that people of all ages, including older adults, have more options in where and how to live in their own communities.<sup>19</sup>

Multigenerational households — adult children, aging parents, and extended family members — are well-served by ADUs that allow independent living while maintaining family proximity. AARP's Livable Communities hub describes ADUs as family-friendly, flexible housing options that can serve changing household needs across multiple generations.<sup>20</sup>

Nearly half of the region's projected household growth will be individuals living alone, a segment for which ADUs are ideally sized. ADUs expand the range of housing types available in predominantly single-family neighborhoods without fundamentally altering neighborhood character or requiring major infrastructure investment.<sup>21</sup>

### D. To capitalize on potential environmental and economic benefits

ADUs are environmentally friendly housing options: they are smaller, use less energy than the average home, and can reduce transportation-related environmental impacts when located near employment centers and, where they exist, established public transit routes.<sup>22</sup> ADUs also have the benefit of increasing net tax capacity as improved properties gain assessed value, resulting in the potential for additional property tax revenue and reducing the overall residential property tax burden. Because homeowners typically hire local construction and design firms to build ADUs,

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<sup>13</sup> Family Housing Fund (2019) and Metropolitan Council (2015).

<sup>14</sup> Spevak and Stanton (2019), *The ABCs of ADUs*; and Grant et al. (2019), *Accessory Dwelling Units: A Step-by-Step Guide*.

<sup>15</sup> Family Housing Fund (2019).

<sup>16</sup> Metropolitan Council (2015).

<sup>17</sup> Family Housing Fund (2019).

<sup>18</sup> AARP Home and Community Preferences Survey, November 2021 (Binette 2021).

<sup>19</sup> AARP Public Policy Institute and American Planning Association. "Expanding ADU Development and Occupancy: Solutions for Removing Local Barriers to ADU Construction." 2023. [aarp.org/pri/topics/livable-communities/housing/expanding-adu-development-solutions-local-barriers/](https://aarp.org/pri/topics/livable-communities/housing/expanding-adu-development-solutions-local-barriers/).

<sup>20</sup> AARP Livable Communities (2019).

<sup>21</sup> Metropolitan Council (2015).

<sup>22</sup> Stephan & Crawford, 2016, *Energy* 116(1), 1158–1171; and Oregon Department of Environmental Quality (DEQ), 2014, ADU residents in Portland survey.

they support the local economy. New ADU residents also increase the customer base for nearby businesses and services, helping to create more vibrant neighborhoods.<sup>23</sup>

### ***Potential concerns***

- Neighborhood character: Critics worry ADUs will change the look and feel of single-family areas. The American Planning Association notes that communities that have actually allowed ADUs find these concerns are "mostly unfounded or overstated."<sup>24</sup>
- Parking and traffic: Critics worry ADUs will add more cars to neighborhood streets. Oregon DEQ research found ADU residents have below-average vehicle ownership (less than one per household), and any on-street parking impact is dispersed rather than concentrated.<sup>25</sup>
- Infrastructure and utilities: Sewer and water capacity must be considered at the permitting stage. Most cities require connection to the existing home or utility main, and tiered fee structures can help manage utility costs equitably.<sup>26</sup>
- Owner-occupancy requirements: While some cities require on-site ownership to prevent speculative development, the APA recommends against these provisions, which constrain homeowner financing options and reduce production.<sup>27</sup>
- Construction costs: ADUs are significant investments (\$50,000–\$150,000+), and not all homeowners can finance them without assistance. Financial barriers must be addressed alongside regulatory reform.<sup>28</sup>
- Short-term rentals: Without explicit restrictions, ADUs may be converted to STR platforms rather than providing long-term housing. Several Minnesota cities (e.g., St. Louis Park) explicitly prohibit STR use in ADUs.<sup>29</sup>

### ***Recommended best practices for municipal zoning reform***

The evidence from peer cities nationally and in Minnesota is clear: local government policies and practices that reduce regulatory and cost burdens make a critical difference in whether ADUs can reach their full potential for communities. AARP and APA research identifies four overlapping categories of barriers — political, regulatory, procedural, and financial — each of which must be systematically addressed for ADU programs to succeed.

AARP and APA's collaborative work on ADU policy dates to 2000, when the AARP Public Policy Institute published a model state act and local ordinance drafted by APA staff. An updated ADU Model State Act and Local Ordinance (Attachment E) was released in 2021 and is available as a free resource for state and local elected officials. Staff can provide existing ordinances from surrounding communities when requested.

#### **A. Remove Regulatory Barriers**

- Permit ADUs by right (administratively) rather than requiring conditional use permits or public hearings. In California, ministerial processing drove a 25-fold permit increase in Los Angeles and a seven-fold increase in Oakland.<sup>30</sup> The APA recommends that

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<sup>23</sup> Family Housing Fund (2019).

<sup>24</sup> APA (2009).

<sup>25</sup> Oregon DEQ (2014).

<sup>26</sup> APA (2009)

<sup>27</sup> AARP/APA (2023)

<sup>28</sup> AARP/APA (2023)

<sup>29</sup> HKGi (2019)

<sup>30</sup> Garcia, David. UC Berkeley Turner Center for Housing Innovation. "ADU Update: Early Lessons and Impacts of California's State and Local Policy Changes." December 2017.

communities allow ADUs by right with clear written conditions rather than requiring discretionary approval.

- Allow all forms of ADUs — attached, detached, and internal conversions — across all single-family and small multifamily zoning districts.
- Eliminate or reduce minimum parking requirements for ADUs. Evidence consistently shows negligible parking impact from ADU residents.
- Remove or narrow owner-occupancy requirements. The APA and most peer cities nationally recommend against these provisions, which constrain homeowner financing options.
- Adopt flexible and reasonable design and size standards, avoiding maximum size restrictions so small that units cannot be practically financed or occupied.
- Provide resources to guide applicants through a clear, efficient process.

#### B. Lower costs and increase access to capital

- Offer tiered fee structures, waivers, and payment plans for permit and sewer access charges. Portland's development fee waiver (saving homeowners \$8,000–\$12,000 per unit) drove ADU permit volume from 24 in 2009 to 615 in 2016.<sup>31</sup>
- Create pilot programs to test regulatory reforms before full-scale adoption, allowing cities to build evidence and political support incrementally.<sup>32</sup>
- Work with community land trusts and developers to incorporate ADUs into new construction — as the City of Lakes Community Land Trust has done in Minneapolis — to build multigenerational housing at scale.<sup>33</sup>

#### C. Promote ADUs and increase public awareness

- Create a dedicated city ADU webpage with step-by-step permitting information, design prototypes, and financing resources. Santa Cruz, CA has become a national model through dedicated staff, homeowner guides, architectural plan prototypes, workshops, and an informational website.<sup>34</sup>
- Host informational workshops regularly to demystify the permitting process for homeowners.
- Sponsor or participate in neighborhood ADU tours. Portland's annual ADU tour has been a successful beginning point for many ADU homeowners. Minneapolis and Saint Paul ADUs have also appeared on regional home tours.
- Use listening sessions and inclusive outreach — particularly to renters, lower-income households, older adults, and communities of color — to build broad-based political support and ensure equitable program design.
- Create a pathway to legalize existing unpermitted or grandfathered ADUs through a simple inspection and permitting process — expanding legal inventory and improving health and safety conditions.

### ***Twin Cities Metro ADU landscape***

As of 2019, at least 25 Twin Cities metro area communities had adopted ADU policies, including Apple Valley, Blaine, Bloomington, Burnsville, Crystal, Eagan, Fridley, Golden Valley, Hopkins, Inver Grove Heights, Lakeville, Long Lake, Minneapolis, Minnetonka, Mounds View, Orono,

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<sup>31</sup> Family Housing Fund (2019).

<sup>32</sup> AARP/APA (2023).

<sup>33</sup> Family Housing Fund (2019).

<sup>34</sup> AARP/APA (2023).

Plymouth, Richfield, Roseville, Stillwater, Shoreview, St. Louis Park, St. Paul, Wayzata, and White Bear Lake.

Minneapolis had the most permissive and active ADU program in the region, with approximately 120 units permitted and built, no minimum parking requirements, and no owner-occupancy requirement for attached or detached ADUs. Edina, Crystal, and St. Louis Park also adopted relatively flexible frameworks that allow all ADU types with minimal parking requirements.<sup>35</sup>

Despite broad policy adoption, actual ADU production remained limited across most metro cities. Many communities had zero or very few built units, reflecting the chilling effect of restrictive provisions such as large minimum lot sizes, mandatory owner occupancy, conditional use permit requirements, high parking standards, and small maximum size limits. Burnsville had zero ADUs built despite having a policy; Bloomington had one constructed; Apple Valley had two.

Nationally, the APA survey found that more than 60 percent of jurisdictions explicitly permitted new ADUs in their zoning ordinance, yet only a quarter permitted at least one ADU by right on any conforming single-family lot. More than half of jurisdictions that permit ADUs still require owner-occupancy and minimum off-street parking — two of the most common production barriers identified in research.<sup>36</sup>

Roseville permits attached and internal ADUs in its Low Density Residential-1 district,. That district, requires owner occupancy, limits ADU size to 650 square feet or 75% of the four-season living area, requires one additional off-street parking space, and caps occupancy at two people. As of 2019, five ADUs had been built with two more in process. Compared to Minneapolis, Edina, Crystal, and St. Louis Park, Roseville's prohibition on detached ADUs, owner-occupancy requirement, and restrictive size cap place it in the more conservative tier among metro-area cities.

Attachment A shows regulations adopted by a subset of Minnesota communities, current as of 2023. Most recently early this month, the City of Blaine published revised ordinance language removing detached ADUs as an allowed use and amended language permitting attached ADUs with standards.<sup>37</sup>

### ***Potential next steps***

Accessory dwelling units represent one of the most cost-effective, equitable, and community-compatible tools available to cities seeking to expand housing choice, address affordability pressures, and accommodate demographic change. The evidence from peer cities nationally and in Minnesota demonstrates that thoughtful, permissive ADU policies — supported by public information and financial assistance — can meaningfully increase housing production without public subsidy.<sup>38</sup>

To craft an ordinance appropriate for Arden Hills, Councilmembers should consider where and whether the following should be regulated:

- Location(s) within the city and/or specific zoning districts
- Lot size
- Number
- Height
- Number of occupants/residents
- Parking

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<sup>35</sup> Family Housing Fund (2019).

<sup>36</sup> AARP/APA (2023).

<sup>37</sup> ORD 26-2601 Ordinance Approving Amendments to Residential Sections and Performance Standards (<https://www.blainemn.gov/m/newsflash/Home/Detail/3817>) (accessed March 2026)

<sup>38</sup> AARP Home and Community Preferences Survey, November 2021 (Binette 2021).

- Entry requirements
- Utility connection requirements
- Landscaping, impervious surface and building coverage requirements
- Independent sale of ADU
- Uses:
  - Home occupation
  - Short-term rental
  - General rental
- Permitted by Right, Permitted with Standards (PS), or Conditional (C)
- Design standards (windows, roof pitch, exterior materials, orientation on the lot etc.)

Additionally, in considering adopting a new type of residential use, an approach that includes some or all of the following is recommended in the research as a best practice that is more likely than not to increase the ability of property owners to choose to add an ADU to their property:

- Conduct a regulatory audit comparing current zoning standards to peer cities with high permit volumes, identifying specific barriers to streamline — particularly CUP requirements, owner-occupancy rules, parking minimums, and maximum size limits.
- Conduct an evaluation of existing residential lots and suitability for ADU implementation.
- Evaluate the opportunity for a pilot program.
- Allow by-right permitting, reducing cost, time, and uncertainty for homeowners and unlocking the potential for significant production increases.
- Allow all ADU forms — attached, detached, and internal — across all single-family and small multifamily residential districts.
- Eliminate or substantially reduce parking minimums and owner-occupancy requirements, both of which are consistently identified as top barriers to ADU production.<sup>39</sup>
- Explore partnerships with the County, community development financial institutions, community development nonprofits and other similar organizations to identify opportunities to lower barriers for lower-income homeowners, particularly older adults seeking to age in place.
- Restrict short-term rental use in ADUs to preserve units as long-term housing for the community.
- Engage a broad and inclusive public process — including renters, communities of color, older adults, and lower-income households — to build lasting political will and equitable program design.

While ADUs alone will not solve the region's housing crisis, or Arden Hills' share of the need, they offer a proven, neighborhood-scale contribution to housing choice, supply, affordability, aging in community, and multigenerational living as part of a broader housing strategy. The benefits align with the city's housing goals in the 2040 Comprehensive Plan as well as the newly adopted strategic plan.

### **Budget Impact**

No specific budget impacts are anticipated.

Potential budget impacts include:

- Payment of consultant, legal services, and/or staff time to develop an ordinance related to the construction and maintenance of ADUs.
- Permit revenue.
- Increase in net tax capacity.

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<sup>39</sup> AARP/APA (2023).

**Attachment**

Attachment A: Table of Minnesota City ADU regulations (2023)

Attachment B: Family Housing Fund Best Practices (2023)

Attachment C: AARP model ADU ordinance

Attachment D: AARP ABCs of ADUs