

THE ADU EXCHANGE | 2026 ANNUAL REPORT

The State of ADUs in America

Market Data | Policy Analysis | Demographic Trends
Construction Economics | Professional Standards

2.8M

ADU Permits Nationwide

18

States with ADU Laws

\$194K

Avg. Build Cost

75%

50+ Want to Age in Place

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SECTION 01

Executive Summary

The ADU market in the United States has reached an inflection point. What began as a niche housing solution in coastal California has evolved into a nationwide movement backed by federal policy interest, state-level legislation, and an aging population that demands flexible housing options. This report presents the most comprehensive analysis of the American ADU market available, drawing on permit data from 2.8 million ADU permits nationwide, federal housing statistics, AARP demographic research, and policy analysis from all 50 states.

2.8M

Total ADU Permits in Database

18

States with ADU Laws

25,000

CA Permits Annually

1,224

MA ADUs Year One

Key Findings

- As of July 2025, 10 states have adopted strong ADU laws and 8 states have adopted weaker preemptive laws, up from just 3 states in 2019.
- California alone issued nearly 25,000 ADU permits in 2022 — roughly 1 in 5 of all new residential units produced in the state.
- Massachusetts approved 1,224 ADUs in the first year of the Affordable Homes Act, from 1,639 applications — a 74.7% approval rate.
- 75% of adults aged 50 and older want to remain in their current home as they age, according to AARP's 2024 survey of 3,000+ adults.
- 1 in 4 older homeowners would consider building an ADU for caregiving or multigenerational living.
- ADU construction costs range from \$150 to \$600+ per square foot nationally, with wide regional variation driven by labor markets, materials costs, and local fees.
- The housing shortage stands at 3.8 million units nationally. ADUs represent the only scalable solution that requires no new land, no rezoning, and no new infrastructure.
- Florida's 2026 legislation (SB 48/HB 313) will require all counties to permit ADUs — the latest in a wave of state-level mandates.

Source: Mercatus Center (2025), Mass.gov HLC ADU Survey (2025), AARP Home & Community Preferences Survey (2024), Shovels Permit Data (2025), U.S. Census Bureau.

SECTION 02

Construction Costs by Region

ADU construction costs vary enormously based on geography, ADU type, site conditions, and finish level. The figures below represent all-in development costs including design, permitting, site work, construction, and utility connections. Data is compiled from builder surveys, permit records, and industry reports across major metropolitan areas.

Region / Metro	Avg. \$/sqft	500 sqft Est.	800 sqft Est.	1,000 sqft Est.
San Diego, CA	\$375–\$600+	\$188K–\$300K	\$300K–\$480K	\$375K–\$600K
Los Angeles, CA	\$350–\$550	\$175K–\$275K	\$280K–\$440K	\$350K–\$550K
San Francisco Bay Area	\$400–\$650	\$200K–\$325K	\$320K–\$520K	\$400K–\$650K
Portland, OR	\$340–\$425	\$170K–\$213K	\$272K–\$340K	\$340K–\$425K
Seattle, WA	\$350–\$500	\$175K–\$250K	\$280K–\$400K	\$350K–\$500K
Boston / New England	\$300–\$450	\$150K–\$225K	\$240K–\$360K	\$300K–\$450K
Denver, CO	\$275–\$400	\$138K–\$200K	\$220K–\$320K	\$275K–\$400K
Austin, TX	\$200–\$350	\$100K–\$175K	\$160K–\$280K	\$200K–\$350K
Miami / S. Florida	\$200–\$350	\$100K–\$175K	\$160K–\$280K	\$200K–\$350K
Atlanta, GA	\$175–\$300	\$88K–\$150K	\$140K–\$240K	\$175K–\$300K
Midwest Average	\$150–\$275	\$75K–\$138K	\$120K–\$220K	\$150K–\$275K
National Average	\$150–\$600+	\$75K–\$300K+	\$120K–\$480K+	\$150K–\$600K+

Sources: Shovels permit data (2025), SnapADU cost reports (2026), Gather ADU estimates, Better Place Design & Build, regional builder surveys. Costs include all-in development: design, permits, site work, construction, utilities.

Cost Breakdown by Category

Understanding where the money goes is critical for realistic budgeting. Below is a typical cost distribution for a ground-up detached ADU project.

Category	% of Total	Typical Range	Notes
Construction & Materials	50–60%	\$90K–\$360K	Framing, roofing, siding, finishes
Labor	30–40%	\$54K–\$240K	GC, subs, specialists
Design & Engineering	10–15%	\$12K–\$25K	Architect, structural, Title 24
Permits & Fees	5–10%	\$2K–\$30K	Varies wildly by jurisdiction
Site Work & Utilities	Variable	\$25K–\$50K+	Grading, connections, access
Contingency	5–10%	\$10K–\$60K	Always budget for unknowns

Cost Trends: 2021–2026

The California Construction Cost Index (CCCI) has increased 44% from January 2021 to December 2025. An ADU that cost approximately \$300,000 to build in 2021 would require roughly \$430,000 in 2026. Nationally, construction costs have risen 28–35% over the same period, driven by labor shortages, materials inflation, and supply chain disruptions. However, several countervailing forces are emerging: prefab/modular ADU manufacturers are driving down costs through standardization, several states have eliminated or capped impact fees for ADUs under 750 square feet, and pre-approved plan programs in California and Massachusetts are reducing soft costs.

Sources: CCCI Index, SnapADU (2026), California HCD, MA HLC.

SECTION 03

Rental Income & ROI Trends

ADUs have emerged as one of the most compelling real estate investments available to individual homeowners. Unlike traditional rental property acquisitions, ADU investments carry zero land acquisition cost — the single largest expense in conventional real estate development. This structural advantage produces returns that rival or exceed most traditional real estate investment classes.

Market	Studio/1BR ADU	2BR ADU	Occupancy Rate
San Francisco Bay Area	\$2,400–\$3,400/mo	\$3,000–\$4,200/mo	97%+
Los Angeles	\$1,800–\$2,800/mo	\$2,400–\$3,500/mo	96%+
San Diego	\$1,600–\$2,500/mo	\$2,200–\$3,200/mo	96%
Seattle / Portland	\$1,400–\$2,200/mo	\$1,800–\$2,800/mo	95%
Boston / New England	\$1,500–\$2,400/mo	\$2,000–\$3,000/mo	95%+
Denver / Boulder	\$1,300–\$2,000/mo	\$1,700–\$2,600/mo	94%
Austin / Dallas	\$1,200–\$1,800/mo	\$1,500–\$2,300/mo	93%
Miami / S. Florida	\$1,400–\$2,200/mo	\$1,800–\$2,800/mo	95%
Atlanta	\$1,000–\$1,600/mo	\$1,300–\$2,000/mo	92%
National Median	\$1,200–\$2,200/mo	\$1,600–\$2,800/mo	94%

Sources: Zillow Rental Index (2025), Redfin ADU rental data, regional MLS data, Freddie Mac ADU research.

Investment Returns Analysis

Scenario	Build Cost	Monthly Rent	Annual Net	Cash-on-Cash	Payback
CA Detached (800sf)	\$350,000	\$2,400	\$24,000	6.9%	14.6 yrs
CA Garage Conv. (500sf)	\$150,000	\$1,800	\$18,000	12.0%	8.3 yrs
NE Detached (700sf)	\$260,000	\$1,800	\$17,400	6.7%	14.9 yrs

Scenario	Build Cost	Monthly Rent	Annual Net	Cash-on-Cash	Payback
TX Detached (800sf)	\$200,000	\$1,500	\$14,400	7.2%	13.9 yrs
SE Garage Conv. (500sf)	\$100,000	\$1,200	\$11,400	11.4%	8.8 yrs

Note: Annual Net assumes 5% vacancy, 10% operating expenses, and no mortgage on the ADU. Cash-on-cash assumes all-cash construction. Leveraged returns would be higher. Property tax impact and insurance not included.

Fannie Mae now allows lenders to use projected ADU rental income to help borrowers qualify for mortgages, even before the ADU generates income. This policy change, implemented in late 2024 and expanded in 2025, represents a structural shift in how lenders view ADU investments and significantly improves the financing landscape for homeowners.

SECTION 04

Permit Activity Index

ADU permitting has accelerated dramatically since 2017, driven primarily by state-level legislative reforms that override local zoning restrictions. The data below tracks the most active states and the legislative frameworks enabling growth.

Top States by ADU Permit Activity

State	ADU Law Year	Law Strength	Key Metric	Trend
California	2017 (expanded yearly)	Strong	~25,000 permits/yr (2022)	Accelerating
Oregon	2019	Strong	2,300+ permits (Portland alone)	Steady growth
Washington	2023 (HB 1337)	Strong	2 ADUs/lot required	Rapid expansion
Massachusetts	2024 (Affordable Homes Act)	Strong	1,224 approved Year 1	New — fast start
Connecticut	2023	Strong	By-right in many towns	Early stage
Vermont	2020	Moderate	Simplified approval	Steady
New Hampshire	2017	Moderate	RSA 674:71-73	Inconsistent local
Maine	2023	Moderate	Expanding access	Growing
Rhode Island	2024	Moderate	No owner-occupancy	New
Colorado	2024	Moderate	Relaxed parking/occupancy	Uneven
Hawaii	2024 (SB 3202)	Strong	2 ADUs/lot by 2026	Mandated
Florida	2026 (SB 48/HB 313)	Strong (pending)	All counties required	Pending
New York	Plus One ADU Program	Grant-based	\$125K grants	Demand-driven

Source: Mercatus Center Taxonomy of State ADU Laws (Aug 2025), state housing agencies, Maxable Space research.

Massachusetts Deep Dive: The Affordable Homes Act

Massachusetts presents the most compelling recent case study for ADU policy impact. The Affordable Homes Act, signed by Governor Healey in August 2024, authorized \$5.16 billion in housing spending over five years and required every city and town to allow at least one ADU by-right on any single-family lot.

Metric	Value	Notes
Total Applications	1,639	Statewide Year 1
Total Approved	1,224	74.7% approval rate
Max Size (by-right)	900 sq ft	No special permit needed
MassHousing ADU Loan Program	\$20M allocated	Loans up to \$250K for detached
MHP Financing	\$10M allocated	Construction loan program
ADU Design Challenge	\$60K+ in prizes	Replicable design competition

Source: Massachusetts Executive Office of Housing and Livable Communities (HLC), ADU Survey 2025, MassHousing.

SECTION 05

Aging-in-Place & Demographic Trends

The demographic case for ADUs is overwhelming. The convergence of an aging population, a caregiving crisis, and multigenerational household growth creates a structural demand driver that will only intensify over the next two decades. AARP, the nation's largest advocacy organization for adults 50 and older, has positioned ADUs as a central pillar of its housing strategy.

75%

Adults 50+ Want to Age in Place

10,000

Americans Turn 65 Every Day

59.7M

In Multigenerational Households

1 in 4

Would Consider Building an ADU

AARP Research: The Definitive Data

- 75% of adults aged 50+ want to remain in their current home for as long as possible — a figure consistent for over a decade of AARP surveying (2024 Home & Community Preferences Survey, 3,000+ respondents).
- 1 in 4 older homeowners would consider building an ADU on their property, with the primary motivation being providing space for a loved one who needs care.
- 67% of adults would consider living in an ADU to be close to someone while maintaining separate space (2018 AARP survey).
- 43% of adults age 50+ believe their current home would need modifications to be safe and accessible for aging.
- The average monthly cost of assisted living is \$4,500 — making a \$180,000 ADU investment equivalent to roughly 3.3 years of assisted living costs.
- By 2034, there will be more people over 65 than under 18 for the first time in American history (U.S. Census Bureau).
- 52% of all adults live in a multigenerational household. 40% care for someone in their home (AARP 2021).
- AARP has backed 28 bills to expand middle housing options and endorsed the federal Yes In My Backyard Act (S.1688/H.R.3507).

Sources: AARP 2024 Home & Community Preferences Survey, AARP 2021 Community Preferences Survey, AARP Aging in Place Resource Guide (Dec 2024), U.S. Census Bureau, Pew Research Center, Genworth Cost of Care Survey.

The Sandwich Generation

The Pew Research Center found that 54% of adults between ages 40 and 59 have a living parent aged 65+ and are simultaneously raising or financially supporting a child. This 'sandwich generation' is the core demographic driver of ADU demand. ADUs offer the only housing solution that provides proximity with privacy — allowing adult children to care for aging parents while maintaining separate households on the same property. The emotional, logistical, and financial benefits of this arrangement are driving permit applications in every state that has enabled ADU construction.

Source: Pew Research Center (2022), AARP Multigenerational Housing Research.

SECTION 06

The Policy Landscape

ADU legislation has become the most common action state policymakers take to address housing affordability. The Mercatus Center at George Mason University, in its August 2025 taxonomy, identified 18 states that have adopted some form of preemptive ADU law — up from just 3 states in 2019. The trend is accelerating, with 2024 and 2025 producing more state-level ADU legislation than any prior two-year period.

Federal Policy Signals

- The Yes In My Backyard Act (S.1688/H.R.3507), endorsed by AARP, would incentivize communities to reduce restrictive zoning including barriers to ADU construction.
- Fannie Mae's updated appraisal guidelines now allow projected ADU rental income to count toward mortgage qualification — a major financing breakthrough.
- FHA 203(k) loans, VA Renovation Loans, Fannie Mae HomeStyle, and Freddie Mac CHOICERenovation all now explicitly support ADU construction projects.
- The Residential Clean Energy Credit (IRC 25D) provides a 30% federal tax credit for solar, battery, and geothermal systems installed in ADUs.
- HUD Title 1 Property Improvement Loans allow up to \$25,000 unsecured or \$60,000 secured for ADU improvements.

State Policy Categories (Mercatus Center Framework)

The Mercatus Center classifies state ADU laws into two tiers based on the strength of state preemption over local zoning authority:

Category	States	Key Provisions
Strong ADU Laws (10 states)	CA, OR, WA, MA, CT, ME, HI, VT, MT, MN	Mandate by-right ADU approval; limit local restrictions on size, parking, design; preempt owner- occupancy requirements
Weaker ADU Laws (8 states)	NH, RI, CO, FL (2026), NY, UT, VA, DE	Encourage but don't mandate; allow more local discretion; may require owner-occupancy; grant-based approaches

Source: Mercatus Center, 'A Taxonomy of State Accessory Dwelling Unit Laws 2025,' August 2025.

SECTION 07

The Five Organizations Shaping the ADU Economy

Five national organizations hold disproportionate influence over the trajectory of the ADU market. Understanding their roles, research agendas, and policy positions is essential for anyone operating in this space. Each organization influences different stakeholders — from municipal planners to institutional investors to aging Americans — and their collective action is accelerating ADU adoption nationwide.

1. American Planning Association (APA)

Role: National planning authority

The APA is the professional organization for urban planners across the United States, with over 40,000 members who write and administer the zoning codes that determine where and how ADUs can be built. When a municipality rewrites its zoning framework to allow ADUs, APA research and model ordinances are frequently cited as the template.

- APA members are the primary decision-makers at the local level for ADU zoning frameworks, density standards, and housing policy implementation.
- AARP and APA jointly developed the Model State Statute and Local Ordinance for ADUs — the most widely referenced template for ADU legislation.
- APA's Planning Advisory Service (PAS) reports on accessory dwelling units provide the intellectual foundation used by hundreds of municipalities when drafting ADU-friendly zoning.
- APA's Zoning Practice publication regularly features ADU best practices, setback recommendations, and design standard guidance that municipal planners apply directly.
- The APA conference circuit (National Planning Conference, state chapter events) is the primary venue where planners share ADU implementation experiences and learn about emerging practices.

Strategic Implication: If The ADU Exchange produces credible data and reports referenced by planners, APA members become a distribution channel for the platform's brand authority.

2. Urban Land Institute (ULI)

Role: Global real estate and land use think tank

The Urban Land Institute is the world's preeminent cross-disciplinary real estate research organization, connecting developers, investors, institutional capital, and housing policy experts. With over 48,000 members in 80 countries, ULI shapes how the real estate industry thinks about housing markets, investment opportunities, and urban development trends.

- ULI's annual 'Emerging Trends in Real Estate' report is the most widely read forecast in the industry — and increasingly features ADUs as 'gentle density' infill housing.
- ULI's Terwilliger Center for Housing regularly publishes research on housing affordability, missing middle housing, and ADUs as scalable solutions to the supply crisis.
- ULI convenes developers and investors who are beginning to view ADUs not just as homeowner projects, but as an institutional asset class — particularly in build-to-rent portfolios.
- ULI district councils host local programming on ADU development that connects builders with financing partners and municipal decision-makers.
- ULI's Housing Supply Working Group has specifically identified ADU legalization as one of the highest-impact policy interventions for addressing the 3.8 million unit housing deficit.

Strategic Implication: As the ADU market matures, ULI members (developers, investors, institutional capital) will seek reliable market data. The ADU Exchange Annual Report positions the platform as a potential data source for ULI-level research.

3. National Association of Home Builders (NAHB)

Role: Builder industry influence on codes, policy, and construction trends

NAHB represents over 140,000 members involved in home building, remodeling, multifamily construction, and related trades. As the primary lobbying voice for the residential construction industry, NAHB influences building codes at the national level, housing policy in Congress, and construction workforce development.

- NAHB has increasingly positioned ADUs as a practical solution to the national housing shortage, featuring ADU-specific sessions at the International Builders' Show (IBS).
- NAHB's Building Systems Councils have begun tracking prefab and modular ADU construction as a growth segment within the manufactured housing industry.
- NAHB influences the International Residential Code (IRC), which governs ADU construction standards including fire separation, egress, and structural requirements.
- NAHB's workforce development programs are critical — the construction labor shortage is the single largest constraint on ADU production capacity, and NAHB's apprenticeship pipeline is

essential to scaling.

- NAHB members (general contractors, trade specialists, materials suppliers) are the professionals who physically build ADUs. Their adoption of ADU-specific skills and practices determines the market's ability to meet demand.
- NAHB's Economic & Housing Policy Group produces cost-of-regulation research that quantifies how local permitting burdens add \$90,000+ to the average new home — data that strengthens the case for streamlined ADU approval processes.

Strategic Implication: The ADU Exchange's Trades Portal and builder certification programs align directly with NAHB's workforce development mission. As ADU construction scales, NAHB members become both users and beneficiaries of the platform.

4. AARP

Role: Aging population advocacy — the most powerful ADU champion in America

AARP, with 38 million members and extraordinary lobbying power, has made ADUs a central pillar of its housing and aging-in-place strategy. No other organization has done more to advance ADU policy, public awareness, and homeowner education. AARP's research, advocacy, and coalition-building have been instrumental in every major state ADU law passed in the last five years.

- AARP's 2024 Home & Community Preferences Survey (3,000+ adults) found that 75% of adults 50+ want to remain in their current home — the foundational data point driving national ADU policy.
- AARP partnered with the American Planning Association to develop the Model State ADU Statute and Model Local ADU Ordinance — the templates used by the majority of states that have passed ADU laws.
- AARP has backed 28 bills across state legislatures to expand middle housing options, with ADU legalization being the most common bill type.
- AARP endorsed the Yes In My Backyard Act (S.1688/H.R.3507) at the federal level — bipartisan legislation that would incentivize ADU-friendly zoning.
- AARP's Livability Index now incorporates ADU policy as a scoring factor, directly influencing how municipalities benchmark their age-friendliness.
- AARP publishes free ADU resources including design catalogs, technical drawings, financing guides, and a video library used by hundreds of thousands of homeowners.
- AARP's 2025 Aging in Place Resource Guide specifically identifies ADU construction as a 'key advocacy effort' alongside utility protection, transportation access, and caregiver support.
- AARP's survey data shows 1 in 4 older homeowners would consider building an ADU — representing approximately 15–20 million potential ADU projects if converted to action.

Strategic Implication: The ADU Exchange's Aging-in-Place ADU Designer certification and accessories department (ADA, universal design, smart home safety) align perfectly with AARP's mission. The platform's data and tools could become an AARP-recommended resource for homeowners exploring ADU construction.

5. National ADU Association

Role: ADU-specific education and industry building

The National ADU Association is the newest entrant among the five key organizations, focused specifically on ADU education, homeowner resources, builder development, and policy advocacy.

While still small compared to the other four organizations, it represents the first attempt to create a dedicated industry association for the ADU economy.

- Focuses on homeowner education — helping property owners understand feasibility, financing, permitting, and construction processes.
- Provides builder resources and networking opportunities for contractors entering the ADU market.
- Hosts policy discussion forums connecting municipal planners, builders, and homeowners.
- Produces educational content and workshops on ADU design, construction best practices, and local regulation navigation.
- Remains relatively small and not widely known outside of ADU-focused professional circles.

Strategic Implication: The field is wide open for a stronger, more comprehensive platform. The ADU Exchange's combination of homeowner tools, professional certifications, market data, and policy resources positions it to fill the gap that the National ADU Association has identified but not yet fully addressed. The ADU economy needs infrastructure — not just education — and that infrastructure is what The ADU Exchange is building.

SECTION 08

Methodology & Sources

This report was compiled by The ADU Exchange research team using the following data sources and methodologies:

- **Permit Data:** Shovels, Inc. national permit database containing 2.8 million ADU permit records, supplemented by state-level data from California HCD, Massachusetts HLC, Oregon DEQ, and Washington Commerce.
- **Cost Data:** Builder surveys, published cost reports from SnapADU, Gather ADU, Better Place Design & Build, Revival Homes, and regional contractor associations. All costs represent 2025–2026 pricing.
- **Rental Data:** Zillow Rental Index, Redfin rental analytics, regional MLS data, and property management company surveys in target markets.
- **Demographic Data:** AARP 2024 Home & Community Preferences Survey (n=3,000+), Pew Research Center multigenerational household data, U.S. Census Bureau population projections, Genworth Cost of Care Survey.
- **Policy Data:** Mercatus Center 'Taxonomy of State ADU Laws 2025' (August 2025), state legislative databases, municipal zoning code analysis, federal housing agency publications.
- **Federal Data:** U.S. Census Bureau / HUD New Residential Construction statistics (December 2025 release), Fannie Mae and Freddie Mac ADU policy updates, FHA program guidelines.
- **Organization Research:** Published research, annual reports, conference proceedings, and policy positions from the American Planning Association, Urban Land Institute, National Association of Home Builders, AARP, and National ADU Association.

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