



Value Change Due To New Construction – Accessory Dwelling Units (ADUs)

What is an ADU? Accessory Dwelling Units (ADUs) are secondary housing units, typically with a separate entrance, kitchen, bathroom, and a place to sleep. ADUs can come in many shapes and sizes but are generally a self-contained home that is smaller than the main residence.

How will my property taxes change when I add an ADU?

Under California law (Proposition 13), your property taxes are based on your property's assessed value which generally increases by no more than 2% every year. Any "New Construction," including the construction of an ADU, would cause a reassessment of ONLY the portion of the property that was newly constructed. That is, only the marginal value of the ADU addition would be added to the existing property assessment.

Assessor's appraisal staff uses standardized appraisal methods (i.e., cost, income, and sales comparison methods) to determine the market value of the new construction. For single family homes, we would typically use the "cost approach" for valuation. For big apartment buildings where owners may be adding multiple ADUS, we would likely use the "income approach" for valuation. It is important to note that the market value added would be based on valuation methods approved by the State and may not equal the project cost reported on the form or permit report.

What should I expect DURING and AFTER new construction?

Each year the Office of the Assessor-Recorder is required by State law to value all in-progress new construction. At the beginning of the year, our office mails a letter "Residential Construction Project Information Form" to property owners that have started new construction. Through this form, property owners inform our office of the status of their project. Our office determines the added value of those improvements upon completion. If the new construction is only partially completed on the lien date (January 1), the assessor is required to estimate the fair market value of the portion completed. This continues each successive lien date until the new construction is completed.

Frequently Asked Questions

Q1 Why am I receiving Supplemental and Escape tax bills after new construction?

A1 After construction is completed, our office will mail you a Notice of Supplemental Assessment which includes your property's new base year value, the existing assessment, and the supplemental assessment from the new construction project. You have a right to appeal the assessment. If no appeal is filed, the Office of the Treasurer and Tax Collector will mail you a supplemental tax bill.

Q2 Where can I find more information, including answers to the costs, timeline, and process to build an ADU?

A2 Scan this QR code for the step by step process and answers to frequently asked questions about the costs, timeline, process, code requirements, and resources of developing an ADU, from the Planning Department, Department of Building Inspection, Public Utilities Commission, and PGE.



Example - ADU Construction

For this example, we will illustrate how the cost approach is applied to the addition of the ADU to the single-family residence.

Construction Begins. Cameron filed a permit to convert her garage to an ADU that includes an entrance, bathroom, kitchen, and sleeping area. Her property's assessment is \$500,000 with a market value of \$1,500,000. The annual property tax is approximately \$6,000. The estimated cost to build the ADU is \$120,000.

Bathroom Added. As of the first lien date on Jan. 1, 2022, Cameron added the bathroom. In February, Cameron reports that 40% of the project (bathroom) is done. Based on this information, our office will estimate an in-progress value of \$50,000 (~40% of \$120,000) and will add the temporary value to Cameron's assessment. In July 2022, Cameron receives a Notice of Assessed Value.

\$510,000	Prior year's assessed value of \$500,000 plus 2% Prop 13 inflation factor.
\$50,000	Estimated in-progress value of the ADU at 40% project.
\$560,000	Temporary value

Kitchen Added. As of the lien date on Jan. 1, 2023, Cameron has added the kitchen. The project is 80% complete.

\$520,200	Prior year's assessed value of \$510,000 plus 2% Prop 13 inflation factor. In-progress new construction does not receive an inflation factor.
\$100,000	Estimated in-progress value of the project at 80%
\$620,200	Temporary value

Construction Complete. In May 2023, the ADU project is 100% complete. In July 2023, Cameron will receive a **Notice of Assessed Value (NAV)** of \$620,200. This NAV will not reflect the completed value because the ADU was not complete by the lien date on Jan. 1, 2023.

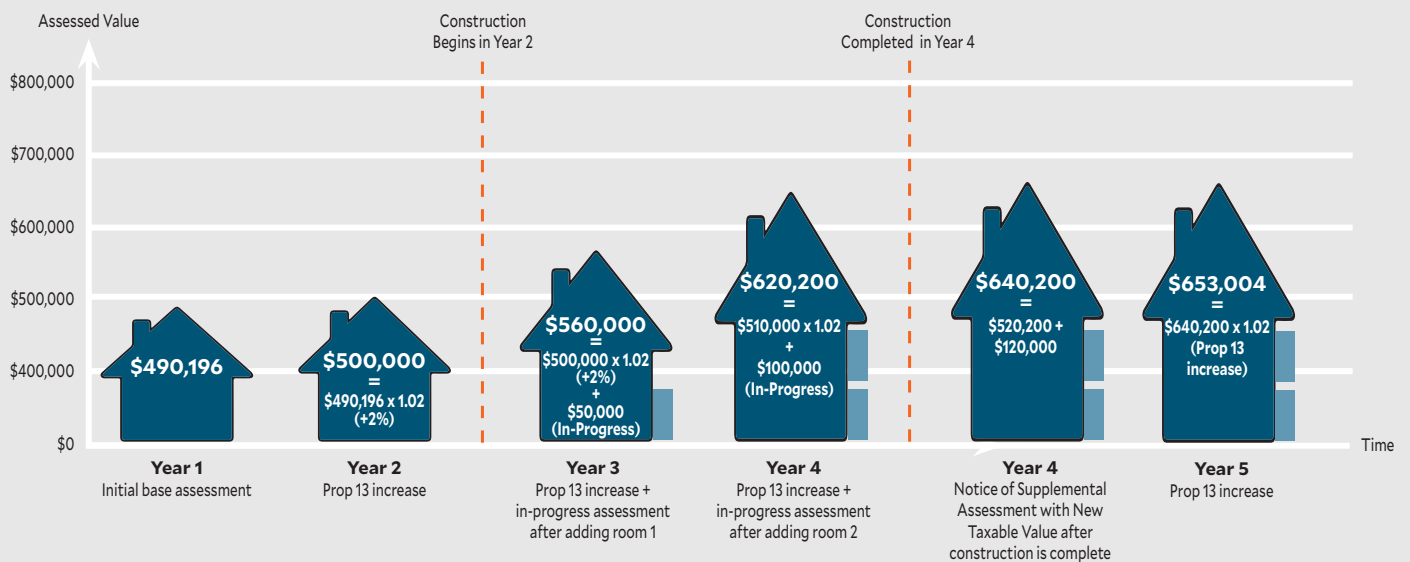
A few months later, Cameron will receive a **Notice of Supplemental Assessment** with a new base year value.

\$520,200	Prior year's assessed value
\$120,000	Supplemental assessment
\$640,200	New base year value

Summary

- Assessed Value Before the ADU Project: \$500,000, approximately \$6,000 in annual property taxes
- Assessed Value After the ADU is Completed: \$640,200, approximately \$7,600 in annual property taxes

Changes in Assessment during and after New Construction



Disclaimer: Information on this document is not constructed as legal advice but is designed merely to inform the public on change in assessment processed by the Office of the Assessor-Recorder. If you have any questions regarding your personal finance, it is recommended that you consult with an attorney or a certified accountant.