

QUEEN CITY ADU PROGRAM

An Information and
Application
Handbook for City-
Funded Accessory
 Dwelling Unit (ADU)
Development



QUEEN CITY ADUS

The City of Charlotte is excited to introduce the **Queen City ADU Program**, a program designed to support the development of Accessory Dwelling Units (ADUs). ADUs offer a unique opportunity to increase affordable housing options, provide property owners with financial flexibility, and foster intergenerational living.

This handbook will walk you through how the Queen City ADU Program assists in the creation of these valuable housing units. We offer financial assistance and key resources to property owners, including Fair Housing Training information and access to property management support, and we are committed to reducing obstacles to ADU development and maintaining affordability for renters.

Inside you'll discover comprehensive information on program eligibility, financial incentives, and a step-by-step process to help you successfully plan and build your ADU. Whether you're a property owner seeking to create a rental unit, or simply interested in learning more, we invite you to explore the possibilities with the Queen City ADU Program.

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WHAT IS AN ADU

An **Accessory Dwelling Unit (ADU)** is a smaller, independent residential unit located on the same property as a primary single-family home. It includes a kitchen, bathroom, sleeping area, and its own separate entrance—making it a complete home that functions independently from the main house.

ADUs go by many names, such as backyard cottages, in-law suites, garage apartments, or basement units. Whether attached to the main house (like a converted garage or basement) or completely detached (like a standalone backyard structure), ADUs offer a flexible way to expand housing options without changing the character of existing neighborhoods.



ZONING *and* PERMITTING

All ADU projects must follow the City of Charlotte's zoning and permitting requirements to ensure compliance with safety, design, and land use standards.

To help you understand what's required, visit our website's *How Do I Build an ADU in Charlotte* and *ADU Resources & Support Hub* sections. These pages break down the process step-by-step, include links to the Unified Development Ordinance, city and county contacts, and helpful checklists to guide you through zoning, permitting and construction.

PROGRAM OVERVIEW

The Queen City ADU Program offers **up to \$80,000 in forgivable, interest-free financing** to help eligible property owners build or convert space into an Accessory Dwelling Unit (ADU). This funding is designed to reduce financial barriers to development while expanding affordable housing options in Charlotte.

In return, property owners **must commit to renting the ADU to income-eligible tenants at an affordable rate for one (1) year per \$10,000 borrowed**, up to a maximum affordability period of 8 years. This ensures that the City's investment directly supports long-term housing affordability in neighborhoods across Charlotte.

Affordability Compliance *and* Forgiveness Details

To receive full loan forgiveness, property owners must follow program guidelines related to tenant eligibility and rent limits. Forgiveness is tied to annual compliance, and owners must submit documentation each year to remain in good standing.

- **Forgiveness Rate:** \$10,000 of the loan is forgiven for each year the ADU is rented to a tenant earning at or below 80% of the Area Median Income (AMI), or \$15,000 per year if leased to a tenant referred by a local housing or supportive services agency (examples: local Continuum of Care, Rapid Rehousing programs, Housing Choice Voucher holders, or nonprofit supportive housing programs).

- **Maximum Term:** The affordability period is capped at 8 years, corresponding to the maximum \$80,000 loan.
- **Annual Compliance:** Owners must submit updated lease agreements and income documentation each year to verify that tenant and rent requirements are being met.
- **Repayment Requirement:** If the ADU is rented above the allowable rate, occupied by an ineligible tenant, or left vacant for extended periods, any unforgiven loan balance must be repaid on a prorated basis.

Note: Tenants may be family members as long as income and rent guidelines are as followed.

Eligible Uses of Funds

Loan funds may be used to cover a variety of direct costs associated with developing an ADU.

This includes both **attached units** (e.g., basement or garage conversions) and **detached units** (e.g., standalone backyard structures). All costs must be supported by documentation and approved by the City.

Examples of Eligible Costs include, but not limited to:

- Permits and inspections
- Building materials and labor
- Electrical, plumbing, and mechanical work
- Site preparation and grading
- Utility connections specific to the ADU
- Architectural design or construction drawings

The City reserves the right to determine final eligibility for each expense based on program rules and funding requirements.

Loan Disbursement Options

Queen City ADU loan funds can be disbursed in two ways:

1. Pre-Construction support for early-stage costs before construction begins, and
2. Milestone-based disbursements paid directly to contractors after verified construction progress

All disbursements require appropriate documentation and City approval.

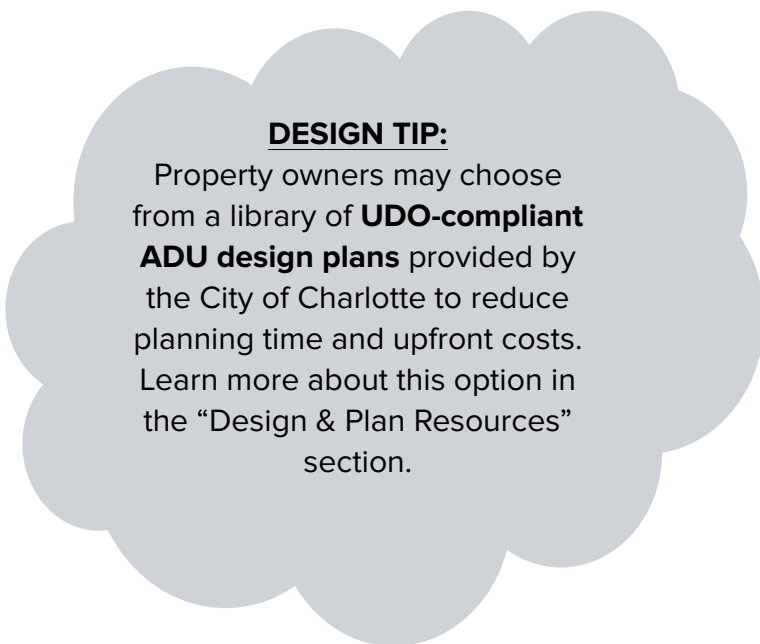
Pre-Construction Support

To help reduce the upfront financial burden, applicants may request early-stage funding for certain eligible costs before construction begins. The City can provide an advance **of up to 10% of the total award amount, or the total of verified pre-construction costs — whichever is less.**

Eligible early-stage costs may include permit fees, pre-approved or custom architectural design plans, deposits for licensed contractors, and more.

To request pre-construction funding, applicants must submit:

1. A copy of the building permit application or approved permit



2. A signed contractor estimate or invoice
3. A brief summary of how the funds will be used

Why request pre-construction support?

Some early costs — like design, permits, or contractor deposits — are required before construction can begin. If you're not ready or able to pay those costs out of pocket, the City may be able to help before payment is due. This helps make the program more accessible for all income levels.

Milestone-Based Disbursements (Paid to Contractor)

After construction begins, loan funds are disbursed directly to the contractor in phases tied to construction milestones. This approach helps ensure that work is completed and verified before public funds are released, while minimizing out-of-pocket expenses for homeowners.

To receive payment, contractors and/or property owners must submit:

1. An invoice for completed work
2. Documentation of the construction milestone (such as inspection records, photos, etc.)

The City will verify the milestone and issue payment directly to the contractor. A final inspection is required before the last disbursement is released. Property owners and contractors should work together to align invoicing and construction timelines with the City's disbursement process.

DESIGN *and* PLAN RESOURCES

Designing and planning an ADU can feel overwhelming — but you don't have to start from scratch. The City of Charlotte is working to make the process easier, faster, and more affordable by offering practical design resources that support both first-time and experienced builders.

Standard ADU Designs

Property owners will have access to a library of standard ADU design plans developed to align with Charlotte's Unified Development Ordinance (UDO). These plans are:

- Reviewed for UDO compliance
- Intended for use with detached backyard ADUs
- Available at no cost to property owners participating in the Queen City ADU Program

Using these standard plans can reduce design costs and simplify the early stages of planning. However, please note that **property owners will still need to submit the plans through the regular permitting process**. While the plans are not currently pre-approved for permitting, they are designed to meet zoning and building code requirements under the UDO, making them a helpful tool for getting started. The City is exploring opportunities for streamlining the permitting process in the future.

Optional Design Modifications

Want to customize your ADU? You can choose to submit your own design instead of using the City's standard plans. Just keep in mind:

- Custom plans must go through the full permitting and review process with the City and County
- The timeline and total cost may be higher compared to using a standard design
- Your design must comply with zoning, setback, utility connection, and building code requirements

Using a City-provided standard plan can help reduce design costs and streamline early steps — which may make it easier to meet your match requirement and stay within the program’s funding limits.

PARTICIPANT RESPONSIBILITIES *and* COMPLIANCE

Participation in the Queen City ADU Program comes with a commitment to long-term affordability, responsible property management, and basic property upkeep. This section outlines what’s expected from property owners once they receive funding.

Property Owner Role & Occupancy

Both owner-occupants and non-occupant property owners are eligible for the program as long as their property is within Charlotte city limits. All owners are responsible for ensuring that the ADU remains:

- Safe, habitable, and well-maintained
- Compliant with local housing codes and program affordability requirements
- Responsibly managed, with clear leasing and tenant communication practices

Property Management Requirements

A property manager is required for at least the first 18 months if:

1. The ADU is being rented to someone who is *not* a close relative or family member, **and**
2. The property owner does not have prior experience managing rental housing

This ensures that new landlords receive support during the initial lease term and any tenant transitions that follow. **After 18 months**, eligible property owners may transition to self-management if they:

1. Have successfully maintained compliance during the first lease term
2. Submit documentation showing they understand landlord responsibilities
3. Agree to complete a City-provided landlord orientation, covering key topics such as lease enforcement, tenant communication, and fair housing law

Property owners may request to self-manage their ADU if they:

- Are renting to a close family member or relative, or
- Have prior experience managing rental housing, and
- Complete the City’s Fair Housing/Landlord/Tenant Law training during intake

Note: All property owners — whether managing independently or using a property manager — are responsible for keeping the ADU in good condition, staying in compliance with affordability rules, and ensuring positive tenant relations.

Award Amounts & Match Requirement

The standard maximum award under the Queen City ADU Program is **up to \$80,000 per unit, or 50% of total project costs — whichever is less**. The final award amount is based on your construction estimates, scope of work, and whether you are using City-provided design plans.

To receive funding, applicants must contribute a **50% match** toward the total cost of their ADU project. This ensures a shared investment and helps stretch public funding to support more property owners.

The City *may* consider a reduced match requirement in limited cases where the property owner demonstrates financial hardship.

What Counts Toward Your Match?

Your 50% match can come from a variety of sources including:

1. Personal funds or savings
2. Loans (e.g., HELOC, cash-out refinance, construction loan)
3. Grants from other housing programs
4. In-kind contributions (e.g., waived contractor fees, donated labor or materials, if properly documented)

Example: If your total ADU project cost is \$120,000, the City may award up to \$60,000. You'll be responsible for contributing the remaining \$60,000.

The City reserves the right to adjust final award amounts based on available funding, project readiness, and other program priorities.

Affordability Requirements

Property owners must rent their ADUs to tenants earning no more than 80% of the Area Median Income (AMI). To ensure affordability, monthly rents may not exceed the published Fair Market Rent (FMR) for a studio unit at 70% AMI, as defined in the [City of Charlotte's Zoning Administration Manual](#). Although ADUs may contain one or more bedrooms, they are considered comparable in size and function to a studio unit for the purposes of rent-setting.

Date: 10/01/2023		Percent Area Median Income								
	30%	40%	50%	60%	70%	80%	90%	100%	110%	
Studio	\$471	\$628	\$785	\$942	\$1,099	\$1,257	\$1,347	\$1,347	\$1,347	
One Bedroom	\$505	\$673	\$842	\$1,077	\$1,178	\$1,346	\$1,384	\$1,384	\$1,384	
Two Bedroom	\$606	\$808	\$1,010	\$1,212	\$1,414	\$1,554	\$1,554	\$1,554	\$1,554	
Three Bedroom	\$700	\$933	\$1,167	\$1,400	\$1,633	\$1,866	\$1,936	\$1,936	\$1,936	
Four Bedroom	\$906	\$1,041	\$1,302	\$1,562	\$1,822	\$2,082	\$2,343	\$2,481	\$2,481	

- **Affordability Period:** Property owners must maintain affordability for one (1) year per \$10,000 borrowed, up to a maximum of 8 years for an \$80,000 loan.
- **Minimum Lease Term:** To promote stability for both tenants and property owners, all ADUs funded through this program must be leased for a minimum of 12 months for the first tenant. After the initial lease term, property owners may offer different lease lengths at their discretion, as long as the ADU remains in compliance with affordability requirements.

The City reserves the right to adjust the AMI and maximum rent thresholds in response to changes in federal, state, or local policies. Any proposed rent increases must receive prior written approval from the City.

Annual Recertification

To ensure continued compliance, participating property owners must submit annual documentation verifying:

- The ADU is currently leased to a household **earning ≤ 80% AMI**
- The monthly rent remains at or below the Fair Market Rent (FMR) for a studio unit at 70% AMI

- The lease remains in good standing and follows all tenant protections

Annual recertification may include submitting income verification forms, lease agreements, and rent receipts. City staff will provide templates and support to help property owners complete this process in a timely and accurate manner.

Consequences of Non-Compliance

Failure to comply with program terms—such as exceeding rent limits, leasing to ineligible tenants, or failing to complete annual recertification—may result in:

1. Withholding of future disbursements
2. Ineligibility for additional City programs
3. Prorated repayment of any unforgiven loan balance

Continued violations or refusal to correct issues may result in removal from program.

TENANT SELECTION GUIDELINES

Property Owners participating in the Queen City ADU Program have the flexibility to select their own tenants, whether it's a friend, family member, or a member of the general public. However, all tenants must meet the program's eligibility criteria, and Property Owners must follow the City's Tenant Selection Plan to ensure consistency and compliance.

Income Eligibility

Tenant must earn no more than 80% of the Area Median Income (AMI). Income eligibility must be verified prior to lease signing.

Voucher Acceptance

Property Owners must accept Housing Choice Vouchers (HCVs) administered by Inlivan, which may cover all or a portion of a tenant's rent and utilities.

- Tenants **may not** be denied housing solely because they have a voucher.
- Property Owners must follow Inlivan's required steps to lease to voucher holders, including providing documentation, passing an inspection, and signing a lease agreement that meets program guidelines.

Tenant Screening

Property Owners may require a credit and background check as part of their screening costs and are responsible for cover any associated costs.

Note: All lease agreements must comply with North Carolina Landlord-Tenant Law and must clearly state the rent amount, duration, and responsibilities of each party.

ADDITIONAL FINANCING RESOURCES

While the City's forgivable loan can significantly reduce the cost of developing an ADU, it is not intended to cover all expenses. Property owners are expected to contribute matching funds (see "Award Amounts & Match Requirement") and may need additional financing to cover the remaining project costs.

Here’s some common financing tools property owners may

- consider:
1. **Home Equity Line of Credit** – A flexible option for homeowners with existing equity in their property. Funds can be drawn as needed throughout the construction process, often with lower interest rates than unsecured loans.
 2. **Cash-Out Refinance** – Refinancing your existing mortgage for a larger amount allows you to tap into your home’s equity and use the difference toward your ADU project.
 3. **Construction Loan** – A short-term loan designed specifically for building projects. These are often interest-only during construction and convert into a traditional mortgage upon completion.
 4. **Personal Loans** – Unsecured loans from banks or credit unions offer fast access to funds but may come with higher interest rates and shorter repayment terms than home-secured options.
 5. **Community Development Financial Institutions (CDFIs) or Nonprofit Lenders** – Some homeowners may qualify for lower-barrier or mission-aligned financing through CDFIs or local housing organizations that support affordable housing goals.



APPLICATION PROCESS

Participating in the Queen City ADU Program begins with a straightforward application process designed to assess project feasibility, property owner readiness, and alignment with program goals. Below is an overview of the key steps involved.



Step 1: Submit Interest Form (Optional)

Property Owners are encouraged to complete the City’s Interest Form to receive updates, ask questions, and determine early eligibility before submitting a full application. This is optional but recommended.

Step 2: Complete Application Package

Applicants will complete a formal application and provide documentation that may include:

- Property ownership verification
- Site photos and/or conceptual plans
- Project scope and estimated budget
- Contractor or builder information (if available)
- Source(s) of match funding
- Proof of insurance
- Confirmation of if intended tenant income range (if known)

Your application must show how you intend to meet the 50% match requirement. This may include savings statements, loan pre-approvals, or letters of commitment from other funding sources.

Step 3: City Review

The City will evaluate applications based on:

1. Project feasibility and site suitability
2. Use of pre-designed UDO-compliant plans (if applicable)
3. Readiness to begin construction
4. Match funding and budget clarity
5. Applicant meets program ownership requirements

City staff may request clarification or additional documentation before a final determination is made.

Step 4: Conditional Approval & Agreement Signing

If approved, applicants will receive a Conditional Award Letter and be required to sign a Funding Agreement outlining program terms, affordability commitments, and disbursement conditions. This agreement must be signed before any funds are issued.

Step 5: Project Implementation

Once the agreement is signed, property owners may begin **permitted** construction. Payments will follow the approved disbursement schedule, based on submitted documentation. The City will maintain communication and conduct periodic check-ins to support project progress and ensure compliance with program terms.

Step 6: Final Inspection & Closeout

Upon completion, the City will conduct a final inspection to ensure the ADU meets local code and program guidelines. Property Owners must submit final invoices and tenant lease documents (if applicable). Final disbursements will be issued after all documentation is received and approved.

CHANGE OF OWNERSHIP

Because participation in the Queen City ADU program comes with potentially long-term affordability requirements, any sale or transfer of the property must be reported to the City. This ensures program compliance continues and that prospective buyers are aware of their responsibilities.

Selling a Property With an ADU

If a property owner sells their property during their agreed upon affordability period, they are required to notify the City in writing prior to the transfer of ownership, disclose the affordability obligations to the buyer as part of the sale, and work with City staff to facilitate the transfer of program requirements (if applicable).

What Happens After the Sale

If New Owner Accepts Program Applications:

If a new owner agrees to continue with the program, the original affordability period remains in place and carries over to them. The new owner will be required to sign documents agreeing to continue with the program, and all responsibilities—including maintaining affordability, adhering to rent limits, and completing annual recertification—will transfer to them. The City will provide ongoing support and documents for the new participant.

If New Owner Declines Program Applications:

If a new owner declines to continue with the program, the original owner may be required to repay a prorated portion of the loan based on how much of the affordability period remains. The specific repayment terms will be outlined in the original Funding Agreement, and the City reserves the right to place a lien on the property to ensure repayment in cases of non-compliance or unresolved program termination.

Minimum Protections for Existing Tenants During Sale

Even if the new owner opts out of the program, they must honor the current lease agreement for any tenant residing in the ADU.

- No rent increases may occur until the lease term ends
- No evictions or non-renewals may occur solely because of the program transition
- The tenant may stay through the end of the lease at the current agreed-upon rent

FAIR HOUSING AND LANDLORD-TENANT LAWS

All participants in the program are required to follow local, state, and federal housing laws, including Fair Housing protections and North Carolina landlord-tenant regulations. These laws are essential to ensuring tenants are treated fairly and legally throughout their tenancy.

Fair Housing

Property Owners must comply with the Federal Fair Housing Act, which prohibits discrimination in housing on the basis of race, color, national origin, religion, sex (including gender identity and sexual orientation), familial status, and disability.

Charlotte also enforces its own local fair housing policies, which align with federal protections and may be more specific in interpretation or enforcement.

As part of this program, **all participants are required to complete a brief Fair Housing training**, which will be provided at no cost and may be completed online or in person.

North Carolina Landlord-Tenant Law

The State of North Carolina has specific statutes that outline the responsibilities of both landlords and tenants—including lease requirements, notice periods, eviction procedures, and more. These apply to all rental properties, including ADUs created through this program. You can access the full chapter of North Carolina's landlord-tenant laws here: [NC Landlord-Tenant Law - Chapter 42](#).

Note: These are statewide laws. The City's program requirements do not override state law and are designed to work alongside them.