

Builders Innovation Group Updates Owners on Rising Rates and the ADU Versus Multi-Family Property Decision

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Builders Innovation Group, a Southern California general contractor, explains how higher mortgage rates and updated California law affect the ADU-versus-multi-family property decision facing homeowners and small investors. The average 30-year fixed mortgage rate stood at 7.32% in Freddie Mac?s Primary Mortgage Market Survey released October 22, after reaching 7.40% earlier in the month, its highest reading since November 2023. For owners who have already compared attached versus detached ADUs, the bigger question is whether to add a unit to land they already own or buy an existing property with several units.

Freddie Mac reported in its October 1 survey that the average rate was 7.28%, up from 6.34% a year earlier. In Riverside County, the California Association of Realtors noted in its second-quarter housing affordability report, released August 5, that 28% of households could afford the county?s $640,000 median-priced single-family home, with a minimum annual income of $159,600 required. The association?s September home sales report, released in October, showed Riverside County sales down 12.7% from a year earlier, with a median sale price of $620,000.

Multi-family investment activity in the region has been concentrated in large assets. CBRE reported in its Inland Empire Multi-family Figures for the third quarter of 2026, published October 22, that multi-family sales totaled $762.4 million, the highest quarterly volume since 2022, with three properties that each sold for more than $150 million accounting for roughly 65% of the total. The same report put average rent at $2,386 per unit per month and occupancy at 95.9%.

The market figures above cover different reporting periods and property types, so they do not provide a direct financial comparison between an ADU project and a small multi-family purchase. Freddie Mac?s quoted average covers purchase loans for owner-occupied, one-unit properties; financing terms for an ADU project or a multi-family purchase may differ.

On the regulatory side, the California Department of Housing and Community Development updated its ADU Handbook in March 2026 to reflect legislation that took effect January 1, 2026. The handbook states that ADUs avoid the costs of land, major new infrastructure, structured parking, and elevators.

The department also reported that annual ADU permits statewide grew from 1,336 in 2016 to 30,354 in 2024, and that ADUs made up more than 26.6% of all homes permitted statewide in 2024.

State law sets minimum standards for single-family lot owners. According to the handbook, local agencies must allow at least one converted ADU, one junior ADU, and one newly built detached ADU of up to 800 square feet on such a lot, and they generally cannot impose owner-occupancy requirements on ADUs.

Permitting agencies must approve or deny a complete application within 60 days for lots with an existing home, and the 2025 legislation requires a written completeness determination within 15 business days. Impact fees are prohibited on ADUs with 750 square feet of interior livable space or less. This exemption does not cover school impact fees, which may apply to ADUs larger than 500 square feet of interior livable space.

Financing programs have also adapted to ADUs. The handbook notes that the Federal Housing Administration, Freddie Mac, and Fannie Mae each offer programs that accommodate ADUs, and that FHA and Freddie Mac policies allow ADU rental income to count toward qualifying income. Builders Innovation Group advises owners to start with a site review, since access and grading concerns can surface before design begins, and to align the decision with the property?s limits and long-term plans.

Builders Innovation Group is a licensed general contractor serving homeowners in Murrieta and the Temecula Valley. The firm was founded by a U.S. Marine Corps veteran.

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