

Guide to Creating Accessory Dwelling Units

Addison County Regional
Planning Commission

Information available in audio.



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CHAPTER 1: INTRODUCTION

The Addison County Regional Planning Commission compiled this Resource Guide to Accessory Dwelling Units (ADUs), based on similar programs across the state.

We intend to help homeowners create accessory dwelling units for rent. The guide contains general information presented in a logical order to help homeowners determine whether they can create a feasible project. It then provides resources to help implement the project. Topics include an introduction to ADUs and whether they could be a good fit for you, defining your project, developing your construction budget, financing the ADU, creating an operating budget, construction and hiring the appropriate contractor, leasing the ADU and other considerations. All topics are supported by sample worksheets or documents.

What is an accessory dwelling unit?

An accessory dwelling unit is a separate, private living unit contained either within a larger single family home, attached to it, or in a separate building on the same lot. It has separate living and sleeping quarters, including a kitchen and a bathroom. It can be upstairs, in an attic, in the basement, over the garage, in a barn or other detached structure, or part of a new addition. The original home and accessory dwelling unit may generally share an entrance, yard and parking area with spaces for both units. Generally, Vermont state law and most local zoning ordinances anticipate each property only having a single ADU.

Besides the definition above, state law mandates that the ADU have sufficient wastewater capacity and can be no larger than 30% of the floor area or 900



Not ready for an ADU?

Home Share is an alternative to creating an ADU. For seniors and people with disabilities who want to stay at home but need assistance, home sharing is a wonderful alternative. It is also a terrific choice for anyone willing to help with chores in exchange for affordable housing. HomeShare Vermont invites inquiries from folks seeking housing, looking for help, or concerned about parents living alone. For further information on Home Share, please see **Appendix A.**

square feet, whichever is larger. State law requires that local development regulations **must** provide for the creation of accessory dwelling units. All municipalities with zoning have adopted specific use standards for accessory dwelling units in their development regulations. We have included information on town development regulations in our permitting discussion in Chapter 4 starting on page 10.

What are the benefits of creating accessory dwelling units?

Accessory dwelling units will ideally provide financial benefits for the owner and an affordable and comfortable apartment for the renter. Local businesses benefit from an increase in low-to-moderately-priced rental housing for employees within the community. Addison County benefits because creation of new housing in existing homes conserves land and preserves historic buildings. Accessory dwelling units also help maximize use of existing public services and infrastructure, while reducing pressure on open space and farmlands.



Detached ADU above garage

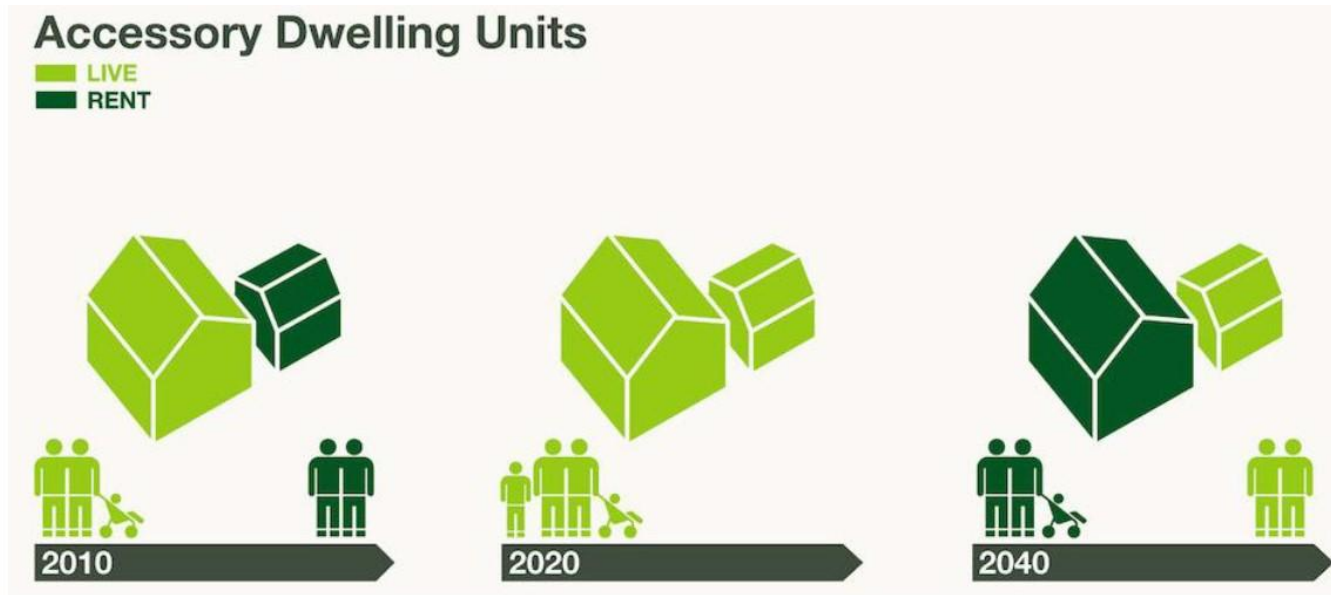
Should you consider an accessory dwelling unit?

An ADU might be right for you if you:

- Have empty bedrooms or spaces that you don't use in your home or on your property
- Need additional private living space to accommodate family (elderly relatives, adult children, etc.)
- Leave your home for extended periods and need help maintaining the property
- Want to create an additional source of income

The image below depicts some of the suggestions above. In 2010 a young family owns a house with extra space. They create and rent an ADU. In 2020 as their family has grown, the family uses the ADU for themselves. In 2040, with their children

grown and gone, they downsize, move into the ADU and rent the main house. If any of these reasons appeal to you, let's get started with the development process. Our goal is to help get you to decision points, allow you to make "go/no go" decisions quickly and keep you moving through the process.



Source: <https://hammerandhand.com/>

CHAPTER 2: DEFINING YOUR PROJECT

Types of ADUs

As the pictures here show, ADUs can come in a number of sizes and configurations. They can be inside your existing house, attached to it, or in a completely separate building. This chapter is designed to help you create an ADU that will fit your property and your needs.

Conceptual Design

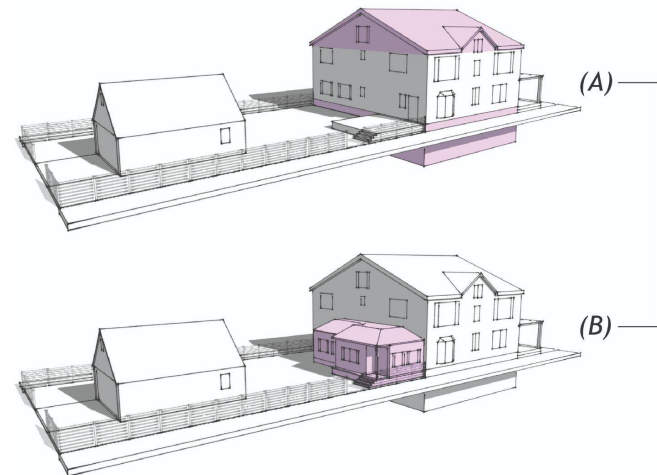
We suggest you begin by defining your objectives and then answering questions about basic parameters that will achieve your objectives and help you define your project.

OBJECTIVE: I want to create an ADU in order to: _____.

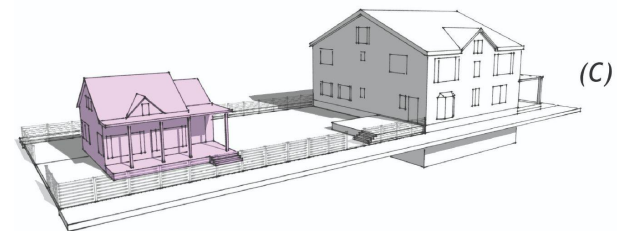
Questions to consider to define your project so it reaches your objective:

1. Where are you thinking of creating the ADU? (Examples: basement, attic, above a garage, building an addition, converting current living space, barn or other out building, a new structure)
2. How large of an ADU are you considering? Pricing is based on both size and number of bedrooms.
3. For whom are you planning the ADU? Are you planning for a relative, close friend, or someone you may not know? This may impact the location of entrances and windows.

1. Attached Accessory Dwelling Unit (ADU)



2. Detached Accessory Dwelling Unit (ADU)



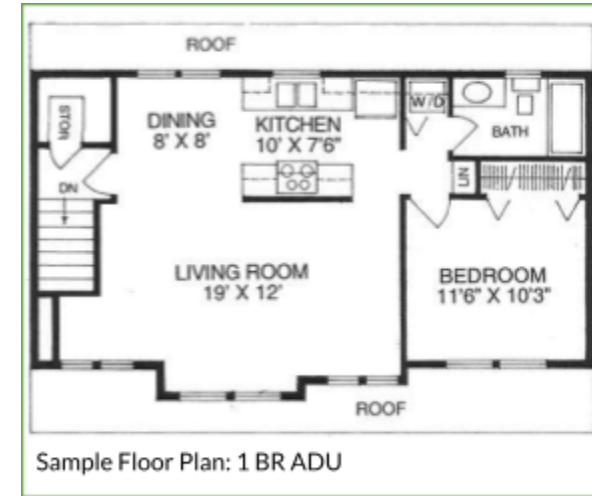
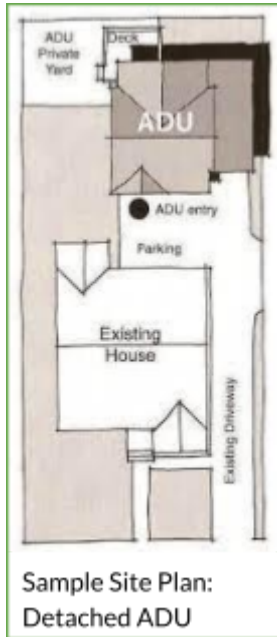
4. If you are planning to renovate the space, is there other work that needs to be done to the main home? For example, does the entire house need a new roof, windows, heating system, or an electrical upgrade? It might be most efficient to do the entire building at once.
5. Are there obvious challenges that may make the project **difficult or unfeasible**? These might include a limited septic capacity, the need for costly capital improvements or lack of parking. Focus on these issues early. Our next chapters on Preliminary Design and Permitting are designed to help you identify and overcome these issues.
6. How much do you expect to spend on this project and what do you expect for income?
7. How do you intend to finance or fund the project?

We suggest you write down your answers. We are looking to create a preliminary concept of your project. If you don't have all the answers right now, that's okay. The rest of this guide will help you think through your options and determine next steps.

CHAPTER 3: PRELIMINARY DESIGN FOR YOUR ADU

Sketch Plan

Develop a set of simple schematic designs of what you would like your ADU to look like. If the structure already exists, create a simple floor plan (Or multiple floor plans if it has two levels). Where will the bedroom(s), living room, kitchen and bathroom be located? If you need to add an addition or new structure, also create a simple design of the outside of the proposed new structure. Think about the location of doors, windows and other features. Lastly, create a site plan for your property. Where will the tenant park? Will they have any other outdoor amenities? Do you want to provide any new landscaping or screening between the units? If so, where will those fit?



This site plan will serve as your sketch plan for your local permits. Additional sample Floor plans and site plans required for zoning applications are provided as [Appendix B](#). Review the examples provided and include the information they contain in your sketch on the blank graphs provided in Appendix B. Another easy way to create a site plan showing your existing property, including estimations of your boundary lines, is using the Agency of Natural Resources Atlas [here](#). It constitutes a simple, free and useful tool to approximate where you want to put your ADU and associated infrastructure on your property. Directions about how to use this tool are included at the end of [Appendix B](#).

Lastly, attached as ([Appendix C](#)) is a list of typical amenities. Check the boxes on the amenities you want to include and roughly show where each of them will be located on your respective plans. These initial sketch plans and lists of amenities can be used to help engage a contractor, secure the permits you will need and to develop a preliminary estimate for construction costs (labor and materials).

CHAPTER 4: ZONING AND PERMITTING

Local (Town) Permitting

We suggest that you use the local permitting process to help you refine the scope of your project. Local zoning and building permits should be relatively easy to obtain. State law, 24 V.S.A. 4412(E) **requires every town** to allow for accessory dwelling units provided the proposed unit meets the size threshold and can provide adequate water, wastewater and parking.¹ The local Zoning Administrator (“ZA”) should be your first stop with your permitting questions. They should help to refine the parameters of your project. While all towns must allow ADUs, each town has its own development regulations and application process for zoning and building permits. [Appendix D](#) provides contact information for the ZA in each town in Addison County and contains the text of each community's local zoning regulation governing ADUs. Read your town’s regulation, compare it to your proposed sketch plan, adjust your plan accordingly and then call the ZA to schedule an appointment. Request that the ZA review your sketch plan and help you with the applications if you need it. They should be helpful, knowledgeable and charge only a relatively modest permit fee.

Below are some points you should discuss with your ZA. Not all will apply to every project, but it constitutes a good checklist to be aware of and discuss to cover all bases for local permitting:

Building/zoning Permit Application Form:



Each zoning office has their own form, often available on their Town website. The ZA will walk you through completion of this form, which will need to be signed by the property owner. The ZA has 30 days from the time of complete application to make a decision (issue/deny/refer) on your permit application. After issuance of the permit, you should plan to wait 15 days for the appeal period to expire before beginning construction. During that 15 days, the permit must be posted in a prominent location at your property visible from the public right of way. We recommend that you carefully read your permit when it is received, and request a copy if it is sent directly to

¹ The full text of the State law, 24 V.S.A. 4412(E) is posted [here](#)

your contractor. Many times the ZA will include conditions in the permit that must be met during construction. Ask your ZA if you have any questions about this process, including how the permit will be sent to you.

Sketch Plan:



Applications for zoning and building permits require a simple sketch of the site plan depicting proposed improvements, including parking areas and showing property lines and setback distances to any structures. Attach The sketches you created in the previous chapter to the application. The ZA will use these plans to guide you in designing a final layout that conforms with the zoning regulations.



Local Water and Wastewater permits:

If you are lucky enough to have your ADU served by municipal water and or sewer systems, your ZA should be able to help you with the permitting necessary to secure the local water and wastewater permits you will need for service. If your property is not serviced by town water AND wastewater service, you will need to secure a State water/wastewater permit. Those permits are discussed in the next section. However, we recommend that you speak to your ZA about State water and wastewater permits as they may be able to provide you with guidance identifying whether you need state permits or helping you find information in the land records about your existing water and wastewater infrastructure.



Parking:

Your ADU will require dedicated parking in some form. Discuss how many parking spaces you will need and where the parking to serve the unit will be located. Consider asking about whether on street parking could be an option, in addition to parking provided on your lot.

Local access permits:

If your ADU needs a new driveway or expanded curb cut, you will need a local permit. Your ZA should be able to help you with that application, which is generally approved by the selectboard or road foreman. If the access being added or altered is located on a State highway, the VT Agency of Transportation has permitting authority. In that

case, you are encouraged to call the State Permitting Specialist for the appropriate contact information. (See [Appendix A](#) for contact information for the State Permitting Specialist, Rick Oberkirch.)

Residential Building Efficiency Standards (RBES):



All new construction, conversions or additions for creating heated/conditioned residential space including ADUs are required to meet the Vermont Residential Building Efficiency Standards (RBES). The ZA is responsible for ensuring code compliance and should be able to provide you with the code requirements. Generally, ZAs ensure compliance by having you, or your General Contractor, certify that the work completed meets the standards at the end of the project. We suggest you discuss it here and with your contractor at the start of the project.

Local Design Review:



As of this writing, very few places in Addison County require local design review for residential structures smaller than multi-family dwellings. Generally only units within designated downtowns or significant alterations to historic structures could be subject to design review. Design review involves the review of proposed plans by the ZA or a design review committee for the purpose of providing input about the architectural design of a project and may stipulate the preservation of certain essential historic features. Ask your ZA whether a design review could apply to your ADU.

Timeline and Certificates of Occupancy:



Many towns require the ZA to issue a Certificate of Occupancy upon completion of construction and prior to occupancy. It will require scheduling a simple inspection to make sure the project was built in accordance with the



Energy Efficiency and Exceeding minimum code compliance:

If you are interested in energy efficiency or building to a higher energy standard than that required by the code, your ZA may be able to help. Additionally, in our Financing section, we include information on Energy Efficiency programs available for you to consider and, as appropriate, use as you develop your ADU plans.

permit application and any written conditions that the ZA added to your permit when it was issued to you. The ZA will also typically make sure that water and wastewater connections have been completed. This permit is down the road, but speak with your ZA about your projected timeline for your project and what is necessary now so you will know when to raise it later.



Finally, it is always worth asking “What else should I know?”. Your ZA may also be able to help you with other permits (State Fire and/or municipal or state water and wastewater permits).

Listen to your ZA's suggestions and revise your sketch plan with them until you get to “YES”, then complete the permit application(s) your community requires. We would suggest waiting to file your permit application(s) until you have developed your budget enough to determine whether you want to move forward with the project.

State Permitting

State permitting, especially water and wastewater permitting, can be complicated. This guide is designed to help you work your way through the system. Another good resource is the State Permitting Specialist, Rick Oberkirch. In addition to helping with the permits discussed below, Rick can help you determine whether any other State permit, especially natural resources permits (Wetlands, streams) may be necessary for your project. See [Appendix A](#) for contact information for the State Permitting Specialist, Rick Oberkirch.)

Fire Safety



In addition to a local zoning and building permit, and potentially a state water supply or wastewater disposal permit, you will need an inspection and permit from the State Fire Marshal. Fire Marshals have jurisdiction over all ADUs. State law requires that all houses and apartments be equipped with and checked for smoke detectors, carbon monoxide (CO) detectors, egress (escape routes during a fire), electrical, and plumbing. [Josh Maxham](#) from the [Rutland Office](#) of the VT Division of Fire Safety will meet with you or your contractor to look at the plans and help determine the improvements needed to secure a fire marshal's permit.

To streamline the process, however, here are some [resources](#) and a basic checklist to look at before an official check:

- Working smoke and CO detectors in every bedroom and on every floor

- 2 means of escape in every bedroom (main door and a door or sufficiently sized window leading outside)
- Tenant either has access to the main electrical panel or ADU has its own electrical panel

Since an ADU is considered a public building, a licensed plumber and electrician will be needed to install/update/replace any fixtures and wires.



Lead Paint

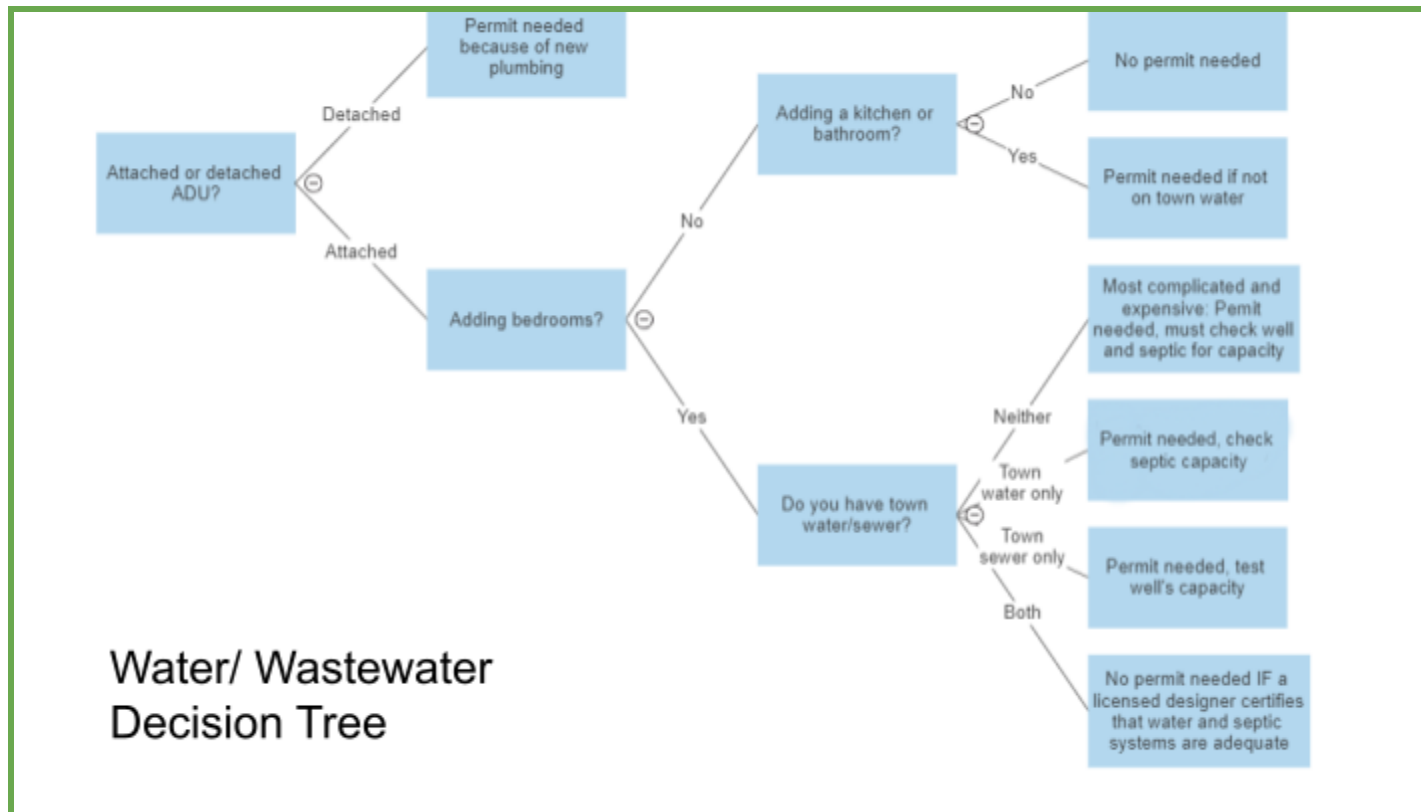
Most older homes built before 1978 have lead paint. Persons planning renovations or remodeling property built before 1978 should be very cautious of lead paint contamination. Even a well maintained home can quickly become contaminated if safe methods are not used and/or proper clean up is not done during the course of even a simple repair. The Vermont Housing & Conservation Board administers a Lead-Based Paint Hazard Reduction Program that offers loans and grants to homeowners and landlords to reduce the hazards of lead poisoning. The [Department of Health](#) offers comprehensive resources for learning how to comply with regulations and even becoming certified to perform the yearly checks on your own (except for paint repair of 1 sq ft or more). They also provide a [list of contractors/companies](#) for lead abatement and testing.

If you are renting out a space built before 1978, you must disclose information on possible presence of lead. The EPA provides this [disclosure form](#) for attachment to a lease agreement, as well as this [pamphlet](#) that must be provided to tenants before signing. You must also perform inspection, repair, and cleaning practices every year, information on which can be found at the Department of Health link above.



Water/Wastewater

Depending upon where you live, one of the biggest potential obstacles to developing your ADU can be access to an adequate water supply and/or a wastewater disposal area. You will need to determine the status of your current primary home's water supply and wastewater system to determine whether capacity exists to add an ADU. Follow the decision tree below to determine what permit and/or new infrastructure you will need.



Connecting to Town Water/ Sewer

For the creation of an ADU in an existing structure already served by town water and sewer (Portions of Middlebury, Vergennes, Shoreham and Orwell) attaching to the existing water supply and wastewater system can be relatively simple, inexpensive and may not need a state permit. Speak with your ZA during your appointment and they should be able to help you to secure a permit to connect your ADU to municipal water and sewer. The ZA may require you to hire a site tech/engineer, who will calculate your projected design flow and make an allocation request of the ZA. The ZA will issue an allocation letter, which the site tech/engineer will use to issue a certificate that must be filed by the applicant in the Town Clerk’s office. The Town will typically charge a one-time hook up fee for both water and sewer, and you may be required to

purchase a water meter from the Town. Service line hookups to the municipal system may involve making an appointment for a member of town staff to supervise the contractor while they make the connection. Water meter installations must be performed by a licensed plumber. Please ask your ZA to review this process with you and/or your Contractor during your appointment.

Creating an Independent Water/ Waste water System

All other situations will require you to obtain an amended wastewater/potable water supply permit from the State. For context, the septic systems in Vermont are typically based on the number of bedrooms in the household. Any ADU construction adding a bedroom to the total count will require additional wastewater treatment capacity. However, if the ADU merely swaps an existing bedroom in the main dwelling unit for a new bedroom in the ADU, permitting can be simplified. Replacing a septic system or adding water capacity can be expensive and a major deterrent to ADU construction.

If you are not on town water and sewer, chances are you will need to figure out the capacity of your well and septic system. Assuming you have permits and can find them, they should provide the information you need.

Can't find your permits? These resources can help:

1. Agency of Natural Resources [Permit Navigator](#) tool. Click "Visit the Permit Navigator". Once there, choose "Wastewater Systems and Potable Water Supplies" from the Program dropdown list, then choose the only option available under Related Permit. After confirming that you know your project location, type your address into the search bar on the map. Then, make sure the property owner name and address are correct and click the "View Details" button. You will then get information about the permit in question including timeline, fee, contact, and handbook.
2. Water Supply and Wastewater permits issued after about 1990 are recorded in the town land records. Reference to the permit numbers are also often included in your deed. Check your deed first. If you find the number, you can find the permit information at ANR [here](#). If it is not referenced in the deed, but you know the name of the developer and approximate date of your house's construction, you may also be able to find your permit. The Town clerk or ZA may be able to help you during your appointment with the ZA.

Once you have gathered as much information as you can on your current water supply and wastewater system through the steps above, contact the [Rutland Wastewater Office](#) of the State of Vermont. Alicia Owen represents the Rutland office and will assist in plans, applications, and fees for projects needing a permit for non-public water systems and wastewater systems necessary for ADU construction. Lisa Stevens and Chris Tomberg in the Rutland office will review and issue the necessary permits. The permit to expand water capacity will cost about \$900 and fall under the Non-Transient Non Community permit application. Discuss the information that you have and what you still need. They may be able to help you find more information or have good suggestions regarding how to move forward. They may also give you a ballpark estimate on the permit cost and possibly estimates of construction (They would be round estimates, but a placeholder in your budget until you can get a quote). The price varies relative to one's current septic system and soil surrounding the property.

Once you have determined what you need, but after you have done your construction estimating in Chapter 6, we highly recommend you hire a water supply/wastewater expert to come out and appraise the cost of putting in the system you need. The Agency of Natural Resources maintains a list of Class 1 licensed water wastewater engineers [here](#). Take a look at the available options within Addison County.

Please consider your finances at this point. If you need to construct a new septic system, or create water storage capacity, does your ADU project still make financial sense?

CHAPTER 5: MARKET ANALYSIS AND REVENUE PROJECTIONS

At this point, we hope that you have defined the scope of your project, the permits you will need and any infrastructure you will need to construct in order to create a viable project. This section begins the financial planning for the project.

Revenue:

Let's start with the fun part. How much revenue do you expect to make? Every ADU will have a different value. Every owner may have a different goal. Perhaps you want to maximize your return on investment. Perhaps you have more altruistic goals. Either way, understanding your potential income stream is important. We believe the median rental rate for the town in which your unit is located constitutes a good starting point.

Click [here](#) for the Federal Department of Housing's median rent calculation for Addison County for 2023. Find the type of unit you plan to build (Studio, one bedroom, two bedroom, etc.) and see the median rental rate for that type of unit in Addison County for 2023. **Please note these rental Rates INCLUDE all utilities.** Use the 50% rental rate to create your best estimate of a fair rate for your unit. Your planned unit may be bigger or smaller than the average unit. It may have great new amenities, views, a fantastic location, or not. You can also view current rental listings for the Addison Region in many different locations, including the [Addison Independent](#), the housing section of [VT Craigslist](#), [Trulia](#), and [Apartments.com](#). Local real estate professionals can also help you decide on a marketable rent and can also help find tenants for a fee. You need to decide what makes you most comfortable.

Use this basic revenue information to create a ballpark estimate of what you believe you can charge. Remember, as of this writing (June 2023) the housing market is extremely tight. In general, new units should be able to demand more than the median rental (50% rate) since newly created units tend to have nicer amenities than those that have been rented for years.

Finally, the link above gives both a fair market rate 40% and a median 50% rate. Make sure to use the one that best achieves your goals. Create a fair estimate and use it as the rental rate that will drive your revenue. Enter your projected monthly

The 50% rate is the 50th percentile of gross area rents, whereas the Fair Market Rents (FMR) are the 40th percentile rate. The FMR will be the **lower rate** of the two and is the value that will be used to determine the rent you can charge if you choose to use some of the different subsidies covered later in the guide.

rental rate here: \$_____ We will come back and use it later when we create our Operating Budget. Multiply projected monthly revenue by 12 and that is your projected gross revenue. Remember, one of the best ways to maximize revenue is to keep your unit rented. Turnover is expensive. Therefore, the best long-term strategy is to set a rent that is attractive and will allow you to retain a good tenant over a longer period of time.



How does the projected gross revenue feel to you? It will only get smaller from here. It will need to fund your monthly financing costs if you plan to borrow to construct your unit (More on financing construction costs in Chapter 7), plus monthly expenses not paid by the tenant (More below). Depending on your goals, it will also need to pay you enough so you feel compensated for the risk, the work you will do as a landlord and having to share your primary living space with a tenant. Is it enough to move forward? If it is, or you are undertaking this project for love or community, let's keep going!

CHAPTER 6: CONSTRUCTION BUDGETING

Total costs depend on many different variables. Some homes may already have accessory dwelling units that are not currently in the rental pool. If in possession of such a unit, it may only cost a few hundred dollars to get it ready and rented.

If you own a large home that has unused space, it's possible that it could easily be converted to an accessory dwelling unit. The space may already have a bathroom, and the kitchen or kitchenette can be installed easily (i.e. simple plumbing and electric renovations). Then, only a space is needed for a



ADU above detached garage

separate entrance. If this can be easily installed, the cost may be only a few thousand dollars. At this level, the renovation costs can be recouped within a few years. Conversion of spaces above garages (especially if they are free standing), in attics or in walkout basements will be considerably more expensive. If you plan to hire a general contractor to perform all the work, order materials, and hire and supervise any trades as subcontractors, the work may run about \$300 per square foot. These costs assume modest cabinetry, finishes, and appliances. Because of the large cost of kitchens and baths, smaller spaces tend

to cost more per square foot than larger spaces. Labor costs as a percentage of total costs are generally higher for renovations than for new construction. Therefore, if you are planning major work like this, you may want to consider a 2-bedroom apartment as they command higher rents.



Attached ADU



Detached new construction ADU

Finally, new construction will generally be the most expensive ADU of all. Not only will you need to construct a new structure, but probably also a lot of the infrastructure necessary to support that new structure.

Now that you have sketched out the type of project you desire and outlined its basic parameters, let's develop a preliminary construction budget and use that process to determine whether your project makes sense for you.

As illustrated above, the scale of an ADU project can vary dramatically. Thus far, we believe most people can take the steps outlined in the chapters of this guide themselves. This guide is also designed to help people develop affordable housing and/or maximize their income streams. Accordingly, we have assumed that the homeowner will want to do some of the planning and perhaps some of the work. That is still possible in this section. However, depending upon the scale of improvements needed, homeowners may need to dedicate a significant amount of time to the project and be knowledgeable about the trades. We believe we can offer a better solution. Addison County Regional Planning Commission has contracted with a reputable and experienced local contractor to provide a limited scope of construction estimating services **FOR FREE** to at least the first 20 individuals desiring to create an ADU in the Addison Region.² Our contractor will help individuals in the Addison Region desiring to create an ADU with a ballpark estimate to determine the feasibility of your ADU to save you time and energy. Please note, depending upon the scale of the project you are proposing, ACRPC's free ballpark estimation services may not cover your needs. We expect our facilitator can help with units in existing buildings. However, if you are proposing significant new construction and or will need extensive water or wastewater design, you should expect to do the work yourself, or hire your own services. For more information on this service, please contact Adam Lougee at ACRPC at alougee@acrpc.org or by calling him at (802) 233-5420.

If you would prefer to do the construction estimating on your own, a worksheet to develop a preliminary construction budget for creation of the unit is attached in [Appendix E](#). Depending upon the type of project you are undertaking, you will likely not need all line items in the spreadsheet. Skip over ones you don't know until you understand whether they are necessary, then keep or eliminate them as you determine the scope of work contained in your schematic design.

² For the purposes of this guidebook and this funding, the Addison Region means the 21 towns within Addison County served by the Addison County Regional Planning Commission (Granville and Hancock fall in the area served by the Two Rivers Ottauquechee Regional Commission and outside this area).

Lastly, there are a number of reputable architects and or design builders that provide services in the Addison Region. A non-exhaustive list of potential firms is attached as [Appendix F](#). Working with a good architect and /or contractor with design/build experience can be an educational and rewarding experience. They can also design and build special features to make your ADU extra-special to you. The bottom line is this; you should always feel free to choose your own resources for help.

After this stage, your plans and specifications should be sufficiently detailed to solicit bids from contractors and/or materials suppliers. However, before we go there, let's do a little more financial planning.



Purchasing a tiny house may also constitute a good alternative to constructing an ADU, if you have space on your property, but no appropriate existing structure to house the ADU. You will still need to go through local and state permitting and provide the water/wastewater and electrical infrastructure to connect your tiny home to appropriate utilities, but some advantages to a tiny home include:

1. Fixed Cost: You can purchase a unit that fits your needs and budget;
2. Location: You can locate the new tiny home on your lot where you want it and many are on wheels and can move if necessary
3. Timing: Buying an existing unit ready for installation can advance your timeframe considerably.

Homes First is a local group committed to designing affordable tiny homes. and may be a good resource to contact if you are interested in tiny homes. Homes First is currently partnered with the Hannaford Career Center to build the first affordable, well-built, 250+ sf home and hopes to produce many more. Contact: Homes First, <https://homesfirstvt.org>; 802-398-5491

CHAPTER 7: FINANCING THE CONSTRUCTION COSTS

Depending on the cost of the project, financial situation, and preferences, there are at least three financing options:

1. Finance the project with personal savings or capital. If using personal money, it should be a fiscally responsible move. A return on the investment should be included in the operating budget.
2. A loan from a commercial bank, credit union or savings bank. Reach out to the lending officer of banking at your bank. If you use another bank, you should also consider moving your accounts there. The financing program below may be useful to you, as well.
3. Offset some of the costs through the [VHIP grant program](#), for affordable housing development. See more information about this program below.

We strongly recommend that you not use credit card debt for long term financing of the construction. Generally, credit card interest rates are 2X, 3X or 4X higher than a conventional loan and will destroy your financial return. A credit card may be used to purchase materials, but you should have permanent financing to pay off the balances at the end of each month.

Energy Audits and Weatherization

As we noted earlier, an ADU could also provide an excellent opportunity to do other work on your property. Improving energy efficiency by upgrading appliances or weatherizing the property may be one opportunity you should explore. If you are interested, the National Bank of Middlebury has an [energy loan program](#) for improvements and weatherization. Consider discussing how the two loan programs might work together or which will work best for you.)

- [NeighborWorks](#) of Western Vermont offers affordable energy audits to identify problems in your home that could be wasting hundreds of dollars in energy bills.
- They also have rebates through Efficiency Vermont for weatherization projects- up to \$3000.
- [Efficiency Vermont](#) is also a great resource for further rebates and services to increase energy efficiency.
- You are able to use VHIP money for weatherization if it's to weatherize the ADU you're building.

Financing Program

Every owner is free to choose whatever bank and whatever financing option works for them. We worked with the National Bank of Middlebury to create this guide and have used them as our example. The National Bank of Middlebury offers [loan programs](#) that will help you finance the cost of your ADU construction. The amount you need will depend on construction costs. The amount you'll be able to borrow will depend on home equity and potential cash flow of your ADU. Work with your bank to find a good option that makes your ADU not only possible, but profitable.

Current relevant interest rates (based on fixed rates for mortgages) change often enough that you should refer to the bank's [calculators](#) for the most updated information. As of writing this, the rates for 15, 20, and 30-year loans respectively are 6.125%, 6.75%, and 7.125%.³ Once you have calculated the amount you need to borrow, the interest rate you will be borrowing at and the term for which you will borrow the money, the calculator will provide you with your monthly cost of capital. Please plug this number into the Operating Budget Spreadsheet attached as part of ([Operating budget](#)) and discussed in the next Chapter.



Vermont Housing and Improvement Program (VHIP)

The State of Vermont currently offers a program to incentivize new housing. The [VHIP grant](#) provides a substantial amount of funds to put toward your project. VHIP offers up to \$50,000 for creation of new ADUs and \$30,000 for updating existing 0-2 bedroom units to meet state standards. NeighborWorks of Western Vermont handles VHIP for Addison County.⁴

This could be a major benefit to you as a homeowner as it greatly reduces the turnaround time for paying off loans and making a profit on your ADU. It also makes it much more likely that you can build one in the first place. However, there are a couple of requirements in order to receive this assistance:

³ We used the calculator above to find these rates on 5/25/2023.

⁴ As of this writing (May 2023) VHIP has funding remaining for 18-20 more units in 2023. VHIP will be funded next year in the third round. VHIP believes they will have funding for several years, well into 2026, with the deadline to complete projects funded in the current round being September 30, 2025.

- The ADU must be built in an existing structure (house, barn, garage, etc.) or within a new residential construction project . New structures and things like tiny homes do not qualify for VHIP.
- You must match at least 20% of the grant money received, though this can also be accomplished through in-kind matches for unbilled services and materials that you already own. As an additional bonus, St. Stephen’s church has also made six, \$5000 grants available to community members that provide affordable housing as defined by the VHIP program. Depending upon the amount of the VHIP loan, this additional grant can cover a significant portion of the match required to secure the VHIP grant.
- You must agree to rent units at or below HUD [fair market rents](#) for Addison County for the first five years after completion of the unit.
- If you are updating an **existing** ADU you must work with a Coordinated Entry Lead Organization to rent to those at risk of homelessness. New ADUs are **not** subject to this requirement.
- The ADU must be occupied no later than 18 months after signing the grant agreement. If this deadline passes, you assume the remaining payments to the contractor. VHIP will not have you sign anything until all the pre-construction prep work is done and ready to go, but can pre-approve you for grant money before this point.

Some extra considerations:

- Use of VHIP funding is very flexible and can be used for anything involved in the creation of an ADU
- **You must be up to date on property taxes and mortgage payments to be eligible**
- **Grant funds are taxable income**



Additional Grant Funding from St. Stephen’s Church

Parishioners of St. Stephens have generously agreed to provide six grants of \$5,000 each to people developing ADUs that meet the VHIP guidelines. This money can serve as half of the match necessary toward the VHIP program.

CHAPTER 8: OPERATING BUDGET

Your Operating Budget IS your Business Plan

The Operating Budget helps you document your projected revenue and expenses related to your ADU. A sample operating budget is attached in [Appendix G](#). The sample operating budget is a spreadsheet with directions, plus three interrelated pages.

The first page, labeled “Minimodel” is the primary page that you will use to show your revenue, financing costs for your construction and your projected expenses. It is already filled in with examples so you can see how it works. The next page, labeled “Loan” has two components, the terms of your loan, assuming you take one to build your ADU, and then the amortization schedule, which uses the loan terms to project your payment schedule. It shows how much you will need to pay each month for the time period required to satisfy your loan. When you enter the loan terms from your loan (See Chapter 7) into the loan terms and the amortization schedule will auto populate. The third and last page shows your cashflow. It automatically populates from the information you enter into the Mini-model and loan. The Cashflow shows your acquisition costs in column B and then your projected yearly revenue, expenses, net revenue, financing costs and cash flow for up to the next 30 years. We urge you to make a copy of the Sample Operating Budget, rename it and work to fill in your own numbers. Keep the sample so you have an example with working formula links and suggested starting places for revenues, expenses and financing costs.

The Operating Budget you create can also serve as your actual budget if you move forward. Keep the Operating Budget to review your rental income assumptions and your ongoing operating expenses. Adjust your projections to actuals as you move forward in time. Your Operating Budget provides an opportunity to outline decisions based upon your actual revenue and expenses. Are you charging enough rent? How will you handle maintenance issues (DIY or hire tradespeople)? Should you choose to retain a third party manager?

Let’s start building your projected Operating Budget!

To complete your budget, you will need to add information on your revenue and costs associated with the project. We highly recommend that you use the Operating Budget attached as [Appendix G](#). Its directions include instructions on which cell in the spreadsheet each input (Revenue, Loan or Expense) should complete.

However, if you are uncomfortable using the spreadsheet, the table to the right outlines the major inputs required to create a monthly budget. We have provided a space for you to write in values that will impact your cashflow.

Below you will find an explanation of each item and how you might estimate each value.

Model Budget Line Items	Your Estimates
Monthly Revenue	
Monthly Cost of Capital	
Monthly Expenses	
Repairs and Maintenance	
Electricity	
Heat	
Trash	
wi-fi	
Other expense	
Vacancy Reserve	
Rehabilitation Budget	
Professional Services	
Insurance	
Property Tax	
Subtotal monthly cost of capital and expenses	
Monthly net revenue minus all expenses	

Revenue

You created revenue assumptions in Chapter 5. Plug your monthly rental assumption into the revenue line above. Have you changed any aspect of the project that changes your revenue assumptions? Should you?

Monthly Cost of Capital (Loan Repayment)

In most cases, this is your monthly principal and interest payment for a loan or loans that you received to cover the costs of creating the accessory dwelling unit. If you choose to use savings or other cash assets to cover the development costs and not get a loan, this guide assumes you still want this investment to yield a return. Even if you

use your own cash—treat it like a loan to yourself at about the same interest as a bank would charge. Use the bank calculator link in chapter 5, or ask your bank for the monthly payment cost and plug that into the spreadsheet above.⁵

Expenses

Repairs and Maintenance

Things break and need to be fixed. It's a fact of life. Allocate a little money each month to take care of your property. Things like cleaning of gutters, minor plumbing or electrical repairs, switching storm windows for screens will need to be taken care of and should have a small part in your budgeting.

Utilities that will be included in the Rent

Estimate the costs of utilities **that are included in the rent**. These may include electricity, waste removal, air conditioning, heat, water heater, water, wi-fi, and sewer (if municipal). The easiest way to address these costs is to have your tenant pay them. Depending upon the type of construction you are undertaking, it may make sense to have your contractors install separate electric and/or water meters. While it will increase your construction costs, it will save you labor and costs in the future and is a good discussion to have with your contractor. If separate meters do not make sense, but you are adding square footage to your property, your utility company and fuel suppliers can help to estimate the additional expenses you should add to your operating budget for the

Note: Depending on your situation, you may not have additional cash expenses for some of these items. However, you should assess the percentage of costs that can be attributed to the apartment. For example, you may not increase the size of your driveway and parking area. You will have it plowed whether or not you have an accessory dwelling unit and it will cost the same amount—or you may plow it yourself. If the apartment is about 30% of the size of your home, then you should count 30% of the cost of plowing as an expense of owning and renting the apartment. This will allow you to deduct this amount from your rental income, thus lowering your taxes, giving a truer picture of financial benefits of renting.

⁵ Please note that interest payments to a third party are an eligible expense and may be deducted for tax purposes. You may not deduct payments of loan principal as this is not an expense. Your bank, or the bank calculator link in Chapter 7, will provide a breakdown between principal and interest payments.

additional costs of the ADU. If the ADU lies within your main housing unit, another very simple way to calculate these expenses is to divide them on a square footage basis. As an example, if the total square footage of your house and ADU is 2,000 sq. ft. and the ADU is 500 sq. ft., you should allocate $\frac{1}{4}$ or 25% of the shared cost to the ADU. Plug your expenses associated with the ADU into the sheet above.

Vacancy Reserve

It makes sense to prepare for some vacancy in your Operating Budget. We have used a 10% vacancy rate in our model, or a little more than a month, which we believe is a reasonable projection if a tenant leaves suddenly. You should feel free to change that vacancy rate to match your projection of risk. Because it impacts revenue, vacancy can make a big difference to the bottom line.

Rehabilitation Budget

At some point, you will need to replace major items like carpeting, refrigerators, etc. The money in the rehabilitation budget serves this purpose. Planning for some rehabilitation costs in the future over and above the monthly maintenance will reflect the real cost associated with the ADU and help your Operating budget cashflow projections become more realistic.

Professional Services

Legal, Accounting, Rental Agent. In various places in this brochure we discuss how professionals may help you create and/or operate your ADU. You may choose to incur attorney's fees to review contracts or leases, help you establish a business entity for the ADU or to help you understand your obligations as a landlord. One time costs should go into Capital Costs, the cost of starting your ADU in your minimodel. However, if you also plan to retain professional fees on an annual basis, tax accounting for the ADU as an example, you should include that estimated cost as an expense in the minimodel similar to any other operating expense.

Insurance

Everyone will need Property (Fire) Insurance to protect your investment in the ADU, similar to what you already do with your house. As a landlord, you should also add General Liability Insurance. If you are in a mapped flood plain, you will also need to consider Flood Insurance. Ask your insurance agent for an estimate of additional coverage you should get and its cost. You will be insuring your entire property, so if you don't add any space, your basic property insurance

premiums may not increase. There is a surcharge for additional liability to cover the rented unit, but it should be modest. Your increased insurance cost should be counted as an expense of the ADU.

Property Taxes

Since your ADU will increase the value of your property, your property taxes will also increase. The portion of the increase attributable to the ADU should be listed as an expense in your operating budget. There are two different ways to treat your ADU for property tax purposes.

The first and simplest is to treat the ADU as an “accessory” to your single family residence. Merely, multiply the square footage of the ADU by the Town tax rate, which is printed on your property tax bill. This will provide a good estimate of the tax attributable to the ADU and should suffice for the purposes of your operating budget. The second method is to declare your ADU as a rental property. Then the Assessor will value and tax it through the homestead tax. Generally, there is not a big difference between the two tax methodologies because the current tax rates for homesteads and commercial properties in most towns are similar. If you want exact numbers and have the time, it’s best to talk to your town’s assessor about the methodology your town will use. The Assessor will also be able to provide you with a near exact number for both possible property tax options.

Total

If you used the model in Appendix G, Click to the Cash Flow tab of your Operating Budget. If you have used the simple sheet above, complete the math. **Congratulations! If you have made it here, you are near the end of your planning phase.** You have completed your construction budget, established what your revenues will be, figured out your capital costs, figured out your operating expenses and have completed your budgeting, including calculating your net monthly cashflow and, if you used the spreadsheet, potential net return on investment and leveraged internal rate of return.

How does it look? Does it meet your objectives?

Take a good hard look. The time to refine your project is NOW, not during or after construction. Should you trim or expand your scope of work? Do you need to reevaluate your revenue projections, capital costs or operating expenses? Do you still want to proceed?

CHAPTER 9: CONSTRUCTION

Three main options exist for construction: hire a general contractor, perform the GC duties yourself and hire subcontractors, or do all of the work personally. It's also possible to do a combination of the three options.

Contractors: Decide Who Will Do The Work

General contractors are well suited to manage a project and carry out the work that needs to be done, but you can also save money by doing some of the labor yourself, if you have the know-how for it. Painting is a good example of a task that you can carry out yourself instead of contracting out.

Reputation is the best guide in choosing a general contractor. And availability – good ones often are booked well into the next year. So you should start looking early – as soon as you have even a rough idea of the project. Talk with other people in the area who've had similar work done. Was the contractor competent, did they have useful ideas, did they hire good sub-contractors, did the work keep moving and get done roughly when they'd said, was the cost close to or less than their estimate, and were they nice to work with?

It's recommended you talk with more than one contractor. This will allow you to compare different costs for the project.

A partial list of contractors in the region is attached as [Appendix F](#). Those that have references from parishioners of our partner in this guide, the Interfaith Affordable Housing Alliance, or other members of our coalition are highlighted with an asterisk.⁶

Construction Phase Considerations

It is generally a good idea to get quotes from at least three contractors, and if you are doing the GC work, suppliers unless you feel particularly comfortable with one contractor or material supplier. Make sure that you arrange for payment

⁶ Parishioners of St. Stephens and other places of worship associated with the Interfaith Affordable Housing Alliance have generously agreed to provide the names of contractors that have done good work for them in the past. The references are not guarantees that the contractors will do good work in the future. We encourage all people desiring to hire a contractor to interview and vet the contractor they choose to do business with.

schedules, how to handle possible change orders, and whether you want the work to be done on an hourly or fixed cost basis. A sample construction contract is provided as [Appendix H](#).⁷

Sweat Equity

Overall, costs are roughly balanced between materials and labor. However, for some items, the costs are mostly materials or mostly labor. Some jobs, like plumbing and electrical work, will be required to be performed by licensed tradespeople. However, you may want to perform your own demolition, painting or other work you feel you can successfully accomplish. When you develop the scope of work for your contractor and secure your bid, be very specific about the scope you want them to perform and the scope that you will do.



Attached new garage and ADU under construction

⁷ The sample construction contract provided is for your convenience. We make no guarantees that it will cover all the circumstances particular to your project. It is intended as a starting point only. Please revise the contract to fit your specific needs or consult with your attorney to draw your own contract.

CHAPTER 10: LEASING YOUR ADU

Finding and Qualifying a Tenant

You have done a lot of work to get this far. Securing the best tenant for your ADU will be another crucial step toward implementing your plan. If you constructed your ADU with a person already in mind, feel free to skip this section and move right to the lease terms. You should still create a written lease. If you created the ADU for an unknown resident, there are several ways to find a good tenant — each with advantages and disadvantages. Take your time and get the best tenant you can. You will be a landlord and living in close proximity to this person.

1. Word of mouth. Friends or relatives may know of someone who is looking for an apartment. The advantage is it'll be someone your friend or relative can verify as financially dependable and respectful. The disadvantage is if it doesn't work out, there may be hard feelings. A wise person once said, asking for advice or recommendations is easy, it is who you ask that is important. Make sure your friend or relative has your best interests at heart.
2. Advertise the apartment in the Addison Independent and on public bulletin boards. This is an inexpensive option. The pool of potential tenants who respond will likely be random, so make sure you get references and check them.
3. Use a local real estate professional. IPJ Real Estate or Champlain Valley Properties also serve as rental agents. There are several advantages to working with a professional rental agent: (a) they can qualify potential tenants for you (b) they can help if it doesn't work out (c) they can help price your unit, (d) they have a standard lease form. The major disadvantage is that there is a fee — usually equal to one month's rent. Should you explore this option, you should discuss what services you can expect over the term of the lease.
4. Check with local employers. See if they have employees who need rental housing in the community. The advantage is that the person is locally employed and can easily qualify. One disadvantage is that checking with local employers can be time consuming.
5. Check with affordable housing providers. See if they have people on their waiting list that might rent your unit.
 - Addison County Community Trust owns and leases affordable apartments for families and elderly at several locations in Addison County and can be reached at 802-877-2626.

- The Vermont State Housing Authority in Montpelier provides rent subsidies to help families with limited incomes obtain safe and decent apartments. Their contact is in [Appendix A](#).

Vetting Potential Tenants

We suggested checking references above. In addition, we would suggest that you interview all potential tenants. If you are not comfortable doing it, perhaps get a friend or relative to help. The ADU will be in or very close to your home, which means you will probably interact with your tenant as you would a very close neighbor. Choose someone you believe you can trust and with whom you feel you can be compatible. Also, your entire financial model depends on the tenant paying their rent and respecting your property. Make sure to ask questions that will allow you to address any tenant's financial competency to pay you rent on time, every month. Vermont law prohibits landlords from discriminating against classes of people, say for their race or religion. A link to the anti-discrimination law is listed below.⁸ Be fair, and keep an open mind regarding who you might rent to, but also protect your personal and financial interests. If you are looking for further help, there are a number of online forms and services that will provide interview checklists or even conduct background checks into your tenant for a fee.

Choosing a Lease or Occupancy Agreement

Just as you will need to choose the best tenant, terms of your lease agreement need to be in a signed lease between you and that tenant. It should cover all terms of your landlord /tenant relationship. Consider having your attorney create a lease for you. Additionally, local Rental Agents have developed leases that have been reviewed by their attorneys. Using a rental agent means using their lease. Some programs like the Rental Voucher Program require that you use their standard lease. There are State Statutes that govern residential rental agreements and the rights of landlords and tenants even if you don't have a written agreement. Lastly, a sample lease is attached as [Appendix I](#).⁹

⁸ The Vermont statute prohibiting discrimination in housing can be found [here](#)

⁹ The sample lease provided is for your convenience. We make no guarantees that it will cover all the circumstances particular to your ADU rental. It is intended as a starting point only. Please revise the lease to fit your specific needs or consult with your attorney to draw your own lease.

CHAPTER 11: OTHER CONSIDERATIONS

The remainder of this Guide provides additional information on important topics that are related to the creation and construction of your ADU, but are not necessarily pertinent to everyone. Energy efficiency is a good example. It's important. However, it may or may not be important to your ADU construction. We have added it at the end for your consideration.

Energy Efficiency

New construction is required to meet Vermont's 2020 Energy Efficiency Standards. Energy efficiency in construction comes through standards of insulation, windows, doors, appliances, lighting fixtures, and bathroom fixtures. Generally, you will meet those standards if you follow the instructions on RBES in Chapter 4. However, you may choose to exceed the standards. If you are going to serve as general contractor, we recommend you contact Efficiency Vermont, found in [Appendix A](#). They offer significant rebates on appliances and some materials and are an excellent resource if you would like to build above the standards. If you hire an architect or general contractor, they should also be able to help with efficiency recommendations.

Rental Subsidy

- Vouchers AKA Section 8 Voucher
 - The Vermont State Housing Authority (VSHA) operates a federally funded program called "Section 8" that provides subsidies to eligible tenants in private market units. HUD will pay for the difference between what a family can afford and the cost of rent. Rents must not exceed FMR's described above and the unit must meet basic housing quality standards. Rental

A Word About Affordability:

An apartment is affordable to tenants for whom the rent, including utilities, is no more than 30% of gross household income. Because the cost of housing has increased much faster than wages over the past several years, more modest wage earners often have difficulty securing a safe and decent apartment at an affordable rent. This has been especially true in Middlebury where there are relatively few rental apartments and where there is a high level of daily rentals through sites like AirBnB. Efforts to create and retain affordable rental units are important just to provide apartments that our local workforce can afford.

applicants with a voucher have been interviewed and accepted to the program by VHSA staff. The landlord receives a check for the subsidy portion every month on time. VSHA contact information can be found in [Appendix A](#).

The Vermont Housing Improvement Program (VHIP)

The Vermont Housing Improvement Program (VHIP) will offer grants up to \$50,000 for construction of both attached and detached ADUs and \$30,000 to bring existing units up to code. The only requirement after construction is listing the apartment at Housing and Development's (HUD) fair market rates for the first five years of rental. If you are updating an ADU rather than building a new one, you may also have to work with NeighborWorks to find tenants at risk of homelessness.

The process will come in three steps. First, you will fill out the NeighborWorks of Western Vermont application form for funding. Second, NeighborWorks will send out a representative to meet the homeowners and discuss the project. Third, a committee will convene to determine how much grant money can be offered. More information can be found through NeighborWorks, whose contact info is included in [Appendix A](#).

Legal considerations:

Providing an accessory dwelling unit will make you a landlord. Vermont law has a number of statutory sections that govern landlord/tenant relationships. Most are contained in Title 9, Chapter 137 of the Vermont Statutes governing residential rental agreements, but many other portions of statutes can also come into play, including understanding your obligation to refrain from engaging in discriminatory rental practices.¹⁰ This guide provides a significant amount of general advice across a broad range of circumstances. It also provides two sample contracts, a lease and construction contract. Both are general in nature and intended to serve as examples. We encourage you to speak with your attorney about your ADU. Ask them about insurance and liability issues, fair housing practices, obligations when hiring contractors and business tax considerations. Finally, consider asking them to review any contracts or leases you propose to use.

¹⁰ The main statute governing Residential Rental Agreements is [here](#)

Tax considerations:

One of the subsidiary benefits of leasing an ADU is that it constitutes a commercial transaction and therefore makes you a business owner. As such, you are allowed to deduct legitimate expenses from the gross revenue your unit generates to reach your net profit. As we noted in Chapter 8, if your ADU shares a portion of utility or other expenses (Heat, electricity, plowing, mowing, water/wastewater, internet, trash) you can and should calculate the ADU's percentage of those expenses and deduct them from your gross revenue. This may include some expenses that you had previously paid for personally, like mowing the lawn, thus allowing you to reduce your personal costs. Please consider consulting with an accountant to help you establish this business and make sure that you maximize your legitimate tax benefits.

APPENDICES

[Appendix A: State Agency Contacts.](#)

Appendix A provides a contact list for state agency contacts for permitting or incentive programs.

[Appendix B: Sample Floor Plans and Site Plans.](#)

Appendix B includes sample floor plans and site plans that will help you depict your project.

[Appendix C: Amenities List.](#)

Appendix C is a list of typical amenities as a starting point.

[Appendix D: Zoning Administrator Contact List and ADU Zoning.](#)

Appendix D provides contact information for the ZA in each town in Addison County and the text of each community's local zoning regulation governing ADUs.

[Appendix E: Construction Budget.](#)

Appendix E includes budget worksheets for construction.

[Appendix F: Contractors.](#)

Appendix F includes a list of local contractors with interest in or experience building ADUs.

[Appendix G: Operating Budget](#)

Appendix G includes the Operating Budget and instructions for completing the budget worksheets

[Appendix H: Sample Construction Contract](#)

[Appendix I: Sample Lease](#)

[Appendix J: List of References & Links](#)

Appendix J includes a list of all other documents and web pages linked to in this guide.