Michigan Homeownership Study

Understanding and Advancing Homeownership in Michigan

Produced by:
RKG Associates Inc. for MSHDA
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CONTENTS

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Each of the 80+ interviewees that took time to speak with us and discuss the challenges and opportunities facing the communities, businesses, and people of the State of Michigan.

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A MESSAGE FROM THE ADVISORY COMMITTEE

Dear Reader,

The supply of affordable homes for sale in Michigan is not meeting demand, and the share of Michigan citizens who own a home is falling as a result. The Michigan State Housing Development Authority (MSHDA) commissioned the *Michigan Homeownership Study* to investigate the scope and causes of the problem and suggest some ways to address it.

As members of the Advisory Committee for this effort, we are pleased to have helped create the first-ever statewide affordable homeownership study of this type in Michigan. The Advisory Committee provided guidance and input into the study and helped researchers access data and information that could not have been accessed otherwise.

While the *Michigan Homeownership Study* Advisory Committee represents highly diverse interests in the homeownership arena, all of us have a stake in finding solutions to the state's lack of affordable for-sale homes. Homeownership strengthens communities, enables families to build equity, and makes important contributions to the economy. It is the sincere wish of the Advisory Committee members that the information in this document will result in action from policymakers, local governments, nonprofits, and others in the housing industry. This problem will not go away on its own.

Sincerely,

Shanna Draheim, Michigan Municipal League

Luke Forrest, Michigan Municipal League

Kathie Feldpausch, Michigan Realtors®

Patricia Herndon, Michigan Bankers Association

Larry Merrill, Michigan Townships Association

Katharine Czarnecki, Michigan Economic Development Corporation

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EXECUTIVE SUMMARY

Project Purpose

Home prices across parts of Michigan have risen significantly over the last decade, and generally, supply has not kept pace with demand. Housing affordability and price security are critical components for creating places where residents can live comfortably without feeling stretched financially. As housing prices rise alongside most other monthly expenses, more and more households are having a tough time adjusting to the rising cost of living. The goal of the Michigan Homeownership Study is to analyze and identify the needs and gaps in the homeownership market across Michigan.

This report is organized in two complementary pieces: the Michigan Homeownership Study and its companion document the Michigan Homeownership Study: Key Trends and Measures by Prosperity Region. Used in tandem, these reports present a multi-level analysis that can help inform policy-makers at the state, regional, and local levels about the historical, current, and future challenges in the for-sale housing market. The companion document is a compilation of state and regional analyses relating to demographics, socioeconomics, and the for-sale housing market. The Michigan Homeownership Study document utilizes knowledge gained from the companion document and investigates case study communities, categorizes challenges thematically, and provides recommendations to advance homeownership opportunities.

Key Themes

Homeownership continues to be a goal of many Michigan residents, but the pathways of achieving this goal are becoming more difficult. Michigan's population is projected to increase, meaning new homes will need to be built in hot markets and rehabilitation of older homes will need to be financed to support the aggregate growth in households across the state. The cost of building or renovating housing is a major driver of price increases as material costs, land values, and permitting times have increased in many locations, making it more challenging for builders to offer an affordable product to potential buyers.

Statewide sales prices for single-family homes rose by 71 percent between 2012 and 2017 with the median sales price of a single-family home being $156,560. This is significantly less than the median sales prices of a newly built home which is $307,970. Similarly, the statewide condominium market experienced price increases of 73 percent over the last six years. In 2017, the median sales price of a condominium statewide was $161,710 while the median sale price of a new condominium was $276,550. That is a 71 percent price differential between existing and new units. The upward pricing trend is one of the most significant barriers to entry for households across the state.

In addition to housing prices outpacing wage growth in some parts of the state, homebuyers are also challenged by increasing levels of personal debt, diminished savings, and stricter lending requirements by financial institutions due to the housing crisis. Purchasing power constraints limit the ability of households to buy new homes or undertake major renovations to existing homes. Younger householders who carry large student loan debt coupled with rapid price escalations in housing markets located in urban job centers make homeownership difficult to attain and result in greater numbers of renter households.

Michigan has a wide variety of community types each with their own challenges when it comes to furthering homeownership opportunities. Growing urban communities face challenges of rising home values and displacement while economically-challenged urban communities are dealing with population decline and vacancy issues. Prospering suburbs are facing new growth pressures and struggling with how best to repurpose land to meet today's housing demands. Rural communities struggle to retain younger residents to fill jobs and purchase homes, yet some see increases in seasonal population and a loss of year-round housing stock to the second home market.

Key Findings

The following are some key findings from the homeownership study:

- Michigan's ownership housing stock is older, and units may not have the layout, systems, or amenities today's homebuyers are looking for.
- Many vacant ownership units have not been maintained over time and will require substantial rehabilitation.
- Communities with housing capacity may have declining population and fewer economic opportunities that will attract new residents.
- Communities with housing demand as well as supply shortages are seeing prices escalate creating an affordability issue for existing residents and those looking to locate there.
- Zoning and other regulatory barriers hold back or prolong the development process resulting in fewer units created and higher price points.
- New employment opportunities or expansions may not be aligned with housing production or rehabilitation to meet the demand from new employees.
- The combination of stricter lending practices due to the financial crisis of the early 2000's, growing debt loads from student loans and other borrowing, and wages not keeping pace with costs are making it more difficult to purchase a home.
- Financial resources for housing programs are shrinking, forcing all levels of government to do more with less.

Recommendations to Advance Homeownership

To address some of the identified issues related to homeownership, recommendations were crafted based on the findings from the state, regional, and case study analysis. Recommendations are grouped under four categories, each addressing a larger-scale issue impacting homeownership in Michigan.

- **Finance Tools.** Access to capital, whether for an individual buyer or a developer, is critical to ensuring home construction and home purchases. Whether providing down payment assistance for a first time homebuyers, or incentives to developers, different markets require different finance tools. Recommendations found under this category offer ways to address financing gaps and bolster existing programs.

- **Rehabilitation & Preservation Tools.** Across some parts of Michigan, communities and regions are facing high vacancy rates, deferred maintenance, and homes that are not ready to re-enter the market. Buyers in weaker market areas are finding it difficult to pull together financing to both purchase a home and complete the necessary rehab due to lending criteria and the difficulty of finding sales comps in the area. Oftentimes, the cost to rehab a unit may be higher than the actual purchase price. Recommendations found in under this category relate to rehabilitation funding and neighborhood stabilization/preservation tools.

- **Land Use & Zoning Tools.** Land use, zoning, and permitting are local tools that communities have direct control over and impact the type of homeownership units that can be built, the location of those units, and the time it takes to build them. Changes in regulations can help with predictability of approvals, speed up delivery of units, and lower developer risk.

- **Economic Development Tools.** Housing and jobs are inextricably linked and aligning employment opportunities with affordable housing is an important step to attracting and retaining employees. The recommendations provide opportunities for the public sector and private sector to act in unison to help businesses thrive and employees find housing they can afford.

INTRODUCTION

Across Michigan, and nationally, home prices have risen significantly over the last decade. The recovery from the Great Recession coupled with a low-interest rate environment has led to a general uptick in homebuying. In many markets supply has not kept pace with demand, which is only expected to increase over time. Circumstances have occurred in which home values have risen faster rate than wages in many communities, leaving families and individuals priced out of the for-sale marketplace.

Housing affordability and price security are critical components for creating places where residents can live comfortably without feeling stretched financially. As housing prices rise alongside most other monthly expenses, more and more households are having a tough time adjusting to the rising cost of living. This creates a situation where households become cost burdened and are forced to spend more than the recommended 30 percent of their monthly income on housing-related costs. For many households, this can create a ripple effect where other monthly expenses are scaled back or cut out completely. Food, healthcare and wellness, transportation, and child care are some of the basic household needs that can go unmet in the face of rising housing costs.

Understanding the economic landscape both in the marketplace and across demographic groups can help policymakers identify needs and align and direct the requisite resources towards priority areas. Across Michigan, economic opportunity varies as do incomes; rural and urban communities may have different needs, but a central commonality is that housing is a fundamental need which also defines a community – a collection of households living area. Ensuring that housing is available and affordable to all income levels is critical for growing and sustaining communities across the state.

This study, which was commissioned by MSHDA, provides information on homeownership challenges statewide and by Michigan Prosperity Region. MSHDA has also provided directly a more geographically detailed examination of Michigan Housing Markets through its 'Statewide Housing Needs Assessment.' This data/mapping tool, which contains measures of local housing affordability for 380+ specific housing markets in Michigan, will be available on the MSHDA web site in coming months found at https://www.michigan.gov/mshda. The Michigan Homeownership Study provides context for this data tool, and can help the reader understand the larger issues that help drive the small-area data and maps.

Project Purpose

Home prices across parts of Michigan have risen significantly over the last decade, and generally, supply has not kept pace with demand. Additionally, new construction has trended toward rental units at the upper end of the market segment to cover rising construction costs. Some of the supply of for-sale housing is at risk of becoming subsumed into the rental market as investors are purchasing single-family homes and converting them to rental units. The goal of the Michigan Homeownership Study is to analyze, identify, and prioritize needs and gaps in the for-sale housing market. This study, convened by MSHDA and conducted with the assistance of an Advisory Committee made up of key stakeholders, aims to paint a regional and statewide picture of the housing landscape through rigorous quantitative and qualitative data analysis and synthesis. The results will help affordable housing industry decision makers adjust, add, or reconfigure existing housing programs to match the needs of current and prospective home buyers across Michigan.

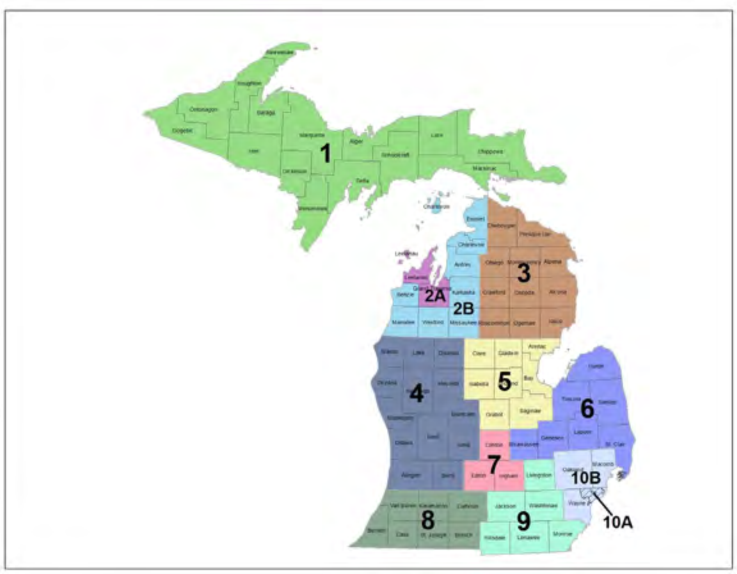
ROLE OF REPORT

This report is organized in two complementary pieces: the Michigan Homeownership Study and its companion document the Michigan Homeownership Study: Key Trends and Measures by Prosperity Region. The Michigan Homeownership Study document utilizes knowledge gained from extensive data analysis and presents a series of thematic challenges, four municipal case studies, and a series of strategies state, regional, and local leaders can use to advance homeownership opportunities. Strategies are categorized by theme and identify potential challenges and opportunities for effecting change. For each strategy we have identified which of the case study communities may benefit from those policy changes and programs. The Michigan Homeownership Study document is intended to be used by officials at all levels of government as an information and communication tool.

The companion document is a compilation of state and regional analyses relating to demographics, socioeconomics, and housing. It identifies data points and highlights key findings by Prosperity Region and statewide. The purpose of the companion document is to allow policy makers at the state and regional level to understand the historical, current, and future challenges to the region related to owner-occupied housing. The quantification of issues, especially those related to housing supply and demand, are important for imparting regional change. The role of the companion document is to act as a tool to educate leaders about the issues at the state and regional level. Please note that the terms "affordable", "obtainable" and "workforce" housing are generally used interchangeable throughout the document to describe housing that is within the economic reach of households with about average or below average incomes.

FRAMING OF THE ANALYSIS

Figure 1: Map of Modified Prosperity Regions



Strategies in the document are informed by a multi-level analysis of demographic, socioeconomic, and housing trends. The top-level analysis involves looking at Michigan in aggregate to understand general trends and to provide a point of reference for the regional analysis. The second level of analysis is conducted at the Prosperity Region level. Prosperity Regions were established and defined in 2013 to foster greater regional cooperation by leveraging existing resources and opportunities. For this study, we modified two of the Prosperity Regions (Regions 2 and 10) to provide greater clarity on housing conditions in Detroit and Traverse

City. The third level of analysis is the case studies which looks at four communities that could serve as examples for other similar communities across the state.

PROSPERITY REGIONS

In 2013, Michigan defined ten Prosperity Regions which are made up of an agglomeration of counties. For this study, modifications of two Prosperity Regions were made to provide greater clarity on housing conditions. Prosperity Region Two was split into urban (Prosperity Region 2A) and rural components (Prosperity Region 2B). Prosperity Region 10 was separated into the City of Detroit (10A) and the rest of three county region (10B). This was done to ensure the uniqueness of the city's housing market was not lost amongst the regional story.

Conducting the analysis at the Prosperity Region level provided an understanding of the variety of housing markets and conditions across the state. Regions are dynamic systems and are in part driven by economic centers. Each region is different, some more urbanized with larger population and employment centers and others more rural with less population and a different set of housing challenges. Key takeaways were generated from each regional analysis which helped form the basis for many of the strategies in this document. The accompanying Michigan Homeownership Study: Key Trends and Measures by Prosperity Region Report contains the full analysis for each Prosperity Region as well as a report for Michigan.

CASE STUDIES

To better understand how regional issues were manifesting in local communities, RKG presented the Advisory Committee with a subset of cities from across Michigan that were representative of different demographic, economic, and housing conditions. The Committee members selected by majority vote four communities from this subset for these case studies. The resulting list of communities and their respective community types chosen include:

- Urban Affordability – Grand Rapids
- Urban with Economic Challenges - Saginaw
- Aging Suburban - Westland
- Small Town Rural - Alpena

The case study analysis represents prototypical community typologies from across the state. The Urban Affordability typology is applicable to urban communities experiencing significant construction activity and price escalation, and where development or redevelopment is taking place. The Urban with Economic Challenges case study highlights the challenges communities face when the local economy declines, unemployment rises, local spending and tax revenues shrink, and foreclosures, vacancy, and population loss take hold. The Aging Suburban case study looks at post-war tract home subdivision communities with ranch-style homes built on a quarter acre lots, but have not been modernized with upgraded systems or cosmetic changes that appeal to younger buyers in today's market. The Small Town Rural typology is intended to reflect geographically isolated communities with small populations, fewer employment opportunities, and lower median household incomes. Owner-occupied housing in these areas tend to be older and are primarily single-family or manufactured homes.

Interviews with local officials, housing developers, and advocates, coupled with rigorous data analysis allowed for an in-depth study. Lessons learned from the case studies were incorporated in the strategies found at the end of this document.

Defining Affordability

Housing affordability can be defined as the relationship between household income and monthly housing expenditures. A common measure of affordability is whether housing expenses exceed 30 percent of income. In that circumstance, a household is considered cost burdened and may be limiting expenditures on other necessary purchases such as healthcare, childcare, education, or transportation. Households in communities with escalating home prices face particularly acute challenges, as wages are not keeping up with the rise in housing costs.

There are two common types of affordable housing in the marketplace today: deed restricted affordable units and naturally-occurring affordable housing based on a community's market prices. Both types of affordable housing can serve a variety of needs. The crucial difference is that the market determines the price of unrestricted affordable units, while a recorded legal instrument and strict pricing guidelines determine the price of deed restricted units. This study does not differentiate between deed restricted and unrestricted for-sale units, rather it looks at markets in totality to identify needs and gaps that policymakers can choose to prioritize.

For this housing study, affordability is examined using Department of Housing and Urban Development (HUD) Area Median Income (AMI) data which is based on specific geographies. For the purposes of this study, we used AMI thresholds at the state, metropolitan region, and county levels. The AMI data helps to inform purchase price affordability and is also used to compare existing supply and future demand by price segment and household income. To understand the affordable/workforce housing market, six AMI thresholds were analyzed for each study area:

- 30 percent of AMI
- 50 percent of AMI
- 80 percent of AMI
- 120 percent of AMI
- 200 percent of AMI
- Greater than 200 percent of AMI

The affordability gap between supply and demand is determined by comparing what is affordable at each income threshold to what is available on the open market. Housing sales prices were collected from across the state to determine median sales values by region.

OVERARCHING THEMES

Michigan's homeownership market, much like the national market, constantly fluctuates. Ebbing and flowing with the strength of the economy, shifting buyer preferences, and changes in the lending environment. Since the Great Recession, many communities across Michigan have rebounded and are seeing price increases that outpace what many potential homeowners can afford. In other communities, challenging economic conditions, lower incomes, and a lack of investment in ownership units have created a depression in the local market. In each community these issues surface in different ways and require a wide range of tools that can be combined to stabilize the ownership market. Our analysis of the homeownership market across Michigan and a scan of national trends in homeownership revealed the following overarching themes.

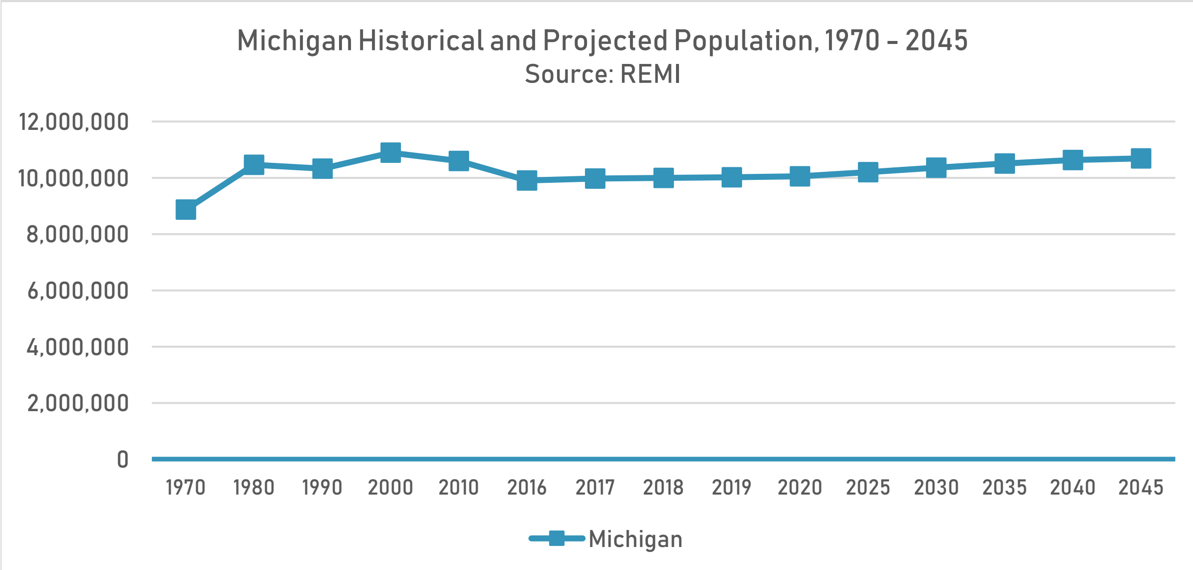
Population, Wages and Purchasing Power

Homeownership continues to be a goal of many Michigan residents, but the pathways of achieving this goal are becoming more difficult. Costs to build a new home or rehabilitate an older home continue to rise, population and job growth in urban centers puts upward pressure on housing prices, and households are saddled with more debt and fewer savings, making it more difficult to purchase a home. Michigan's population is projected to continue to increase, meaning new homes will need to be built in hot markets and rehabilitation of older homes will need to be financed to support the continued economic prosperity across the state.

POPULATION AND WAGES

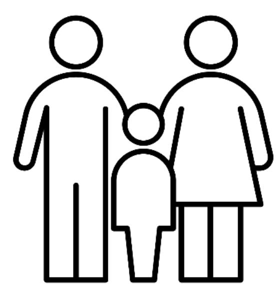
Michigan's population is projected to grow by 8 percent between now and the year 2045. Although the trend line for growth over this time period is more stable than what may have been experienced in previous decades, the state still needs to find ways of accommodating new residents in places they want to live. The other challenge for Michigan is the ability to support more smaller households, especially as the senior population continues to grow. More single-person households mean more housing units, with the number of households projected to grow by 11 percent through the year 2045.

Figure 2: Michigan Historical and Projected Population, 1970 - 2045



Like population and households, the number of jobs is projected to increase as well across Michigan. Projections through the year 2045 show employment increasing by 4 percent, or 245,000 jobs. Approximately one-third of those projected jobs are in sectors that tend to pay lower wages on average. This includes food services, administration and support services, and local government. The state's median household income of $50,803 provides enough money to afford a house priced around $175,000, yet the median sale price for a new single-family home in Michigan is just over $330,000. New housing is not being built at price points that are affordable to the average Michigan household. In 2018, food service and hospitality workers earned an average of $23,150 per year, which is enough to purchase a home valued at $75,000. Not all projected jobs are lower wage earners, though. A third of all employment growth is expected in the professional and technical services sector, which has an average wage of more than $100,000.

A.L.I.C.E. POPULATION



Michigan has nearly 3.8 million households, of which 15 percent lived in poverty and 25 percent are categorized as Asset Limited, Income Constrained, Employed (ALICE), which refers to working households that do not earn enough to cover all household needs. ALICE households are those on the edge of poverty. These households have very little cushion in their paycheck or savings to cover increases in costs, particularly housing costs. Every day costs continue to rise, making it more difficult for ALICE households to afford housing, transportation, food, education, and healthcare. According to a 2017 ALICE report for Michigan, nearly two-thirds of all jobs across the state paid less than $20 per hour, which is not enough to support a family of four.[1] Over the next five to ten years, low-wage jobs are

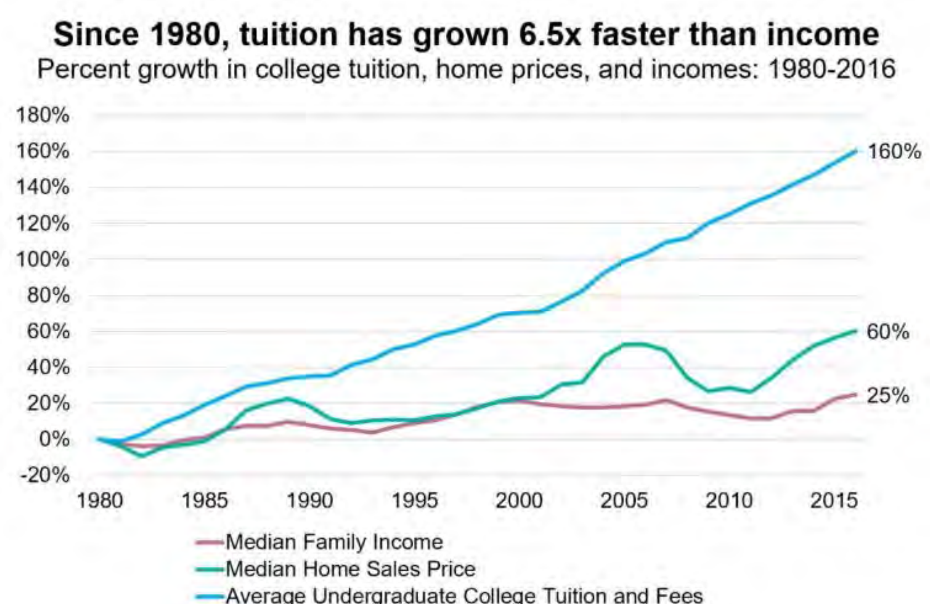
[1] 2017 ALICE Update, United Ways of Michigan.

projected to increase at a faster rate than high-wage jobs, making affordable housing for working households even more critical. When we talk about the workforce and obtainable housing, it is important to consider housing options for working households that are earning at or below 80 percent of the area median income. This is a very different economic situation than the more traditional definition of workforce housing for households in the 100 to 140 percent of area median income range.

LIMITATIONS TO PURCHASING POWER

In addition to housing prices outpacing wage growth across many sectors, home buyers are also challenged by increased debt, fewer savings, and stricter lending requirements. This is particularly true for younger households looking to enter the homeownership market. A recent study by researchers at Apartment List estimated that millennial buyers are facing an uphill battle to save enough money for a down payment with the added debt load of student loans. Since 1980, tuition rates have grown 6.5 times faster than incomes with average undergraduate tuition rates increasing 160 percent since 1980.[2]

Figure 3: National Trend of Wages, Homes Prices, and Tuition



The study estimates millennials with college debt will require an average of 12 years to save up for a 20 percent down payment compared to only 7.6 years for graduates without debt. This comes at a time when tuition and housing prices continue to rise. This generation represents the next big wave of potential homebuyers and provides a way out for senior households looking to down size. If purchasing power is limited and renting becomes a longer-term trend, turnover in the ownership market may be impacted. Finding ways to increase access to quality housing through financial

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[2] Student Debt and Millennial Homeownership. January 2018. https://www.apartmentlist.com/rentonomics/student-debt-millennial-homeowership/

assistance, rehabilitation assistance, or deed restricted affordable housing will be important going forward.

Housing Inventory

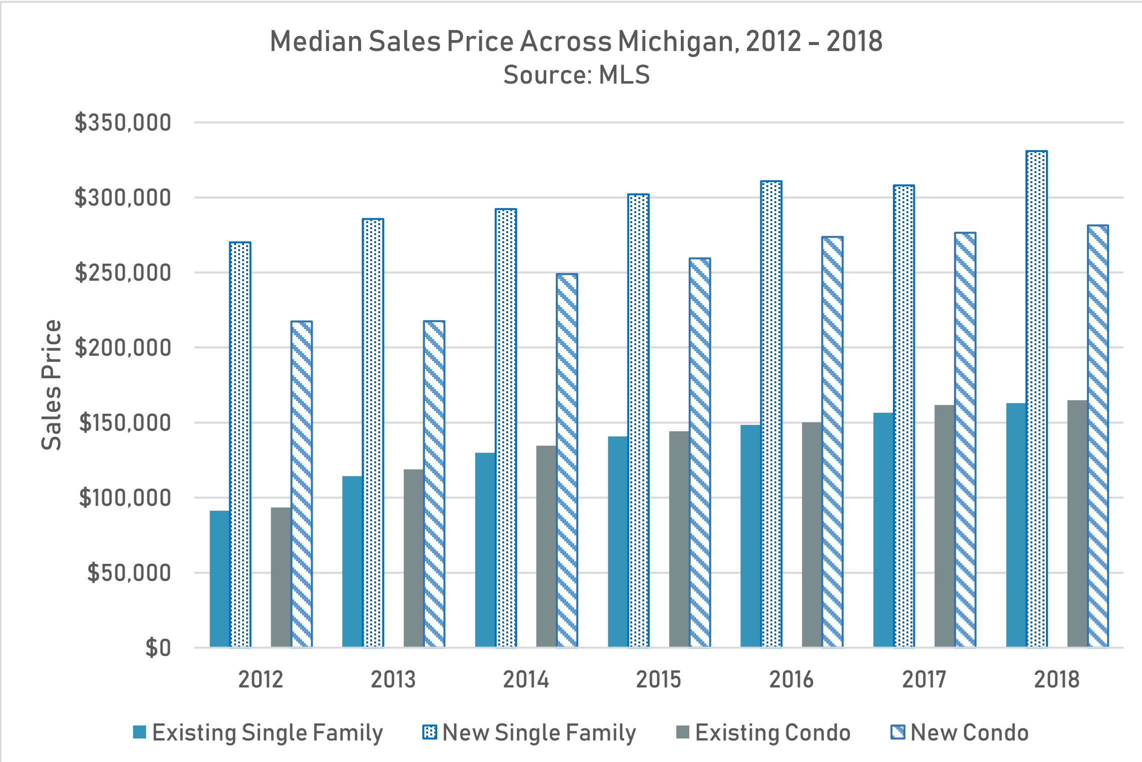
The ongoing maintenance and expansion of the housing stock is vital for maintaining healthy neighborhoods and communities. Over the last seventy years, Michigan experienced both a rapid growth and decline in households. During the immediate post-war period, job opportunities in the manufacturing sector were a magnet for household growth. New suburbs were built in communities across the state to house families leaving urban areas or relocating from other parts of the country. This period of growth tapered off in the 1980's, and a long-term decline soon followed due to structural changes in the economy. During the downturn, losses in households resulted in excess housing supply and rising vacancy rates. Today, a housing imbalance exists where some communities are growing and seeing price appreciation, while others are experiencing population loss and declines in home prices

PUSH TOWARD HIGHER END HOUSING PRODUCT

Housing market momentum tends to build in locations where developers can realize the greatest financial return and experience minimal risk exposure. One of the findings from this housing study is that new construction has pivoted towards the upper end of the income spectrum. Developers are building homes (both single-family and condominiums) at price multiples much greater than what an average household can afford. Amenities offered include larger sized units, luxury finishes, and building amenities. Comparatively, the existing housing stock does not offer such features as much of it was built for working class families at a time when these luxury features were less common.

From a pricing perspective, there is nearly a $100,000 sales price differential between existing and new homes in Michigan. The price gap between existing and new homes has shrunk over time, as sales prices for existing homes rose 70 percent since 2012. In many circumstances, purchasing a new home makes more sense from a homebuyer's perspective as new homes are move-in ready, require no upfront rehab work, and come fully equipped with modern appliances and systems. The challenge in Michigan is how to raise the quality of the existing housing stock to provide affordable homeownership opportunities that are enticing to new buyers.

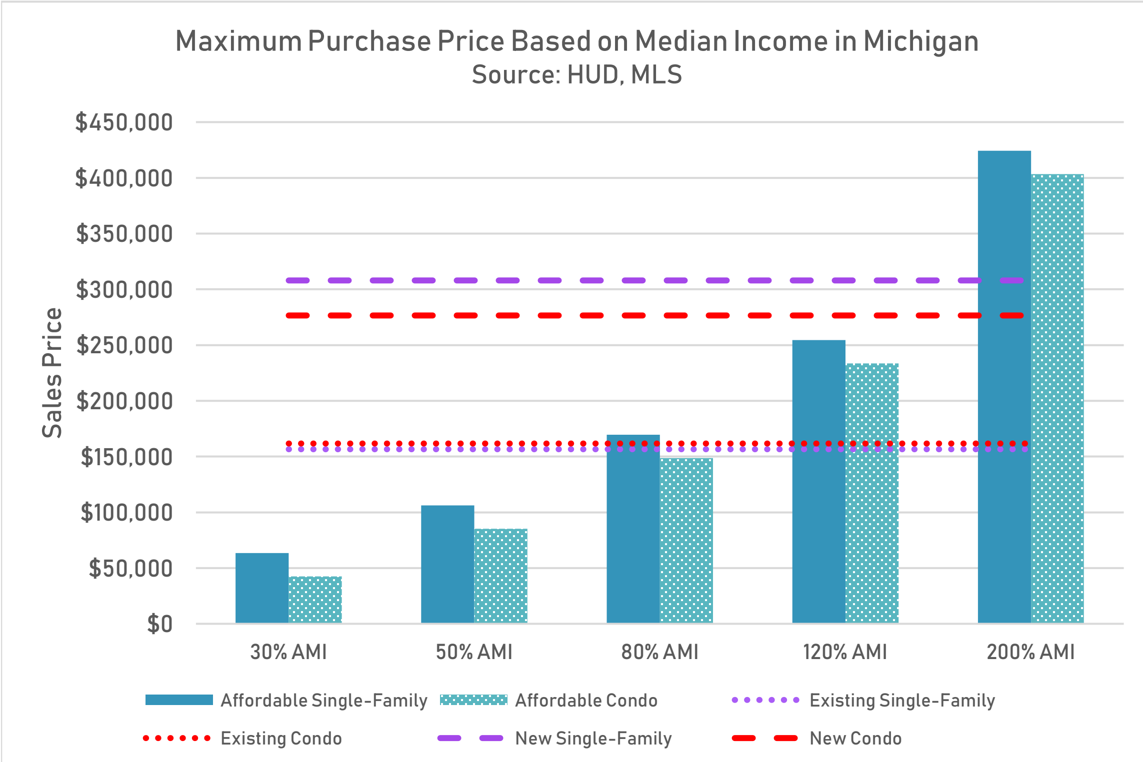
Figure 4: Sales Price of New Housing Units



MISSING MIDDLE

Across Michigan there are three primary housing markets: those below 80 percent of AMI, those between 80 percent and 120 percent of AMI, and those earning more than 120 percent of AMI. The graph below presents affordable sales prices across all AMI thresholds in comparison to market pricing. From the data, households below 80 percent of AMI cannot afford existing homes priced at or above the median sales value. Conversely, for households with incomes above 120 percent of AMI, housing choice exists. These households have the option to purchase existing housing units, or new units, depending on what they can afford.

Figure 5: Maximum Purchase Price Based on Median Income in Michigan



Missing middle housing is a potential supply side solution for those households earning between 80 percent and 120 percent of AMI. In many parts of the state, the missing middle market is where housing options are most limited. Households in this category have the financial means to purchase existing housing units but not enough income to purchase new housing product. This disconnect within the marketplace results in greater demand for quality housing product located in desirable communities or neighborhoods. The increase in overall demand results in price escalations across the entire housing stock and contributes to the lack of affordability. In many communities, zoning regulations restrict residential density, particularly in single-family neighborhoods so that new housing at greater densities are not built.

One way to address the gap in missing middle housing is to increase residential densities, product diversity, and a range of price points in established neighborhoods. By facilitating the development of infill developments, communities can add new product types such as duplexes, three-family, and small multifamily (5-10 units) developments. These lower-priced units can offer an entry point for households looking to purchase homes and establish roots within a community.

One of the methods to actualize change is to update local zoning ordinances to remove single-family zoning. Minneapolis recently updated its zoning ordinance across the city to end single-family zoning. The intent of the update is to allow for greater diversity of housing types within existing neighborhoods.[3] The change was heralded as a step toward addressing housing affordability and equity, with greater housing diversity augmenting the supply of housing to meet demand. Similarly,

[3] https://www.nytimes.com/2018/12/13/us/minneapolis-single-family-zoning.html

about ten years ago Grand Rapids implemented a form-based code across certain parts of the city which increased housing diversity.[4] The results from Grand Rapids are promising and may offer a pathway to communities facing issues of price escalation and limited developable land.

REHABILITATION

In aggregate, Michigan has large numbers of homes which are vacant or in need of repair. As a result of population and household declines during the 1980's, many communities were left with neighborhoods or areas experiencing high levels of unemployment and underinvestment in the housing stock. Over time, some communities were able to rebound from the decline and pivot to towards revitalization, while others have turned the corner.

Large scale rehabilitation of the housing stock is difficult to execute because it requires a concerted effort on the part of homeowners, the availability of financing, and coordinated efforts by municipal officials. Rehabilitation is difficult from the homebuyer side because financial capital is not always readily available for renovation projects. While some lenders offer construction financing, lending terms may not be favorable to low- to moderate-income households who are unable to pay the loan back on top of an existing mortgage. While there are state and local programs which help homeowners finance rehabilitation costs, these funds are limited.

The location of properties also plays a significant role in home renovation financing. In rural areas where comparable appraisals are fewer in number, lenders tend to be unwilling to provide funds for acquisition and renovation. This is due to the risk associated with investing in properties which are not located in active housing markets, and the general risk-averse nature of lenders today. In markets with greater real estate activity, lenders are more willing to invest, but mostly with individuals who can afford to undertake the rehab project. One of the key challenges for low-to moderate-income households is accessing financing to undertake rehabilitation projects and open up housing choices that are more affordable than purchasing new homes.

Development Costs

One of the themes that rose to the top during the interviews with housing experts across Michigan was the cost of building as a driver of price increases. Challenges related to construction industry jobs, labor shortage, rising wages, and material costs permeated our conversations. Availability of skilled labor in the construction industry is a major issue in Michigan but also across our nation as more young people attend college and enter more technical fields. At the same time, material costs, land values, and permitting times have increased in many locations, adding to the builder's hard and soft costs making it more challenging to offer an affordable product to potential buyers.

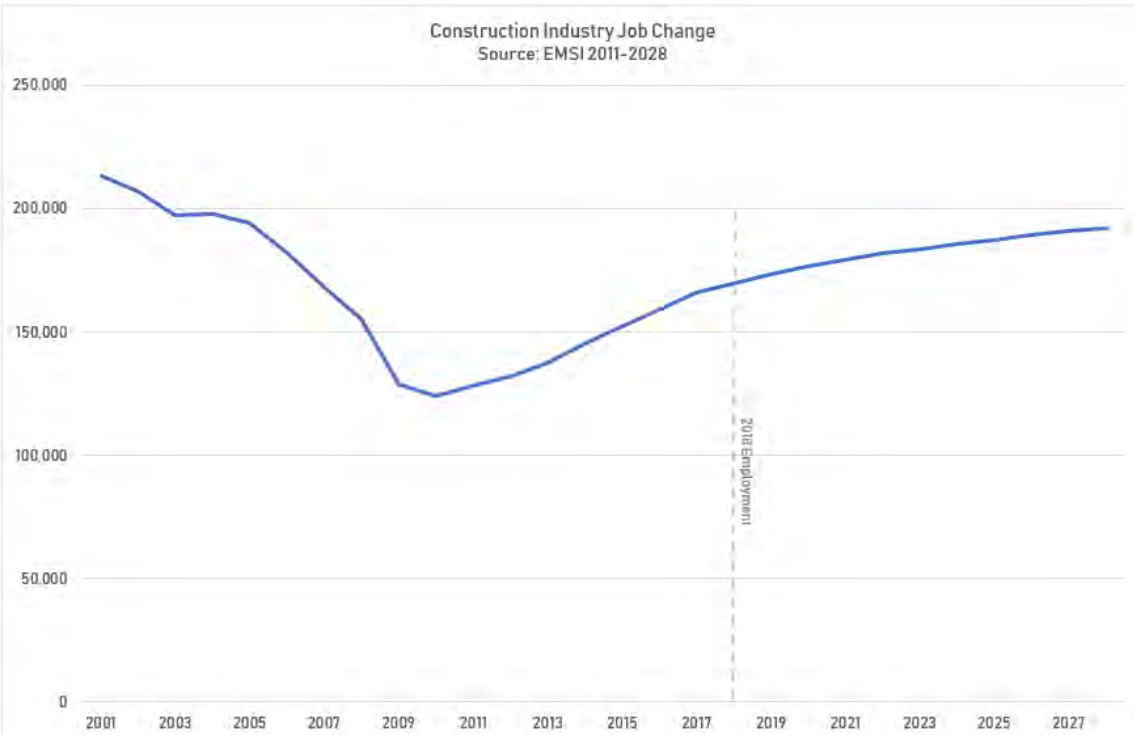
LABOR AND CONSTRUCTION

One of the contributing factors to the rise in new home prices across parts of Michigan is the shortage of construction labor. Between 2001 and 2010, Michigan lost just over 89,000 construction sector jobs as a result of the Great Recession, a major slow down in construction activity, and a shift of the workforce to other employment sectors. Interviews with housing experts revealed a

[4] https://nextcity.org/daily/entry/a-decade-without-single-family-residential-zoning-in-grand-rapids

significant migration of construction workers to more prominent markets in the south and southwest where labor was in-demand and construction was booming. Since 2010, the construction labor market as started to come back, gaining back about half the jobs that were lost in the previous decade. That trend is expected to continue, but labor shortages will still prevail as Michigan is not projected to reach 2001 employment levels even by the year 2028.

Figure 6: Construction Industry Job Change



In addition to rising labor costs, the National Association of Home Builders (NAHB) has noted increasing permitting costs and extended approval time periods are also attributing to the rising cost of housing. Nationally, 25 percent of the cost of a typical home can now be attributed to development reviews, mitigation studies and reports, site plan revisions, architectural plans, and permitting fees.[5] These delays flow down into the builders' bottom line and eventually passed on to the buyer.

[5] Housing Challenges Threaten Our Economic Growth. Home Builders Association of Michigan, June 2017.

PRODUCT DELIVERY

The increase in costs and challenges with labor availability have created a situation for many home builders where it is more cost effective to build fewer homes per year but make them larger and more expensive to make up for losses in volume. In many of Michigan's prominent housing markets such as Traverse City, Grand Rapids, Ann Arbor, and parts of Downtown Detroit, prices for new housing units continue to escalate at a far faster rate than the existing housing stock creating a situation where new units are no longer available to most Michigan households. For example, in Grand Rapids new single-family homes sold in 2018 had an average sales price of $300,000 compared to existing homes that sold at an average of $153,000. The combination of rising costs, scarcity of product, and demand to live in Grand Rapids are all causing new homes to sell for nearly twice the price of an older existing home. The same trends can be seen in the new condominium development and rehab projects in Downtown Detroit. Condominiums built between 2010 and 2018 had an average sales price of $444,400, which compares to condos built between 1990 and 2010 which sold for an average of $178,500. That equates to a 150 percent higher selling price for newer condo units. With sales prices for new product continuing to rise, the focus for more affordable housing options lies within the existing housing stock, which in many cases needs rehabilitation and upgrades to be saleable in today's homeownership market.

New condo building in Detroit. Source: Redfin

Barriers to Homeownership

Accessing the home ownership market offers a pathway to building longer-term equity and wealth, but entering the world of home ownership and finding an asset that has appreciating value is becoming more challenging. Local regulations, market conditions, and the ability to afford a quality home are challenges not only in Michigan's market but in many places across the country.

REGULATORY

Local zoning regulations and permitting processes can add time and risk to the approval and construction of residential units. Zoning restrictions that limit density, create large lot subdivisions, and limit product type can upset the supply and demand balance particularly in a market where housing demand is high. Continued layering of building code regulations, while good practice, can also lead to increased construction costs that are eventually passed on to the buyer through higher sale prices. Municipalities should look at their local market, understand their current housing supply, and tailor zoning regulations to meet the market for both ownership and rental housing options.

LENDING REQUIREMENTS

As a response to the housing market crash and Great Recession, lending requirements for mortgages were tightened to ensure that lenders were not providing mortgages to buyers who could not afford it. This meant increased down payment amounts, enhanced credit scores, and ensuring loan-to-value ratios were in line. As we have seen nationally, first time home buyers are coming in with more debt than ever before between student loans, credit cards, and other accumulated debt obligations. Paying down debt obligations has led to fewer households with adequate savings to meet down payment requirements, and challenges with maintaining a qualifying credit score. A 2018 report from the Federal Reserve showed that 40 percent of adults could not cover a $400 unexpected expense if one arose.[6] As student loans and housing prices continue to rise, saving more money for a home purchase will become more difficult.

The other challenge for home buyers in Michigan is the ability to obtain financing for acquisition and rehabilitation for older homes that need work either due to deferred maintenance or changes to make the home more livable. In some markets across Michigan it can be challenging for the lender to find comparable properties that justify an appraisal value that covers both the sale price and rehabilitation costs for the home. For example, if a buyer purchases a home for $75,000 and must put another $40,000 into rehabilitation, the home may not appraise for $115,000 if there are not comparable properties in the area. The loan-to-value ratio ends up being too high and leaves the buyer with a financing gap typically on the rehabilitation side of the loan. If the buyer cannot come up with another source of financing, it can be very difficult to get a loan. This issue is particularly pertinent to Michigan as there are many existing homes across the state that could serve as affordable and obtainable ownership options but need rehabilitation to make them livable and/or marketable to buyers.

MARKET STRENGTH

Investment in new ownership construction and rehabilitation projects are not evenly disbursed across Michigan. There are markets where construction is booming, and buyers are competing to find ownership units. There are also markets where home values are declining, and vacancy grows. There are many factors driving the decisions of developers and buyers which include access to jobs, transportation connectivity, quality schools and services, natural features, and amenities. There is also a desire, particularly for younger and older residents, to be in or near activity centers and major cities. These places offer greater economic opportunity, cultural activity, diversity, housing choice, and retail and restaurant amenities. Communities that can put forward a competitive package of attributes will do well, those that cannot may continue to decline. Finding the right strategies to incentivize investment in softer markets will be important in stemming the loss of population in some markets and providing employers with the support they need to attract workers.

[6] Fed Survey Shows 40 Percent of Adults Still Can't Cover a $400 Expense. CNBC, May 22, 2018. https://www.cnbc.com/2018/05/22/fed-survey-40-percent-of-adults-cant-cover-400-emergency-expense.html

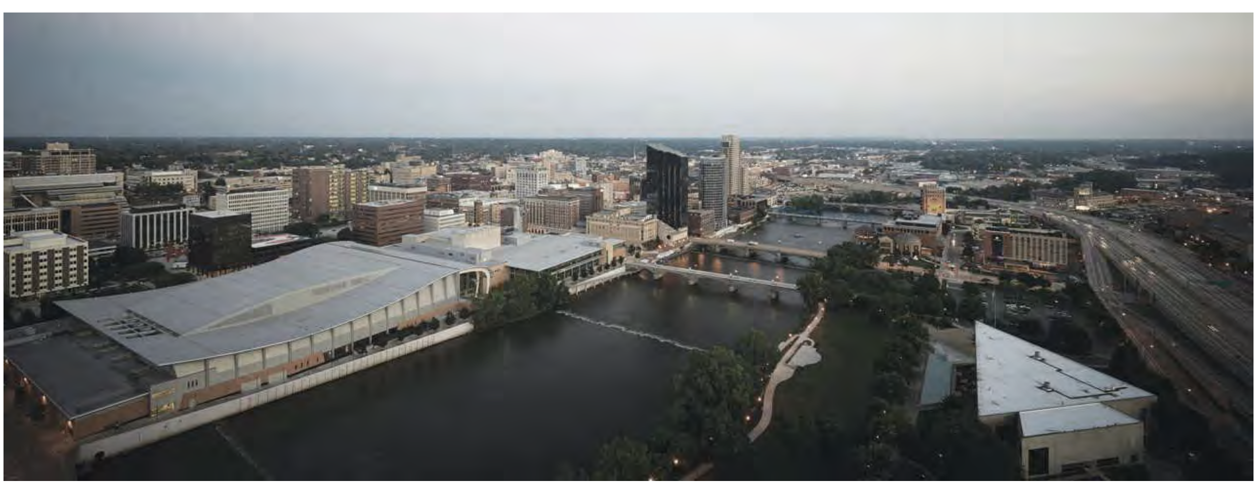
CASE STUDIES

Opportunities and challenges within the homeownership market are impacted by broader trends that occur at the national and state level, but it is at the municipal level where change is seen and felt. Michigan has a wide variety of community types each with their own challenges when it comes to furthering obtainable homeownership opportunities. Growing urban communities face challenges of rising home values and displacement while economically-challenged urban communities are dealing with population decline and vacancy issues. Prospering suburbs are facing new growth pressures and struggling with how best to repurpose land to meet today's housing demands. Rural communities struggle to retain younger residents to fill jobs and purchase homes, yet some see increases in seasonal population and a loss of year-round housing stock to the second home market.

While each of Michigan's 1,773 cities, villages, and townships are unique, this document uses a case study approach to communicate potential challenges and solutions that may be applicable to a broader range of communities. For example, the City of Ann Arbor may fall into the Urban Affordability category based on similar demographic, economic, and market trends to that of Grand Rapids. The same could be said for the City of Royal Oak which could fall into the Aging Suburban category with similar characteristics to the case study community of Westland. The four case studies highlight trends and market considerations for each place type and offer some insights on the opportunities and challenges in the homeownership market.

Urban Affordability – Grand Rapids

In many urban communities across the country, housing affordability has become a major challenge and is impacting residents and businesses alike. In some locations, the cost of renting or owning a home far out paces incomes. The mismatch in the marketplace between prices and affordability has been exacerbated by low costs to borrow money and a building cycle which has pushed developers to build more units with top of market price points. The Urban Affordability typology is applicable to urban communities experiencing significant construction activity and price escalation, where development or redevelopment is taking place along commercial corridors, in areas served by public transportation, and neighborhoods that provided opportunities for low- and middle-income households to live affordably.



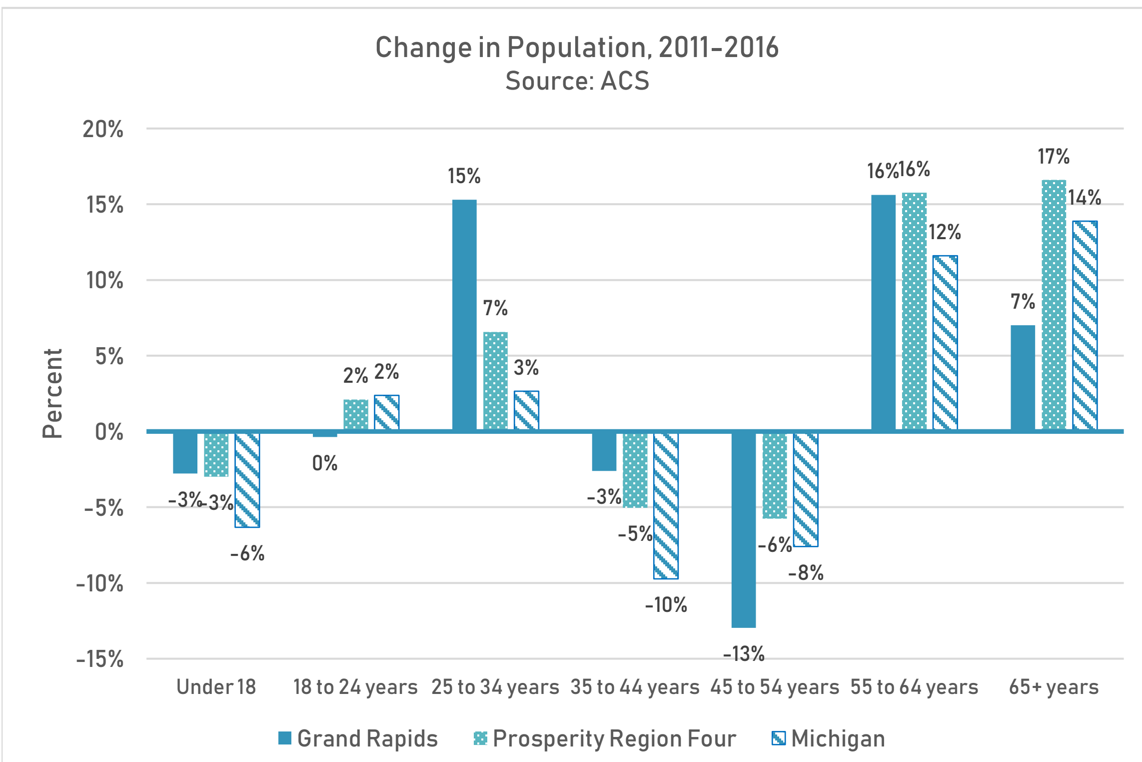
Credit: Experience Grand Rapids

DEMOGRAPHICS

Grand Rapids is a growing city. Over the last ten years, total population grew by 2 percent as compared to the state's overall population which did not increase at all.[7] However, what is particularly telling is that residents ages 25-34 increased by 15 percent over the same period. Driving some of this change is the fact that Grand Rapids is home to fifteen higher education institutions in the metro area with a combined 40,000 students. Some of these students may be staying in the city after school for job opportunities. This population has drawn the interest of developers and investors and created a market for the new development across the city. Neighborhoods like Downtown and the West Side have seen new apartments, condos, and mixed-use developments which include stores, restaurants, and other amenities catering to young professionals and retirees alike.

At the same time, the number of residents ages 55 and older is growing. Between 2011 and 2016, the City saw an increase of 11 percent in this population cohort. The population changes and economic opportunities in Grand Rapids have provided the impetus for developers to invest in new multi-family rental and condo buildings. Market preferences for both younger and older residents are aligning with interest in managed buildings, no maintenance, elevator access, covered parking, and neighborhood amenities in walking distance.

Figure 7: Change in Population by Age



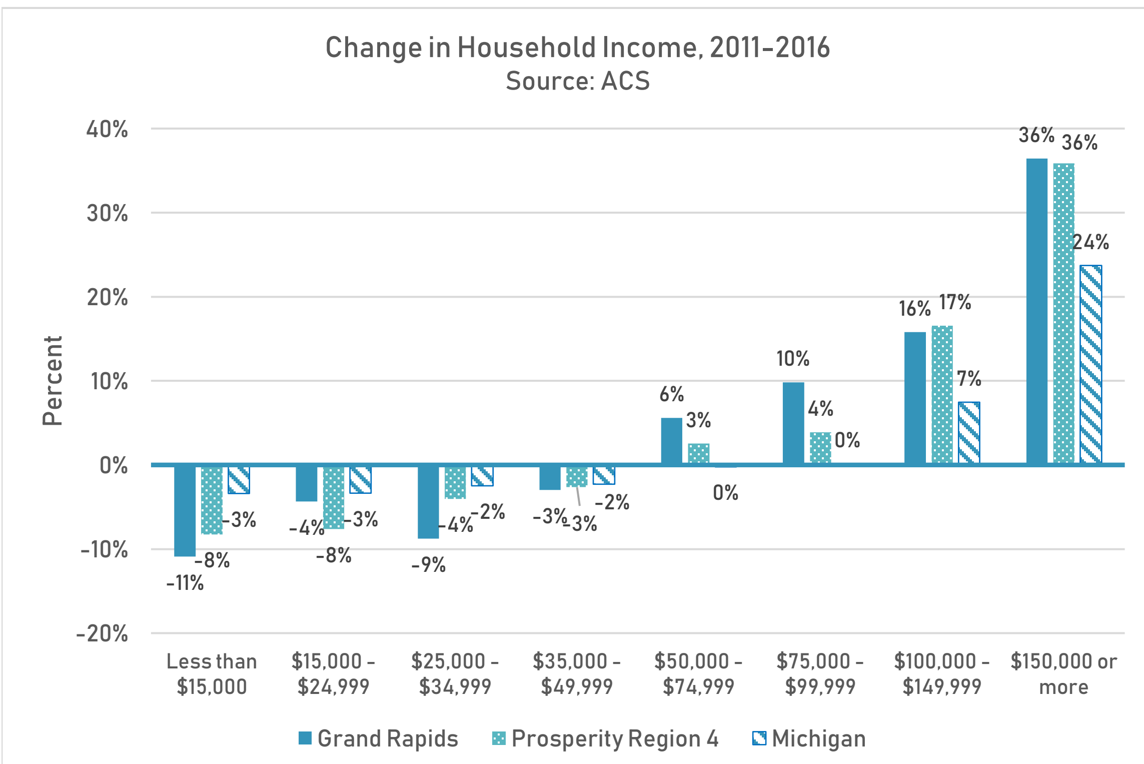
INCOMES AND EMPLOYMENT

[7] American Community Survey 2007-2011, 2012-2016, Table B01001, 2018

Even though employment has increased in Grand Rapids, median household income continues to fall behind the state's median. In Grand Rapids, the median household income is $42,019 compared to the state median of $50,803.[8] Since 2011, there has been a shift toward higher income households with incomes between $75,000 and $100,000 growing by 10 percent. There has also been a decline in the number of households earning less than $50,000. This could be a combination of upward mobility and potential displacement of lower-income households from Grand Rapids.

Grand Rapids is a large employment center within Prosperity Region Four with three industry sectors comprising nearly 50 percent of the total jobs in the city. These industry sectors include: Health Care and Social Assistance (26 percent), Manufacturing (13 percent), and Administration & Support (10 percent).[9] The largest employer in the area is Spectrum Health with nearly 25,000 employees. This health system employs a variety of medical professionals and offers competitive wages. Local manufacturing firms include companies like Steelcase which employs 2,000 workers.[10] Additionally, there are large manufacturers outside of the city in the nearby communities of Zeeland, Holland, and Muskegon with corporate headquarters for Herman Miller and Gentex.

Figure 8: Change in Household Income



[8] American Community Survey 2007-2011, 2012-2016, Table B19013, 2018

[9] OTM, 2018

[10] https://www.steelcase.com/find-us/locations/americas/grand-rapids-michigan/

HOUSING MARKET

Since 2011, the housing market in Grand Rapids has seen a shift in ownership patterns with the share of owner-occupied homes declining by 6 percent, compared to the region and state at 1 and 3 percent, respectively.[11] At the same time, renter-occupied housing has increased by 8 percent. Vacant properties experienced a dramatic decline over the last decade with a decrease of 21 percent. This drop in vacancy speaks the desirability and strength of the city's housing market. The overall increase in rental units a result of a combination of new apartment construction around Grand Rapids, and the ever-increasing occurrence of single-family homes which were once ownership units being converted to rental units.

Table 1. Housing Units

Tenure	Grand Rapids		Grand Rapids		Prosperity Region Four	Michigan
	2011	2016	Change	% Change	% Change	% Change
Owner-Occupied	42,025	39,655	-2,370	-6%	-1%	-3%
Renter-Occupied	31,064	33,413	2,349	8%	10%	11%
Vacant	8,471	6,651	-1,820	-21%	-5%	-3%
Total	81,560	79,719	-1,841	-2%	1%	0%

Source: American Community Survey 2007-2011, 2012-2016, Table B25003, 2018

AGE OF STRUCTURE

Grand Rapids has an older housing stock when it comes to ownership units. Nearly 68 percent of owner-occupied structures were built before 1959, and only 5 percent were built after the year 2000.[12] However, recent trends show that between 2007 and 2016 there was a 25 percent increase in the number of homes built after 2000. This far outpaces the change experienced across both the region and state, which had growth of 17 percent and 14 percent, respectively.

OWNER-OCCUPIED HOME PRICES

The median price of a single-family home in Grand Rapids increased 114 percent between 2012 and 2018. This drastic price escalation has had an impact on affordability for existing residents, particularly for those with incomes below the median. Figure 9 compares the price of new single-family homes and condominums to those that already existed in the market by year sold. Between 2011 and 2016, the median sale price for existing owner-occupied units increased to the point where a household earning the median income could not longer afford a home selling at the city's median value. New ownership units entering the market substantially exceed what a household earning the median income could afford. For example, sale prices for new condominiums jumped 67 percent from 2011 to 2016.

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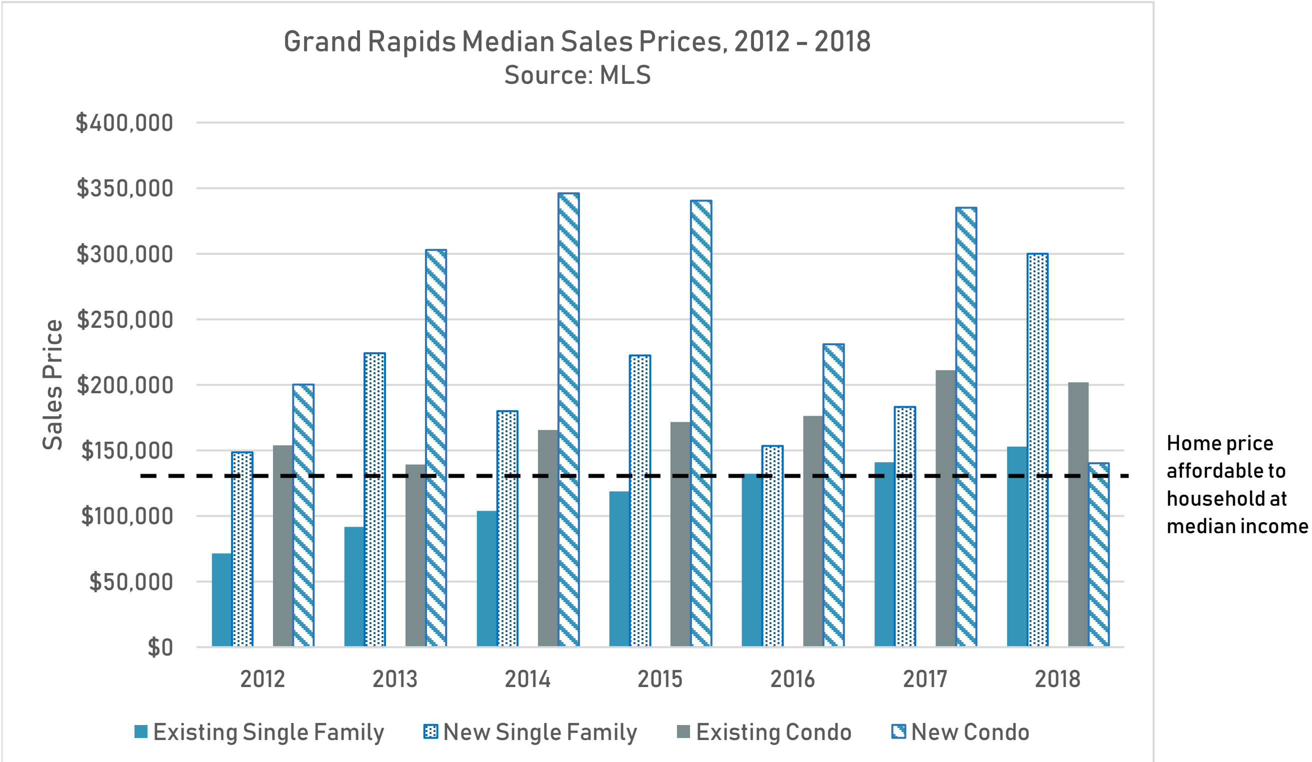
[11] American Community Survey 2007-2011, 2012-2016, Table B25003, 2018

[12] American Community Survey 2007-2011, 2012-2016, Table B25036, 2018

Figure 9: Median Owner-Occupied Sales Price



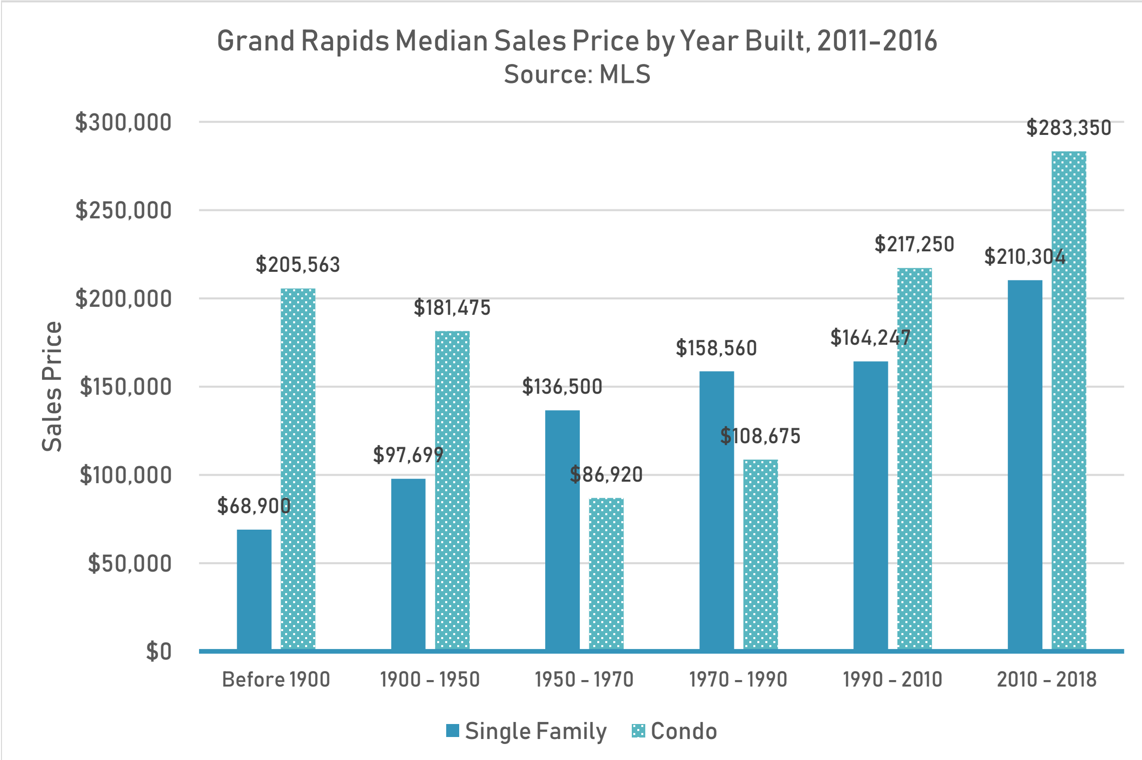
PRICING BY YEAR BUILT

Between 2012 and 2018 there were 19,700 sales with a median price of $145,142.[13] Home sales of structures built between 1900-1950 were the most numerous, and offer housing at a price point that is more affordable to homebuyers in Grand Rapids. Although the units may need improvements, the relatively low price point allows buyers with low to moderate incomes an entry point for homeownership. Not surprisingly, home prices increase as the age of the home decreases. For example, the difference in price between a single-family home built between 1990-2010 compared to one built between 2010-2018 is about 28 percent. Newer homes have updated heating and cooling systems, modern insulation, and friendler layouts that are generally more attractive than older homes.

The condominium market in Grand Rapids has seen a sharp escalation in pricing, particularly for units built after 1990. The difference in price between a condomium built between a condominum built between 1990-2010 and one built between 2010-2018 is about 30 percent.

[13] Multiple Listing Service (MLS) Data, Michigan Board of Realtors, RKG Associates, 2018

Figure 10: Median Owner-Occupied Sales Price by Year Built



DEVELOPMENT PIPELINE

As was noted earlier, Grand Rapids is seeing a lot of new residential and mixed-use development in certain neighborhoods across the city. Currently, a majority of the new residential projects are rental and not homeownership although some new condominiums are going up. In 2018, a new mixed-use development was completed on the West Side that included a food market concept. Bridge Street Market is a new 37,000 square foot store that offers fresh and locally sourced artisanal products and anchors a new mixed-use development. The Hendrik, a new mixed-use building contains 116 apartments and nearly 56,000 square feet of office space.[14]

On the homeownership side, the Viridian Place condominium development was recently approved in Northeast Grand Rapids. This development will include 130 condominium units spread across twenty-five two-story buildings. Each building will consist of 2, 4, 6 or 8 dwelling units.[15]

HOMEOWNERSHIP CHALLENGES IN GRAND RAPIDS

DEMAND FOR RENTAL UNITS

Demand for housing in Grand Rapids has been strong over the last decade, however developers are building many more rental units than ownership units. Trends in homeownership, affordability, and the general economics of housing development are driving preferences to build more rental housing.

[14] https://www.mlive.com/news/grand-rapids/index.ssf/2018/08/shoppers_thrilled_as_meijer_un.html

[15] https://www.mlive.com/news/grand-rapids/index.ssf/2018/04/134-unit_condominium_proposal.html

Condominiums can be more difficult for developers to finance in today's lending market and can be more challenging for owners to obtain a mortgage to purchase due to criteria imposed by lenders. With the development focus shifted toward redevelopment and infill projects, the market for new homeownership units in Grand Rapids may trail behind rental units for some time.

LACK OF SMALL-SCALE DEVELOPMENT

Incentives for smaller-scale condo and townhome-style units are harder to come by in Grand Rapids. Housing for the so-called "missing middle", smaller-scale multi-unit housing types such as duplexes, fourplexes, bungalow courts, and converted single-family homes, are not being built at the same pace as larger multi-family structures.[16] In order to encourage this type of development, simplifying the review process and modifying current site layout and building placement standards has been proposed. Changes to residential zoning districts in Grand Rapids has provided some opportunities for developers to build multi-family style housing in existing single-family neighborhoods. While this proposal would increase overall density within neighborhoods, it would help address housing supply issues for smaller-scale homeownership opportunities.

FHA APPROVED CONDOMINIUM ASSOCIATIONS

The FHA Spot Loan Approval Process was eliminated in 2010 which restricted lenders from offering FHA loans on individual condominiums. New regulations require condominium associations to become certified by HUD for buyers to utilize FHA backed loans. The certification must be renewed every two years. The result of this process has been a lack of FHA approved condominium complexes which accept FHA loans. Of all the condominium developments in Grand Rapids, there are only five complexes totaling 715 units which are currently approved for FHA loans.

[16] https://www.grandrapidsmi.gov/Directory/Programs-and-Initiatives/Housing-NOW

Urban with Economic Challenges - Saginaw

Communities experience economic ebbs and flows resulting in periods of growth and decline. In some cases, national trends such as recessions have short-term implications which limit local growth and cause hardship for the population, but these downturns tend to be temporary and communities ultimately recover to varying degrees. However, there cases in which communities experience prolonged economic downturns as a result of structural changes in the local and regional economy. This situation is more likely to occur in communities centered around a single industry sector that is declining or a large employer that leaves the area.

The Urban with Economic Challenges case study highlights the challenges communities face when the local economy declines, unemployment rises, local spending and tax revenues shrink, and foreclosures, vacancy, and population loss take hold.

Credit: Saginaw Art Museum

DEMOGRAPHICS

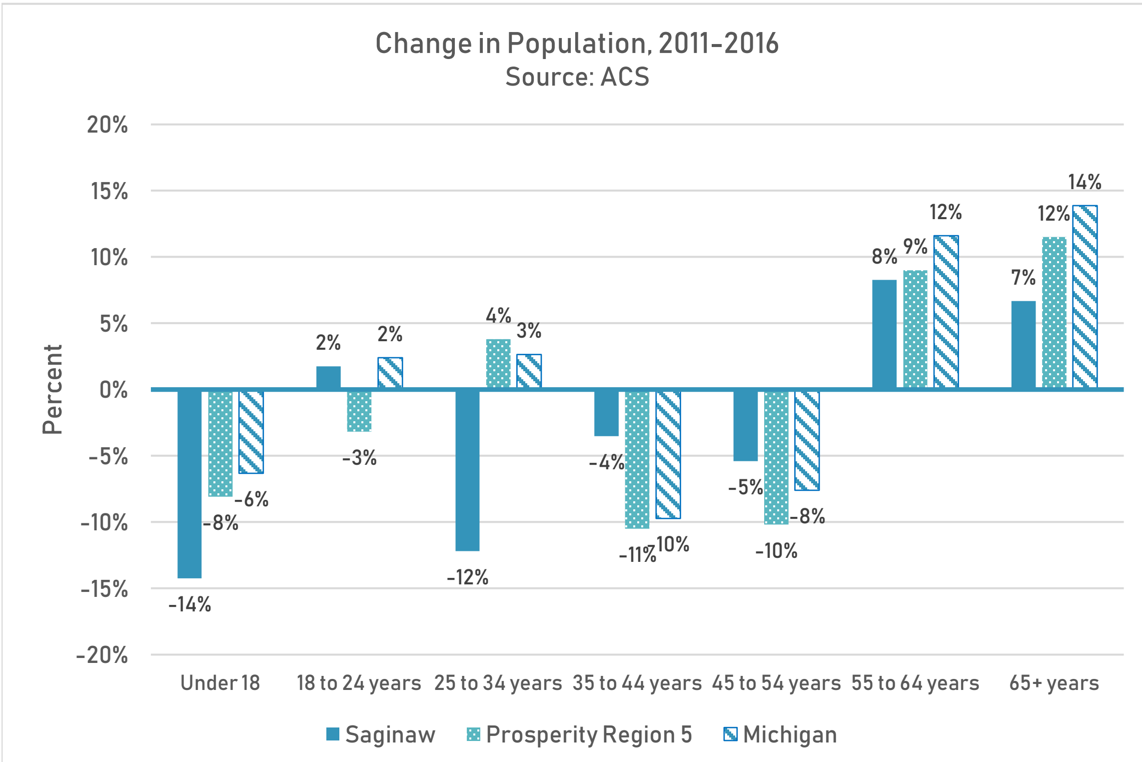
The City of Saginaw serves as the case study for an urban community with economic challenges. Saginaw's economy relied on the manufacturing industry for decades, but the shift of production to offshore locations created a period of rapid decline with the City's population cut in half between 1960 and 2016. A city with a population of nearly 50,000 is facing the challenges of population loss, economic decline, and a housing stock where one in five units sits vacant.

Demographic trends in Saginaw show the population shrinking and getting older. Between 2011 and 2016, population has declined another 5 percent or 2,633 people.[17] The city experienced a decline across nearly all age cohorts, except for those ages 55 years and older which saw an increase of 8 percent. The growing senior population is a concern for the City as they have limited housing choices, may not be able to maintain their single-family home, and do not have much equity in their home as Saginaw home prices are relatively low.

[17] American Community Survey 2007-2011, 2012-2016, Table B01001, 2018

One of the most striking findings is that the population between 25 and 34 decreased by 12 percent versus the region and state which saw increases. Younger residents in Saginaw who leave for college or job opportunities elsewhere are not returning to the City later in life. The decline in this age cohort can also make it difficult to attract new employers to the area or retail and service-based businesses looking for households with expendable income.

Figure 11: Change in Population by Age



INCOMES AND EMPLOYMENT

The median household income in Saginaw is $28,871 which is about half as much as the state's median.[18] Between 2011 and 2016, median income fell by 3 percent. Figure 12 shows the change in household income by category from 2011 to 2016. Households in the highest income bracket decreased by 39 percent, yet at the same time there was a 39 percent increase in the percent of households within incomes between $75,000 and $99,999 raisin from 972 households to 1,351 households.[19] Some of the shifts in income are the result of higher income households leaving the area, while new job opportunities in the healthcare sector have brought in new upper middle-income households.

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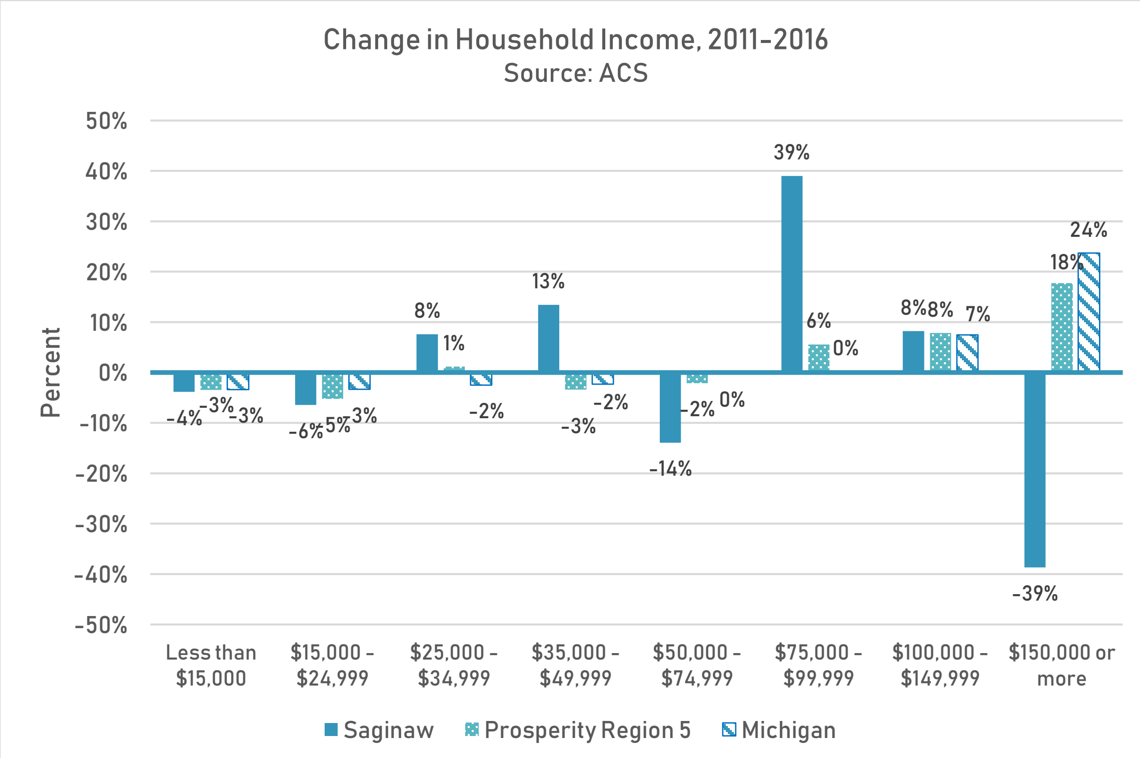
[18] American Community Survey 2007-2011, 2012-2016, Table B19013, 2018

[19] American Community Survey 2007-2011, 2012-2016, Table B19001, 2018

Figure 12: Change in Household Income



The healthcare and manufacturing sectors continue to dominate Saginaw's market comprising 59 percent of all jobs.[20] Major employers in the area include Nexteer Automotive, Covenant Healthcare, St. Mary's of Michigan, and Morley Companies. These companies alone employ over 12,000.[21] In nearby Midland, Dow Chemical has its headquarters which serves the region as a major employment hub.

HOUSING MARKET

Since 2011, the housing market in Saginaw has experienced 2 percent decline in the number of owner-occupied units, which is similar to that of the region and state. At the same time, the number of renter households increased by 4 percent. The city's ownership housing stock is dominated by single-family structures, comprising nearly 98 percent of all ownership units. Vacant properties are a major issue in Saginaw, with 20 percent of all housing units listed as vacant. The City has focused its efforts on reducing vacant and blighted structures through a systematic demolition program which helped remove 860 vacant homes between 2013 and 2015.[22]

[20] OTM, 2018

[21] https://saginawfuture.com/data-demographics/primary-employers/

[22] https://www.mlive.com/news/saginaw/index.ssf/2016/10/saginaw_gets_22_million_to_con.html

Table 2. Housing Units						
Tenure	Saginaw		Saginaw		Prosperity Region Five	Michigan
	2011	2016	Change	% Change	% Change	% Change
Owner-Occupied	12,025	11,790	-235	-2%	-2%	-3%
Renter-Occupied	7,378	7,639	261	4%	5%	11%
Vacant	5,357	4,888	-469	-9%	-1%	-3%
Total	24,760	24,317	-443	-2%	0%	0%
Source: American Community Survey 2007-2011, 2012-2016, Table B25003, 2018						

AGE OF STRUCTURE

Saginaw has an older housing stock when it comes to ownership units. Nearly 77 percent of owner-occupied structures were built before 1959, and only 1 percent were built after the year 2000.[23] Between 2011 and 2016 there was a 20 percent decrease in the number of new homes built. The local market in Saginaw fell far below the region and state, which had growth of 18 percent and 14 percent, respectively.

OWNER-OCCUPIED HOME PRICES

The median price of a single-family home in Saginaw decreased by 14 percent between 2012 and 2018. In 2012, the median sales price of a single-family homes was $40,700 and in 2018 the median sales price decreased to $35,000. Condominium prices also experienced a drop in median sales price, falling 18 percent over the same period. Figure 13 compares the price of new single-family homes and condominums to those that already existed in the market by year sold.

PRICING BY YEAR BUILT

Between 2012 and 2018 there were 7,700 home sales with a median price of $37,732. [24] Homes sales of structures built between 1900-1950 were the most numerous with 3,153 and a very low median sales price of $20,505. This compares to sales of homes built between 1990 and 2010 where the median sales price was $151,465. While the newer homes built after 1990 are selling for nearly 6.5 times are much as homes built before 1950, the older units likely need substantial structural and cosmetic upgrades.

The condominum market in Sagniaw has seen a continuation in price escalation, however very few units are changing hands as compared to single-family homes. In each of the respective year built categories, prices have nearly doubled as time progressed.

[23] American Community Survey 2007-2011, 2012-2016, Table B25036, 2018

[24] Multiple Listing Service (MLS) Data, Michigan Board of Realtors, RKG Associates, 2018

Figure 13: Median Owner-Occupied Sales Price

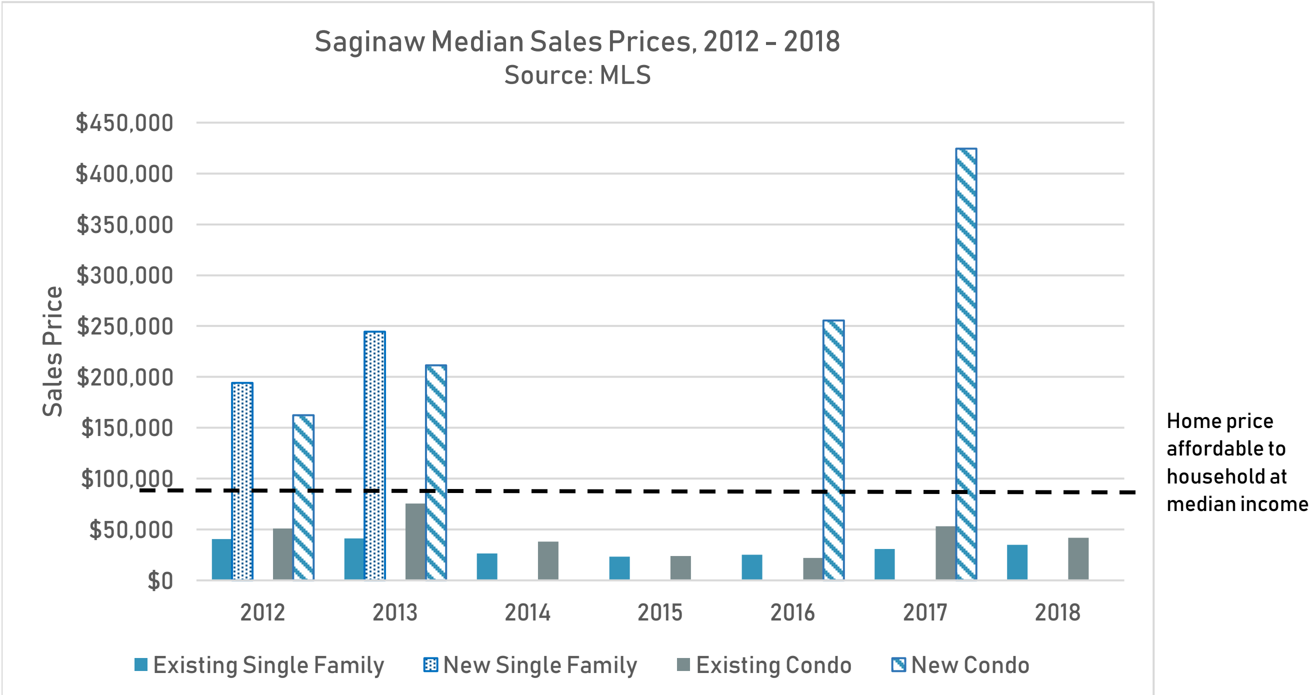
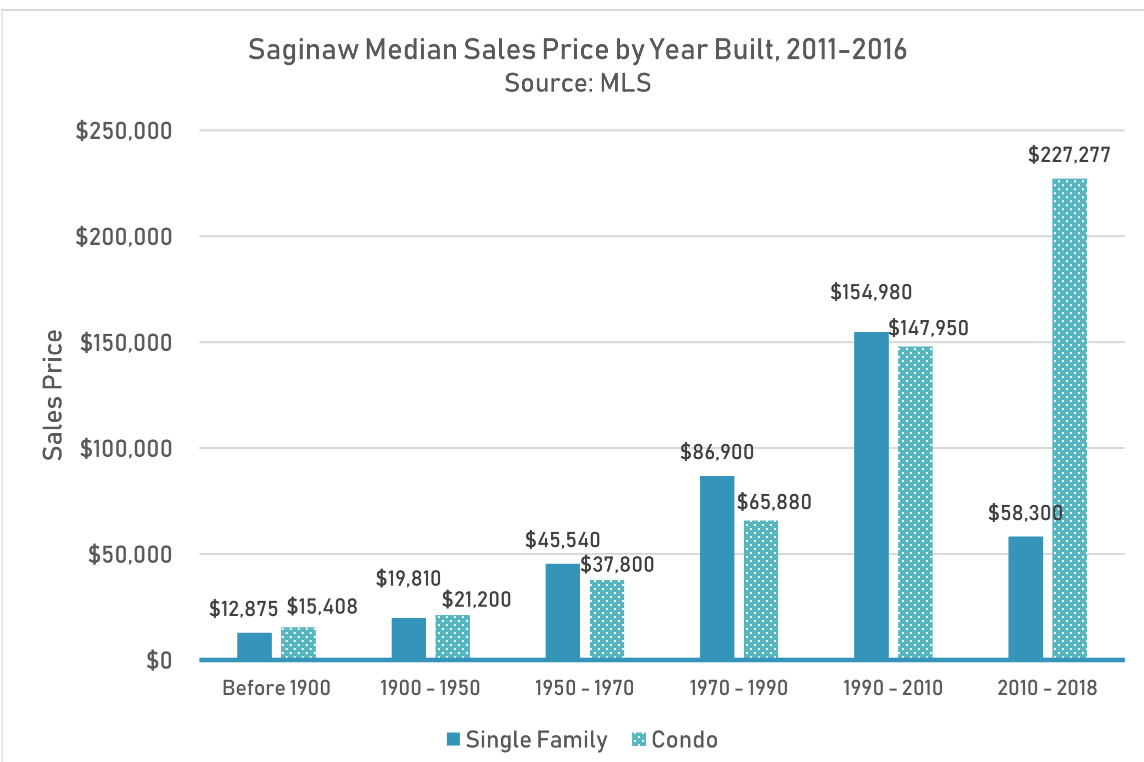


Figure 14: Median Owner-Occupied Sales Price by Year Built



HOMEOWNERSHIP CHALLENGES IN SAGINAW

SHRINKING POPULATION

The city's loss of residents over time has had a significant impact on the ownership housing market. Housing vacancy rose rapidly, and the structural integrity of vacant homes declined. Without new residents moving in, the existing population continues to age in place making it more difficult to maintain homes and provide city services. Younger residents also help replenish schools, drive activity, lend more support to local businesses, and can help revitalize the existing housing stock through rehabilitation and on-going maintenance. The lack of turnover in the ownership market suggests that the city's housing stock will continue to decline until a point in time where the number of units is right-sized for the population.

EXISTING VACANT STRUCTURES AND LOTS

The steady decline in population has resulted in many vacant housing units across Saginaw. As property taxes go unpaid, the homes eventually become property of the City. Since the housing market is relatively weak, the City ends up with assets it cannot dispose of. As a result, over the last five years the city has demolished more than 1,000 housing units which were acquired for delinquent property tax payments.

Parcels in the City's possession are typically transferred to the Saginaw County Land Bank for holding, developing, or disposing/selling. The land bank offers an opportunity for residents or developers looking for land assemblage. The Land Bank is quite nimble regarding foreclosing and taking possession of properties on which there are delinquent taxes. Generally, it takes about two and a half years for the process to complete, with four notices given to the property owner, before legal action results in a court judgement assigning title to the land bank.[25] The land bank then puts up the land for public auction to recover delinquent taxes, and if the property is not bought, it then resides with the land bank. While a useful tool, the land bank owns several parcels of land that do not yet have an intended use.

LACK OF PRICE APPRECIATION

The general absence of demand for owner-occupied housing and population/employment decline has resulted in housing units not retaining their values. Saginaw has experienced a prolonged period of decline where the employment base shrunk, and incomes remained low. As an example, the median price of a single-family home in Saginaw declined by $5,700 between 2012 and 2018, while sales over the same period dropped from 1,261 to 825. With demand for housing tapering off, and an already abundant supply of existing homes, this city is having a difficult time attracting new buyers and stabilizing the market.

The decline in real estate values also impacts the willingness of homeowners to make structural and cosmetic updates to their homes. Unless the owner is planning to stay long-term, they may not see any return on their investment from rehabbing the home. Over time, deferring maintenance and general cosmetic improvements create a situation where homes are less desirable or worth less on the

[25] http://www.saginawcounty.com/Treasurer/PropertyForeclosureTimeLine.aspx

market. This cycle repeats itself and creates a downward spiral that can be difficult for current owners to escape.

NEW CONSTRUCTION OF OWNERSHIP HOUSING INFEASIBLE

Interviews with people familiar with the Saginaw housing market revealed a very limited development pipeline, particularly on the ownership side. A few new condominium units have been constructed recently but were priced at the top of the market unaffordable to most Saginaw residents. The decrease in population, coupled with an oversupply of existing housing has depressed home values and demand. This has created a situation where constructing and selling new ownership product is financially infeasible. The cost of acquiring land and building housing has exceeded the price points at which the market will bear, and the population can afford. Developers have shifted to building rental units (both market-rate and affordable) and some investors are purchasing single-family homes and converting them to rental properties.

Aging Suburb - Westland

In today's market, many larger urban cities are seeing redevelopment and revitalization that are pushing housing prices upward to the point of pricing out many who wish to live there. On the edges of these urban areas lie post-war suburbs that have an older, more affordable housing stock and are benefitting from the spillover effects of the urban markets. Households looking for homeownership opportunities view these suburban locations as an opportunity to gain more space, a yard, off-street parking, better schools, yet still have access to the jobs and amenities the city offers. In many cases, the housing stock in these suburban locations may provide more moderately priced housing that could be improved over time with rising values as the market continues to improve.

Aging Suburbs are often characterized by post-war tract home subdivisions with three bedroom homes of 1,000 square feet on a quarter acre lot. Many of these ranch-style homes are approaching sixty years of age and have not been modernized with upgrades systems or cosmetic changes that appeal to younger buyers in today's market. This offers an opportunity to purchase a home at a lower price and renovate over time. There are however challenges in the suburban market that can place constraints on the for-sale market. These include an aging population with limited downsizing options, zoning that restricts higher density housing options, and rising affordability challenges as new construction price points are substantially higher than existing home prices.

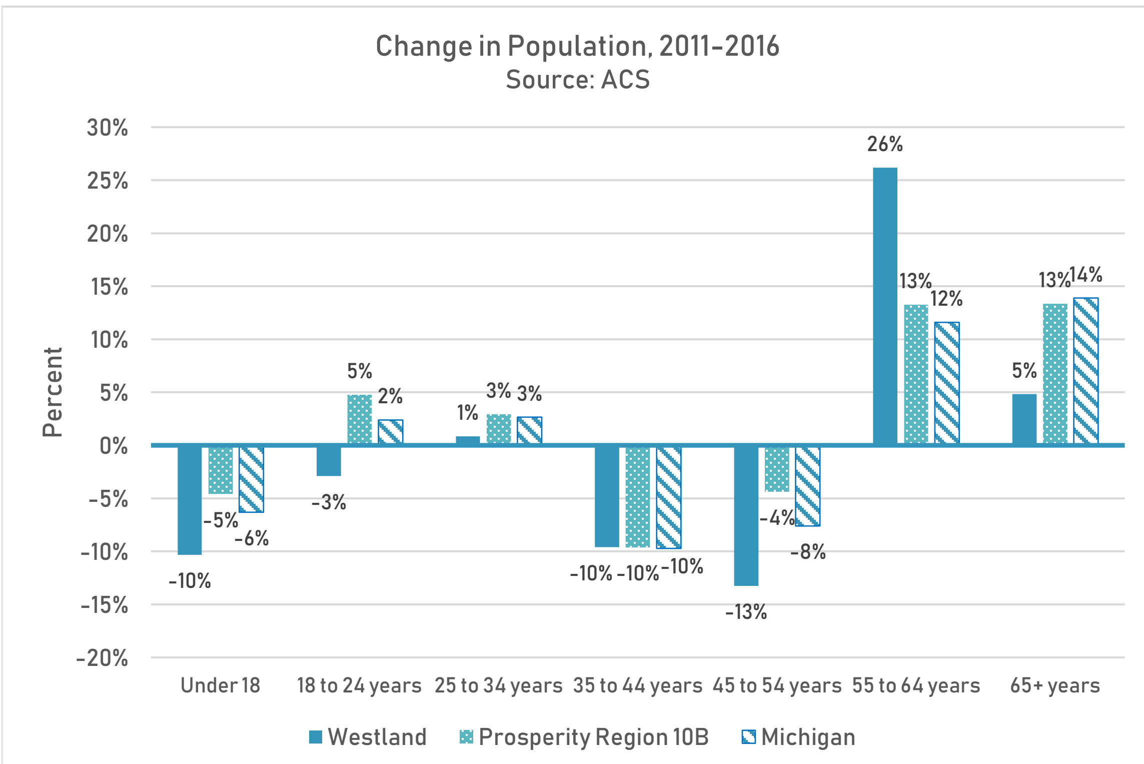
Credit: Wikimedia Commons

DEMOGRAPHICS

The City of Westland serves as a case study for the Aging Suburban community type, as it sits about thirty miles from Detroit to the east and Ann Arbor to the west. Westland is Michigan's 10th largest city and home to 82,218 residents. The city was closely associated to the industrial economy of Detroit, particularly during the Second World War. Many residents of Westland worked on assembly lines and manufacturing facilities during the War. Westland became a community for which workers from Detroit could move to, purchase a house, start a family, and still commute to work. Today, Westland is an affordable option for households looking for a single-family home in a community with good schools and suburban amenities.

Demographic trends in Westland show the population is shrinking and getting older. Between 2011 and 2016, population declined by 2 percent or 2,048 people.[26] The city experienced a decline across nearly all age cohorts, except for those ages 55 years and older which saw an increase of 14 percent. As a city with an aging population issues around aging in place, downsizing, and on-going home maintenance will continue to grow. Despite its location and relative affordability, Westland's population ages 18-34 declined at a time when both the region and state increased their share. This indicates younger residents are leaving for post-secondary education, jobs, or moving to a more urban location.

Figure 15: Change in Population by Age



INCOMES AND EMPLOYMENT

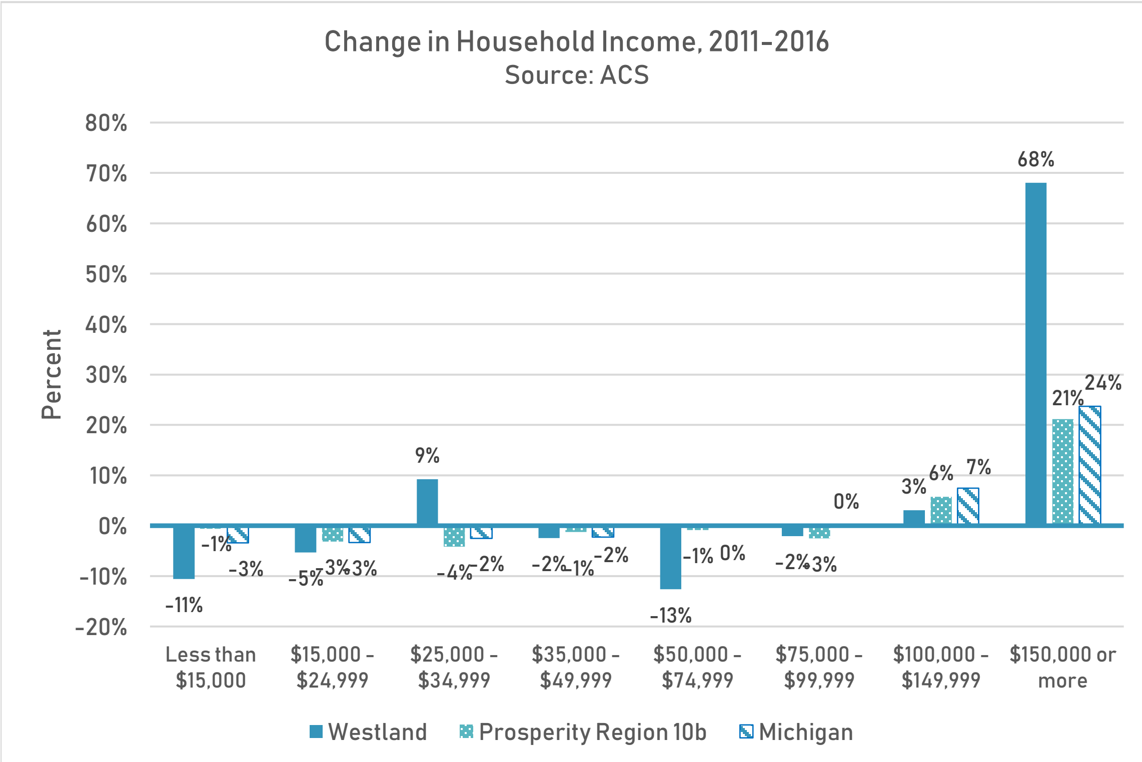
The median household income in Westland is $44,808, as compared to the state median of $50,803.[27] Between 2011 and 2016, the median income fell by 7 percent. There has been a decrease in nearly all income cohorts under $100,000 per year. One striking data point is that there was a 68 percent increase in the number of households making over $150,000 per year. This change may correlate with the high sales prices for new homes being built in Westland, indicating higher income households are moving into the city and purchasing new higher-value homes.[28]

[26] American Community Survey 2007-2011, 2012-2016, Table B01001, 2018

[27] American Community Survey 2007-2011, 2012-2016, Table B19013, 2018

[28] American Community Survey 2007-2011, 2012-2016, Table B19001, 2018

Figure 16: Change in Household Income



Westland is primarily a bedroom community with a small local economy. Most residents commute out for work, with only 7 percent of Westland residents working in the city.[29] Westland's proximity to nearby manufacturing jobs and the cities of Detroit and Ann Arbor provide ample employment opportunities within a thirty minute commute distance. Major employment hubs include Ford Motor Company in Dearborn, General Motors in Detroit, and the University of Michigan in Ann Arbor. Within Westland itself, the largest three industries make up nearly 60 percent of the total jobs. These industries are: Retail Trade (26 percent); Health Care and Social Assistance (23 percent), and Accommodation and Food Services (12 percent).[30] These industry sectors tend to have lower wages and less benefits.

HOUSING MARKET

Since 2011, the housing market in Westland has shifted from ownership to rental at a faster rate than that of the region and state. Over this period, the ownership stock in the city shrunk by 10 percent while renter households increased by 11 percent.[31] The increase in rental units is the result of a combination of new apartment construction in Westland, as well as the conversion of owner-occupied units to rentals. The number of vacant units decreased by 41 percent, indicating a tightening of the market as vacant units are rented or sold.

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[29] American Community Survey 2007-2011, 2012-2016, Table B08303, 2018

[30] OTM, 2018

[31] American Community Survey 2007-2011, 2012-2016, Table B25003, 2018

Table 3. Housing Units						
Tenure	Westland		Westland		Prosperity Region 10B	Michigan
	2011	2016	Change	% Change	% Change	% Change
Owner-Occupied	22,202	20,065	-2,137	-10%	-4%	-3%
Renter-Occupied	12,753	14,123	1,365	11%	17%	11%
Vacant	4,298	2,545	-1,753	-41%	-16%	-3%
Total	39,258	36,733	-2,525	-6%	0%	0%
Source: American Community Survey 2007-2011, 2012-2016, Table B25003, 2018						

AGE OF STRUCTURE

Being a first ring post-war suburb of Detroit, much of Westland's housing stock is older. Nearly 42 percent of all owner-occupied structures in the city were built before 1959 and only 7 percent were built after the year 2000.[32] In Westland, the construction of new housing has not kept pace with that of the Detroit Metro Region. Between 2011 and 2016 there was a 1 percent increase in the number of new homes built. Westland fell far below the region and state, which had growth of 18 percent and 14 percent, respectively.

OWNER-OCCUPIED HOME PRICES

Between 2012 and 2018, the median price of a single-family home in Westland increased 141 percent from $58,187 to $140,000.[33] At the same time, the average days on the market dropped from a median of forty-three days to seven days. The median sale price for a condominium experienced a similar price increase of 137 percent, and a decrease in days on market from forty-four to seven. Figure 17 compares the price of new single-family homes and condominums to those that already existed in the market by year sold. In the Westland market there is a price premium of 126 percent placed on the median sale price for new homes versus existing.

PRICING BY YEAR BUILT

Between 2012 and 2018 there were 8,312 home sales with a median price of $96,995.[34] Homes sales of structures built between 1950-1970 were by far the most numerous with 4,640 sales and a median sales price of $87,000. This compares to sales of homes built between 2010 and 2018 where the median sales price was $218,500. While the number of sales of homes constructed after 2010 are more limited, the prices are considerably higher.

The condominum market in Westland has seen a sharp escalation in pricing as well, particularly for units built after 1990. The difference in price between a condomium built between 1970-1990 and that of a condimium built between 1990-2010 is about 107 percent; and the difference in price between a condominum built between 1990-2010 and 2010-2018 is about 53 percent.

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[32] American Community Survey 2007-2011, 2012-2016, Table B25036, 2018

[33] MLS, 2018

[34] Multiple Listing Service (MLS) Data, Michigan Board of Realtors, RKG Associates, 2018

Figure 17: Median Owner-Occupied Sales Price

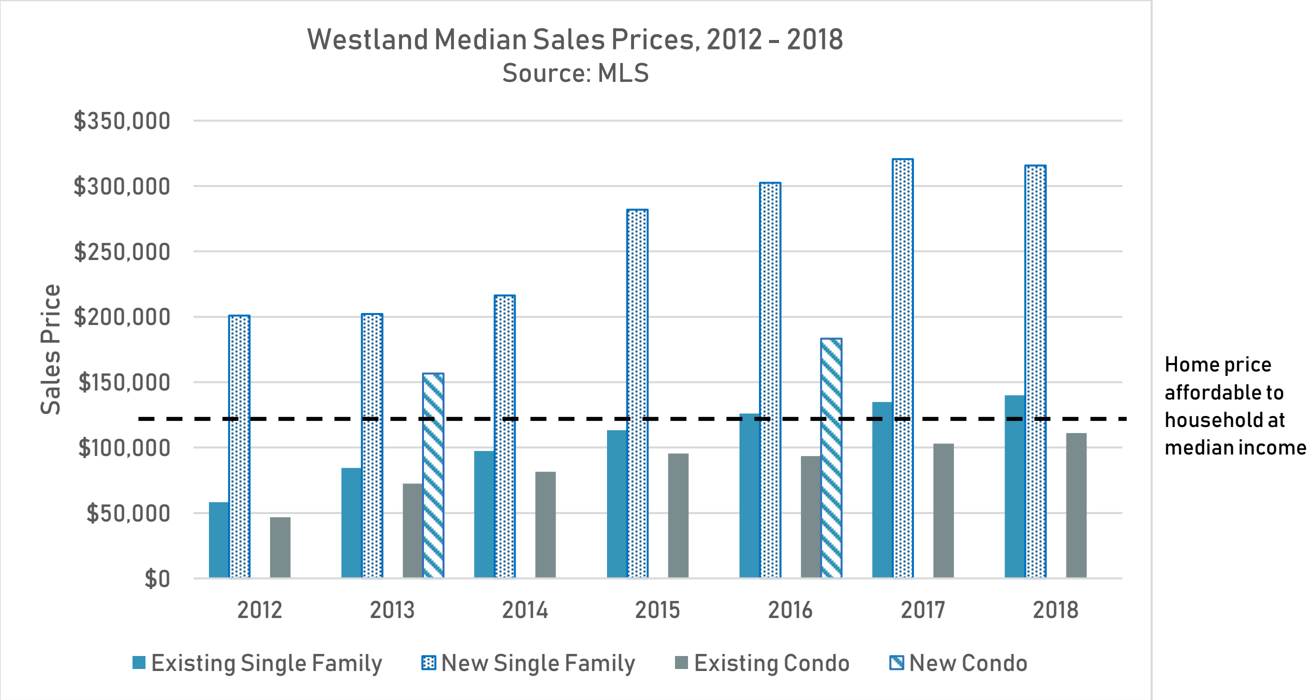
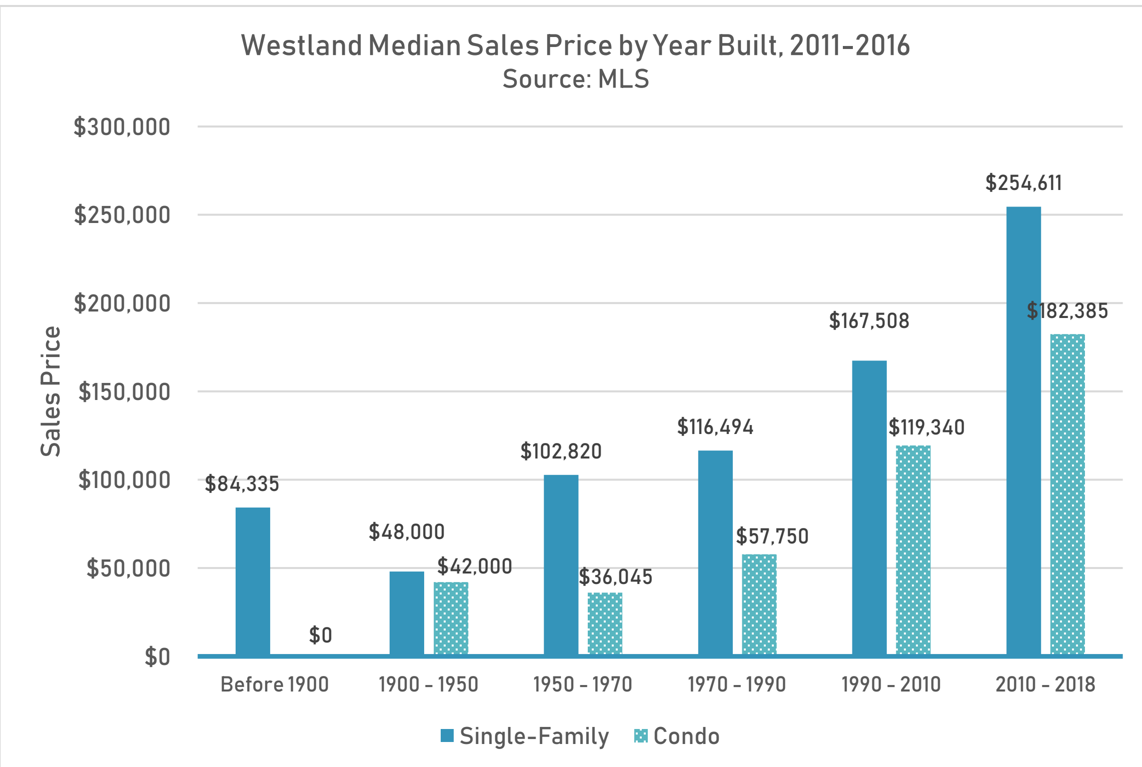


Figure 18: Median Owner-Occupied Sales Price by Year Built



DEVELOPMENT PIPELINE

Keeping with the theme of redevelopment and repurposing, the City is looking to encourage the redevelopment of a 100-acre site which includes the site that held their former city hall. The City is targeting the site for a mix of uses including up to 700 single-family homes and pads for retail and restaurants. New homes in this area would likely be priced at the top of the market like the homes built after 2010 selling in the $250,000 range.

HOMEOWNERSHIP CHALLENGES IN WESTLAND

NEW SINGLE-FAMILY CONSTRUCTION

Westland is a mature suburb growing out of the post-war period with very little greenfield land available for development. In surrounding communities like Canton and Livonia, tract building continues to take place with new subdivisions commanding prices well over $300,000 per unit. The City of Westland has shifted from a focus on built-out and greenfield development to one of infill and redevelopment. There is also a focus on rehabilitation of the older housing stock to prepare it for the next generation of homebuyers. As older residents age out of their homes, structural and cosmetic renovations are needed to make the home attractive to buyers in today's market.

FHA CERTIFIED CONDOMINIUM DEVELOPMENTS

The FHA Spot Loan Approval Process was eliminated in 2010 which restricted lenders from offering FHA loans on individual condominiums. New regulations require condominium associations to become certified by HUD for buyers to utilize FHA backed loans. The certification must be renewed every two years. The result of this process has been a lack of FHA approved condominium complexes which accept FHA loans.

NAVIGATING POLITICAL AND REGULATORY CHALLENGES

In addition to financial barriers, political and regulatory challenges can also be difficult to overcome in suburban communities where concerns over density, traffic, and schools can thwart best efforts to develop housing and mixed-use projects. Zoning regulations have been set up to purposefully limit density and separate uses making it difficult to redevelop older buildings and properties that have exceeded their useful life. Multi-family housing options are ideal for young professionals and seniors who are not looking for a single-family home but want to live in or remain in the community. Looking at ways to redevelop or repurpose older shopping centers, publicly-owned buildings or lands, or integrating additional uses in an office park are examples of where housing options can be expanded in a largely built-out suburban community.

Small Town Rural - Alpena

Large swaths of Michigan are comprised of undeveloped rural lands with small towns and villages dotting the landscape. To capture the housing challenges and opportunities in these places, the Small Town Rural typology is intended to reflect geographically isolated communities with small populations, fewer employment opportunities, and lower median household incomes. Owner-occupied housing in these areas tend to be older and are primarily single-family or manufactured homes. Multi-family condominiums are less common in these communities. As part of a larger national shift towards urban places, many rural communities have not seen population growth, with some experiencing population decline. The combination of population declines, and few employment opportunities has created a housing market with affordable prices but homes that need rehabilitation and renovation.

Credit: Downtown Alpena Michigan, www.alpenadda.com

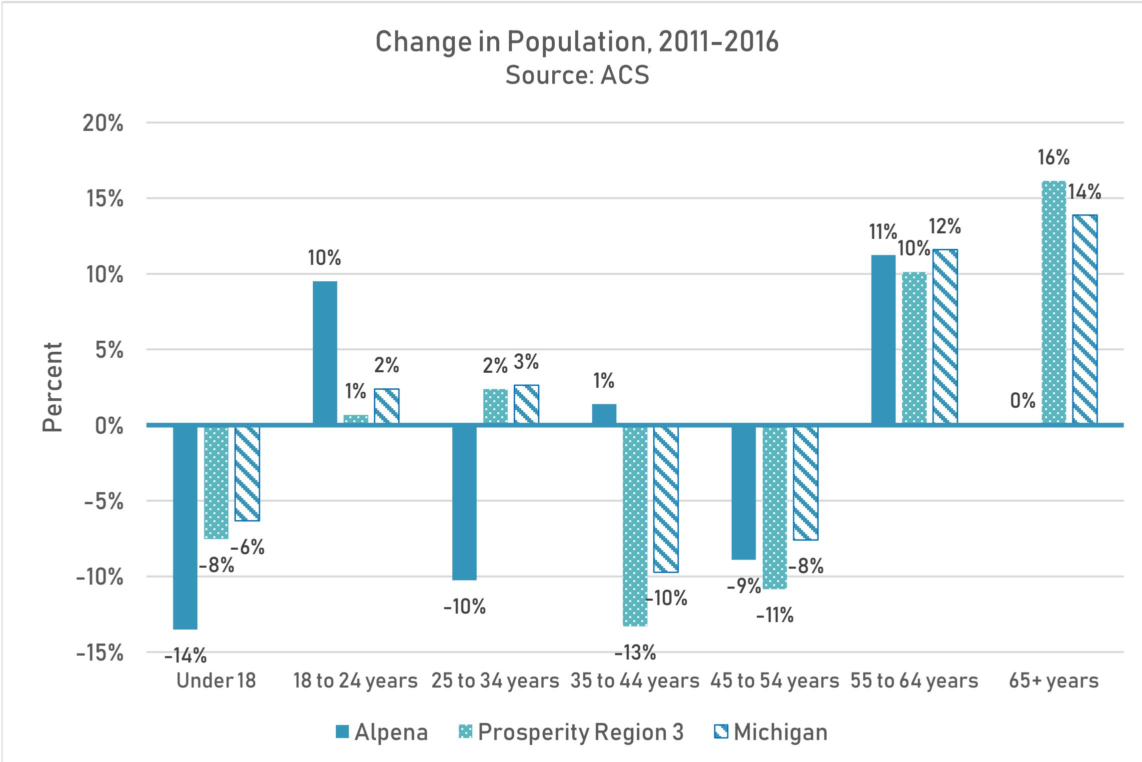
DEMOGRAPHICS

Alpena is a rural community of about 10,000 residents located on the northeast tip of Michigan along the shores of Lake Huron. The city is geographically isolated with the nearest interstate connection to I-75 seventy miles away. Alpena has a long history of manufacturing dating back to the 1800s with logging and continuing today at its working waterfront. Small businesses, a regional medical center, and a community college provide much of the employment base in Alpena and the surrounding region. The city has several parks, trails, and rivers making it an attractive destination during the summer, especially for those traveling towards Mackinac Island.

Demographic trends in Alpena show the population is shrinking and getting older. Between 2011 and 2016, population declined by 3 percent.[35] Most age cohorts declined over this period except for residents ages 18 to 24 and 55 to 64. Presently, about 33 percent of the population is over 55 years old. Part of the challenge for older residents in rural areas is access to transportation and services, and the ability to find a variety of housing choices that meet your needs financially and are accessible as mobility becomes more of a challenge over time.

[35] American Community Survey 2007-2011, 2012-2016, Table B01001, 2018

Figure 19: Change in Population by Age



INCOMES AND EMPLOYMENT

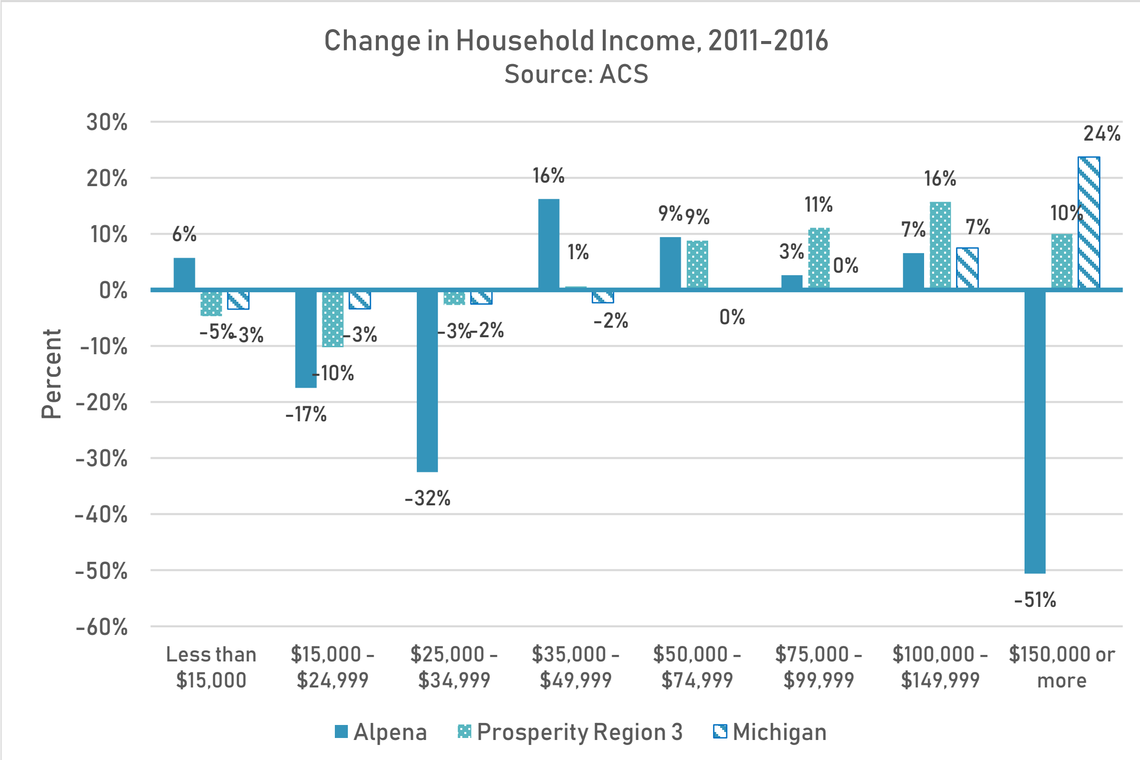
The median household income in Alpena is $35,490, as compared to the state median of $50,803.[36] The lower household incomes can be attributed to the rural nature of the economy which tends to have lower average wages for workers. Interestingly, households earning $35,000 to $100,000 increased across the board in Alpena following the same trend as Prosperity Region 3. The city saw a very large percentage decrease in the number of households earning at or above $150,000 a year, which translated into a loss of only forty households.

Alpena is the primary population and employment center Prosperity Region 3 and has a large employment base relative to its size. Employees come from many surrounding townships, cities, and counties for work each day. The largest employers in the area are the City of Alpena and Alpena Medical Center. The hospital was recently acquired by the University of Michigan and an investment program of nearly $60 million is expected to elevate the hospital to a regional hub.[37]

[36] American Community Survey 2007-2011, 2012-2016, Table B19013, 2018

[37] https://www.mlive.com/news/saginaw/index.ssf/2018/01/59_million_expansion_planned_f.html

Figure 20: Change in Household Income



HOUSING MARKET

Since 2011, the housing market in Alpena has shifted from ownership to rental at a rate twice as fast as that of the region and state. Over this period, the ownership stock in the city shrunk by 17 percent while renter households increased by 31 percent.[38] The number of vacant units increased by 57 percent, driven by an increase in units for rent and more seasonal housing added to the market. While a smaller second home market than places like Traverse City or Holland, Alpena has seen an uptick in seasonal housing where price points are substantially lower than in other lake front communities.

Table 4. Housing Units

Tenure	Alpena		Alpena		Prosperity Region 3	Michigan
	2011	2016	Change	% Change	% Change	% Change
Owner-Occupied	3,294	2,737	-557	-17%	-2%	-3%
Renter-Occupied	1,340	1,756	416	31%	15%	11%
Vacant	348	548	200	57%	-2%	-3%
Total	4,982	5,041	59	1%	0%	0%

Source: American Community Survey 2007-2011, 2012-2016, Table B25003, 2018

AGE OF STRUCTURE

Owner-occupied housing in Alpena is skewed toward the older end of the spectrum with 72 percent of all owner units constructed before 1959. Only 2 percent of owner units were constructed after the

[38] American Community Survey 2007-2011, 2012-2016, Table B25003, 2018

year 2000.[39] With population decline and a rise in vacancy, older structures may become less desirable in Alpena and fall into disrepair if owners fail to maintain them over time.

OWNER-OCCUPIED HOME PRICES

The median sale price for owner-occupied homes in Alpena remained relatively stable between 2012 and 2018, increasing only 12 percent over a period of six years to $89,500. Unlike the other case study communities, Alpena had very few (if any) sales of new homes to use as a comparison to existing single-family and condominiums. The lack of new owner-occupied housing was confirmed through conversations with City staff who indicated much of the new housing construction has taken place outside the city limits in the surrounding townships. There is a soft market for new construction of ownership units in the city limits, rather what exists are opportuntites for rehabilitation of older existing structures.

PRICING BY YEAR BUILT

Between 2012 and 2018 there were 2,050 home sales with a median price of $96,808.[40] Homes sales of structures built between 1950-1970 were the most numerous with 345 sales and a median sales price of $82,500. Home prices escalate quickly with newer homes as the median sale price for homes built between 1990 and 2010 doubles to $166,750. While only six homes built after 2010 sold over the last six years, the median price point of those sales was nearly $208,000.

The condominum market in Alpena had very few sales between 2012 and 2018, with an average of eleven sales per year. However, prices for newer condos built between 1990 and 2010 are commanding an 85 percent price premium over condos built in earlier decades. Interestingly, condos in the Alpena market on average are selling for $10,000 more than single-family homes. This is due to the fact that most of the condos are newer than the average single-family home, and tend to be located in structures with two to four units. The condo units tend to be larger and include newer amenities and layouts than some of the older single-family homes in Alpena.

[39] American Community Survey 2007-2011, 2012-2016, Table B25036, 2018

[40] Multiple Listing Service (MLS) Data, Michigan Board of Realtors, RKG Associates, 2018

Figure 21: Median Owner-Occupied Sales Price

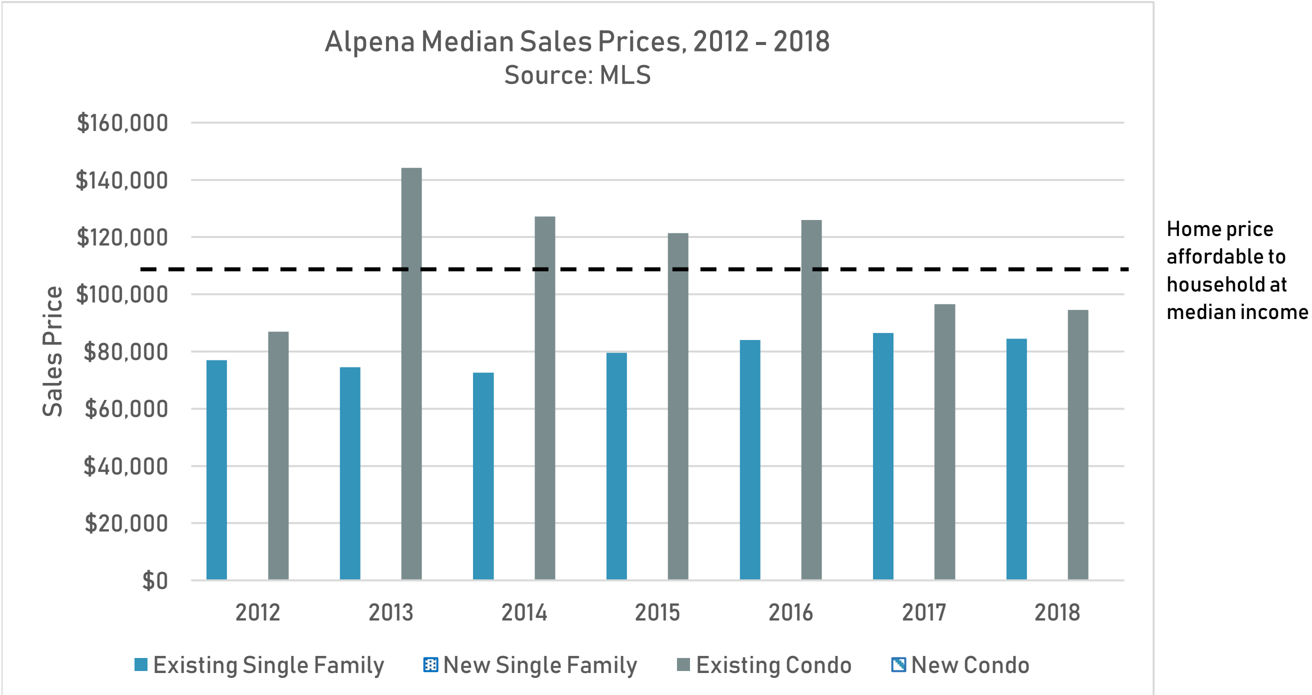
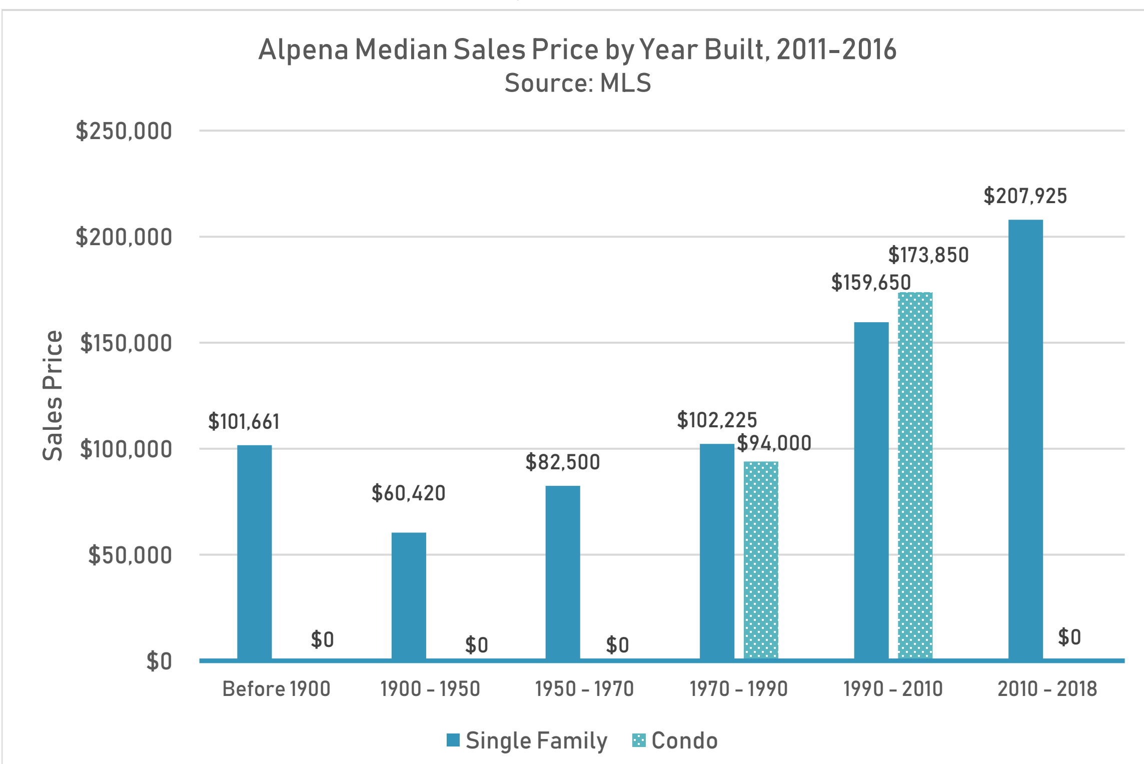


Figure 22: Median Owner-Occupied Sales Price by Year Built



HOMEOWNERSHIP CHALLENGES IN ALPENA

OLDER HOUSING STOCK

Based on the median household income of $35,490 and a median sales price of $89,500, owner-occupied housing in Alpena is generally affordable to those households earning at or above median income. The biggest issue Alpena faces is the abundance of older homes and the long-term maintenance and potential rehabilitation associated with them. As was noted earlier, 72 percent of owner-occupied units in Alpena were constructed more than sixty years ago. Depending on the condition of the property, some renovations can be bank financed, while others require capital from the homeowners themselves. Rehabilitation dollars are available from organizations such as MSHDA, but only a finite amount of funding is available.

LACK OF AFFORDABLE NEW PRODUCT

Housing development in Alpena is centered more around rehabilitation of existing structures rather than building new. New housing that is being constructed in the Alpena area tends to occur in the township surrounding the city. These areas have large tracts of land for developers to build larger homes on larger lots. As a result, the city is not seeing much in the way of new housing and those that are constructed tend to be listed at price points well above what would be affordable to the those at or below the median household income. Recent new housing construction has trended toward rental developments with some utilizing tax credit financing and funding from state partners such as MEDC.

STRATEGIES TO ADVANCE HOMEOWNERSHIP OPPORTUNITIES

The challenges Michigan faces in providing residents with affordable homeownership opportunities are varied and complex depending on the location and the strength and depth of the market. Based on RKG's assessment of Michigan's existing homeownership stock, the state does not have enough units today to support the future growth in households through the year 2045. The existing housing stock faces the following challenges:

- Michigan's ownership housing stock is older, and units may not have the layout, systems, or amenities today's homebuyers are looking for.
- Many vacant ownership units have not been maintained over time and will require substantial rehabilitation.
- Communities with housing capacity may have declining population and fewer economic opportunities that will attract new residents.
- Communities with housing demand as well as supply shortages are seeing prices escalate, thereby creating an affordability issue for existing residents and those looking to locate there.
- Zoning and other regulatory barriers hold back or prolong the development process resulting in fewer units created and higher price points.
- New employment opportunities or expansions may not be aligned with housing production or rehabilitation to meet the demand from new employees.
- The combination of stricter lending practices necessitated by the housing crisis, growing debt loads from student loans and other borrowing, and wages not keeping pace with costs are making it more difficult to purchase a home.
- Financial resources for housing programs are shrinking, forcing all levels of government to do more with less.

To address housing issues today and into the future, RKG has compiled a set of strategies, each informed by the data analysis performed at the state and Prosperity Region levels, the more than eighty individual interviews with housing professionals across Michigan, four local case studies, and an assessment of existing housing programs. The strategies presented are a mix of tools and actions that span geographies from the state down to local municipalities. These strategies are intended to be a toolkit which can be mixed and matched based on market conditions, available funding, and the overall goals of the organization or municipality implementing them. For ease of use, we have identified the case study community type(s) that could benefit from each strategy. In some instances, a strategy may be applicable to all four community types and could be applied state-wide.

The strategies and actions are grouped under four categories, each addressing a larger-scale issue impacting homeownership in Michigan:

- **Finance Tools.** Access to capital, whether for an individual buyer or a developer, is critical to ensuring home starts and home purchases can happen. Whether it is providing down payment assistance for a first-time home buyer or tax credits to help with a development's capital stack[41], different markets require different finance tools. These strategies address gaps in financing and ways to enhance or restructure existing programs.

- **Rehabilitation & Preservation Tools.** Across parts of Michigan, communities and regions are facing high vacancy rates, deferred maintenance, and homes that are not ready to re-enter the market. Buyers in weaker market areas are finding it difficult to pull together financing to both purchase a home and complete the necessary rehab due to lending criteria and the difficulty of finding sales comps in the area. Oftentimes, the cost to rehab a unit may be higher than the actual purchase price. Strategies that provide rehabilitation funding and neighborhood stabilization/preservation tools can help bring existing ownership units back on the market.
- **Land Use & Zoning Tools.** Land use, zoning, and permitting are local tools that communities have direct control over and impact the type of homeownership units that can be built, the location of those units, and the time it takes to build them. Adjusting these regulations can help with predictability of approvals, speedup delivery of units, and lower developer risk.
- **Economic Development Tools.** Housing and jobs are inextricably linked and aligning employment opportunities with affordable housing is an important step to attracting and retaining employees. These strategies provide opportunities for the public sector and private sector to act in unison to help businesses thrive and employees find housing they can afford.

To increase the effectiveness of the tools, we suggest a layering of programs and funding sources to provide a maximum level of benefit to homeowners. In additional to financial tools, the layered approach could also incorporate additional programs such as economic development and infrastructure grants, rehabilitation assistance, and demolition programs to increase the impact in more challenging markets across Michigan. The layering of programs and subsidies could also be structured in a way that helps low- to moderate-income households access high-opportunity areas across the state where homeownership prices have far outpaced affordability. In these cases, financial assistance programs may be most effective and layering down payment assistance, low-interest rate loans, and/or rehabilitation assistance to qualified homebuyers could help to open access to a wider range of communities for low- to moderate-income households.

Finally, homeownership tools must be selected in the context of the entire housing market to be effective. Homeownership is not the best housing option for all households, so a local housing strategy must pair these tools with options for safe and adequate rental housing. In some communities, targeted increases in the supply of rental housing may be an effective tool for increasing affordable homeownership opportunities, such as by creating neighborhood-based senior apartments that allow residents to age-in-place within their communities, freeing up larger homes for new homeowners.

[41] Capital stack refers to the variety of funding and finance sources used by a developer to fund a project.

FINANCE TOOLS

Access to capital, whether for an individual buyer or a developer, is critical to ensuring home starts and home purchases can happen. Whether it is providing down payment assistance for a first time home buyer or tax credits to help with a development's capital stack, different markets require different finance tools. These strategies address gaps in financing and ways to enhance or restructure existing programs.

Strategy 1: Down Payment Assistance

Strategy	Down payment assistance programs are one of the best ways to provide financial assistance to first time homebuyers. Organizations involved in assisting homebuyers, non-profits, and municipalities should look for ways to create new down payment assistance programs in locations that are not currently well-served, expand existing programs, and look for ways to increase assistance amounts for buyers in higher priced markets. Down payment amounts should be tailored to the market being served and tied back to the goals of the organization offering the assistance. It may be necessary to provide higher down payment amounts in locations where housing costs are much higher.
Advantages	Saving for a down payment can be a major obstacle for first time homebuyers looking to purchase a home. Down payment assistance provides the financial boost for buyers in communities facing high housing prices and to lower-income households needing more assistance.
Challenges	Identify funding sources to support new programs, expand existing programs, or offer higher down payment amounts in more expensive markets. Potentially setting someone up for failure if other services like credit counseling, budgeting, and home maintenance assistance are not included. It is important to recognize that some households may not be in a financial position for homeownership.
Action Steps	Help organizations that work across the housing spectrum and municipalities identify down payment assistance needs in their markets. Ensure asset limitations are appropriately set so householders have enough savings to cover basic maintenance if an issue occurs. Identify ways down payment assistance programs could be created or expanded to provide additional resources to first time homebuyers across Michigan.
Applicability	All Community Types.

Strategy 2: Low Interest Rate Mortgage

Strategy	It is important to recognize that low interest rate mortgages are a tool to help homebuyers secure a mortgage at rates below the market average, thereby allowing the buyer to afford more house or have a lower monthly payment. Policymakers and funders should look for ways to expand these programs where possible and find additional outlets for marketing these products to potential homebuyers who qualify.
Advantages	Provides a mortgage financing tool for homebuyers with a favorable interest rate to lower monthly costs or provide more purchasing power. This tool is helpful in communities with escalating housing prices, and households not experiencing similar wage growth. Enables more households to become homebuyers.
Challenges	Awareness of the program among lenders and participation in the program among homebuyers across Michigan.
Action Steps	Organizations involved in encouraging homeownership should look for ways to encourage additional low interest rate programs to expand the availability for qualified buyers.
Applicability	All Community Types and Qualified Borrowers.

Strategy 3: Land Disposition Strategy

Strategy	Vacant lots and structures are major issues in economically-challenged municipalities. In some cases, land banks exist but are unsure of best practices for disposition of assets. In other cases, a land bank may not exist but could be helpful. Organizations involved in helping with the disposition of land should look for ways to provide direct technical assistance to municipalities and land banks to help them understand market potential, development feasibility, and creation of disposition strategy.
Advantages	Provides communities funding for technical assistance on landbank asset disposition to increase neighborhood development and expand tax base. Help landbanks reduce holdings.
Challenges	Land disposition plans and local market realities may be at odds. Technical assistance would be most helpful in communities where the market has begun to turn the corner.
Action Steps	Identifying communities with concentrations of landbank holdings. Look for experts in the area who could provide technical assistance. Coordinate with Michigan Land Bank Fast Track Authority. Secure funding source(s) to pay for technical assistance.
Applicability	Targeted to low-income communities with significant landbank holdings.

Strategy 4: Infrastructure Grants

Strategy	In markets where homeownership projects are on the cusp of being financially-feasible, it can be important to look for ways to provide funding to help offset infrastructure costs for transportation projects, site work, utilities, soft cost loans/grants, etc. Funding assistance for these types of expenditures can sometimes mean the difference between a project that gets out of the ground and one that does not. Organizations involved in funding homeownership projects, foundations, and municipalities should find ways to assist or share in the cost of these expenditures where possible to increase financial feasibility.
Advantages	Upgrades in infrastructure and neighborhood amenities adds value to homes. Upgrades could also help spark reinvestment in the larger homeownership market. Helps developers and builders offset development costs.
Challenges	Funding limitations. Infrastructure development is long-term and requires strategic planning.
Action Steps	Identify potential funding sources or new programs that could be used to assist with these development expenditures.
Applicability	All Community Types.

REHABILITATION AND PRESERVATION TOOLS

Across parts of Michigan, communities and regions are facing high vacancy rates, deferred maintenance, and homes that are not ready to re-enter the market. Buyers in weaker market areas are finding it difficult to pull together financing to both purchase a home and complete the necessary rehab, due to lending criteria and the difficulty of finding sales comps in the area. Oftentimes, the cost to rehab a unit may be higher than the actual purchase price. Strategies that provide rehabilitation funding and neighborhood stabilization/preservation tools can help bring existing ownership units back on the market.

Strategy 1: Rehabilitation Loan Program

Strategy	Accessing rehabilitation funding for existing homeowners can be challenging, especially in markets where the cost of home repairs may exceed the value of the home. These funds are needed to ensure the existing housing stock does not fall further into a state of disrepair. Funding for these repairs is critical and housing organizations, non-profits, and municipalities should identify ways to create programs and pathways for existing homeowners who need rehab dollars.
Advantages	Rehabilitation loans allow homeowners to reinvest in their homes to ensure long-term value of the home. Program fills funding gap for low-income homeowners who lack capital to finance upgrades.
Challenges	Requires long-term deployment of capital on the part of the funding entity. Increases portfolio risk for the lender.
Action Steps	Identify new programs and resources that could be deployed by non-profits, organizations engaged in furthering homeownership, foundations, or municipalities. Identify target areas or neighborhoods where rehabilitation is most needed to stabilize the market.
Applicability	Concentrate program in neighborhoods/areas with most need. Use program to boost comparables and help stabilize values.

Rehab Loan Program Example

Minnesota Housing offers a rehab loan program to existing homeowners that provides up to $27,000 on a 15 year loan for safety, habitability, energy efficiency, or accessibility improvements. The owner must occupy the unit and be current on their taxes and mortgage. Loans are forgiven if the owner does not sell, transfer title, or cease to occupy the property during the loan term.

For more information visit Minnesota Housing.

Image: cob.org

Strategy 2: Rehabilitation Gap Financing

Strategy	A primary challenge in some of Michigan's housing markets is the inability to obtain financing for both the purchase and rehabilitation of an existing home. Homes that are affordable to low- and moderate-income households may need rehabilitation, but the cost of rehab and acquisition together could greater than the home is worth. In these cases, lenders are reluctant to fund both acquisition and rehab. Gap financing solutions should be identified to provide capital to homebuyers willing to purchase and rehabilitate homes in locations where comparable properties do not exist today. Organizations involved in furthering homeownership, non-profits, foundations, and lenders should identify sources of flexible funding that could be used in combination with a mortgage to help close the funding gap.
Advantages	Consolidates financing to a single loan, rather than having both a traditional loan and separate construction loan, minimizing fees. Directs rehabilitation dollars to areas where rehabilitation of the existing housing stock can open up opportunities for more affordable homes.
Challenges	Loan guarantees increase portfolio risk. Lenders may not be amenable to such an arrangement without additional financial subsidy. Finding a funding source flexible enough to protect lenders from risks. Also, the availability of skilled trades to complete the rehab work within program guidelines can be an obstacle; this has proven to be a challenge for the Detroit Home Mortgage program, which helps address the appraisal gap in purchase/rehab financing.
Action Steps	Housing organizations and non-profits should work with lenders to identify funding gaps in target areas. Identify a variety of funding sources that could be used to bridge the gap between the value of the home and the cost of acquisition and rehabilitation.
Applicability	All Communities.

Rehabilitation Gap Financing Program

One of the challenges and barriers in Michigan's homeownership market is the fact that many older homes have not been consistently maintained over time and require rehabilitation before a new owner can move in. The difficulty with acquisition and rehab in some areas of Michigan is there are a lack of comparable properties that provide lenders with the confidence that the cost of rehabbing the home will result in an appraisal at or above the combined cost of the acquisition and rehab loan. To assist homebuyers who are willing to take on the challenges of rehabilitation, organizations involved in furthering homeownership, non-profits, foundations, and lenders should identify sources of flexible funding that could be used in combination with a mortgage to help close the funding gap. This could come in the form of a grant through a philanthropic organization with a mission of investing in neighborhoods with high levels of vacancy or dilapidation. The grant could be used to finance the funding gap between what the lender can provide and the cost of acquisition/rehab.

Strategy 3: Neighborhood Development Program

Strategy	Foundations or other housing organizations could work closely with municipalities to identify key neighborhood improvements that could help stabilize or increase homeownership prices. Through a neighborhood development program, matching funds could be made available for creating more livable communities through investment in neighborhood amenities such as sidewalks, schools, and public facilities. The program could be competitive across municipalities, and may encourage municipalities to put more funding in as a match for local projects..
Advantages	Communities lead by investing in particular neighborhoods. Funding from this program augments total dollars spent in each community. Communities are accountable for planning and delivering projects. Investment in neighborhoods increases local property values and local interest in the community.
Challenges	Equitable distribution of funding across all areas of need. Some of the hardest-hit communities may receive a disproportionate share of funding.
Action Steps	Create programmatic language and neighborhood development evaluation criteria. Secure funding source(s) to implement the program.
Applicability	All Community Types.

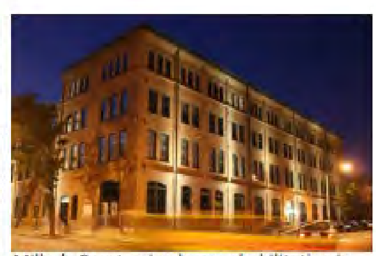
Community Infrastructure Program Example

Maryland's Sustainable Communities Act of 2010 established a shared geographic designation to promote efficient use of scarce State resources based on local sustainability and revitalization strategies. The Sustainable Communities program consolidated geographically targeted resources for historic preservation, housing and economic development under a single designation. The designation places special emphasis on infrastructure improvements, multimodal transportation and development that strengthens existing communities.

For more information visit Maryland Sustainable Communities Act.

Annapolis Main Street

The Greenbelt Theater



Miller's Court mixed-use rehabilitation in Baltimore

Image: dhcd.maryland.gov

Strategy 4: Demolition Fund

Strategy	In economically-challenged locations across Michigan, municipalities face vacant homes and blighted structures which drive down property values. Selective demolition has been underway in many places, but more work is needed. Demolition funds or programs would provide added financial assistance to municipalities to implement specific blight remediation initiatives. Funding for these types of programs could be provided to municipalities on a matching basis to stretch funds further.
Advantages	Enables local communities to determine and prioritize areas needing blight remediation through demolition. Helps address immediate solution of vacant and abandoned homes that are beyond repair. Removal of blighted properties increases remaining home values.
Challenges	Safe demolition of properties has significant monetary and environmental costs. Demolition is first step towards redevelopment, which is a long-term process. Would require long-term funding sources to guarantee availability of program and funding.
Action Steps	Organizations engaged in advancing homeownership, non-profits, foundations, and municipalities should work together to create new demolition funding programs. These entities should work together to understand funding needs and best sources for the programs.
Applicability	Urban with Economic Challenges, Small Town Rural.

LAND USE AND ZONING TOOLS

Land use, zoning, and permitting are local tools that communities have direct control over and impact the type of homeownership units that can be built, the location of those units, and the time it takes to build them. Adjusting these regulations can help with predictability of approvals, speed up delivery of units, and lower developer risk.

Strategy 1: Diversifying Product Types

Strategy	Offering a variety of homeownership product types in a city or township provides options for households with various needs, desires, and income levels. Organizations engaged in advancing homeownership should work to encourage municipalities to update/change zoning to allow for a wider range of housing types that could include duplexes, 3-4 unit buildings, multi-family condominiums.
Advantages	Provides a variety of housing types at different price points. Offers a housing product to residents in different life stages. Provides denser housing options to help offset land costs.
Challenges	Density could be met with resident opposition. Introducing different product types into single-family zones could be challenging. Doesn't necessarily address affordability issues.
Action Steps	Identify products that would be appropriate in different community types. Offer model zoning language that could be modified and adopted locally, particularly for housing types not common in every community, such as fee-simple townhomes. Provide financial incentives or a robust technical assistance fund to help offset cost of writing/adopting zoning. This could take the form of a state sponsored technical assistance program to support these types of changes at the local level.
Applicability	All Community Types.

Strategy 2: Zoning Code Reform

Strategy	Encourage municipalities to update/change zoning to focus on allowable uses and design that is context-sensitive instead of use and density measures.
Advantages	Integrates a variety of housing types into the community's development fabric and neighborhoods. Provides developers with flexibility to meet market demands. Creates a more predictable process for developer and municipality.
Challenges	Requires re-education on zoning. Residents may not want other housing types in traditional single-family districts. Can be expensive to create new zoning codes.
Action Steps	Organizations engaged in helping municipalities understand zoning changes could produce educational material on zoning code reforms. Sponsor an educational conference or speaker tour around the state on high-impact incremental changes to zoning codes. Create a technical assistance fund for municipalities to help offset costs of production and adoption of code reforms.
Applicability	All Community Types.

Zoning Code Reform Example

Recognizing that many Michigan communities have unique qualities and challenges, yet similar economic and cultural forces. The Michigan Municipal League, Congress for the New Urbanism, and MEDC developed this guide to help communities implement incremental changes to their local codes. The areas of reform cover form, use, frontage, parking, and streetscape and are intended to help with challenges related to downtowns, main streets, and neighborhoods adjacent to these two commercial districts. The suggested code reforms are intended to help reduce or remove barriers to development while ensuring the character of the place remains intact. These low-cost high-impact code reforms are the first steps in revamping old and outdated zoning codes in Michigan.

For more information on the code reforms refer to The Project for Code Reform.

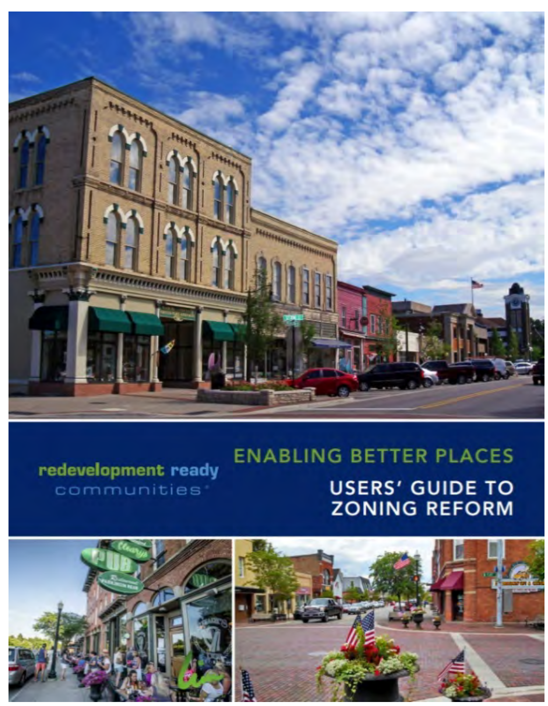


Image: MML

Strategy 3: Cluster/Reduced Minimum Lot Sizes

Strategy	Encourage municipalities to adopt cluster zoning or reduce minimum lot sizes for subdivisions.[42]
Advantages	More efficient use of land. Reduces infrastructure costs. Promotes open space. Could include small density bonus for developer.
Challenges	Fears of density and homes "too close together". Ensuring minimum acreage for cluster development matches availability of land.
Action Steps	Organizations engaged in helping municipalities change zoning could produce educational material on benefits of cluster development and/or reduced minimum lot sizes. Create a funding pool to help municipalities develop and adopt cluster zoning tools. Prioritize places that layer cluster zoning with expedited permitting.
Applicability	Focus on Aging Suburban and Small Town Rural.

Strategy 4: Incentive Zoning and Density Bonus

Strategy	Encourage municipalities to adopt incentive zoning provisions in return for affordable housing or amenities.[43]
Advantages	Provides additional housing units to spread development costs across. Gives municipalities incentive to negotiate for affordable housing.
Challenges	Fears of density and traffic. Ensuring density bonus could actually be accommodated on the parcel of land.
Action Steps	Produce educational materials on best practices and examples of incentive zoning and density bonus programs. Show how these tools can help with financial feasibility of development.
Applicability	Urban Affordability and Aging Suburban.

[42] Cluster zoning is a zoning method in which development density is determined for a specified area, rather than on a lot-by-lot basis. Cluster zoning is specifically enabled in the Michigan Zoning Enabling Act, under MCL 125.3503.

[43] Incentive zoning is a relaxation of zoning restrictions on developers in exchange for public benefits like building a desired public improvement or building in a low-income area.

ECONOMIC DEVELOPMENT TOOLS

Housing and jobs are inextricably linked and aligning employment opportunities with obtainable workforce housing is an important step to attracting and retaining employees. These strategies provide opportunities for the public sector and private sector to act in unison to help businesses thrive and employees find housing they can afford.

Strategy 1: Employer-Funded Housing Fund

Strategy	It can be challenging for smaller employers, particularly those engaged in seasonal work or tourism to cover housing costs for employees. One option could be to create a housing fund paid into by a group of smaller employers that could be used to help offset some portion of housing costs for employees. This fund could possibly be matched by a housing organization, non-profit, or foundation working to advance homeownership opportunities.
Advantages	Provides housing subsidy for workers who most need it. Allows workers to live closer to jobs, thereby reducing transportation costs.
Challenges	Getting employers to levy a fee on themselves.
Action Steps	Bring smaller businesses together to create a pool of capital that would help fund an employee housing program. This could be particularly effective in tourism-based economies where housing costs quickly outpace wages for hospitality workers. This program could be evaluated for serving both seasonal and year-round workers.
Applicability	All Communities.

Strategy 2: Employer Location Incentives

Strategy	Where employers choose to locate can bring positive impacts to a community, particularly if employees live and do business in the community. If housing options are not available for employees, it can force longer commutes or serve as a disincentive for business investment. Incentivizing employers to locate in areas where housing is available is a strategy that could help revitalize older neighborhoods and bring economic benefits to more challenged markets.
Advantages	Incent employers to locate where housing is available, and jobs are needed. New investment from employees can bolster neighborhoods, potentially encourage others to invest in the housing stock as well.
Challenges	Employers make location decisions based on a wide range of factors. Some employers may not pay their employees enough for them to afford homeownership.
Action Steps	Organizations focused on advancing homeownership, non-profits, municipalities, foundations, and economic development organizations could partner to design a program that would offer financial assistance to employees locating in targeted areas where housing is available. Funding sources would need to be identified for these programs. A broad marketing program would be needed and shared with potential employers looking to locate or expand in Michigan.
Applicability	Focused on Urban with Economic Challenges and Small Town Rural.

Strategy 3: Trade Worker Training Program

Strategy	Many construction trade jobs became vacated in Michigan after the Great Recession making it difficult for builders and homeowners to find qualified trade workers for residential projects. A trade worker training program could help encourage residents to enter the profession, receive training, and provide an incentive bonus for remaining in the profession for a set amount of time.
Advantages	Helps to fill a critical need in the construction industry. Offers job opportunities for those not pursuing a college education, or who are unemployed/underemployed. Builds a workforce to help create more homeownership opportunities.
Challenges	Finding enough people to go into trade programs. Creating the connections between trainers and employers.
Action Steps	Organizations focused on economic development, education, and workforce development could partner to create a program that partners schools and training facilities with employers and offers students incentives such as free or reduced tuition, a bonus that kicks in after five years of work, or an account set up to help subsidize down payment on a home.
Applicability	All Communities.

Trade Worker Training Example

WorkSource DeKalb, in DeKalb County, Georgia provides workforce investment activities to increase employment, retention and earnings of participants. Employment and trainings are targeted at filling industry-specific needs which currently includes building trades and construction. Residents seeking enhanced skills and training can gain access to education programs through WorkSource, but only for the occupations in need. As the economy shifts, WorkSource also changes industry sector trainings and eligibilities to keep the workforce current and marketable in today's economy.

For more information on DeKalb County's workforce programs visit WorkSource DeKalb.

Images: mantec.org

Strategy 4: Anchor Institution Partnership Program

Strategy	Anchor institutions such as colleges, universities, and hospitals play an important role in bringing jobs and people to communities. Recognizing that not all workers can afford housing where their employer is located, a program could be established that provides housing assistance to employees who qualify. A partnership could be formed between economic development organizations, housing organizations, and anchor institutions to develop a program that provides some form of housing subsidy for lower wage workers.
Advantages	Provides housing cost subsidy for workers who most need it. Provides incentives for employees to invest in neighborhoods close to anchor institutions.
Challenges	Finding anchor institutions that are willing to participate and administer the program.
Action Steps	A partnership would need to be identified between various economic development and housing organizations where anchor institutions exist. A program could be developed that offers a housing subsidy to employees that fall below the prevailing wage for the industry's Standard Occupation Code (SOC). If an employee falls below the wage line, he or she is eligible for the subsidy. Funding sources would need to be identified to capitalize the program.
Applicability	All Communities.

Employer Assisted Housing Example

The Employer-Assisted Housing Program assists full-time benefits-eligible University of Chicago and University of Chicago Medicine employees with their home purchase in the neighboring communities. The program provides up to $10,000 in down payment assistance. Rental reimbursement up to $2,400 is also available for new renters in portions of nearby neighborhoods. Through this program, the University strengthens its connections to surrounding neighborhoods, retains valuable employees, and helps staff optimize their work-life balance. Income restrictions do apply to households earning over a certain amount.

For more information on the program visit the University's website.

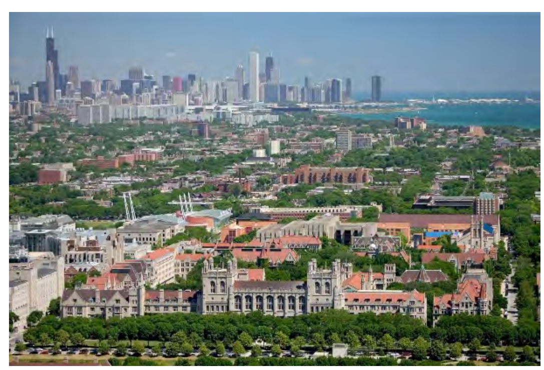


Image: University of Chicago, and NPR.

DATA SOURCES AND METHODOLOGY

The data used for the housing analysis comes from a variety of both public and private sources. Basic demographic data comes sources such as the U.S. Census Bureau American Community Survey (ACS). This resource is publicly available data that is both transparent and reproducible. Housing data used for the study includes data from the ACS, U.S. Department of Housing and Urban Development (HUD), Regional Economic Models Inc. (REMI), and the Michigan Association of Realtors. The housing data is used in the analysis to understand the baseline conditions of the State and Prosperity Regions, and to provide context for understanding needs and gaps.

Information about employment and wages was obtained from the Census Bureau data resource Longitudinal Employer-Household Dynamics Quarter Workforce Indicators, which provides data related to wages and employment sectors. This data is helpful in framing the socioeconomic circumstances of the State and Prosperity Regions.

Projections data comes from the industry standard proprietary source REMI. This data provides projection data to the year 2045 in five-year increments. The projections provide a reasonable forecast of population, household, and employment. This information can help the State match future demographic changes with policy goals.

To supplement hard data and provide a better understanding of the nuances found across the state, qualitative data was obtained. This information was obtained via interviews with stakeholders and officials. The individuals interviewed included state officials and policy makers, developers, real estate brokers, affordable housing advocates, and community groups. These interviews are a method of obtaining data that is real-time and hyper-local to Michigan and is critical for understanding the greatest needs.

Aside from a rigorous quantitative analysis, thematic mapping was conducted to visualize existing demographic and housing conditions for specific variables. The visual representation of the data provides the necessary context to understand the Prosperity Regions.