

Granny flats, tiny homes and ADUs: The essential guide

by Kendyl Young September 19, 2023 *SHARE*

10–12 minutes

ADUs, or accessory dwelling units, are the [hot topic](#) in real estate, but what are they worth?

Illustrative story: A homebuyer recently commented that he had “overpaid” by \$100,000 for a home that had a tiny home in the backyard. Did he? It depends on what he meant by “tiny home”, what features it included, how he’s allowed to use it and how he subsequently chooses to use it.

A tiny home is different from an ADU, but the terms are often used interchangeably. It is reasonable to assume the homebuyer discovered something about the tiny after the close of escrow. Perhaps it was a limit on how he could use the structure or how it was treated in the [appraisal](#).

Our buyers and sellers ask about ADUs all the time. We need to give accurate and responsible answers or we risk losing a client’s trust and future referrals. The good news? As a very welcome side benefit, understanding the rules and potential of ADUs can create a whole new pool of future clients for your business.

What are ADUs and why are they popular?

Think of an ADU like an additional mini-house on your property. It can be [new construction](#), carved out of your existing home (like a basement), or converted from existing space (like a garage). They provide much-needed additional housing because they are fully contained, private living spaces with a kitchen and bath. In some states (like California) ADUs are rentable.

There is a critical shortage of residential housing nationwide. Massive under-building over several years, and in some places decades, created this shortage. We will not solve this problem quickly or easily.

This doesn't stop people from wishing the problem away because no one really wants more crowded or dense living conditions. NIMBYs want to shift the burden anywhere else. They feel they have earned the right to maintain their [neighborhoods](#) as they are. Kicking the can into someone else's neighborhood isn't a solution, it's a cop-out.

Others cite the real fact that states like California are currently experiencing out-migration. That means more people are leaving California than are coming in. Unfortunately, this hasn't affected the number of homes we need because people get divorced and kids grow up. Economists call this "household formation" and the number of households keeps going up.

The only real solutions are rooted in creating new housing

We need to build more homes, but where will we build? New single-family developments in remote areas? Luxury condos and apartments in urban mixed-use developments? Dense high-rise apartments in the suburbs?

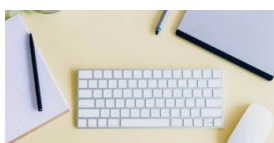
These are all viable solutions, but they are capital-intensive and require years, even a decade, to complete. ADUs are [affordable](#) for many homeowners and one can build an ADU relatively fast. Once built, an ADU serves the missing middle, providing the housing we need for our seniors, teachers, tradespeople, first responders and young adults.

Creating housing for these valuable community members has long-reaching, ripple benefits for everyone.

What is a tiny home vs an ADU?

There is a lot of confusion and [misinformation](#) wrapped up in the definition of words. For example, a tiny home, ADU and guesthouse are completely different in terms of value and use, but the terms are often used interchangeably. Knowing the difference will keep you, and your clients, away from a lot of trouble.

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Granny flat or guest house

In the past, we called everything a granny flat or guest house, and they have been around for a long time. When society moved into the suburbs, and the one lot-one family ethos was born, rules were put in place to ensure no one could live [full-time](#) in a backyard home.

The most common laws eliminated spaces or utilities for cooking. Later, laws were strengthened to make them complicated, expensive and impractical for the average homeowner to build.

Today, the term guest house most often means a separate room with a private entrance. It might have a half or three-quarters bath, but no kitchen and it is not legally rentable. It adds value to a home like any extra space might add value,

Tiny home

I know people with huge Pinterest boards dedicated to [tiny homes](#) and the tiny home lifestyle. I think we all crave a little more simplicity and less junk and stress.

The term tiny home is more of a descriptor of size than a definition. It generally means any living space smaller than you had previously

imagined living in. Most ADUs are also tiny homes.

But the proper definition of a tiny home is a dwelling that is portable. This can be anything from a manufactured home on a trailer to a modified school bus or an RV parked on your lot. It may, or may not, have water, sewage, energy or cooking facilities. In most cases, they are not legally rentable.

A tiny home is personal property, not real estate, and you pay sales tax and maybe a vehicle registration tax instead of property tax.

Each local area determines its tiny home rules, with some outlawing them altogether.

Manufactured homes can be tiny homes if they sit on a trailer, and the structure meets HUD home requirements, not the standard building code. This can impact durability and energy efficiency. It is also why they are [less expensive](#).

A real estate appraiser will not give value for a tiny home and your local area may not allow you to rent your tiny home. Incidentally, Boxabl markets its product as “portable from home to home.” This means it is a tiny home, folks, not a permanent structure.

ADU

An ADU is a structure that is permanently attached to a foundation and hooked into local utilities. It is a private and independent space with a private entrance, kitchen and one or more baths. The resident of an ADU has no need to access the main house.

You can use existing space to create an ADU by converting a garage, barn, attic or basement. It is also possible to create a junior ADU by converting existing space in the main house or adding a room to the main house. A junior ADU has slightly different rules from a full ADU.

It is important to note that a [manufactured home](#) can be permanently installed and connected to utilities. For my purposes, this is now a full ADU.

In California and many other states, an ADU can be rented to a third party. In others, ADUs are limited for personal use and family. And, in a few states, ADUs can be sold separately from their main home, creating additional homeownership opportunities.

The case For ADUs

ADUs are the key to long-term, flexible living in the home you own and the most readily available tool to help us add much-needed housing. That being said, they are a significant [investment](#), so let me give you additional motivation.

Long-term flexibility in your current home

When I started my real estate career, the common assumption is you bought a small starter home and then traded up. I think that is changing. The housing crisis means your first house might actually be your forever house.

The moment a [first-time homebuyer](#) realizes this, it becomes even harder to make a decision. The ability to add an ADU in the future can make all the difference.

An ADU can be that extra space they need for visiting grandparents, an au pair, or a work-from-home situation. Most people dream of aging in place, and an ADU gives you the flexibility to do that in a number of ways.

Financial resiliency

Would it surprise you to know that a slight majority of ADU owners do not plan to rent their units? Some need housing for family. Some simply want to expand the use flexibility of their home. In some cases, a parent has built the ADU in an adult child's yard as a second home.

But the potential for income is there if needed. It can provide emergency funds in case of job loss or sickness. It can fund your [retirement](#) or allow for an early retirement.

The entire family enjoys a stronger financial safety net because there is a place to land or additional income to assist with expenses.

Multi-generational living

Around the globe, it is normal for the [generations](#) to live together. My husband was practically raised by his grandmother as both of his parents worked. He can't imagine being raised by a nanny or daycare.

In fact, housing for Mom or Dad is the most common use for an ADU, but let's draw this out a bit more. Eventually, the homeowner's kids will want to move out. Instead of an expensive

apartment far away, the newly hatched adult could live in the ADU with privacy and independence. The savings could build up for their own purchase in the area.

Later still, the homeowner will become old. The ADU allows them to age in place; the same place where their kids, grandkids and their network of friends live. Loneliness and isolation are two of the truest evils of growing old.

ADUs can strengthen families and [strengthen communities](#).

What to do next

Your clients need a lot more than your enthusiasm to act on their ADU dream. They need a lot of facts, resources and a patient ear to listen and help overcome their fears.

Take a moment to research the ADU policy in [your local area](#). Find a lender who is comfortable with construction, renovation and HCEM loans. An ADU loan specialist is not necessary, but if you can find one it is incredibly helpful. My ADU loan specialist is my partner in educating, handholding, and coaching throughout the ADU process. Finally, identify a reputable home builder in your area.

It is a lot. You might feel like it is too much; you just want to stick to what you know. But, think about this: Your clients are going to ask you about ADUs. Do you really want to be the one with the least amount of knowledge?

Kendyl Young is the co-founder and CEO of ADU DIGGS and principal at Kendyl Young Consulting, focused on ADU education and consultation. She is a popular speaker at industry and client-facing events and her courses, ADU 101, ADU Mastermind, and ADU for Property Investors, will soon be available online, on demand.