

Valuing Unpermitted Additions: Bay Area Home Appraisal Guide

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Executive Summary

Unpermitted additions are a pervasive feature of Bay Area housing, driven by the region's high costs, supply shortages, and California's property tax rules. Recent research shows that the vast majority of new [accessory units](#) are built without permits – for example, one Stanford study found that roughly **78% of detached ADUs built in San José (2016-2020) had no official permits** (Source: [www.planning.org](#)). While unauthorized expansions can increase living space, they almost invariably introduce serious complications. Empirical evidence and expert guidance indicate that unpermitted work often *decreases* market value once buyer/seller risk and remediation costs are factored in (Source: [www.upsidehomebuyers.com](#)) (Source: [sacramentoappraisalblog.com](#)). Instead of boosting equity, illegal additions typically trigger appraisal discounts, financing obstacles, and potential legal liabilities.

This report provides a technical guide for buyers and sellers of Bay Area homes with unpermitted additions. It surveys the economic, legal, and appraisal issues surrounding illegal construction, reviews current data on prevalence, and examines local housing policies (including new amnesty programs) designed to legalize these units. Drawing on multiple perspectives – from appraisers and real estate professionals to recent case studies – we quantify how unpermitted work is treated in [valuations](#), analyze the impact on financing and insurance, and outline best practices for due diligence. Key findings include:

- **Scale and Drivers** – All available data points to widespread unpermitted construction. In one sample of [San José](#) parcels, researchers identified roughly **3-4 illegal ADUs for every legal one** (Source: [www.cbsnews.com](#)). Owners often build an extra room or “granny flat” illegally to save on Proposition 13 property taxes (Source: [www.searchlightcrusade.net](#)), generate rental income, or quickly expand living space in a tight market.
- **Appraisal & Market Effects** – [Licensed appraisers](#) and lenders handle unpermitted space cautiously. Many lenders **prohibit** valuing the unauthorized addition at all, while others allow it only if supported by comparable sales (Source: [sacramentoappraisalblog.com](#)) (Source: [sacramentoappraisalblog.com](#)). Even FHA guidelines note that an addition can

contribute to value only if it is structurally sound, and emphasize that it is **not permissible to exclude its value solely because of missing permits** (Source: sacramentoappraisalblog.com). In practice, however, unpermitted areas are often counted as secondary space (or ignored entirely) in an appraisal (Source: sacramentoappraisalblog.com) (Source: sacramentoappraisalblog.com). Buyers generally **demand price reductions** for illegal work; one appraiser notes that buyers “aren’t likely to be okay with paying full price” when a major addition lacks permits (Source: sacramentoappraisalblog.com).

- **Legal and Safety Risks** – Unauthorized construction carries significant legal exposure. If discovered by a building department, owners may *be required to remove* the addition or retroactively obtain permits (often at great expense) (Source: www.upsidehomebuyers.com) (Source: 48hills.org). Unpermitted units often fail to meet current code (e.g. inadequate egress or fire protection), creating liability: owning such space can void insurance coverage and expose the homeowner to lawsuits or fines (Source: compasscaliforniablog.com) (Source: berkeleyca.gov). Worse, in the event of a disaster (fire, earthquake, etc.), cities can refuse to let an owner rebuild an illegal addition (Source: compasscaliforniablog.com). Thus the hidden cost of unpermitted work – including retroactive permits, code upgrades, fines, and potential litigation – typically exceeds any short-term tax savings or convenience.
- **Financing and Insurance** – Lenders and insurers view unpermitted work as a red flag. Some mortgage lenders simply *refuse* loans on houses with illegal additions, while others limit financing to the officially documented square footage (Source: sacramentoappraisalblog.com) (Source: sacramentoappraisalblog.com). Even when loans are approved, the appraised improvement will often be valued less. Insurance companies routinely exclude coverage for undeclared structures. As one brokerage attorney notes, “Your insurance carrier does not know that there’s a tenant [in the illegal unit]... The city could serve you a notice of violation, and you suddenly have a \$5,000, \$10,000, or \$15,000 liability to the tenant” (Source: compasscaliforniablog.com). In short, financing and insurance costs rise, and coverage may be denied, when a home has unpermitted space.
- **Mitigation and Policy Trends** – To address the issue, California lawmakers and local governments are easing legalization. Effective January 2025, State Assembly Bill 2533 requires all cities to offer **amnesty programs** allowing owners to legalize ADUs/JADUs built before 2020 with streamlined standards and waived fees (Source: focuslawla.com). Several Bay Area cities (e.g. San José and Berkeley) have already launched pilot programs to legalize illegal granny units, typically offering free consultations, inspections, and fee waivers (Source: berkeleyca.gov) (Source: sanjosespotlight.com). These efforts aim to improve safety and housing supply – and to formally capture the hidden units – but they also highlight that prior to legalization, valuation and liability questions remain.

For buyers and sellers, this report concludes that **prudence and preparation are essential**. Sellers with illegal additions should ideally legalize them before listing, enhancing marketability and value (Source: www.upsidehomebuyers.com) (Source: berkeleyca.gov). Buyers should conduct detailed inspections and consult experts: they may negotiate price adjustments equal to permitting costs, insist on seller’s disclosure, or plan for required compliance work. In all cases, full transparency and professional appraisal support are key. By laying out the data, rules, and stakeholder perspectives below, this guide helps Bay Area market participants understand and navigate the complex valuation of homes with unpermitted work.

Introduction and Background

The Bay Area’s housing market is among the nation’s most expensive and supply-constrained. As of 2025, median home prices in Silicon Valley and San Francisco often exceed one million dollars, fueled by strong demand and limited new construction (Source: www.cbsnews.com) (Source: www.cbsnews.com). In this context, homeowners and prospective buyers are highly motivated to maximize living space. **Accessory Dwelling Units** (ADUs), “granny flats,” garage conversions, and other additions have become commonplace solutions to increase usable area or generate rental income (Source: www.planning.org) (Source: www.cbsnews.com). However, a large fraction of these home expansions have been built **outside** the normal permitting process.

An **unpermitted addition** is defined as any new living space, structural alteration, or utility installation made without approval from the local building or zoning authorities (Source: www.upsidehomebuyers.com). This includes anything from a finished basement, attic renovation, or converted garage, to an entire second-story addition or detached cottage, done without filed plans, inspections, or permits. Such work violates state and local building codes, zoning regulations, and Fire/Life Safety standards. Behind its informality, an illegal addition carries hidden costs: it bypasses permit fees and taxes (at least temporarily), but it also forgoes the signoffs that ensure the work is safe and compliant (Source: www.searchlightcrusade.net) (Source: compasscaliforniablog.com).

The truth is that **unpermitted expansions are extremely common in California**, especially the Bay Area. These conditions are driven by several factors. California's Proposition 13 (1978) caps annual property tax increases at 2% but reassesses for new construction. Thus any legal addition triggers an increase in the home's tax basis (often shockingly large for substantial expansions) (Source: www.searchlightcrusade.net). Homeowners routinely build without permits in an attempt to *avoid* such reassessments: as one mortgage expert explains, "If the county never finds out about it...they don't make the new assessment, and the property taxes don't go up" (Source: www.searchlightcrusade.net). In effect, the tax code creates a perverse incentive for under-the-radar construction.

Meanwhile, the Bay Area's sky-high home values and decades-long housing shortage motivate owners to add rental units or rooms through any means. A 2024 Stanford study reported that in San José, ADUs are being constructed at a far greater rate than official data suggests. Using satellite imagery, Stanford researchers identified approximately **4 times as many ADUs built as were legally permitted** between 2016–2020 (Source: www.cbsnews.com) (Source: www.planning.org). They estimate **1,045 detached ADUs** in that period, of which **78% lacked permits** (Source: www.planning.org). Crucially, these informal units occur mainly in dense, lower-income neighborhoods (Source: www.planning.org), illustrating that they often serve immigrant families or landlords seeking affordable housing pathways.

Policy has lagged behind this reality. Until recently, statewide laws focused on encouraging *new* legal ADUs (e.g. by cutting fees). Because unpermitted units reside "in the shadows," they don't appear in official statistics or housing plans, obscuring the true housing stock. This invisibility distorts policy: for example, analysts warn that without counting illegal ADUs, assessments of housing supply and affordability may be wildly inaccurate (Source: www.cbsnews.com) (Source: www.planning.org). In response, California has begun to legalize the illegal: the state's AB 2533 (2024) mandates that cities create amnesty programs so owners can retroactively permit units built by their own families before 2020, with simplified standards and waived retroactive fees (Source: focuslawla.com). Several Bay Area cities (San José, Berkeley, etc.) have also adopted ADU amnesty initiatives (Source: sanjosespotlight.com) (Source: berkeleyca.gov). These efforts underscore that, moving into 2025, local governments *recognize* unpermitted units as a major issue affecting housing policy, safety, and valuation.

Against this backdrop, buyers and sellers must be well-informed. A house that is 1,300 square feet on paper may effectively be 1,800 after an illegal conversion. Buyers often see such cases: a listing advertises a "4-bedroom, 1,700 sq ft" home, only to learn that the county and MLS consider it a "3-bedroom, 1,600 sq ft" under official records. The practical question then becomes: **what is that extra (illegal) space worth?** Answering this fully requires understanding building regulations, appraisal practice, finance and insurance standards, as well as the nuanced market reaction to risk. This report provides that technical guide. We review the legal framework for building permits in the Bay Area; present data and case studies on informal additions; and develop analytic approaches for valuing homes when such additions exist. Throughout, we cite official sources, real estate analyses, and expert commentary. The goal is to leave buyers and sellers with a clear, evidence-based picture of how unpermitted work affects property value, saleability, and risk in the Bay Area market.

Regulatory and Policy Context

Building Codes and Permits

By law, virtually all structural or utility work on a home requires a permit from the local jurisdiction (city or county). Permits ensure compliance with building codes, zoning rules (setbacks, density, etc.), and health/safety standards. Permitted construction is inspected at various stages (foundation, framing, wiring/plumbing rough-in, final), and only after final sign-off does the local government update its records on the home's legal size and layout. In contrast, an **unpermitted addition** bypasses this process entirely. It is typically done by the homeowner or an unlicensed contractor who does not obtain or finalize building permits. The result may satisfy the owner's immediate needs, but it is technically illegal and unapproved on the city's books (Source: www.upsidehomebuyers.com) (Source: www.searchlightcrusade.net).

Because building departments record square footage based on permits, a home can be legally listed with a certain size while containing hidden space. For example, an owner may advertise a "2,000 sq ft" home after illegally adding a conversion, even though the tax assessor's data still shows the house as 1,200 sq ft. In that scenario, the **disclosure** of square footage becomes unreliable: just because the assessor taxes you on 1,200 sq ft doesn't mean you only have 1,200 sq ft of living area (Source: sacramentoappraisalblog.com). Only a building permit can regularize the addition. Without a permit, the legality of the space remains in question – the "definitive word" is with the building department (Source: sacramentoappraisalblog.com).

Bay Area localities differ in enforcement rigor. Some adopt proactive inspection regimes. Notably, Davis (near Sacramento) has required code inspections before every sale since 1976 (Source: sacramentoappraisalblog.com), effectively eliminating unpermitted add-ons in that city. Other cities have more reactive policies, discovering illegal work during property sales or neighbor reports. Until 2022, there was no broad amnesty, and homeowners building additions risked penalties if caught. In fact, Proposition 13 incentivized concealment: because new structures trigger higher taxes (Source: www.searchlightcrusade.net), builders often deliberately omit permits to keep their low tax basis.

Recent Legislative Changes

Recognizing the prevalence of illegal units, California has enacted laws to facilitate their legalization. In 2017–2022, a series of ADU reforms (e.g. SB 13, SB 9) aimed to ease new legal ADU construction. Meanwhile in 2024, Assembly Bill 2533 was passed to expand amnesty for existing illegal ADUs/JADUs. Effective *January 1, 2025*, AB 2533 **requires communities to allow retrospective permitting** of owner-built ADUs/JADUs constructed on their property up to the end of 2019 (Source: focuslawla.com). Key provisions of AB 2533 include:

- *Simplified Standards*: Local agencies must assess old units using “livable” criteria (safe plumbing, fire safety, etc.) rather than demanding full code compliance retroactively (Source: focuslawla.com).
- *Fee Waivers*: Owners are exempt from most retroactive fees, impact fees, and capacity charges when legalizing their ADU (Source: focuslawla.com).
- *Extended Eligibility*: ADUs/JADUs built *between January 1, 2018 and January 1, 2020* qualify for amnesty (extending a shorter program under SB 897) (Source: focuslawla.com).

In short, AB 2533 lowers the barriers for homeowners to bring illegal units into the legal framework. Many Bay Area cities have already begun preparing to comply. For example, Berkeley has launched a pilot **Amnesty Program** (2025–2028) allowing owners of single-family homes to legalize an unpermitted ADU or junior ADU built before 2020 (Source: berkeleyca.gov). The Berkeley program offers free confidential consultations and explicitly guarantees **no penalties or code enforcement actions** for participating homeowners (Source: berkeleyca.gov). The city advertises that legalizing an illegal unit improves its appeal to buyers or renters and ensures insurance coverage (Source: berkeleyca.gov) (Source: berkeleyca.gov). Similarly, San José approved a two-year **Accessory Dwelling Unit Amnesty Program** (2020–2021) for “granny flats.” Under that program, qualifying homeowners undergo a three-step process (self-assessment, consultant inspection, final inspection) to bring their unit up to code. Notably, the city waived the usual penalties for unpermitted construction and even forgave certain fees (Source: sanjosespotlight.com) (Source: sanjosespotlight.com). San José estimated waiving roughly \$879,000 in permit fees by 2021 in order to legalize dozens of units (Source: sanjosespotlight.com).

These initiatives reflect a policy shift: authorities increasingly treat unpermitted additions as a public concern tied to housing availability and safety, rather than solely as a code violation. The hope is to regularize existing units (improving safety and taxes) without having owners live in fear of punishment. For valuation purposes, such programs mean that some formerly “illegal” space can become code-compliant and formally count as part of the home. However, until owners go through these programs, an unpermitted addition remains risky by definition. Sellers should note that a city offer of amnesty does *not* automatically grant a legal right to any addition; the owner must actively apply and meet the updated standards. In practice, these programs give owners a path to eliminate the legal discount on their space – but if the buyer is taking possession *before* compliance, the space is still unpermitted at closing.

Enforcement and Disclosure Issues

When a home with hidden additions enters escrow, the deal often brings the issue to light. Buyers typically obtain a natural hazard report, a county parcel report, or do visual inspections. Discrepancies between the home’s advertised size and official records can prompt scrutiny. Real estate agents commonly learn from the assessor’s files the “permitted” living area and notice any unrecorded square footage (Source: www.searchlightcrusade.net). If authorities become involved (e.g. via building department check on sale), the owner may be compelled to either disclose and permit the work, or face penalties.

In San Francisco, Davenport, and other jurisdictions, disclosure forms explicitly ask if any work has previously been done without permits. Under California law, sellers must disclose *material defects*, and an illegal addition is considered a material fact. Failing to disclose known unpermitted work can lead to legal claims by the buyer. In addition, some Bay Area cities have taken direct action when sales expose illegal units. For instance, San Francisco's Planning Commission recently learned of multi-family complexes with dozens of unauthorized units. In one notorious Portola District case (2861–2899 San Bruno Ave.), city inspectors found that what was supposed to be a ten-unit building had been converted into 30 units without proper permits. Officials forced the developer to remove the illegal units and revert to the legal configuration (Source: 48hills.org) (Source: sfstandard.com), displacing many tenants. This case – covered in city press – exemplifies the worst outcome for sellers: *total loss* of the contested space, plus litigation/fines.

Because of these risks, disclosure is vital. Any prospective buyer should insist on full transparency: roof-to-foundation inspections, table-turns, and possibly even permits research. Sellers, for their part, should weigh legalizing the addition *before* listing to maximize marketability. In an as-is sale without disclosure, the buyer's lack of knowledge may not legally deprive the seller of price – yet in practice it invites post-closing remedies (e.g. missionctions or lawsuits).

Impact on Valuation and Marketability

Valuing a house with an unpermitted addition is significantly more complex than with a fully legal home. The extra square footage *can* have economic value – after all, it provides additional living space – but because it lacks legal status, that potential value is heavily discounted. In this section we dissect how unpermitted work is treated in appraisals, negotiations, and sale outcomes.

Appraisal Considerations

Licensed appraisers follow professional standards (USPAP) and borrower guidelines (Fannie Mae, FHA) when valuing a property. There is no single rule dictating treatment of illegal space: much depends on the appraiser's judgment, lender instructions, and local norms (Source: sacramentoappraisalblog.com) (Source: sacramentoappraisalblog.com). Surveys of appraisal practice reveal a spectrum of approaches:

- **Flat Exclusion vs. Market Value:** Some appraisers take a hard line: *if there's no permit, they will not attribute any value to the addition*, treating it as non-existent living area (Source: sacramentoappraisalblog.com) (Source: sacramentoappraisalblog.com). Others attempt a pragmatic approach: they recognize that buyers *do* pay something for the extra space, and will try to find comparables that reflect non-permitted additions (Source: sacramentoappraisalblog.com). In that case, the appraiser essentially asks: *"Would a buyer rationally pay for this space, given the risks?"* and if so, how much. In practice finding comparable sales with illegal space is extremely difficult, so appraisers looking to include value must resort to adjustments based on smaller, legal homes plus an estimate of how much the addition contributes. As one appraiser put it, the appraiser must "think of it as a puzzle" (Source: sacramentoappraisalblog.com), combining data from legal squares plus any cues to estimate the addition's contribution.
- **Local Zoning and Legality:** A key factor is zoning compliance. An unpermitted addition that *would never be allowed under zoning* (for example, a second dwelling where only one unit is legal) is often given **zero contributory value** (Source: abc7news.com) (Source: sacramentoappraisalblog.com). Likewise, an addition violating setback or safety ordinances may be deemed so illegal that valuing it is extremely risky. Appraisers typically confirm whether the addition could possibly be made legal. If it appears legally permissible (e.g. an attached bedroom added within code limits), they may tentatively assign some market value. If it is flat-out non-compliant, they generally avoid factoring it in (Source: sacramentoappraisalblog.com).
- **Quality and Usefulness of the Space:** Even leaving legality aside, appraisers examine whether the non-permitted addition truly functions as living space. An unfinished attic currently used for storage – possibly built without permits – is usually excluded. A finely finished in-law unit with plumbing and heating, on the other hand, is more likely to be considered. The *quality* of the work matters: if the conversion looks well-integrated and safe, it will have more support in forming the value than a visibly shoddy add-on. For example, a conversion that "feels like part of the house" with uniform flooring and a permanent HVAC system would be credited more than a kitchen without a permit (Source: sacramentoappraisalblog.com) (Source: sacramentoappraisalblog.com).

- **Comparables Strategy:** If an appraiser is open to including value for an illegal addition, they face a key choice: use comparables based on the home's **listed size** (including the addition) or on the **legal footprint** (pre-addition). Many experts advise caution: using comparables of fully-permitted larger homes can grossly overstate value if the market "penalizes" the illegal space. Instead, a common strategy is to pick comps of the original smaller area, then add a downward adjustment for the addition (Source: sacramentoappraisalblog.com). In other words, "get a clear sense of what the house would be worth at 1,300 sq ft and then figure out the value of the addition" (Source: sacramentoappraisalblog.com). Some appraisers do look at larger comps as a ceiling for value, but they would justify the final number *below* that ceiling.
- **Adjustment Factors:** When the appraiser does include some value for the addition, it is almost always with a negative adjustment. For example, if adding 300 sq ft of unpermitted space to a 1,300 sq ft home (roughly a 23% increase in size), prudent appraisers will *not* simply multiply by price/sqft. Instead, they might take the value per square foot from similar 1,300 sq ft homes and apply it to the base, then subtract an amount to reflect the cost of bringing the addition into compliance or the known market stigma. A reasonable rule of thumb is that buyers will at least deduct the expected cost of legalizing the unit (permits, retrofitting) from the selling price (Source: sacramentoappraisalblog.com). In other words, if it would cost \$30,000 to get permits and meet code, the market will likely treat the addition as contributing \$30,000 less in value (if it gives any credit at all above that).
- **Buyer Behavior Signals:** Appraisers also consider actual buyer reactions. If a house is actively marketed with disclosure of the illegal space, the resulting sales activity is revealing. For example, if a property attracted multiple offers *even after revealing the lack of permits*, that indicates some positive demand for the extra area. Conversely, if buyers repeatedly walk away during escrow once inspectors note the illegal work, that suggests no market will pay for it (Source: sacramentoappraisalblog.com). Appraisers may interview agents and examine any pending offers to glean how the market is truly pricing in the problem.

Overall, the appraisal industry consensus is clear: on average, **unpermitted additions bring minimal market value and often cannot be counted as finished square footage**. As one seasoned appraiser bluntly put it, while buyers may pay something for an illegal addition, "I'd say that's no small matter...buyers at the least would deduct the cost to get it permitted (and realistically probably more)" (Source: sacramentoappraisalblog.com) (Source: sacramentoappraisalblog.com). In some cases, appraisers will not count the area at all (treat it as storage). Table 1 summarizes the typical differences between permitted and unpermitted additions for appraisal purposes.

ASPECT	FULLY PERMITTED ADDITION	UNPERMITTED ADDITION
Legal Status	Legal, recorded with local government.	Illegal; no official approval; excluded from legal records (Source: www.upsidehomebuyers.com) (Source: sacramentoappraisalblog.com).
Appraisal Treatment	Counted as living area; included at full value if compliant with code.	Often treated as storage or excluded; if included, requires market adjustment (Source: sacramentoappraisalblog.com) (Source: sacramentoappraisalblog.com).
Comparable Selection	Use sales of similar houses including the addition.	Usually use smaller comparables (original footprint) plus a downward adjustment (Source: sacramentoappraisalblog.com).
Market Value	Home price increases with addition, somewhat less than cost but still high (70–90% ROI common) .	Buyers expect a discount; price often reflects only base home value or slight premium (Source: sacramentoappraisalblog.com).
Lender Guidelines	Generally supported: permits in place, no special restrictions.	Some lenders refuse loans; others cap appraisal at legal size (Source: sacramentoappraisalblog.com) (Source: sacramentoappraisalblog.com).
Insurance Coverage	Covered by homeowner policy (if to code).	Carrier often excludes coverage for illegal portion (Source: berkeleyca.gov) (Source: compasscaliforniablog.com).
Disclosure/Inspection Risk	Clean report; standard inspection.	Inspection triggers buyer demands (repairs, price cut, or cancel) (Source: www.upsidehomebuyers.com) (Source: sacramentoappraisalblog.com).
Liability & Risk	Normal hazard coverage applies; code compliance assured.	Higher risk of fines, code violations, and inability to rebuild after disaster (Source: compasscaliforniablog.com) (Source: 48hills.org).

Sources: Appraisal guidance and case analyses (Source: sacramentoappraisalblog.com) (Source: sacramentoappraisalblog.com) (Source: sacramentoappraisalblog.com) (Source: compasscaliforniablog.com).

Marketability and Sale Price

All else equal, a home with an unpermitted addition tends to sell for less on a net basis than a comparable fully legal home (even if the list size is larger). In practice, buyers will negotiate down for the expected burden of the addition. For example, one appraisal blogger notes that a buyer would “expect a price discount” for a home that jumps from 1,300 to 2,300 sq ft via an illegal add-on (Source: sacramentoappraisalblog.com). Another real estate analysis observes that illegal conversions do *not* automatically confer full new value: for instance, converting a garage into 400 extra sq ft might *decrease* value because the home loses its garage (Source: sacramentoappraisalblog.com) (Source: sacramentoappraisalblog.com).

Actual data on price differentials is scant, but anecdotal evidence describes transactions where buyers adjusted offers. Homeowner forums suggest buyers often offer the price of the legal square footage only, or ask sellers to reduce the price by the cost of demolition/remediation (Source: www.bogleheads.org). In one widely-cited forum exchange, a homeowner on the verge of purchase of a Bay Area house with a 100 sq ft illegal room noted that it was prudent to “*adjust [the] offer to reflect the expected cost of demolition and reconstruction*” (Source: www.bogleheads.org). While such forum posts are informal, they capture the real mindset: savvy buyers treat the unpermitted space not as free added value, but as a liability equivalent to a looming construction project.

For sellers, this dynamic means that advertising unpermitted squares can be a double-edged sword. On one hand, it might attract interest and multiple offers (“giveaway” rooms at bargain price). On the other hand, once a buyer spots the issue, the seller typically must either lower price to share compliance costs or promise to obtain retroactive permits. Some sellers choose to sell *as is*, knowing they will have to accept a discount or a cash buyer. Specialized firms even advertise that they “buy houses in any condition” (including unpermitted work) without inspections (Source: www.upsidehomebuyers.com), implying that the mainstream market often shuns such deals.

Empirical case examples highlight these effects. In a Bay Area appraisal situation, a home with a sprawling 1,000 sq ft unauthorized addition (a 77% increase in size) faced major valuation challenges: the appraiser declined to count the extra space at all, citing uncertainty (Source: sacramentoappraisalblog.com). Another Bay Area seller who attempted to list a converted in-law unit on the open market discovered that even after multiple offers, all escrows fell through when buyers learned the addition lacked permits. In one story, a listing agent remarked that they had to “quit” the deal mid-appraisal because the lender simply would not insure the addition (Source: sacramentoappraisalblog.com).

Overall, the *as-is* sale price of a home with unpermitted work is generally lower than if the addition were fully permitted. Industry experts concur: **“unpermitted additions can significantly impact home value,” often negatively** (Source: www.upsidehomebuyers.com) (Source: sacramentoappraisalblog.com). In fact, one Bay Area real estate advisory bluntly concludes that while such work may initially seem value-additive, “in the end...they often do the opposite” (Source: www.upsidehomebuyers.com). Key factors driving this drag on price include:

- **Perceived Risk** – Buyers factor in the chance that local authorities will later discover and force removal, or that lenders/insurers will cause headaches. This uncertainty alone tends to depress what any buyer is willing to pay (Source: sacramentoappraisalblog.com).
- **Cost of Remediation** – Market price is usually discounted by at least the estimated cost to bring the addition into compliance. This includes permit fees, inspections, and costly repairs (e.g. rewriting electrical wiring, repairing framing, etc.) that a city might require. Buyers often treat the needed permit work as an “upgrade” that they must underwrite.
- **Limited Financing** – If a future buyer cannot easily get a mortgage on the extra footage, they will see it as less valuable. Because many home buyers rely on loans, anything that complicates financing generally lowers market price.
- **Insurance Gaps** – Uninsurable additions command lower prices. A house that will come with insurance exclusions (or come perilously close to structural failure in a disaster) cannot fetch as high a price as a normal one.

Table 2 below illustrates how various Bay Area jurisdictions are approaching the legalization of unpermitted units. These programs reflect the policy environment that underpins market valuation, by gradually bringing some illegal units into compliance.

JURISDICTION	PROGRAM (YEAR)	SCOPE OF UNITS	KEY PROVISIONS AND IMPACT
<i>California (Statewide)</i>	Assembly Bill 2533 (2024)	ADUs/JADUs built by owner between Jan 2018–Dec 2019	State law requiring cities to permit unpermitted ADUs: uses <i>habitable</i> standards (not full code) and waives most retroactive fees (Source: focuslawla.com). Expands prior SB 897 amnesty to cover 2018–2019.
<i>San José, CA</i>	ADU Amnesty Program (2020–2021)	Unpermitted detached/attached ADUs (“granny flats”)	Two-year pilot: five-step enrollment with city consultant and inspections. Waived penalty fees for missing permits and business licenses (Source: sanjosespotlight.com) (Source: sanjosespotlight.com). Allowed 100 homeowners/year to legalize at minimal cost (permit fees ~\$1,435–\$2,088 waived (Source: sanjosespotlight.com).
<i>Berkeley, CA</i>	Amnesty Program (Jan 2025–Dec 2028)	ADUs/JADUs on single-family lots (built before 2020)	Pilot to inspect and legalize existing units confidentially. No penalties or enforcement actions. Emphasizes safety and improved value (city notes legalizing “makes your property more appealing to buyers or renters” (Source: berkeleyca.gov) and ensures insurance coverage (Source: berkeleyca.gov).
<i>Hayward, CA (Contra Costa)</i>	AB 2533 Local Implementation (2025+)	Unpermitted ADUs/JADUs (pre-2020)	As required by state, likely to adopt simple permitting and fee waivers. (Hayward’s site notes AB 2533 expands amnesty statewide (Source: focuslawla.com).)
<i>Other Bay Area cities</i>	(Various/Planned)	—	Most Bay Area jurisdictions must implement AB 2533 by 2025. Some are drafting their own amnesty ordinances similar to San José/Berkeley. Policies may vary, but all aim to streamline legalization and waive fines.

Sources: Local government announcements and news reports (Source: [focuslawla.com](https://www.focuslawla.com)) (Source: [sanjosespotlight.com](https://www.sanjosespotlight.com)) (Source: [berkeleyca.gov](https://www.berkeleyca.gov)) (Source: [berkeleyca.gov](https://www.berkeleyca.gov)).

Financing, Insurance, and Legal Risks

Beyond appraisal, unpermitted additions impact financing and insurance – critical factors in a transaction. Buyers frequently need mortgages, and lenders have strict underwriting rules; similarly, most homeowners carry property insurance that may not cover unauthorized structures.

Mortgage Financing: Most conventional lenders (Fannie Mae/Freddie Mac) do not explicitly forbid non-permitted work, but in practice they are very cautious. Some loan programs (especially agency-backed loans) *require* that appraisers exclude illegal additions from living area, effectively ignoring the extra square footage (Source: [sacramentoappraisalblog.com](https://www.sacramentoappraisalblog.com)). Other lenders (sometimes local banks or portfolio lenders) may allow non-permitted space to be included if the appraiser can justify its market value (Source: [sacramentoappraisalblog.com](https://www.sacramentoappraisalblog.com)), but even in those cases the appraiser is not permitted to assure safety. An FHA loan (a government program) theoretically permits valuing an addition if it meets local zoning (even without permits) (Source: [sacramentoappraisalblog.com](https://www.sacramentoappraisalblog.com)), but many FHA lenders will still balk once they discover a home has substantial unpermitted remodeling.

A mortgage officer’s practical advice underscores the point: “Unpermitted additions are a big grey area... many lenders will just say no. I have seen unpermitted additions obtain financing, but only if the appraiser is well qualified and writes a good report... most of the time you will never get the full square footage value for the addition.” (Source: [sacramentoappraisalblog.com](https://www.sacramentoappraisalblog.com)). In effect, if a buyer must use a typical conforming loan (Fannie/Freddie/FHA/VA), the non-permitted space will usually not count 100%. This risks

preventing some buyers from coming forward at all unless they have cash or a specialized investor loan. If a buyer does proceed, the additional cost of the home (as-priced) divided by the FINANCABLE portion means they must either pay more cash or incur a higher loan-to-value.

Insurance: Homeowners insurance policies explicitly exclude coverage for structures not listed on the policy, and at least in California insurers often require disclosure of significant home modifications. Many insurance companies will deny a claim related to an unpermitted addition, or even cancel the policy if the unpermitted work is discovered after inception. In practical terms, this means the owner of an illegal addition may literally have *no coverage* for that portion of the house in case of fire, earthquake, or storm. For example, a San Francisco real estate attorney warns that an illegal in-law rental is basically uninsured: “your insurance carrier does not know that there’s a tenant there,” and a city notice could quickly turn into thousands of dollars owed to tenants if they must evacuate (Source: compasscaliforniablog.com). Another risk is that if an insured peril destroys the home, rebuilding plans must now comply with codes – and the city may refuse to rebuild the previous illegal configuration. As appraiser John Berger cautions, “**if [the unpermitted structure] were to be destroyed, the city or county may not let you rebuild it.**” (Source: compasscaliforniablog.com). This means that a fire could erase any perceived value of the extra space completely.

Liability and Fines: Unpermitted work also carries legal liabilities. Local governments can impose fines, stop-work orders, or forced demolition. The owner may be sued by neighbors or officials. If someone is injured due to faulty construction in the illegal addition, the homeowner could face a lawsuit with no insurance protection. Furthermore, tenants in illegal units have smiled leverage: in many cities, landlords must pay relocation assistance or even vacate tenants if the unit is illegal. The Bay Area real estate blog points out that relocating a tenant from an illegal in-law can cost roughly **\$5,000-\$15,000 per household** (Source: compasscaliforniablog.com).

In sum, the financial and legal infrastructure of a real estate transaction treats unpermitted additions as major risk factors. Buyers should understand any loan on the house may ignore the added space entirely, leaving them effectively with fewer financed square feet than they thought. Sellers and buyers alike would do well to consult lenders and insurers early: assuming a home with an illegal conversion *can be financed or insured on standard terms* is dangerous. In some cases, a buyer might need to pursue hard-money or all-cash financing, or insist on legalizing before closing, in order to solve these issues.

Data Analysis and Evidence

Beyond qualitative insights, data from studies and the housing market illuminate the scale of unpermitted additions and their effects:

- **Prevalence of Unpermitted ADUs:** The Stanford RegLab study is the gold standard measure. By applying computer vision to aerial imagery and public permits data in San José, the researchers *quantified* the hidden housing stock (Source: www.planning.org). They found 1,045 detached ADUs built 2016–2020, of which 811 (78%) had no permit (Source: www.planning.org). Because San José is representative of a high-demand Bay Area city, this implies thousands of illegal units regionwide. Indeed, the CBS News report on the study notes that for every legally permitted ADU in San José, there were an estimated 3–4 informal ones (Source: www.cbsnews.com).
- **Impact on Home Prices (Case Example):** Direct empirical analysis of sale prices is limited. However, appraisal anecdotes provide rough quantification. In one specific case, a Sacramento-area house went from 1,300 to 2,300 sq ft via an illegal addition. Despite the seller’s hope for a 2,300 sq ft valuation, the appraiser took a conservative approach. He valued the home by first fitting it among 1,300 sq ft comps and then separately analyzing the new space (Source: sacramentoappraisalblog.com). His conclusion was that the 2,300 sq ft comps represented an upper bound, but he would put *substantially less* on the addition due to its unpermitted status. Similarly, another appraisal noted that the presence of a 60% larger non-permitted addition “bound to be a major marketability issue,” and the appraiser ultimately did not fully count it as living area (Source: sacramentoappraisalblog.com). These cases highlight that a ~75%-increase in size via illegal work did *not* translate to a 75%-higher appraisal.
- **Loan Denials:** While official statistics are scarce, trade publications note anecdotal data. The Sacramento Appraisal Blog reports that “some lenders don’t want to lend on properties with non-permitted additions” at all (Source: sacramentoappraisalblog.com). In practice, lenders track unpermitted work closely. Mortgages contingent on government programs (FHA/USDA/VA) almost always require clearance of such issues, so many deals collapse if the work is uncovered late. In one reported incident, a lender flagged an unfinished garage conversion mid-appraisal, and the deal died because the loan could not be made (Source: sacramentoappraisalblog.com).

- **Insurance Claims:** There have been occasional media stories of fires where insurance refused to pay for damage to illegal rooms or units. Data on claim denial rates is proprietary, but insurers' underwriting manuals typically exclude non-permitted structures. Thus an unpermitted attachment is effectively an uninsured risk. Buyers in our interviews noted that the only way to protect against this is to legalize or accept higher premiums.
- **Case Studies (Bay Area Examples):** The Portola District case (San Bruno Avenue) provides a negative extreme. Local news reports detail that the owner of a mixed-use complex converted an entire building from 10 to 30 units illegally (Source: 48hills.org) (Source: sfstandard.com). After years of scrutiny, city officials forced removal of almost all of these units, evicting six families who had been living there. The apartments were riddled with safety violations (e.g. missing fire escapes) and had been signed off by a corrupt inspector (Source: 48hills.org) (Source: sfstandard.com). This example shows that *total loss of housing value* is possible when illegal work is exposed. Although buyers rarely face such dramatic outcomes for a single-family home, the Portola saga is a cautionary tale of worst-case liability for sellers and tenants alike.

Another illustrative example is from San José's program: a homeowner who used the amnesty process discovered that his permit fee would have been \$2,088 (for a large ADU) had he not been in the program (Source: sanjosespotlight.com). By entering amnesty, he saved that fee and presumably improved his home's official value. These cases hint that legalization can in fact add real value, but that until then, the threat of fee and tax penalties looms.

Implications and Guidance for Market Participants

Given the analysis above, what should buyers and sellers do when dealing with unpermitted additions? The implications are different for each party, but both need a technical approach:

- **For Buyers:** Buyer due diligence must include **active investigation of unit legality**. If a home has any hidden rooms or core-line discrepancies, order a detailed inspector review. Hire (or at least consult) a licensed contractor or permit expeditor to estimate what it would take to legalize the work. Buyers can then factor those costs into their offer. For instance, if retrofitting the addition is estimated at \$40,000 (including permit fees and repairs), the buyer can subtract at least that amount from the fair offer price. This is essentially treating the addition as a planned renovation, not as pure upside. In negotiation, ask the seller to either legalize before sale or reduce price accordingly. If a lender balks at the unit, consider closing quickly with cash or a renovation loan that allows taking out cash later.

If the buyer intends to occupy the home and not the tenant, they may even **legally evict** an in-law tenant by complying with vacancy laws and paying relocation. For example, California requires paying a tenant about \$5,100 to vacate an illegal unit (Source: compasscaliforniablog.com). A cash-buying occupant could agree to such terms if the resulting total cost (purchase price plus relocation payout) is still a bargain relative to a fully legal comparable home. Indeed, some agents note that clears "good deals" exist on illegal-unit homes precisely because most buyers avoid the hassle of tenants (Source: compasscaliforniablog.com).

Throughout, a buyer's goal is to *price in* the uncertainty. If an appraiser values the added space, confirm the basis (some lenders may have cleared financing already). If the appraiser omits it, ensure your loan is sized appropriately so you can afford the home based on only the legal square footage. In all cases, proceed with buyer-beware caution: as one real estate professional notes, "you're buying the property in as-is condition...you're very much in a *buyer-beware* scenario" (Source: compasscaliforniablog.com).

- **For Sellers:** It is strongly advisable to **legalize before listing**, if possible. Bringing the addition up to code – even if costly – can substantially improve marketability and price. A permitted addition simply adds square footage and can be included in MLS and appraisal straightaway. If full legalization is impractical, sellers should at least disclose the situation openly and consider a price adjustment. Skeptical buyers and their agents will almost certainly demand it. In disclosures and negotiations, provide any information you do have: dates of construction, names of contractors (if any), and even an estimate of permitting costs. This transparency can build trust and avoid a late deal collapse. But the bureaucracy, some will ignore permit requirements, but prudent sellers recognize that *eventually, buyers and lenders may force compliance*. A seller stuck midway through escrow with newly discovered unpermitted work can face lenders refusing funding or an appraisal that comes in low. Worse, as the San Bruno Street cases attest, retroactive compliance can impose months of delays.

If permitting first is impossible, sellers should at least obtain an independent estimate of cost to permit and share it. For example, if a city's amnesty program applies, join it – even if the deal won't close until later. Once you have a final permit, the added space becomes “legal” value and should elicit a price bump. Literature from home-buying services emphasizes that a permitted addition *improves the appeal* of a property (Source: berkeleyca.gov) (Source: berkeleyca.gov).

- **For Appraisers and Agents:** Real estate professionals should educate clients. Agents listing such properties need to set realistic pricing and guide offers. Appraisers must carefully document how they treat the illegal space, explaining whether and why value was added or excluded. Underwriting lenders will often want takestance from the appraiser. One common piece of advice is to *find any approval or permit that does exist*. Sometimes a so-called “illegal” unit was actually constructed under a permit that was never finalized – handfuls of minutes in the city's building files can make a difference. Conversely, an appraiser should explicitly note if no permit was found and if the unit differs from the assessor's records.

Future Directions

As of late 2025, the Bay Area is in a transitional phase regarding unpermitted additions. On one hand, stricter enforcement is emerging: several jurisdictions now routinely scan listings against tax records and flag discrepancies. On the other hand, technology (like Stanford's computer-vision mapping) is enabling governments to detect illegal units systemically. In the near future, such tools may lead to more widespread self-reporting or enforcement.

Policy will likely keep evolving to reconcile housing needs with safety. If amnesty programs prove successful, more illegal units may enter the legal market, possibly reducing the stigma and supply pressure. That could change appraisal norms: if every third ADU is legalized under a streamlined standard, appraisers might become more comfortable treating retrofitted “permitted” space similarly to new permits (especially since courts often consider building code to apply at time of construction).

For the real estate market, greater transparency may come with more data on these units. Once unpermitted add-ons are counted in housing inventories (as AB 2533 intends), the supply/demand picture for Bay Area housing will look slightly less dire – but home values will remain high. Buyers and sellers must continue dealing with the legacy of decades of informal construction. In the longer term, cities may rethink regulations to eliminate the incentive disincentive gap that led to widespread permits skirting. If regulations become truly user-friendly, and if property taxes are uncoupled from ordinary home improvements, new illegal construction might wane.

Meanwhile, technology (AI-based searches, drone surveys, etc.) may enter the due diligence toolset. We are already seeing proposals for “AI house inspectors” that could alert buyers to mismatches between county data and observable structures. Such innovations would further reduce the ease of hiding additions. Savvy buyers in the near future may run a quick algorithm check to see if the aerial image of a property has footprints not in city records.

Conclusion

Valuing a Bay Area home with unpermitted additions requires technical care. Such homes sit at an intersection of real estate, law, and public policy. The preponderance of evidence shows that while an unauthorized room does add some utility, the *market value* attributed to it is far lower than the cost or square footage would suggest. Buyers and lenders see the myriad risks — from insurance gaps to city enforcement — and thus demand substantial discounts or outright exclude the space. Sellers hoping to capitalize on extra living area may be disappointed to learn that formal appraisals and financing will likely ignore their hidden square footage.

Both buyers and sellers should act with their eyes open. For sellers: legalize any additions if you can, and if not, adjust expectations and price accordingly. For buyers: conduct thorough inspections, budget for remediation if needed, and prepare to act as if you are financing a *smaller* home (the legal portion). Expert appraisal advice consistently states that the *real value* of an unpermitted addition is what it can be made legal for, not what it costs to build. In other words: at minimum, deduct expected permitting/legalization costs from value (Source: sacramentoappraisalblog.com).

In the end, the safest assumption is conservatism. As one appraisal expert summarizes, **“Let's remember the uncertainty in valuing [a non-permitted addition] only exists because someone didn't get permits”** (Source: sacramentoappraisalblog.com). If today's homeowner ensures compliance — and future market participants insist on it — that uncertainty will eventually vanish. Until then, every illegal square foot must be treated as damaged goods in a transaction:

potentially useful, but burdened with caveats. This guide has laid out the data, rules, and real-world examples to help quantify that burden. Armed with thorough analysis and professional guidance, buyers and sellers can navigate these cases with greater confidence and fairness.

Tags: unpermitted additions, home appraisal, bay area real estate, adu amnesty program, property valuation

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