

Incremental Development using Land Banks and Redevelopment TIF (Act 381) for Housing Subsidy

Panelists:

Jen Acosta, Real Estate Developer and Faculty, Incremental Development Alliance

Brian Larkin, Director, National Land Bank Network

Emily Doerr, Executive Director, Michigan State Land Bank

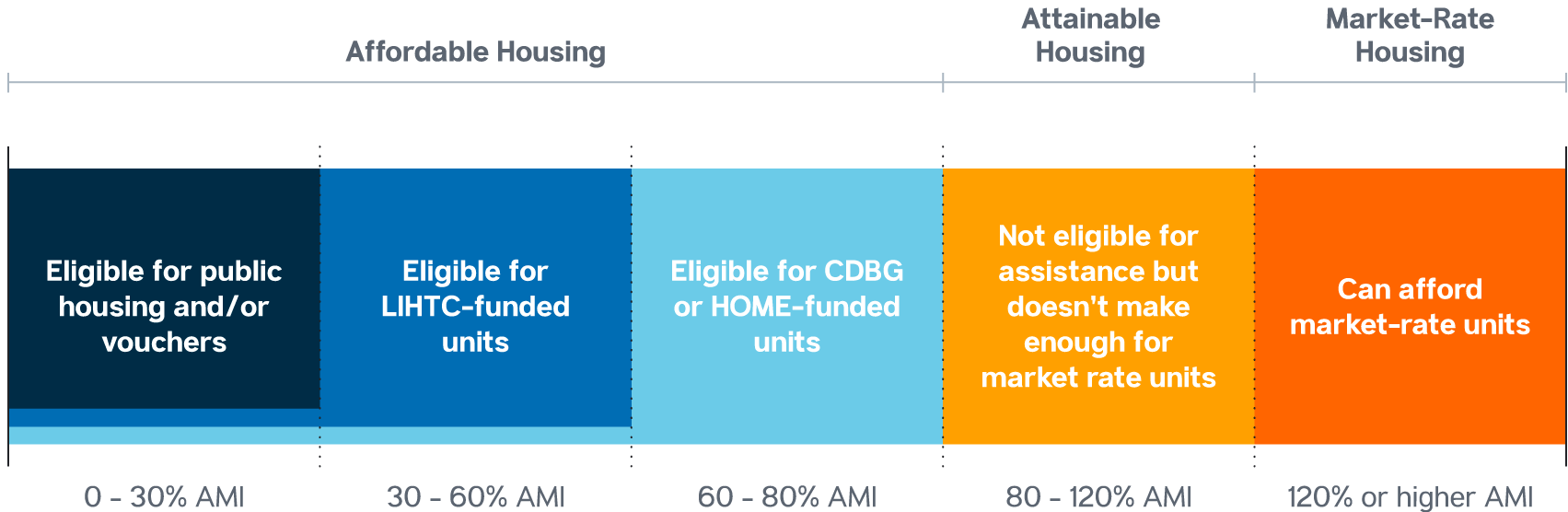
Moderated by Jeff Huntington, Operations Director, Michigan State Land Bank

Problem Statement: Michigan needs more housing

What is a scalable financing tools to bridge the gap between construction cost and sales value so there can be more than just market-rate housing built?

While there is much discussion about long term fixes to this, Michigan developers (non-profit and for-profit) need a solution that is available right now

AFFORDABLE HOUSING vs. ATTAINABLE HOUSING vs. MARKET-RATE HOUSING



AMI = Area Median Income which is reset by HUD each year according to inflation and cost of living increases.



Owner of Jenifer Acosta
Development
Housing Specialist.
Commercial Real Estate.
President, Infuse Great Lakes Bay.
Faculty at IncDev.

Jenifer Acosta



So what's a small developer?



- 0-3 stories, under 20 units
- Cultivates a neighborhood over a long time
- Income -producing projects
- Fills market gaps and physical gaps
- In their own neighborhood
- Because they care
- Sparks something bigger than themselves in the process

Development today



Extractive Model

- Accessible to big developers
- Maximizes profit within regulations
- Requires new infrastructure
- Car-dependent
- Mass-produced
- Fragile - “What happens if...”



A time - tested approach



1

2

3

Regenerative Model

- Accessible to locals
- Builds on existing infrastructure
- Responds to needs of owner and neighborhood
- Increases walkability
- Multiple generations & life-stages
- Sense of place
- Adaptable in tough times



The Bay City Farm



DeFoe Park

Saginaw River

Saginaw River

Saginaw River

Washington Lanes

Bay City Social Security Adm

Bay County Health Department

Bay County Jail

Maplewood Park

Downtown Bay City

Trinity Episcopal Church

Trilon

First Congregational Church

Historical Museum Of Bay County

The Times Lofts



The Times Lofts





Clean, well-lit
spaces





Catalytic Historic Renovations



The Legacy





Eleven Thirteen Center

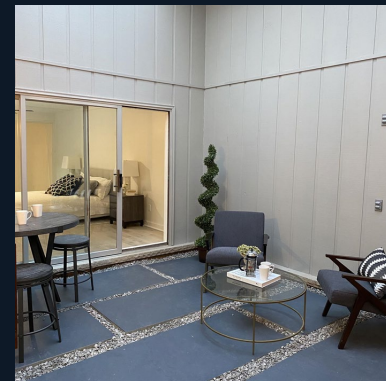




Missing Middle in Midland



The Value of Rehab



Opportunity Cost

is the other stuff you could have done
with the same resources.





How to right-size your project



Do something legal.

Do what you are good at.

Give your community what it needs.

Insist revenue matches costs.

Take advantage of code thresholds.

Use the most simple financing that works.

“Multi-family” in Single Family Zones



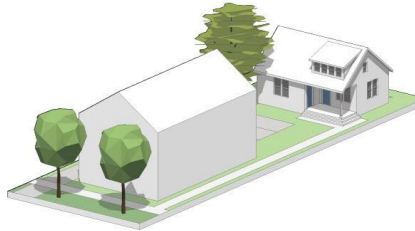
ATTACHED ADU



Units	1
Minimum lot width	n/a
Finance	creative

Confirm accessory dwelling units (ADUs) are allowed within your zoning. Beware of ceiling height and egress requirements.

DETACHED ADU



Units	1
Minimum lot width	n/a
Finance	creative

Confirm accessory dwelling units (ADUs) are allowed within your zoning. Check minimum unit sizes, setbacks, lot coverage requirements. Beware: requires a lot of cash upfront.

BOOTLEG TRIPLEX



Units	2-3ish
Minimum lot width	25ft
Finance	mortgage + creative

Where accessory units are permitted, add both an attached ADU (or guest suite) and a detached ADU (or guest house) to the main house.

Wants vs. needs: Do you need “units” or do you just need some flexibility / income?



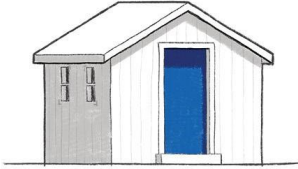
HOUSE HACKS



new or renovation
SHARED HOUSE
Private quarters, common core.

© STEP Buildings™


HOUSE HACKS



hardware store
FLEX SHED
Bunkie, office, potting shed...
up to 120 sqft of awesome.

© STEP Buildings™

HOUSE HACKS



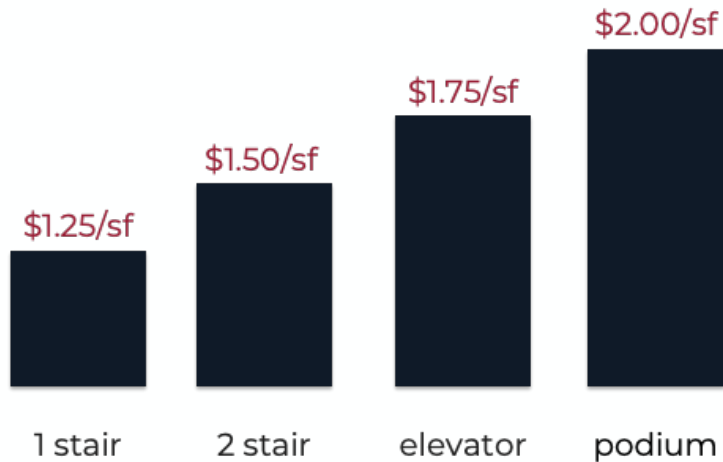
attached
GUEST SUITE
Just visiting.

© STEP Buildings™

Small buildings are more affordable to build and lease



(Illustrative numbers)



If you can't get the rent, don't do the project.

Low risk residential projects



HOUSE HACKS



new or renovation
SHARED HOUSE
Private quarters, common core.

© STEP Buildings™

MIDDLE HOUSING



stacked
DUPLEX
A smarter starter home.

© STEP Buildings™

MIDDLE HOUSING




renovation
APARTMENT HOUSE
Triplex or quadplex + TLC

© STEP Buildings™

Beware: big changes can trigger big expenses.




MIDDLE HOUSING



apartment house
CONVERSION
Carving an old house into multiple units.

© STEP Buildings™


NEIGHBORHOOD NODE



grandfathered
SHOPHOUSE
Little shop attached to a house like the old days.

© STEP Buildings™

NEIGHBORHOOD NODE



grandfathered
MAINSTREET MIXED
Pre-1991 buildings.
Don't rock the boat!

© STEP Buildings™

Financing also has
thresholds.



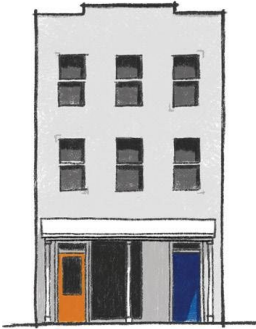
Basic capital structure



Example mortgage projects



NEIGHBORHOOD NODE



IRC

LIVE/WORK

The entrepreneur lives upstairs.

© STEP Buildings™

MIDDLE HOUSING



new build

APARTMENT HOUSE

Triplex or quadplex camouflaged as a big house.

© STEP Buildings™

COMBO



incremental

DOUBLE DUPLEX

Maxing out a mortgage and a 50ft lot.

© STEP Buildings™

Financial viability

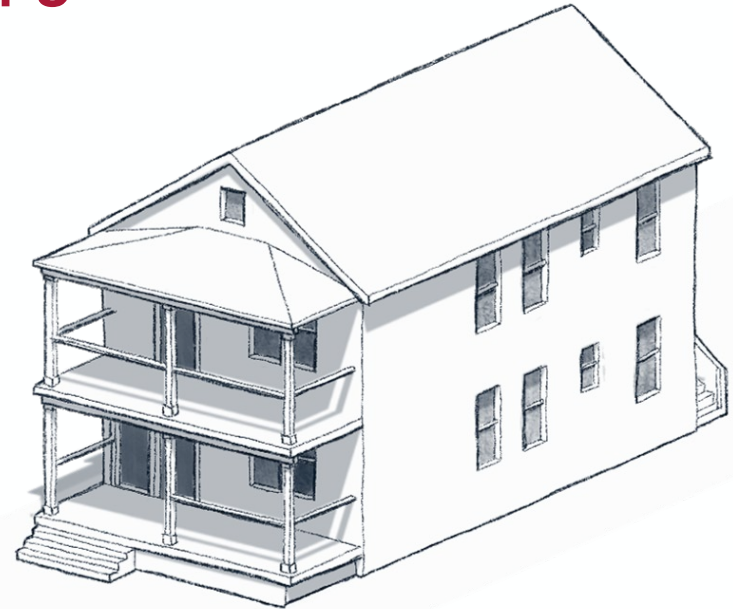


Does the project make money?

Where can I get the money to do it?

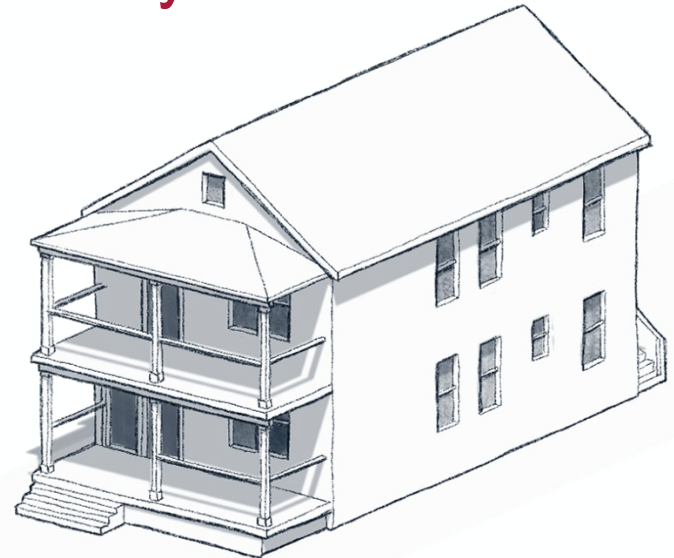
Monthly Rental Income		\$2,400
Gross Potential Income		\$28,800
Op Ex	35%	\$10,080
Vacancy	5%	\$1,440
Do Good Budget	2%	\$576
Net Operating Income		\$16,704
Acquisition Costs		\$200,000
Improvem ent (Hard) Costs		\$60,000
Soft Costs	25%	\$15,000
Total Project Cost		\$275,000
Equity	20%	\$55,000
Loan Amount		\$220,000
Monthly P&I		\$1,050
Annual Debt Service		\$12,604
Debt Service Coverage Ratio		1.33
Cash flow		\$4,100
Cash -on -Cash Return		7%

Imagine a duplex rehab.
 Make it feel loved again
 + some system
 upgrades.



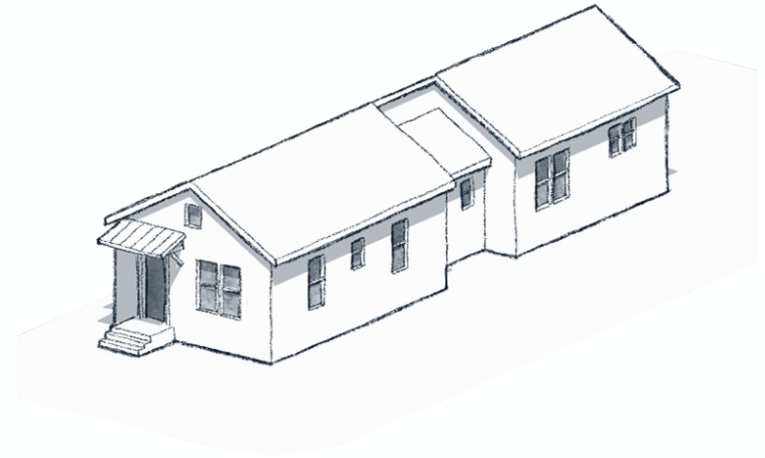


**These are happy tenants!
Not everyone wants to
own a home. Big
developers don't do
these projects. Your city
needs you.**



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Op Ex	35%	\$10,080
Vacancy	5%	\$1,440
Do Good Budget	2%	\$576
Net Operating Income		\$16,704
Acquisition Costs		\$30,000
Improvem ent (Hard) Costs		\$233,840
Soft Costs	25%	\$58,460
Total Project Cost		\$322,300
Equity	25%	\$80,575
Loan Amount		\$241,725
Monthly P&I		\$1,154
Annual Debt Service		\$13,848
Debt Service Coverage Ratio		1.21
Cash flow		\$2,856
Cash -on -Cash Return		4%

What if you built a little duplex?



**Remember, in order
to stay in business,
your building needs
to cover its costs.**



If the numbers
don't work...





Brian Larkin

Director, National Land
Bank Network

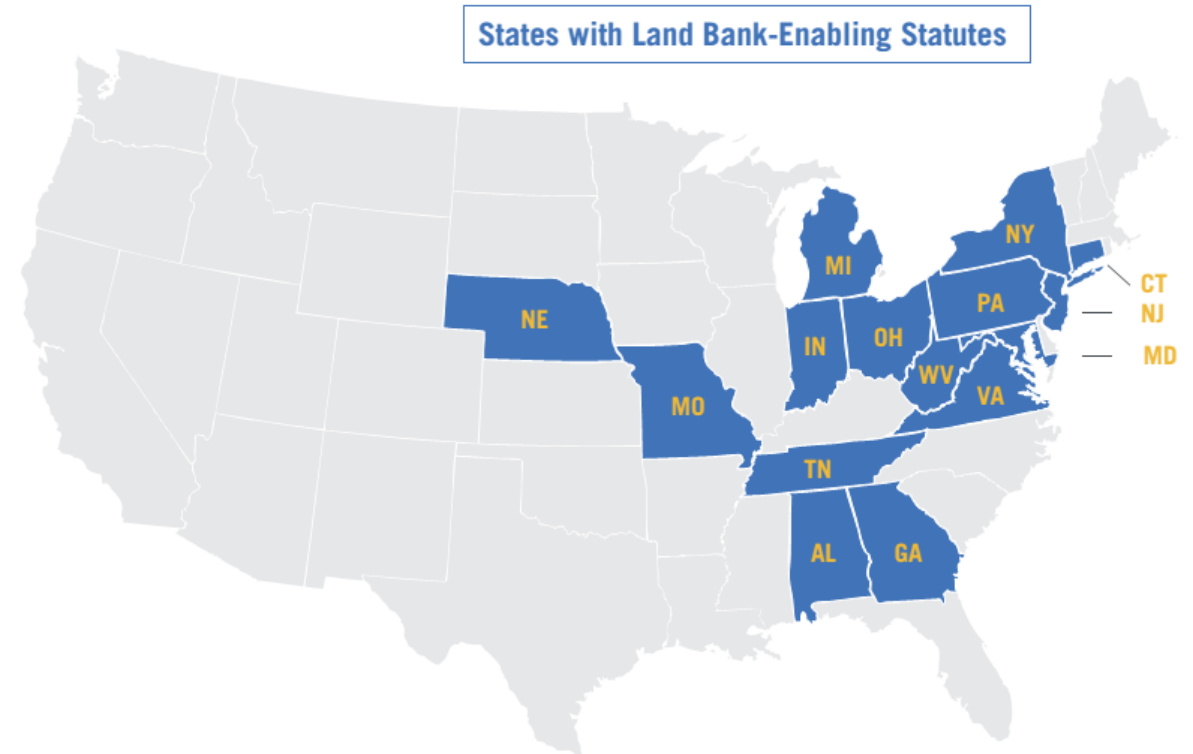
Center for Community
Progress

What is a Land Bank?



A land bank is a public authority or nonprofit that focuses on the conversion of vacant, abandoned, tax-delinquent, or foreclosed properties into productive use.

- **Over 75% established since 2008**
- **Over 80% exist pursuant to comprehensive state enabling legislation**
- **State legislation grants them special powers to carry out the work effectively and efficiently**
- **Michigan has 46 land banks**



Source: *Progress in Community, Excellence in Diversity: A Georgia Association of Land Banks Publication* (September 2019), available on the Community Progress website at: https://www.communityprogress.net/filebin/GALBA-Report_FINAL.pdf

Land Banks Today

Momentum is meeting opportunity & need

200+

LAND BANKS Since 2010

16 STATES with enabling
LEGISLATION

Most Land Banks are found in:
**Michigan, Ohio,
Pennsylvania, Georgia, &
New York**



About Us

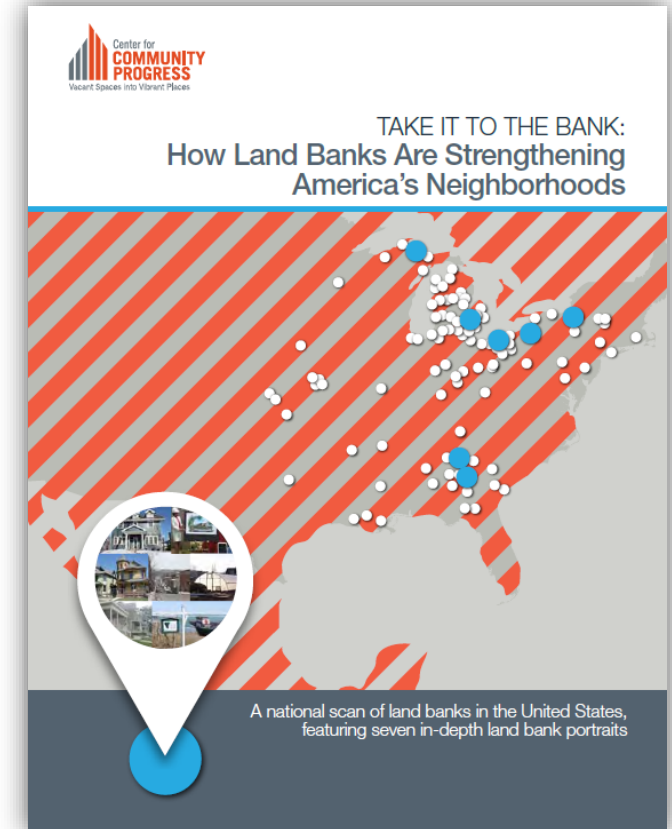
Center for Community Progress

- **Mission:** To foster strong, equitable communities where vacant, abandoned, and deteriorated properties are transformed into assets for neighbors and neighborhoods.
- **Services:** Technical assistance, education and training, policy, and research. Focus on systems-level change.
- **Snapshot:** Since 2010, provided TA to nearly 300 communities in +30 states, supported policy/programmatic change in dozens of communities; annually reach 5,000+ through education, and distribute seminal publications in the field to thousands of practitioners, decision-makers, and community leaders
- **Michigan Initiatives:** A place-based program that encompasses all of the services of CCP, dedicated to continually serving Michigan communities.
Payton Heins, Director Michigan Initiatives pheins@communityprogress.net

What are key powers of Land Banks?

Land Banks authorized through state-enabling (or local) legislation are only as powerful and flexible as the statute that created them.

- Acquire tax foreclosed property cost-effectively
- Ability to extinguish liens and clear title
- Hold property tax exempt
- Generate and collect revenue from delinquent tax fees, tax recapture, or other funding mechanisms
- Disposition decisions are flexible: driven not by highest price but by best outcome



Where can Land Banks support?

More than just demolition, land banks are good stewards for vacant & abandoned parcels.

- Maintenance
- Vacant Lot Reuse
- Job creation
- Foreclosure Prevention
- Development
 - Rehabilitation
 - New Construction
 - **Affordable Housing**



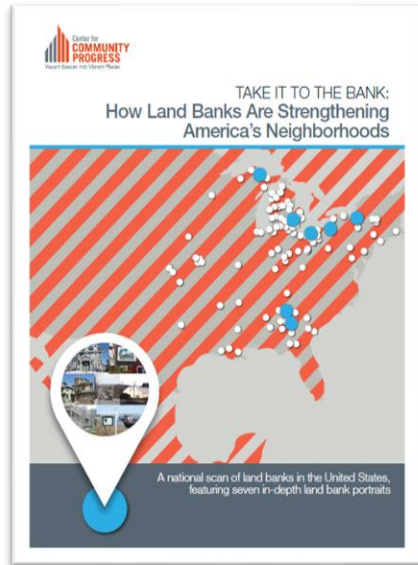
Best Practices in Housing

Land Banks across the country are being creative in ways to assist in the development of much needed housing.

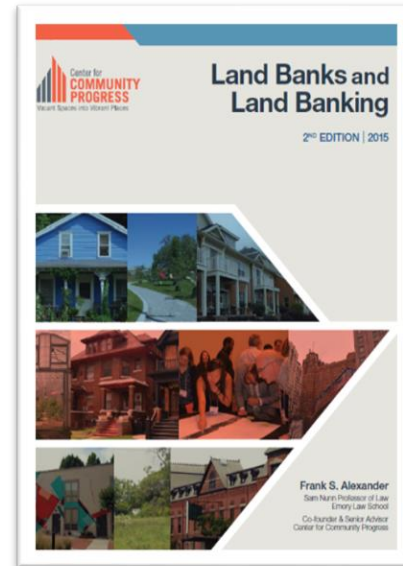
- Detroit- Rehabbed & Ready stabilizes Detroit neighborhoods by replacing vacant properties with homes ready for purchase on the traditional real estate market. These purchases strengthen neighborhood housing markets, restore home equity, and make it easier for future home buyers to access financing.
- Atlanta- Recently launched a program to take land it owns and convert it into affordable housing. The Land Bank will help build the three single family homes to sell on the southwest Atlanta properties.
- Albany, NY- partnering with a regional CDFI to provide financing for first-time buyers and small local investors to purchase and rehab Land Bank homes



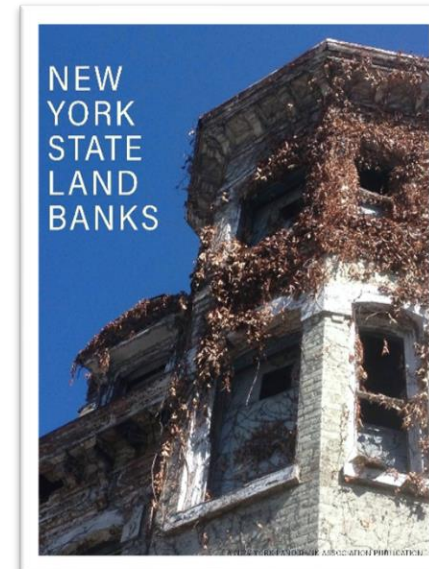
Additional Resources



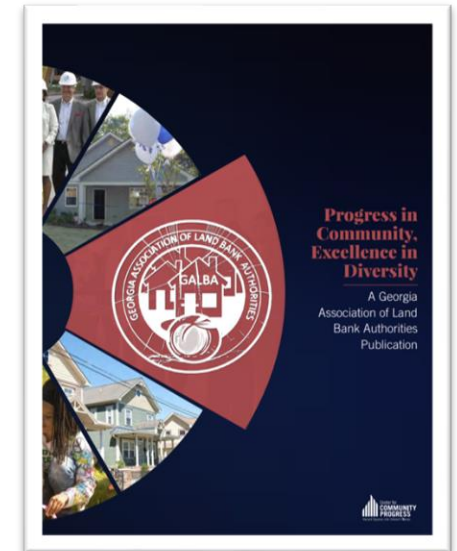
Take It to the Bank (2014)



Land Banks and Land Banking by Frank Alexander, 2nd Ed (2015)



New York State Land Bank Report (2017)



Progress in Community, Excellence in Diversity: A Georgia Association of Land Banks Publication (2019)

And sign-up for our e-newsletter to stay informed about upcoming announcements: the National Land Bank Network and the Land bank Incubator Scholarship Program!

Meet the Terrific State Land Bank Team



Emily Doerr
Executive Director

DoerrE1@Michigan.gov



Patrick Ennis
General Counsel



Linda Horak
Property Analyst
& Accounting



Jeff Huntington
Operations Manager



Ryan McNeil
GIS/Data Analyst



Jennifer Quinlivan
Property Analyst &
Dispositions Manager



Adam Robach
Property Analyst
& Development



Jim Tischler
Development Director



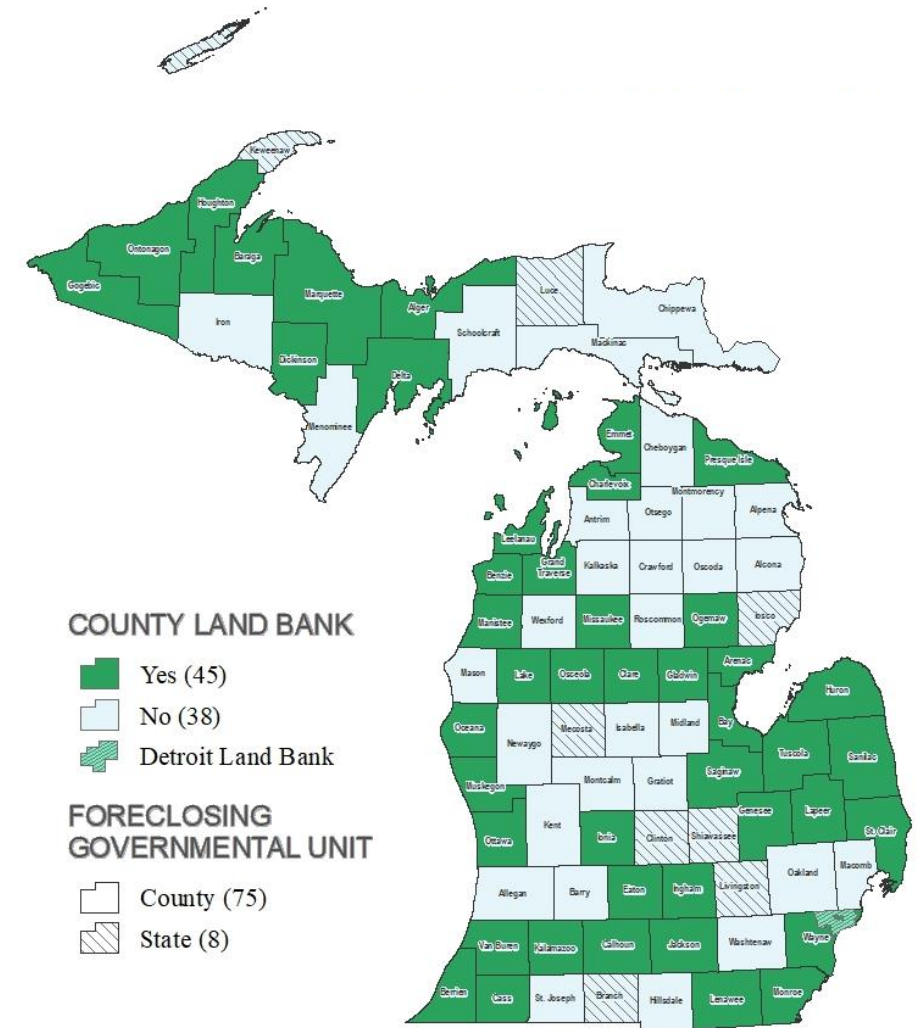
Brian Woodin
Property Analyst
& Drone Operator



Michigan's Land Bank Network

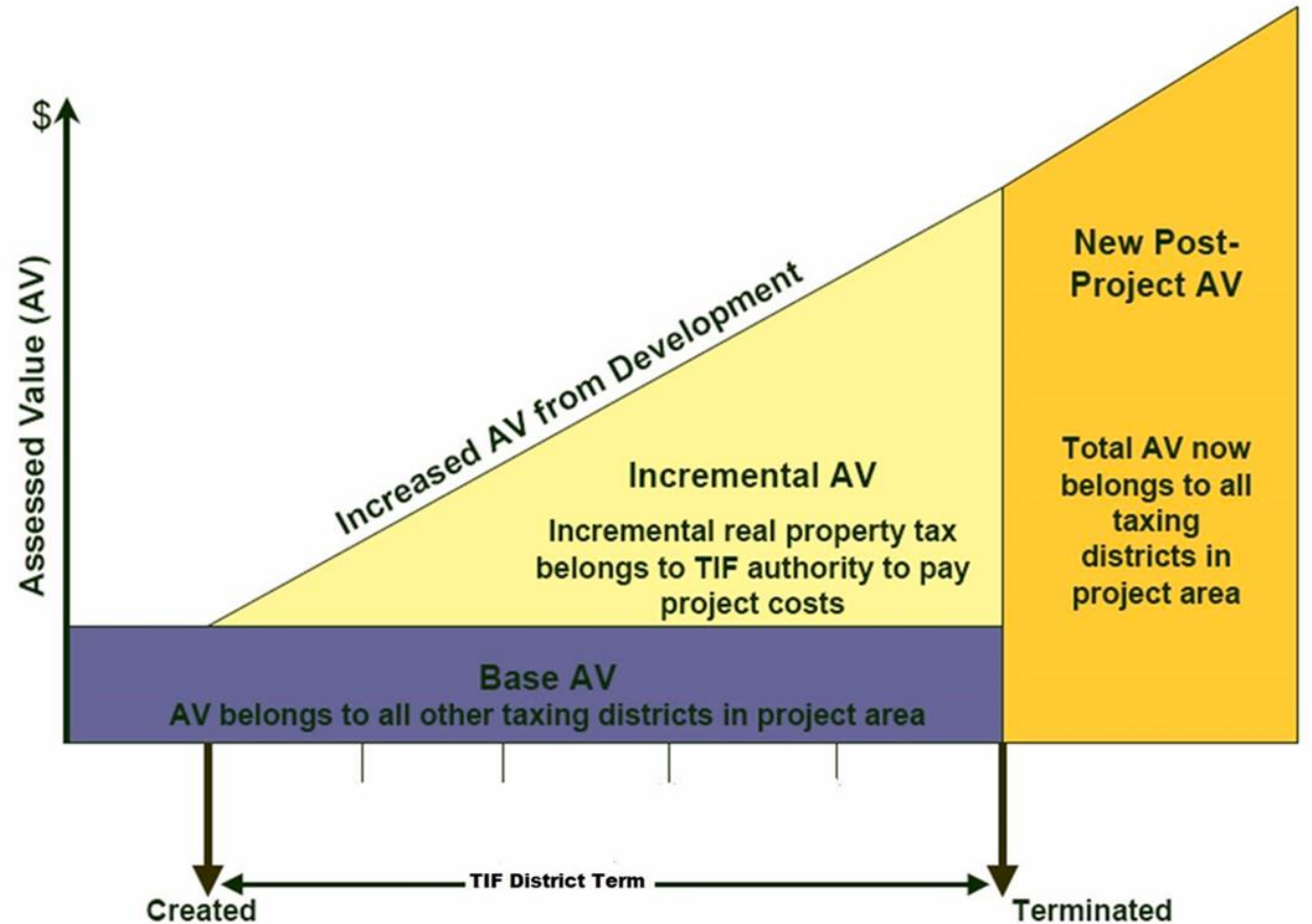


Act 258 of 2003 and corresponding updates to Act 381 of 1996 (aka Act 259 of 2003) gives State and County Land Banks to the ability to qualify a parcel under its control or ownership to utilize an approved TIF plan to help finance redevelopment costs including **“assistance in selling or otherwise conveying property”** as an eligible activity = housing subsidy for affordable and attainable units



Win-win: new housing units + new value

	<u>Per Unit</u>
Market Value of Homes Produced	\$ 225,000
Selling Price to Affordable Buyer	\$ 159,750
Total Development Costs	\$ 237,310
Subsidy Provided/ Funding Gap	\$ 77,560
Sources of Subsidy/Funding Gap	
Discount Value of Brownfield TIF	\$ 55,820
MSHDA/Local HOME	7,500
Other	14,240
	<u>\$ 77,560</u>



Other items of note:

- 1) Project and parcel based – not district
 - flexible (partial capture option)
 - limited to term-of-reimbursement
- 2) We are encouraging local tax capture only
- 3) Scalable around the entire state
- 4) Ability for land to be transferred to LB partner because of public benefit





Jeff Huntington – Moderator

- 1) Panelist round-robin on development “myths” that need to be dispelled
- 2) Q&A from audience questions in the chat

