

TRG 34 Transcript

Nichole Stohler

What if you could be doing something smarter with your money that creates income right now? If you're an IT professional who is wanting to get ahead financially and enjoy greater freedom of choice. And if you wonder who else in tech is creating ways to make their money work for them? You want actionable ideas with honest pros and cons and no fluff. Welcome to The Richer Geek Podcast for helping IT professionals find creative ways to build wealth and financial freedom. I'm your host, Nicole Stohler and in this podcast, you'll hear from others who are already doing these things and learn how you can too.

Hey, everyone, welcome back to the Richard geek podcast. Now one of the hot topics around housing in general is affordability. And you'll see multifamily investors that are talking about developing more workforce housing, you'll see builders trying to figure out ways to build homes to address this challenge as well. And then cities are looking at creative options like tiny houses, shipping container homes. And although we're discussing today's topic from an investment standpoint, cities have also been looking at this option as a way to help with the affordability challenge. The concept is to build an accessory dwelling unit or what's known as an ADU. And this is a small separate home on the same property as the primary home. In Phoenix, we call them Casitas in the Midwest. Sometimes they're called carriage houses. Whatever the name, the concept is intriguing as an investor, it's a way to maybe do a quote unquote house hack. So you live in your primary residence, you build an accessory dwelling unit, and then you rent it out long term or maybe short term as an Airbnb or on VRBO, etc. Now there seems to be a lot of interest in it and the higher cost of living areas of the United States like Seattle, California and Colorado. We're going to do a two part series around ADUs. Today's episode, and while the information shared is specific to the local market, the overall concepts of research and pros and cons apply to any market. Today's guest is Cassidy Benson. Cassidy runs The Living Room Denver, which is a real estate brokerage firm. Cassidy keeps up with market trends and it's really fascinating to learn how she's created a niche locally as an expert in accessory dwelling units. Cassidy, welcome to the show.

Kassidy Benson

Thank you so much for having me.

Nichole Stohler

Let's jump right in if you can share a little bit about your background, and we'll go from there.

Kassidy Benson

Yeah, absolutely. So, I'm 31 years old, I went to school at CU Boulder. I've been in Colorado my whole life. And then I moved to Denver eight years ago, after graduating. And about four years ago, four and a half years ago, I got into real estate and then more recently, in the last six months, I just opened my own brokerage really specializing in this concept of accessory dwelling unit.

Nichole Stohler

And I love that that is especially you have in fact on your website, you've got resources and it's clear you know exactly what you're talking about. So can you share? I know I gave you know what, what the Edu stands for, but can you share how it's actually defined?

Kassidy Benson

Yeah, accessory dwelling units accessory comes from it has to be secondary to the main primary residence. So, typically different. municipalities have different rules about that. But like in Denver, it can't be larger than your primary house. So it has to be a smaller unit. And here it has to be built on the back one third of your lot. So every city has kind of different rules about it. But in Denver, it's just considered a secondary house is smaller than the primary in here, we can't sell them separate from the main house, but there's other municipalities where they can be divided off. Oh, that's interesting. I never thought about that. How did you get involved in specializing in at us like, what was the catalyst for that? Well, I heard about them, but I really didn't know that much. And when I bought my first house about two and a half years ago, I looked in the backyard, and it's just this massive backyard. It's an 8000 square foot lot. And typically in Denver, lotter, about 60 to 50. So it's this huge lot. And it actually backed up into a road instead of an alley. So Jackson Street is the back of the lot. And so when I saw that my eyes just lit up, and I said, Oh my gosh, like this would be so cool if I could build a second house on it. And I did a little bit of digging, and I found out, Yes, indeed, this is one of the very special properties in Denver, that film for it. And so then I started you know, diving in and learning, and ended up buying the property. And was really excited because I went on line and I looked at homedepot.com. And it said that I could buy like, a garage with an apartment above it for about \$30,000. And I was like, this is going to be amazing. I'm just going to set it up in my backyard. And it took me about two years of learning all the ins and outs, and realizing that was not realistic at all. But that's kind of how I gained my expertise in this area is just through my own personal journey, and meeting a lot of people around the way along the way that needed clarification. Then I started teaching classes for my neighborhood. I wasn't the only one that didn't know about Edu zoning. At the time. None of my neighbors even knew that there lots were zoned. So when I started talking to them and realize that they didn't know that there are lots rezone for accessory dwelling unit. Then I sent out a postcard to everyone in my neighborhood who had this special zoning and invited them to a class that I taught at the local rec center, and I just gave them some insights. It's been interesting, the whole journey. I just keep learning and learning and learning.

Nichole Stohler

Let's back up because I love that you said that was not realistic. It was going to be 30 K, you're going to buy it from Home Depot. Why was that not realistic? Sounds good to me.

Kassidy Benson

That sounds awesome, right? So one of the things I learned one of the biggest costs is foundation. And so that's a big cost that I wasn't really factoring in. The most important thing that I learned is that doning in Denver's really specific, so there's a lot of rules around at us about how they need to be built. And one of the things that I was actually revisiting that

actually, because of this conversation, I went back to that Home Depot website, and one of the big sticking points is that the second level of the ADU has to be 75 percent of the ground level. And that is a very strange rule, it's really created so that the property doesn't look really huge on the back of the lot. It's supposed to like scale it back a little bit. But that was one of the problems and then you get into a lot of the design elements. And then you just realize, actually, it's going to be way more efficient that I just designed this myself rather than have it all have to augment this existing design substantially to fit on my property. And it ended up it would cost more than 30 K. It ended up being the price tag is going to be closer to 200,000 in the Denver area.

Nichole Stohler

Yes, that's a big that's a big Delta but I thought 30 days sounded pretty good, but I get what you're saying. Okay, so there were so many rules and you might as well just design it yourself. Not sure is a little bit I understand that every city say like I said is completely different. But what are some key things to consider or to look at from a zoning perspective?

Kassidy Benson

From a zoning perspective, you just have to understand a accessory dwelling units are allowed in your municipality. So Denver is really interesting because about 10 years ago, they revamp the whole city in in 2010. And that was the result of a plan called blueprint Denver that was happening prior to the rezone. So before the rezone, there were people that got that as part of the discussion at that time. And they decided as a pilot program that they were going to allow those in certain areas. So when they changed the zoning code in 2010, about 15% of the city was allowed to have at us. And since 2010, only about 200 have been built. So very few people have actually built them, probably because a lot of people didn't realize that they were zoned for them. And it's a slow process to get everyone educated. But then there's surrounding municipalities, such as Wheatridge borders Denver, and they're not allowing accessory dwelling units. But then there's another community called Inglewood, that borders Denver, and they are allowing them. So Denver, usually a leader in policy, so Denver led by saying we're going to allow at us in the certain areas in 2010. And then surrounding areas kind of followed them. And most recently, blueprint number, just as may pass a new plan that says that they're going to allow you to use throughout the city, which is huge is a really big news because right now it's only a small percentage of lots. And so over the next few years is when there's a lot of advocacy in the community to say exactly what it looks like when we have at us and the whole city and I think that the process where a lot of cities are at right now. So if you're a resident, you can probably get involved in local zoning and planning, and actually shape the future of what your city looks like.

Nichole Stohler

Do you often see people converting existing structures like a garage that's like a freestanding or something like that to an edu or does that not not count because of some of these rules?

Kassidy Benson

I see that happening a ton. So that's really what prompting Denver to change their rules is that a lot of people have converted existing garages into living quarters because it's become so expensive here and they're using them as Airbnb or different things. But those are technically not going to get permit. So if you have an existing garage in Denver, and you want to convert it into an accessory dwelling unit, the city's not going to give you a permit for that. And the main reason that you can't convert them is because of the foundation. So we're in Denver, there's a freeze level. And in order to have habitable space, they put a different type of foundation on it than they do for a garage. So garage is usually a simple slab versus living areas are required to have a more substantial foundation. Interesting, okay. And I wonder if that varies by city and state as well. I'm sure it's different in different region, there's like a certain level that you have to go under that I think it has to have footers and stuff. And that's just not the type of foundation that you would find on a typical garage.

Nichole Stohler

Now, you talked a little bit about some of the rules, mostly as you were describing your own experience in the second half of the building and the rules around that percentage of space. What are some of the other general rules like for example, your house you talked about it backs up to a road? Is that a rule does it have to have like alley or road behind it. What are some of the other things that you see?

Kassidy Benson

That's a really interesting question. So actually, specifically towards my property, I might run into issues when I go to pull the permit for it because it isn't on an alley. And typically, these were designed to be on an alley. So being on a main road might cause some issues for me pulling a permit. The other things in Denver that are kind of different is you're not a lot of depth on your accessory dwelling unit, which is super disappointing to people as they go through this process because they start to imagine this beautiful space and then they're not allowed deck. So there's a lot there's a lot of nuances. Yeah, there's a lot of nuances. So another one is that it has to be your primary residence in order to build an accessory dwelling unit. So I then tension I think, is that investors want to swoop in and just start building these all over, but it kind of causes some difficulty if you're using something as an investment property, you actually have to move back into the main house in order to pull a permit from the city to start building an accessory dwelling unit.

Nichole Stohler

Got it. That is a bummer. Because if you had several rental properties, you could effectively double your investment capability but in your capacity, but now you would have to actually live there. Okay, that's interesting. You also talked about the cost. And you said in your case, after you realize that you would have to design everything and it would be closer to \$200,000. Is that the typical range or do you have a price range that you see at least in the Denver area?

Kassidy Benson

Yeah, so in the Denver area, it's going to cost between two and 300,000 to build an accessory dwelling unit fully permitted and fully finished by someone who knows what they're doing. I

think that a lot of people, you know, we'll just talk to a contractor and they start getting bid. And a contractor who's really not familiar with these types of projects will definitely give you a lower bid than what it actually costs because they're just not familiar with how much the sewer is going to cost and all of these little things that go into it and also building smaller, you have greater fixed costs. So the fixed costs of the accessory dwelling unit is going to be the same as like building a big \$2 million mansion because you're still have architecture fee permit fee, sewer and water fees. And those are all fixed costs that don't change no matter what size that helps it.

Nichole Stohler

Great point. How do you see people are typically financing and at you?

Kassidy Benson

That has been the biggest problem is that financing them can be very challenging. Most people who are able to do this either have a lot of personal wealth or a lot of equity in their home. So home equity lines of credit are really common way that people go ahead and start to build these things.

Nichole Stohler

So Home Equity, versus, I don't know if they would be able to get because it's a new build. So that would be hard to get just a construction loan or something like that from scratch.

Kassidy Benson

A construction loan does work. And actually, I'm working with this lender who's really great at figuring this out. Another option that I was considering is doing a construction loan, but you have one year from the time so I'd have to refinance my whole property. And so then they're calculating in the loan for the whole thing. So it's the house plus the at us So then my loan would be closer to like 750,000 versus where it is at right now. Under 300. And then I would finance the whole project, but it has to be done from one year from when I take out that construction loan. And that's really a challenge is getting everything done in that one year time frame, especially with the labor market the way it is,

Nichole Stohler

I could see that would be a challenge.

Kassidy Benson

The other challenge with that is appraisal. So the construction was kind of nice, because before you even get started, they're going to say, okay, yes, we're going to give you the value and this is the value of it after you're done. But a lot of values that appraisers give are based on comparable properties that have sold. And the problem is because this is a really a new concept, that there aren't very many properties that have sold, that would be comp or comparable properties that an appraiser can use. Therefore, just like a normal loan, I've seen people get into a lot of problems because they that you use a heel a home equity line of credit to build your accessory dwelling in it, and then you have it but home equity lines of credit are

typically adjustable rate mortgages. And so the rates going up and down and you just want to get into 30 year fixed. The problem is that when you go to refinance that as one property, they don't give you the value for the full at you, then you're going to come in short.

Nichole Stohler

So there's, there's a lot of considerations on the financing side as well. So this would go back to really understanding your numbers. I've talked about this on the show before and also have a spreadsheet under therichergeek.com/resources that talk through property analysis. And what you would want to do is really factor in the cost of that increase mortgage, the different variables in the interest rate, how much you think you can rent it for what other Airbnb ease are doing in your area, and really makes some very calculated decisions before jumping into it. If you're trying to use it as an investment, obviously, if you're trying to use it for, you know, a place when your parents get older or a place, when people come stay and visit you, then that's a different use case. But if you're trying to use it as investment, it sounds like there's a lot of variables that you would want to consider, especially on the financing side. And some of those challenges, like you said, with the comps not being the same because you're dealing with a property that generates income versus a property that doesn't.

Kassidy Benson

Yeah, and we're finally getting past that appraisers are starting to recognize that and use the income approach and properties that are sold with accessory dwelling units. So we're getting in Denver, we're finally kind of getting past that. But the last few years has been very challenging.

Nichole Stohler

And that would be interesting for listeners in different states and cities to look and see what's happening in it. I would also ask, what advice would you give others in those different states to seek out? Because I don't think I often have seen a real estate agent that has this focus in at us. But it might also be because Denver has implemented the policy that you talked about. But how would you recommend people go about, you know, starting that research process or finding someone that could help them.

Kassidy Benson

The nice thing is that there's a lot of real estate agents out there. So I would just start talking in your local area to different real estate agents. And don't just talk to one talk to a lot of people and get a sense of who really understands us because I think that real estate agents are really motivated to get your business and they'll try really hard to understand this. But probably going with someone that's actually built one and has that experience, because that's how I really learned is like, the actual experience of doing it myself. So I would try to find a real estate agent who's done this type of project and they would probably be your best resource.

Nichole Stohler

That is such a great point and a lot of people that I have on the show that are in specialty areas like for example, a lawyer or CPA will say the same thing. Work with someone that has done

this before. So that's super helpful and thank you for sharing that. Tell us how how can listeners get in touch with you or learn more.

Kassidy Benson

Specifically about accessory dwelling units, If you want to go to my website, which is www.livingroomdenver.com. There is a tab on the top that talks about accessory dwelling unit. So what are they? How to find a property that don't run at you? The most recent blueprint Denver uses free to use and then just some of those quick tips about at us like you can't build a deck on a lot of the things that I feel like are common question. That's a good place to start.

Nichole Stohler

Perfect. Thank you so much. Thank you for coming on the show and for sharing so much information. That I didn't even know about at all. And for those that are considering definitely check out Living Room Denver, because there are resources that even though if you're not in Denver at least give you a starting point for your own research process. Thanks so much, Kassidy for joining us on the show today.

Kassidy Benson

Thank you so much for having me on.

Nichole Stohler

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