Not just for mother-in-law

Accessory apartments benefit society and the economy, and it's time for tax credits to promote them

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years ago, we separately produced publications urging that governments should provide incentives for the creation of accessory apartments (sometimes called "mother-in-law apartments") in owner-occupied housing. Our writings pointed out that there was a shortage of small-unit housing; that household sizes had dropped, rendering many large homes ripe for partial use by renters; that it was irrational to maintain regulations that discouraged extended families from living next to each other; and that Germany, Japan and Finland had provided such incentives as housing policy.

The idea fell on stony soil. Only a handful of wealthy American suburbs then permitted accessory apartments. The political climate was hostile to new federal programs and "tax expenditures." No need was felt to further stimulate housing-related industries.

Today, all has changed. Most municipalities have accessory-apartment ordinances. California, Oregon, Vermont and Washington state, along with most Canadian provinces, require municipalities to consider accessory-apartment ordinances - laws fostered by the AARP. A Montgomery County task force has recommended that they be allowed as of right, as in parts of Arlington, Va., the District of Columbia and George's County.

Home improvement contractors and appliance manufacturers face economic recession. Millions have over-invested in housing, and many would welcome rental income to avoid foreclosure. Politicians seek stimuli for the economy that do not involve "trickle-down" bailouts or indiscriminate gifts that may be hoarded rather than spent. States struggle with exploding budgets for Medicaid nursing homes because elderly people who want separate apartments cannot live near their children.

We advance a modest proposal: a temporary, three-year tax credit of $5,000 or one-half installation cost - whichever is less - for new, accessory apartments in owner-occupied homes. The proposed credit is temporary because it pays people to do what ultimately is in their interest; it is a publicity device as much as an incentive, and can be removed once accessory apartments become a popular option for builders, homeowners, renters and contractors. Tax credits, rather than financing incentives or grant programs, are appropriate because with the aid of Form 1040 and the tax preparation profession, they would get the word out much faster than programs trickling down from bureaucracies.

The credits would spur construction that is labor-intensive and that, unlike public works, involves little lead time. It would increase the supply of small-unit rental housing at a fraction of the cost of new, subsidized housing. Six studies (one done by County) show that accessory apartment rents are below those for most units of similar size. Moreover, half are rented by relatives at "deep subsidies." Tenants will typically be acceptable to or relatives of residents. Despite conventional fears that such arrangements may diminish property values or lead to neighborhood decline, Internet searches reveal no reported instances of actual neighborhood decline. And leaders at the local level have by now secured enactment of thousands of ordinances, so national leadership is no longer a significant political risk.

Accessory apartments would relieve demand for subsidized-housing construction and nursing homes and services for the elderly. Any worsening of parking availability would be more than offset by benefits to the tax base and to property values provided by new flows of rental income and reduced foreclosures. People buying homes with the help of rental income from accessory apartments would strengthen the housing market.

Politicians do not get to cut ribbons when a homeowner installs an accessory apartment. Nor do benefits accrue to the politically wired-in builders of subsidized housing, whose fast write-offs and subsidies result in six-figure costs to government for each newly created small unit. Rather, the beneficiaries are families struggling to keep homes, elderly citizens seeking added income and companionship, small improvement contractors and workers in appliance plants. "Mother-in-law apartments" are an age-old, common-sense solution whose time has come.

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