

The Economics of Accessory Dwelling Units (ADUs) in Denver



Denver, like many American cities, needs more housing. Approximately 80,000 units need to be added to the Front Range. One recent action the City took to address this shortage was to revise the ADU zoning to allow two-story structures, slightly taller sidewalls on the structures, and allowing larger ADUs. An expected outcome of this revision is to make it easier to build ADUs and thus generate an additional mechanism for adding units.

A combination of factors makes building urban ADUs more expensive than multi-unit development, and thus, ADUs are unlikely to be economically viable at a large scale. Based on per-unit cost, they are roughly 30% more expensive than multiplexes or low-rise apartment units of similar sizes with comparable finishes. Furthermore, the construction of ADUs requires financing by individual owners rather than institutional homebuilders who have access to capital markets.

The recent ordinance change's reduction of ADU barriers did no harm but cannot result in meaningful change to the housing supply. Thus, it is not suitable or sufficient for solving Denver's housing issues. Additional policy changes to enable more homebuilding in Denver, such as citywide upzoning or single-stair reform, are needed to spur the construction of more homes.

Project Background

A prototype ADU was built to test a design that works on various lots under the Denver laws passed in 2023, allowing 2-story ADUs. The total cost was in the high \$300,000, with \$30,000 in savings available through improved legislative and utility policy.

Everything about the ADU is meant to reduce the complexity of construction and operations, with the goal of an easy-to-repeat ADU build.

Policy Considerations

The Denver metro area has a shortage of 80,000 dwelling units. Ensuring that the policy decisions that are intended to close this gap do what is desired means policymakers **must** understand the efficacy of proposed solutions.

ADUs have been a significant focus of housing policy in recent years as one tool for fixing Denver's housing crisis. Still, fewer than 400 have been completed in recent years, approximately one-half of one percent of the estimated need.

There are three significant barriers to the construction of more ADUs:

- **High Unit Cost:** Cash flow and added property value can make building an ADU profitable. Still, set costs comprise a larger percentage of the total cost of an ADU build, making small projects like individual ADUs more expensive on a per-sqft and per-unit basis vs. multifamily.
- **Household Capital:** Given the price, only homeowners likely have access to capital or financing to build ADUs today. Government policy, through better loan terms and incentives, can be extremely helpful in this area.
- **Desire for ADUs:** Many homeowners do not want to convert part of their home or lot into an ADU.

Because of these barriers, it is unreasonable to expect that (1) the cost of an ADU can be drastically reduced in many contexts within Denver and (2) that there is a sufficient confluence of interest and capital to accelerate ADU production far above current levels.

If the housing crisis is to be solved collectively, legislators at the city and state levels must take additional steps to enable the construction of more multi-unit homes on more land in the Denver metro region.

Policymakers have access to a suite of proven, evidence-backed solutions—such as city-wide upzoning and single-stair building reform—that will ensure broader housing affordability while complementing and enhancing neighborhood character. We encourage policymakers to contact YIMBY Denver for guidance on shifting legislative priorities to policies that will have a more meaningful impact on housing affordability than ADU policies.

Conclusion

While great strides have been made on ADU legalization and constructability by both the city of Denver and the state of Colorado, construction costs have risen simultaneously, and construction costs are not expected to drop. Allowing two-story ADUs along alleys in Denver is a positive development for homeowners and ADU designers, and rezoning the city to enable ADUs on all lots is an excellent move on the part of the state.

That said, external, freestanding ADUs will inherently be luxury products that only make financial sense for upper-middle-class or better-off families. More multifamily structures must be built to make housing affordable for families and lower-income individuals. For social equity reasons, that means rezoning Denver to allow, at a minimum, moderate density everywhere, not just along busy streets, near transit stations, and next to train tracks. This can be done with minimal changes to lot coverage allowances, bulk planes, setbacks, and design guidelines. Still, it will require ending or severely changing how unit counts are limited within structures.