## Introduction

It has been about 11 years since the start of the Great Recession, and six since most consider it to have ended. According to most indicators Michigan's housing markets have improved from their recession lows. Since the end of that period, MSHDA policies have concentrated on many facets of the state's housing market, including:

- Placemaking in urban areas to support and maintain vibrant urban neighborhoods
- Workforce housing for both owners and renters to aid households earning between 60% and 120% of Area Median Income
- The financing of affordable housing, with and without supportive services, for households earning less than 60% of Area Median Income
- Increasing homeownership opportunities among first-time homebuyers and other consumers.

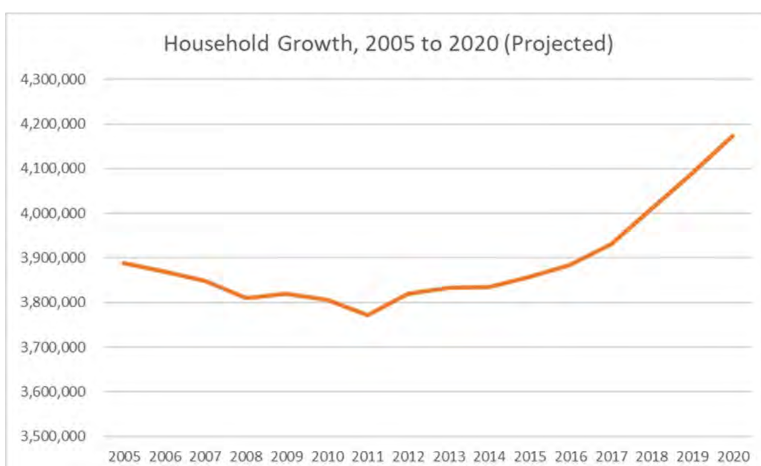
Recent trends in Michigan's housing markets will impact how these policy initiatives are carried out into the next decade. In order to study these trends in more depth, MSHDA has created a Statewide Housing Needs Assessment. It uses Census data from the American Community Survey to investigate how the three major components of market dynamics are trending: demand, supply and pricing/affordability.

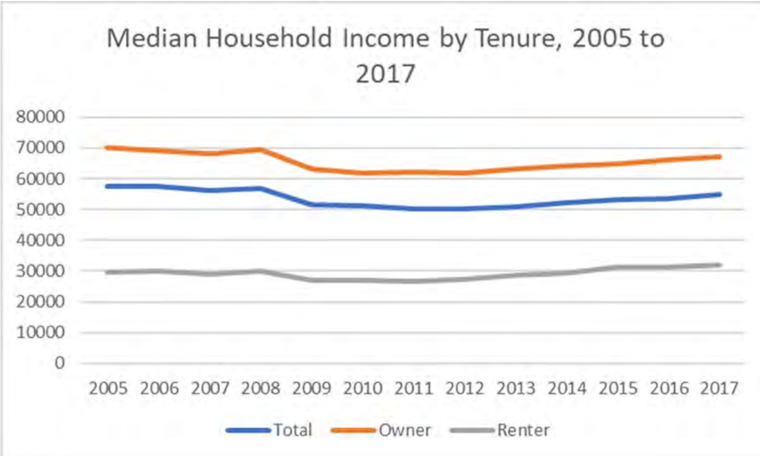
## Demand

Demand for housing is a combination of many separate factors, chiefly changes in household counts, jobs and income. Increases in these variables can cause upward pressure on demand for housing, both in terms of unit count (more housing units) as well as quality (bigger housing units, or units in more expensive neighborhoods). However, even before the Great Recession hit, Michigan's demand indicators were not strong. After it started, the economic downturn cut into both household counts and incomes in a great many localities in the state, especially its larger cities.

Michigan's household count is expected to reverse that negative trend at a relatively strong pace through 2020. The places most likely to see large increases are mainly those which have had healthy growth rates in the past—the suburban and exurban areas of the state. Detroit, after seeing steep declines over the previous decade, is expected to register increases in many of the city's more active neighborhoods. The table below shows the expected trend in household growth through 2020.

Income is the next pillar of housing demand. As was the case with household counts, incomes were battered as a result of the Great Recession and the job losses that it caused especially in the manufacturing sector. The chart on the next page shows the trend in median household income since 2005 (all figures are in 2017 dollars).





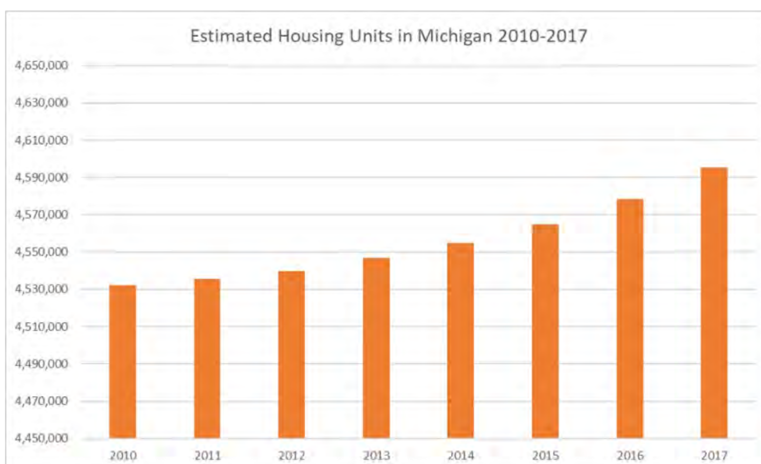

In addition to the overall level of income, data is also broken out by tenure (whether shelter is bought outright or rented). Owning or renting is not directly a demand issue, but that choice does serve to segment housing markets into two separate parts. Homeownership is still the most common mode of shelter provision, with about two-thirds of the state's households in owner-occupied units. The rate has declined in the wake of the Great Recession in part because of decreased household incomes.

In the chart, the blue line shows the overall level of income. As of 2017, Michigan's median income has not yet achieved pre-Great Recession levels. Increases have occurred, but at a relatively slow pace. Owner incomes (shown by the orange line) follow the same trajectory, but they are approximately $10,000 over the general median level. They have not reached their pre-Recession high yet either.

Renter incomes, on the other hand, have slightly surpassed their pre-Recession levels. This amount of increase would generally support demand for rental units, but lower renter incomes still lead to affordability issues among a large portion of the state's renter households, as we will see. Faster renter income growth might also signal that relatively more wealthy renters are coming into the market, supporting demand for some of the most expensive rents. This is anecdotally true in some of the state's major urban areas, where downtown development has been strong over the last few years.

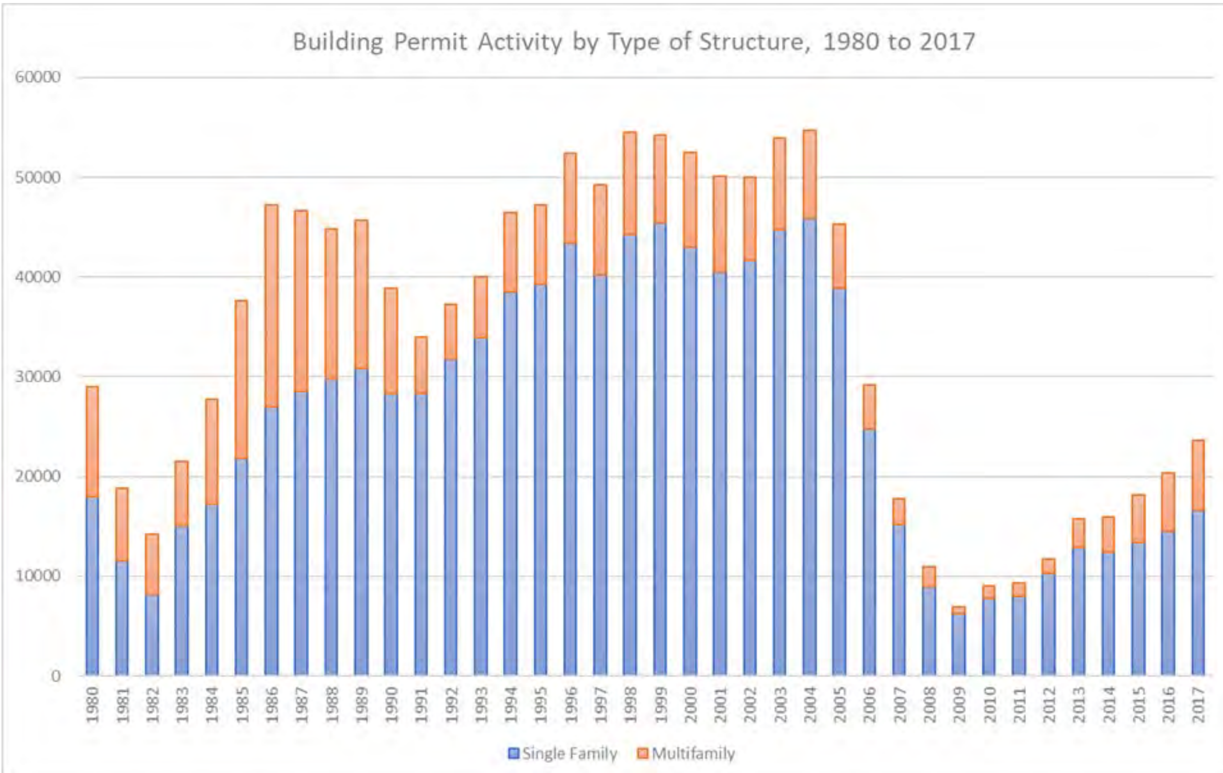
## Supply

Michigan's supply of housing is the other half of the state's housing market. It influences pricing both in terms of its characteristics (age and size, among others) and its desirability to potential consumers.




At its most basic level, supply issues center around the number of housing units that exist in an area. The table to the right shows Census data on that topic. In 2017, a total of approximately 4.6 million housing units existed around the state. This is up from 4.58 million the previous year—an increase of about 8%. This compares to an estimated 9.96 million residents who live in the state. The number of housing units has been steadily increasing since 2010 at an annualized rate of approximately 9,000 units.

Michigan, like many other states, experienced a dramatic slowdown in residential construction due to the Great Recession. However, the pattern of recovery in construction activity has not been even across the state's landscape. Some areas continue to lag others.




The chart on the next page shows the statewide trend in building permits issued by local units of government, a good proxy for the construction of new housing units. Two major slowdowns are evident in the series, which begins in 1980 and ends in 2017. The first hit in the early 1980s and coincided with very high interest rates. The second was the recession that occurred in the early 1990s. Another, less drastic fall occurred in the early 2000s. The largest, by far, was the steep decline that marked the Great Recession.

Building activity shows that the recession hit earlier in Michigan than it did in other places, with the first decrease in permit issuance taking place in 2005. Further decreases happened through 2009. After a rocky start in 2010 and 2011, permitting activity again started to pick up. However, it is still low by historical standards; 2017's figure of about 24,000 is still lower than the peak of activity in 2004. One needs to go back all the way to 1983 to see similar levels.

Since gaining traction, the recovery in building permit activity has seen gains of about 2,400 units per year on average. To put this recovery into perspective, the amount of increase after the 1980-82 downturn was 8,200 on average. In the 1990s, the amount was just under 3,700 units.

The relationship between multifamily and single-family construction has also varied over time. Three regimes in the data seem to be evident, pointing to differing development conditions within the two construction sectors. The first seems to have been between 1980 and 1990, where multifamily made up a significant proportion of new construction in the state—an average of about 37% annually through that period. The second phase saw a dramatic downturn, when multifamily accounted for about half of its previous levels: between 1991 and 2013, multifamily units comprised an average of about 16% of all permitted units. Finally, the current period is seeing a strong upturn in multifamily construction. Since 2014, multifamily units have comprised about 27% of all new construction on average. The trend moving forward seems to imply continued expansion, but at a rate much slower than most of the previous 30 years.

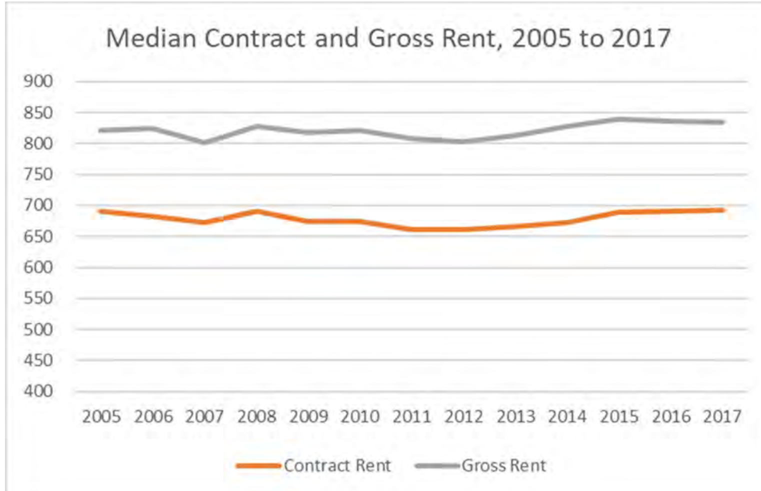
One result of the relatively limited supply of newly-constructed units in the state is that Michigan's housing stock tends to be older. Nearly 40% of its residential units (either owner- or renter-occupied) were built before 1960. The large number of older units should keep acquisition prices low but could increase ongoing expenditures as rehabilitation and maintenance costs are likely higher. Three-bedroom units comprise nearly half of the state's residential units, and about another quarter are two-bedroom homes. Owner units tend to have more bedrooms than renter units do.

Another important characteristic of Michigan's housing stock is its structure type. This information distinguishes single-family detached construction from other configurations that foster higher levels of population density. These "missing middle" buildings include duplexes, triplexes and row houses or townhomes. Since there are considerably more owner households than renter households, and most owners live in single-family detached structures, it is not surprising that the most common housing type is the single-family detached home. Unit configurations among renter units are much more varied. Single-family rentals are numerous but missing middle building types are slightly more common. Both small- and large-scale multifamily buildings hold a significant amount of rental unit inventory as well.

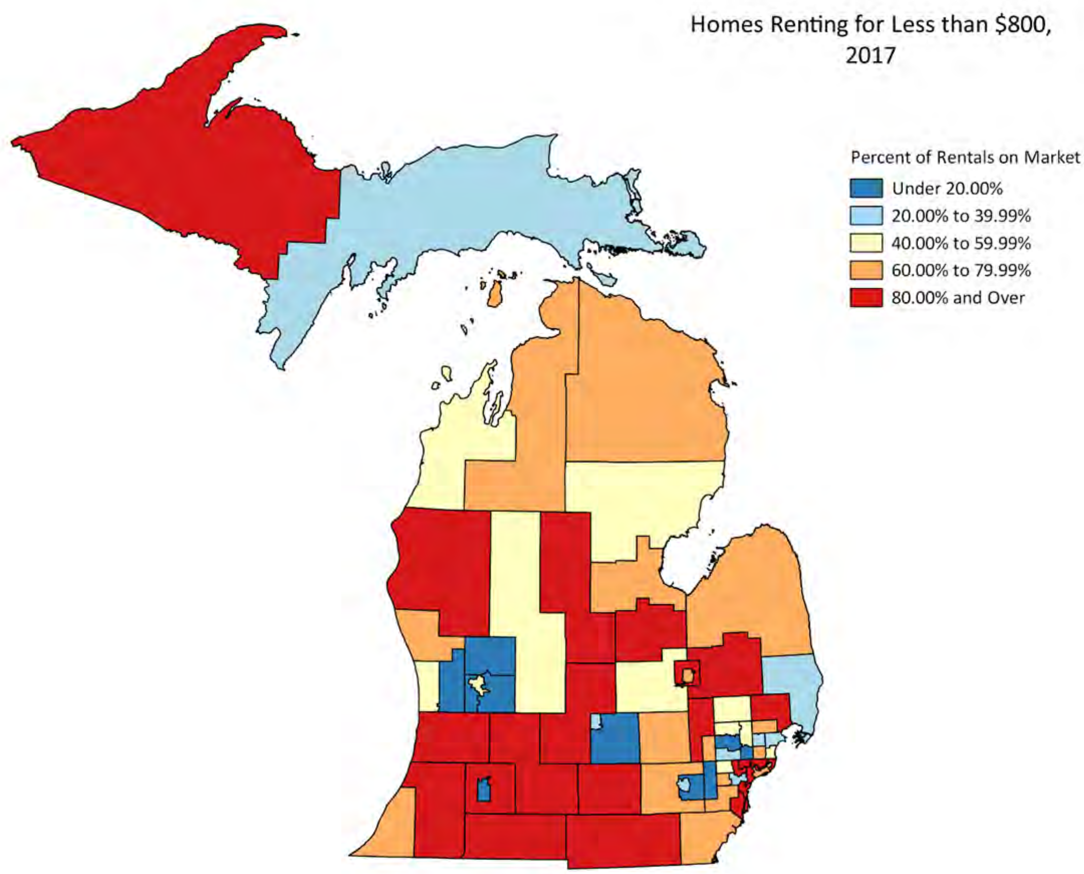
## Pricing/Affordability

In housing markets, the acquisition pricing of the stock depends on the interplay between demand and supply. Shelter pricing also relates to tenure. The median owner-occupied home value in Michigan fluctuated by about 30% between 2005 and 2017 in real terms. At the same time, rents changed by about seven percent. The statewide median for-sale home value has yet to attain pre-Recession levels and is still about $20K lower currently than it was at its peak in 2006. Rents have achieved approximate parity with former maximums. The table above shows the changes in values since 2005, as measured in 2017 dollars.

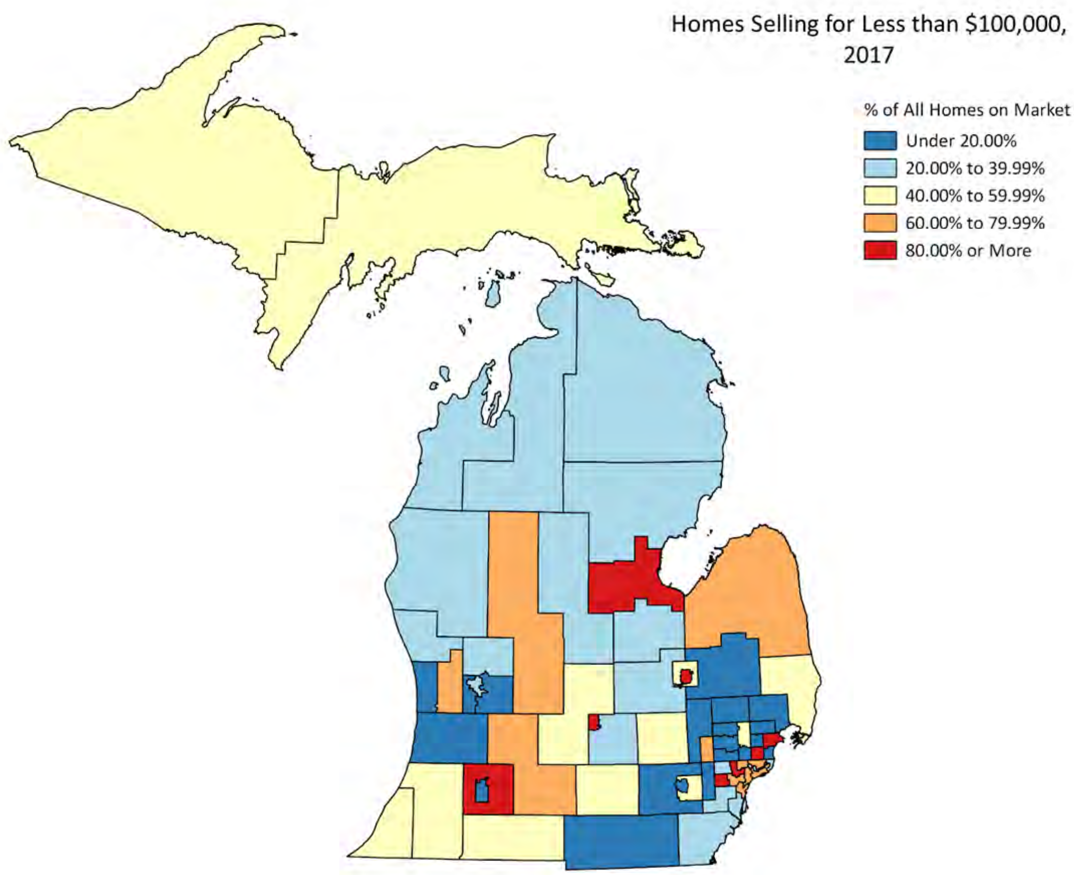
The table reflecting changes in rents is on the right. It shows figures for two types of rent, contract (the amount stipulated in a lease that the tenant must pay the landlord) and gross rent (the sum of the contract rent and utilities).



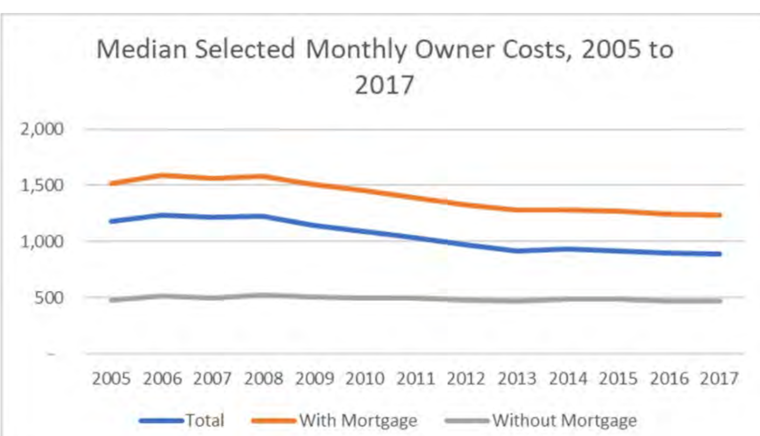

To measure the affordability of rental stock, the Joint Center for Housing Studies looks at the number of units priced at $800 as a proxy measure. There are issues with this approach, since the quality of a unit tends to decline as its price decreases. However, as a broad proposition this methodology can be adopted to lay out the broad parameters of where rental housing might be more affordable in general, and where it might be in short supply.




The above map shows the percentage of available stock in each of Michigan's 68 Public Use Microsample Areas (PUMAs) that is priced below $800. In 2017, nearly 60% of the rental stock statewide would rent at this amount. Locationally, areas with the highest percentage of units priced at this level straddle both major urban areas in the state (the city of Detroit has several regions where more than 80% of available units fall into this category) and rural/small town regions in the Lower Peninsula. The western Upper Peninsula has a large percentage as well. Conversely, areas without much stock at this price level include more suburban areas of the state, as well as smaller regional centers such as Lansing, Kalamazoo and Ann Arbor.

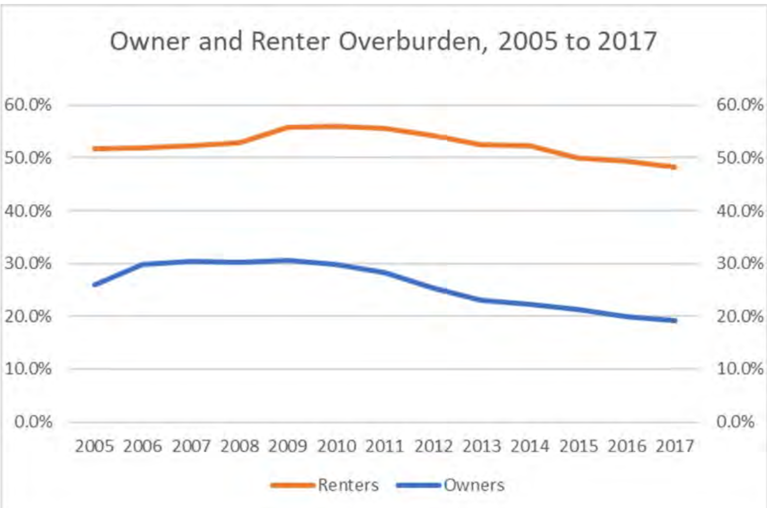



The map above shows the percentage of for-sale homes that is available for under $100,000. This price point covers housing in the lower third of the asking price distribution. About half of the owner units for sale that year was priced at that level, but geographically speaking, there are relatively few areas with high concentrations of this type of housing stock. These include major population centers (Flint, Detroit and Lansing), suburban areas near Grand Rapids, Kalamazoo, central and southern Wayne County and the city of Warren in Macomb County. A few rural areas, notably the Thumb, also have relatively high concentrations.




Whether a household owns or rents their shelter impacts the amount of money it takes to occupy a housing unit on a continuing basis. For owners, the Census tracts selected monthly costs (the sum of mortgage payments, interest, insurance, taxes and other expenses). These have decreased significantly since 2008, largely due to changes in interest rates and mortgage terms. The table on the left shows the trend in selected monthly owner costs. These have become less expensive only for those with mortgages. Homeowners without mortgages have seen their cost levels remain steady for most of the period. Gross rents (contract rents plus utilities), in real dollars, have slightly overtopped their pre-Recession levels, while renter incomes have only made slight gains.

As a result of these different cost patterns, the percentage of homeowners that pay more than 30% of their income for shelter—a circumstance known as shelter overburden—is currently relatively low. At the same time, the percentage of renters that pay a similar percentage of income for housing is quite high. The chart below shows that the difference is stark.




About 20% of homeowners experience a 30% or more cost to income ratio, down from about 30% at the height of the Great Recession. Overburden at that time was likely driven by two factors: higher mortgage costs in the beginning of the period, coupled with lower incomes as job losses started to accumulate.

During the same period, half of all renters in Michigan were overburdened. While mortgages weren't a direct issue for renters, the fact that gains in their incomes have been slow means that any increase in rent will make overburden more prevalent.

## Conclusions

Taken together, basic trends in all parts of the state's housing markets point to marked improvement since the end of the last recession. It is important to note that, as 2019 opens, the United States is in its 115th consecutive month of economic expansion--the second longest since this recordkeeping started. At this point, the next downturn in the economy is probably going to happen sooner rather than later. Partly because it was hit so hard from the last recession, and partly because much of the projections of continued strength in housing markets rely on continued economic recovery, Michigan is at risk of seeing many of the positive trends described earlier slow or reverse.

Considering this, and in reference to some of the current trends in the state's housing market, it is useful to explore the following additions to current MSHDA activities:

- **Discovering methods to expand the supply of housing affordable and available to households earning less than 50% of AMI around the state.** This will become even more important if the economy starts to contract;
- **Exploring aspects of senior housing,** since many elderly households need housing solutions geared towards their lifestyle (limited savings due to changes from pensions to 401K and other savings plans, longer lifespans with increased need for supportive services, higher housing costs vs. incomes, unit amenities and layouts, etc.)

- **Enlarging the footprint of the Authority in rural areas**. Contrary to conventional thought, it might pay dividends to study how rural housing needs mesh with urban ones and create policies that would benefit both at the same time.
- **Finding ways of more effectively marketing and distributing owner rehab funds**. If the volume of these efforts could be expanded, issues stemming from Michigan's relatively older housing stock could be dealt with more effectively. Targeted home rehabs designed to maintain and improve mobility as time passes could make aging in place an option for seniors wishing to remain in their homes and neighborhoods. It would also eventually increase the amount of safe and modern starter homes for purchase.
- Now that we have some distance from the events of the Great Recession, it would be helpful to conduct a **review of programs put in place to ameliorate the worst of that period's effects on affordable housing.** No one is expecting the next downturn to be as severe, but it must also be said that the resource base to act in an economic downturn is different from what it was 10 years ago. What could the state's housing stakeholders do to stabilize important aspects of the affordable housing finance industry in Michigan, and what tools would be needed from the Federal government?

In order to ascertain market conditions on a regular basis, MSHDA is providing several new research products that will be posted on its website. First, a new Statewide Housing Needs Assessment (SHNA) will lay out conditions statewide, regionally, and at a local level. A set of 385 markets will be used to describe housing conditions and trends at a small geographic scale. Other studies that will look at selected aspects of the housing market will extend this research.

Second, a series of housing market scans will be completed for these small areas. This type of study combines data from the Census with an analysis of the state's census tracts to deliver an assessment of development potential for a wide variety of housing types. These will be posted to the Authority's website as they are completed.