

City of Long Beach Backyard Builders Program



2
0
2
4

www.longbeach.gov/BackyardBuilders



LONG BEACH
COMMUNITY
DEVELOPMENT

Updated: 11/18/2024

TABLE OF CONTENTS

PROGRAM BASICS.....	3
What is this program?.....	3
Low interest financing.....	3
ADU Technical Assistance.....	3
What is an ADU?.....	3
Who is eligible for the loan?.....	4
Who can live in the ADU?.....	4
What are some benefits of the program?.....	5
PROGRAM OVERVIEW.....	6
General Information.....	6
What is an ADU?.....	6
Who is eligible for a loan?.....	7
TENANTS & RENTAL.....	8
Who can live in the ADU?.....	8
Affordability Period.....	9
Post Affordability Period.....	9
LOAN TERMS.....	10
What will the loan pay for?.....	12
SELECTION CRITERIA.....	13
Application Review.....	13
Site Visit.....	13
APPLICATION INSTRUCTIONS.....	14
Phase 1.....	14
Phase 2.....	14
Phase 3.....	14
PROGRAM WORKFLOW.....	15
Timeline & Milestones.....	15
Working with contractors.....	15
MONITORING & COMPLIANCE.....	16
Monitoring during Affordability Period.....	16
Ongoing Requirements.....	17
APPENDIX - Types of ADU Configurations.....	18

PROGRAM BASICS

What is this program?

The City of Long Beach (City) Backyard Builders Program offers comprehensive assistance for financing, designing, permitting and constructing an Accessory Dwelling Unit (ADU) for up to ten eligible Long Beach property owners interested in renting their ADU to income-qualified individuals at an affordable rent for a minimum of five years.

Low Interest Financing

The City will provide a low-interest, 30-year loan up to \$250,000 to develop the ADU, or the actual cost of the ADU, whichever is less. Loan payments are not required during the construction term and no interest will accrue on the loan as long as the ADU is occupied by a qualified tenant.

TERM	INTEREST RATE
CONSTRUCTION TERM (UP TO 2 YEARS)	0%
AFFORDABILITY TERM (MINIMUM 5 YEARS)	0%
AFTER AFFORDABILITY TERM	3%

ADU Technical Assistance

In addition to financing, the City will provide project management services to advise property owners on reviewing bids, selecting contractors, and working with the City permit center. The project manager will also monitor the implementation schedule and authorize progress payments.

What is an ADU?

An ADU is a secondary dwelling unit with complete independent living facilities (including living room, sleeping area, kitchen and bathroom) for one or more persons.

Who is eligible for the loan?

Long Beach property owners who reside on the property where the proposed ADU will be built and commit to renting the unit at an affordable rent for a minimum of five years. Properties with four existing units or less are eligible.

Who can live in the ADU?

The property owner stays in control during the entire rental period by setting their own tenant screening criteria and selecting their new backyard neighbor (following fair housing regulations).



This pilot program prioritizes property owners who agree to rent their ADU to someone on the City of Long Beach Project Based Voucher waiting list ("someone with a housing voucher"). Second priority, should funding be available, will be given to property owners interested in renting their units to low-income individuals, defined as those earning 80% or less of the area median income, in which case the tenant may be a family member, caregiver, or other related person.

ESTIMATED RENT 2024

	STUDIO	1-BEDROOM	2-BEDROOM
TENANT WITH HOUSING VOUCHER - 90815 ZIP CODE ²	\$2,266	\$2,563	\$3,245
LOW-INCOME TENANT WITHOUT VOUCHER	\$1,031	\$1,178	\$1,326

The Housing Authority of the City Long Beach will determine the approved rent for each ADU that is rented to a tenant with a housing voucher in accordance with federal guidelines. This includes multiple factors, including federal Payment Standards, tenant affordability, utility allowances, and comparisons with similar units' rental rates in the area.

What are some benefits of the program?

- Increase the value of your home
- An additional revenue stream through rental income
- Create long-term flexibility on your property
- An economical way to build an ADU on your property with a low-cost loan
- Receive project management services, guiding you throughout the design, permitting and build process
- Provide much needed affordable housing in your neighborhood
- Guaranteed rental subsidy the 1st business day of the month for any voucher participant. If the participant has a reduction in income, the Housing Authority will increase the subsidy accordingly.

Example Budget: One Bedroom ADU in 90815 Zip Code ³

	TENANT WITH HOUSING VOUCHER	LOW-INCOME TENANT WITHOUT VOUCHER
CONSTRUCTION COST ³	\$250,000	\$250,000
CITY LOAN	\$250,000	\$250,000
INTEREST RATE DURING AFFORDABILITY TERM	0%	0%
LOAN TERM	30 YEARS	30 YEARS
ESTIMATED RENTAL INCOME	\$2,563	\$1,178
MONTHLY LOAN PAYMENT	\$747	\$747
ESTIMATED MONTHLY OPERATING COSTS* (INSURANCE, TAXES, MAINTENANCE)	\$420	\$420
ESTIMATED MONTHLY CASH FLOW AFTER PAYMENTS	\$1,396	\$11



PROGRAM OVERVIEW

General Information

The City of Long Beach Backyard Builders Program is a new initiative by Mayor Rex Richardson to help address the affordable housing shortage in Long Beach. The program aims to incentivize property owners to create an affordable rental unit on their property by providing them with comprehensive assistance for financing, designing, permitting and constructing a new Accessory Dwelling Unit (ADU) in Long Beach. An affordability covenant will be recorded on the property to ensure it is rented to an income-qualified tenant for a minimum of five years.

Like many cities across the State, Long Beach faces limited affordable housing inventory. In recent years, ADUs have become a major contributor to the growth of Long Beach's housing stock. They represent a unique opportunity for adding housing throughout the City's existing neighborhoods and can be designed to be more affordable than large-scale multifamily developments. The City has set aside funds to help up to 10 residents finance the construction of ADUs by providing them with low-interest loans, each up to \$250,000 or the actual cost of the ADU, whichever is less. In addition to financial assistance, the City is also providing project management assistance at no cost to the property owner. Further details regarding the loan terms and project management services may be found below.

What is an ADU?

An ADU is a secondary dwelling unit with complete independent living facilities (including living room, sleeping area, kitchen and bathroom) for one or more persons and generally takes three forms:

- Detached: The unit is separated from the primary residential structure.
- Attached: The unit is attached to the primary residential structure.
- Repurposed Existing Space: Space (e.g. garage, pool house) within the primary residence or on the property is converted into an independent living unit.

Appendix A shows a variety of types of ADU configurations. The ADU may be new construction, conversion of an existing structure, or prefabricated.

Who is eligible for the loan?

Applicant Criteria:

- Must be the owner and full-time occupant of the property.
- Credit score minimum – 650
- Debt-to-Income ratio maximum – 48%
 - Includes future ADU loan debt and projected income.
- Property owner must be willing to attend any educational sessions about ADU development and property management and work with an assigned project manager.
- Property owner must demonstrate availability of funds if they intend to exceed the City maximum loan amount of \$250,000. All funds must be deposited into an escrow account and used before the City funds.

Property Criteria:

- Property must be owned and occupied by the applicant as their primary residence at the time of application.
- Four units or less on the property, before the ADU is constructed.
- Current on mortgage and property tax payments.
- Current homeowner's insurance policy (required before loan execution).
- Current Loan-to-Value ratio maximum (before ADU) – 75%
- Projects may apply for financing at any point during the ADU design or development process up to Certificate of Occupancy. The City will not reimburse property owners for any costs incurred before the City loan is executed.
- The City will not approve more than one program loan per property parcel.

What role does the Project Manager Play?

Through this program, a City-appointed project manager will guide the property owners in choosing the architect, builders, planners, and contractors needed for the ADU design and construction. The project manager will assist the property owner at every stage from design to final approvals. The project manager will act as construction manager and liaison between the general contractor and property owner.



TENANTS & RENTAL

Who can live in the ADU?

The ADU must be rented to a household that meets the program income requirements. This pilot program prioritizes property owners who are willing to collaborate with the City to rent their ADU to individuals with housing vouchers, administered by the Housing Authority of the City Long Beach. There are differences in the program terms between renting to a household with a housing voucher and renting it to someone who meets the low-income criteria. See table below.

	TENANT WITH HOUSING VOUCHER	TENANT WITHOUT VOUCHER, BUT MEETS LOW-INCOME LIMIT
MINIMUM AFFORDABILITY TERM	5 YEARS	7 YEARS
ESTIMATED RENT MAXIMUM – 1 BEDROOM	\$2,563 ⁴	\$1,178 ⁵
TENANT SCREENING CRITERIA	PROPERTY OWNERS DETERMINE CRITERIA WITHIN LEGAL LIMITS. TENANT MUST HAVE A HOUSING VOUCHER AND CANNOT BE A FAMILY MEMBER, CAREGIVER, OR OTHERWISE RELATED TO THE PROPERTY OWNER.	PROPERTY OWNERS DETERMINE CRITERIA WITHIN LEGAL LIMITS. TENANT'S INCOME MUST BE AT OR BELOW 80% AREA MEDIAN INCOME. SEE TABLE FOR INCOME LIMITS.

4 2024 Estimate for 90815 zip code, see Housing Authority of the City of Long Beach webpage for more info on rents. Note that the actual rent will be calculated by the Housing Authority based on multiple factors for each ADU. Rents are adjusted annually.
5 2024 Estimate for Long Beach citywide, calculated pursuant to California Health and Safety Code 50052.5. Rents are adjusted annually.

**2024 Los Angeles County
80% Area Median Income⁶**

HOUSEHOLD SIZE	MAXIMUM INCOME
1	\$77,700
2	\$88,800
3	\$99,900
4	\$110,950
5	\$119,850

Affordability Period

Property owners enjoy zero percent (0%) interest during the affordability period. There will be a 90-day grace period for vacancies to allow for time to lease the ADU to a new qualified tenant, after which a penalty of \$2,500 will accrue for each month the ADU isn't occupied by a qualified tenant. Vacancy periods due to tenant turnover will not count toward the minimum required affordability period.

Post Affordability Period

After the affordability covenant expires, the loan enters into the post-affordability period. While there are no tenant requirements, rent maximums or annual compliance reviews after the affordability period expires, property owners are encouraged to keep renting their units to qualified tenants and continue accruing 0% interest.

As soon as the unit isn't occupied by an income qualified tenant (after the affordability period), the interest rate will increase to 3% simple interest, calculated against the remaining principal balance. The period continues until the 30-year term of the loan is completed.

LOAN TERMS

Please see the tables below for a summary of the loan terms.



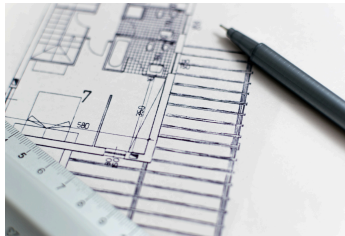
TERM	APPROX. YEARS	INTEREST RATE	PAYMENTS REQUIRED
CONSTRUCTION TERM	2 YEARS	0%	NO
AFFORDABILITY TERM	5 -7 YEARS	0%	YES
POST AFFORDABILITY TERM	21-23 YEARS	3%	YES

LOAN AMOUNT	UP TO \$250,000 PER ADU, OR THE ACTUAL COST OF THE ADU, WHICHEVER IS LESS, INCLUDING CLOSING COSTS (FOR EXAMPLE, TITLE AND ESCROW FEES).
INTEREST RATE	<p>ZERO PERCENT (0%) INTEREST DURING CONSTRUCTION AND THE AFFORDABILITY PERIOD. THE MINIMUM AFFORDABILITY PERIOD IS FIVE YEARS FOR A HOUSING VOUCHER HOLDER AND SEVEN YEARS FOR A GENERAL LOW-INCOME TENANT. THE INTEREST RATE WILL STAY AT 0% AS LONG AS THE PROPERTY OWNER RENTS THE UNIT TO A QUALIFIED TENANT.</p> <p>AFTER THE AFFORDABILITY PERIOD, THE INTEREST RATE WILL INCREASE TO THREE PERCENT (3%) INTEREST.</p>
LOAN TYPE	30-YEAR TERM
LIEN POSITION	THE CITY'S ADU LOAN MAY BE SUBORDINATED TO ANOTHER LIEN ON A CASE BY CASE BASIS. BUT NOT MORE THAN THIRD POSITION.
PAYMENTS	PAYMENTS ARE DEFERRED DURING THE CONSTRUCTION PERIOD. MONTHLY PAYMENTS BEGIN UPON ISSUANCE OF THE CERTIFICATE OF OCCUPANCY.
ELIGIBLE USES	ADU LOAN FINANCING IS INTENDED TO COVER THE ENTIRE COST OF THE PROJECT: DESIGN, PERMITTING AND CONSTRUCTION.
PREPAYMENT PENALTY	NO PREPAYMENT PENALTY. HOWEVER, PREPAYMENT OF THE LOAN DOES NOT ALLOW THE BORROWER TO OPT OUT OF RENTING THE ADU TO A QUALIFIED TENANT AT AN AFFORDABLE RENT FOR THE AFFORDABILITY PERIOD.
TRIGGERS REPAYMENT	<ul style="list-style-type: none"> • UPON SALE, TRANSFER, OR ENCUMBRANCE OF ALL OR ANY INTEREST IN THE PROPERTY. • CASH OUT REFINANCE. • THE AFFORDABILITY COVENANT REMAINS WITH THE PROPERTY UNTIL THE AFFORDABILITY PERIOD IS SATISFIED.

What will the loan pay for?

Eligible uses of program funding include normal and customary construction expenses, such as:

- Cost of an appraisal, architectural, engineering, and other consultant services that are directly related to planning or construction
- Cost of building permits and other related public agency fees, including all fees necessary to build and occupy an ADU
- Construction materials and labor
- General contractor fees and overhead, not to exceed 20% of the total project cost
- Site prep work, such as demolition, water/sewer/septic connections, utility improvements, or site leveling as is necessary for the construction of an ADU
- Other hard or soft costs approved at the discretion of the City



Ineligible uses of funding: The City will determine, at its sole discretion, costs deemed excessive, unreasonable, or ineligible. Ineligible uses of funding include, but are not limited to, costs associated with luxury construction materials or furnishings.

SELECTION CRITERIA



Application Review

Property owners who commit to renting the ADU to someone with a housing voucher will be considered first. These applications will be ranked in the following way:

Applicants with active ADU projects whose status falls within the below categories will be prioritized and ranked in order of projected timeliness to complete:

- 1.Active construction
- 2.Executed contract with general contractor, permits obtained
- 3.Cost Estimate obtained based on professional architectural drawings
- 4.Architectural drawings
- 5.Applicants who have not yet started the ADU design or construction process.

A lottery will be held as a tie breaker.

If program funds are still available, the City will review applications from property owners interested in renting the ADU to a low-income tenant without a housing voucher, following the same ranking, lottery, and site visit procedures.

Site Visit

- City staff will contact finalists to discuss the projects and schedule a site visit to gauge feasibility and progress.
- The top ten will be invited to the next phase of the application process (please see Phase 2 of the Application Instructions section for more details).

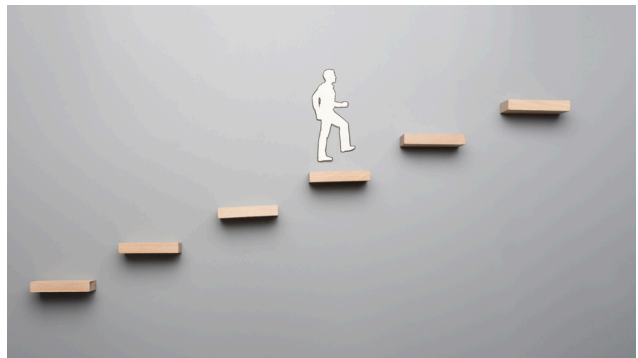
The City reserves the right to disqualify applications that do not seem reasonable to complete within the budget or have major feasibility challenges.

APPLICATION INSTRUCTIONS

Phase 1

Pre-application

- Fill out application and submit requested documents at: longbeach.gov/BackyardBuilders
- Includes an intent to commit to an affordability covenant on the ADU
- Visit the [program website](#) for updates on the application period.



Any eligible Long Beach property owner may sign up for the standby interest list at any time and at any stage of development, provided the program is still issuing loans.

Phase 2

The top ranked applicants with positive feasibility study report will be provided two weeks to submit further documentation, including but not limited to:

- Uniform Residential Loan Application
- Driver's License or identification
- Last two pay stubs for all borrowers
- Authorization to obtain credit report
- Tax returns from past two years
- Most recent mortgage payment statement
- Most recent utility bill with owner's name

Phase 3

Applicants who meet the underwriting criteria will move forward to the loan document execution process.

PROGRAM WORKFLOW

Timeline & Milestones

Each project is unique, and the project manager will work with the property owner to create a custom timeline with milestones. The timeline below is provided as a general estimate. The City reserves the right to rescind the loan commitment if the property owner is uncooperative and/or causing unreasonable delays.

APPLICATION (3 months)

- Submit preliminary application
- Site visit from Project Manager
- Submit final application package
- Receive Notice to Proceed

DESIGN (3-4 months)

- Kick-off meeting with Project Manager
- Selection of design and engineering firm

PERMITTING (6-8 months)

- Submit plans to the City
- Review & adjust plans as needed

CONSTRUCTION (8-12 months)

- Site preparation
- Ground up construction
- Mechanical, electrical, plumbing & finishes

LEASE UP (8-12 months)

- Schedule new owner orientation with the Housing Authority
- Review applications submitted by housing voucher holders
- Select voucher tenant

Working with Contractors

Property owners are responsible for choosing and executing agreements with their chosen contractors, who must meet the City's licensing and insurance requirements.

Payments to contractors and consultants: The City will open an escrow account and authorize payments at agreed upon project milestones. Each payment will be authorized by the City, property owner, contractor and ADU project manager. Any funds that are not used for the project will be discounted and the promissory note amended. No funds will be distributed to the property owner.

MONITORING & COMPLIANCE

An affordability covenant outlining the property owner's obligations will be recorded on the property after the loan agreement is signed.

Monitoring During Affordability Period

There will be annual monitoring reviews during the affordability term to ensure adherence to the guidelines. Any instances of noncompliance will result in a \$2,500 penalty for each month of noncompliance. There will be a 90-day grace period for vacancies to allow for time to lease the ADU to a new qualified tenant however, vacancy periods will not count toward compliance of the affordability term.

Any accrued penalties will be due within 30 days from the date of notice.

The Housing Authority of the City of Long Beach verifies the income and assets of tenants with housing vouchers at admission to the program and annually. Prior to authorizing the tenant to move into the unit, the Housing Authority will inspect the unit. The property owner will be required to submit a copy of the lease and sign a Housing Assistance Payment (HAP) contract with the Housing Authority.

For income-qualified tenants without a housing voucher, the property owner must work with the prospective tenant to complete a tenant income verification and submit it to the City ADU Program Manager for approval.



Ongoing Requirements

Property Insurance(s):

- The property owner must maintain property insurance, including fire and flood insurance if applicable, during the life of the ADU Loan. The City must be named as loss payee in first position or additional insured if the loan is a junior lien. See loan documents for more information.

Property Taxes and Assessments:

- The property owner is responsible for making property tax payments on a timely basis during the term of the loan.

Housing voucher units:

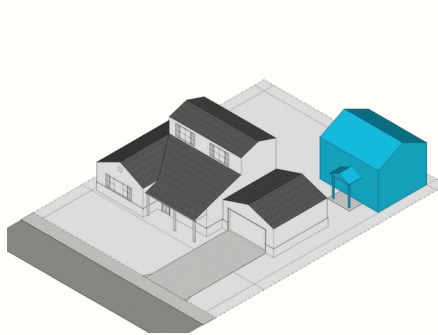
- HUD requires that the Housing Authority inspect the unit prior to lease up and biennially.

Adherence to Fair Housing Regulations:

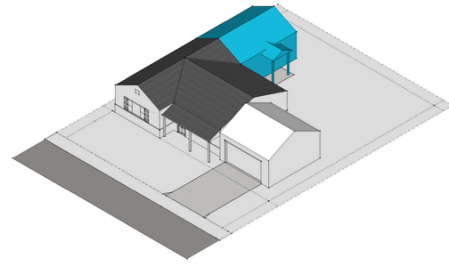
- State and federal laws prevent acts of discrimination against renters. The property owner is responsible for reviewing information from the State Civil Rights Department's Resources for Housing Providers and other applicable laws.



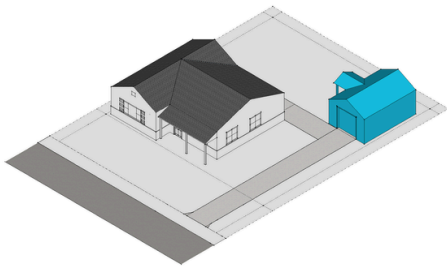
APPENDIX: TYPES OF ADU CONFIGURATIONS



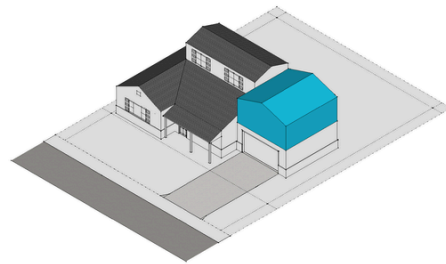
New 2-story detached ADU



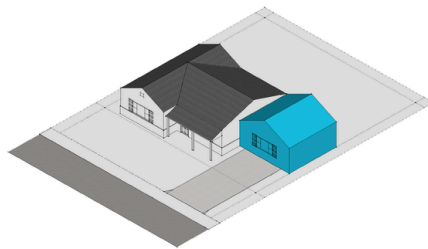
Addition to home



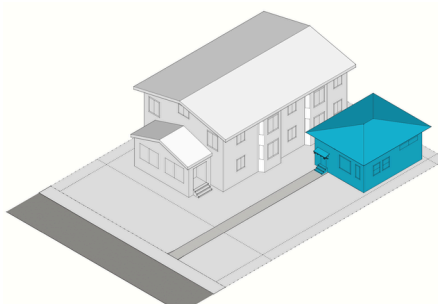
Conversion of detached garage



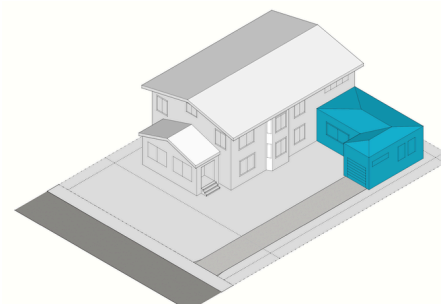
Addition above garage



Conversion of attached garage/wing at home



Detached ADU on multi-family property



Addition to multi-family property



LONG **BEACH**
**COMMUNITY
DEVELOPMENT**

FOR MORE INFORMATION:

Kelli Pezzelle

562-570-7073

CD-ADUloan@longbeach.gov

www.longbeach.gov/BackyardBuilders