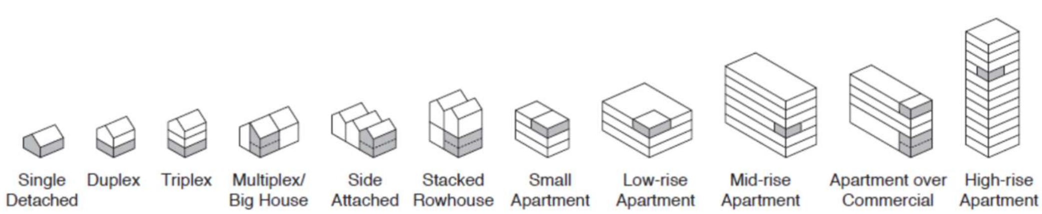
# REGION 6 HOUSING

## Development and Implementation Strategy

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I-69 Thumb Region
A SEVEN COUNTY MICHIGAN PARTNERSHIP

# Acknowledgments

# Executive Summary

Michigan Prosperity Region 6, or the I-69 Thumb Region is a 7-county region found in eastern-central Michigan, comprised of Genesee, Huron, Lapeer, Sanilac, Shiawassee, St. Clair and Tuscola Counties. This region (I-69 International Trade Corridor and MI Green Thumb) has been very aggressive since 2013 working to tackle regional challenges relating to economic development including business retention and attraction, supporting workforce development, addressing workforce talent gaps and improving overall quality of life for all residing, working or visiting the I-69 Thumb Region.

As such, one focus area that has been identified as a regional priority is housing. Housing represents the "American Dream" for many across the United States and is one of the top symbols of economic prosperity for individuals and families. The ability to acquire housing, both for purchase or for rent is essential to move the economy forward in any community.

We have learned that there is a large demographic cohort within the I-69 Thumb Region, but also the State of Michigan and around the country that is struggling to access the moderately priced housing market. The primary reason is a lack of quality inventory throughout the region in the middle-income price range, from $150,000 to $250,000 or rental rates between $500 and $900 per unit. In many cases, when quality housing options become available, they are often sold or leased in a matter of days, often with multiple offers leading to "bidding wars". While this is good for the seller, there are more buyers than sellers currently creating a housing bottleneck and leaving many on the outside looking in.

With the building market still stagnant in this price range, the I-69 Thumb Region decided to act and understand the regional role in housing and what the region can do to attract new builders/developers, work with existing builders and other regional partners to jump start the construction market to add much needed middle-income housing. This report focuses on current challenges and barriers to new construction and offers strategies to bridge the gap between builders and the cost of building. Adding new housing, especially for middle-income buyers will attract new residents and workers to the region which in turn, benefits the economy.

There are several action items in this report that can be implemented immediately and there are several that require additional support for implementation. Solving this critical issue will not occur overnight, in the next week, month or year. Having a plan to move forward along with strong partnerships, brings the I-69 Thumb Region years ahead of other communities looking to solve the same issue!

# What We Found

Since 2013, many studies have been completed throughout the I-69 Thumb Region including an economic development strategy, multiple target area market forecasts for housing, talent forecasts, and a state-wide housing construction needs assessment completed by the Michigan Home Builders Association. In short, each study cites the need for new housing, specifically in middle income markets. These markets encompass a wide array of buyers including millennials, empty-nesters, retirees, and middle to low income workers. To better understand the state of the marketplace, we've reviewed many different data sets and completed a series of focus groups with real estate professionals, financiers and housing developers/builders throughout the I-69 Thumb Region. Those sessions were held in Owosso, Flint, Lapeer, Port Huron and Marlette, providing a broad cross-section of the region.

**FROM THE BUYERS PERSPECTIVE**

For this report, several Target Market Analyses have been reviewed to get a broad picture of need for housing throughout the region. These analyses consider supply, demand, in-migration, out-migration and the key demographic types of people most likely to live within the target market area; in this case, the seven county I-69 Thumb Region. Our goal is not to repeat the conclusions of the target market analyses, but to develop strategies around those conclusions, leading to meaningful housing projects and investment in the region. It must also be noted that the larger urban areas in the region such as Flint, Port Huron, Lapeer and Owosso will have different market and demographic profiles from those located in rural and suburban communities. For that reason, projects and housing types or solutions may be considerably different across the region. Basically, one size does not fit all.

To get a better understanding of current conditions, the following table has been prepared to show the number of units, vacancy rates and median housing values across the region.

**Figure. 1**

| KEY HOUSING STATISTICS FOR THE I_69 THUMB REGION | | | | | | | |
|---|---|---|---|---|---|---|---|
| | Genesee County | Huron County | Lapeer County | Sanilac County | Shiawasee County | St. Clair County | Tuscola County |
| Number of Units | 191,033 | 21,152 | 36,217 | 22,841 | 30,072 | 71,874 | 24,246 |
| Homeowner Vacancy Rate | 2 | 4 | 1.9 | 3.7 | 1.8 | 2 | 3 |
| Rental Vacancy Rate | 6.7 | 10.1 | 6.1 | 6.7 | 6.6 | 4.4 | 5.6 |
| Owner Occupied | 69.3 | 81.2 | 90.4 | 79.1 | 75.9 | 75.6 | 82 |
| Renter Occupied | 30.7 | 18.8 | 9.6 | 20.9 | 24.1 | 24.4 | 18 |
| Median Value | $91,800 | $93,000 | $141,200 | $98,500 | $105,500 | $126,500 | $95,200 |

A key statistic immediately present is the low vacancy rates across the region in both the owner-occupied and rental housing markets. These rates were far higher during the most recent economic downturn between 2009 and 2015, the last time there was an abundance of housing options for residents living in the region or looking to move into the region.

Another key statistic as shown in figure 2 is the relatively low number of units actively listed for sale throughout the region. This figure was prepared using active MLS data captured in April of 2018. During focus group sessions for each county, this data is troublesome to realtors interviewed as they are saying there are not enough housing units to meet buyer demand.

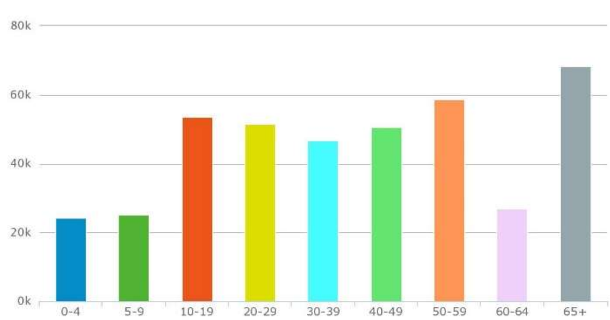
**Figure. 2**

| ACTIVE LISTINGS PER COUNTY AND LIST PRICE (APRIL 2018) | | |
|---|---|---|
| | | |
| | | |
| Genesee County | 1,053 | $159,000 |
| Huron County | 53 | $125,000 |
| Lapeer County | 237 | $224,000 |
| Sanilac County | 155 | $139,000 |
| Shiawassee County | 151 | $122,000 |
| St. Clair County | 395 | $199,000 |
| Tuscola County | 96 | $124,000 |

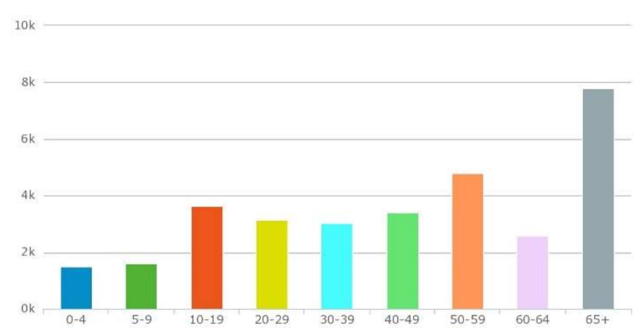
As we reviewed the data for this project, it was important for us to have a better understanding of the buyer demographics across the region, including age, income, housing preferences, location and their ability to purchase. This study is intended to focus on strategies that will help add housing for middle income residents and this demographic group represents the largest buyer base, and where the real-estate market exhibits the greatest shortage of units. A typical cross section of this demographic represents residents of all races and ages ranging from roughly 30 to 70. It includes educated millennials entering the workforce, families buying their first or second home, retirees and empty nesters. The younger one-third of this demographic is tending to live closer to urban areas within downtown settings, or just outside of downtowns, while the remaining two-third prefer a more suburban or rural setting. There are a number of retirees and empty-nesters, however, that are beginning to downsize and are reconsidering urban housing options where they exist to meet their housing needs.

The following graphics show the 2017 estimated age distribution for each county within the region.

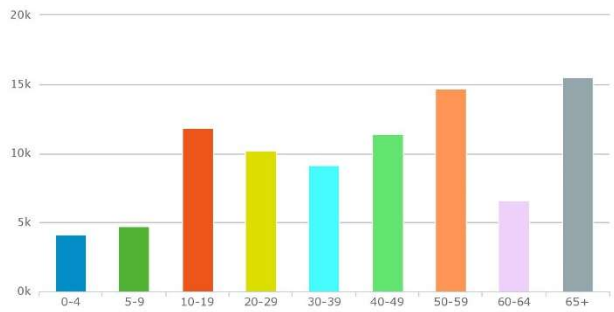
**Genesee County Age Distribution (est. 2017)**



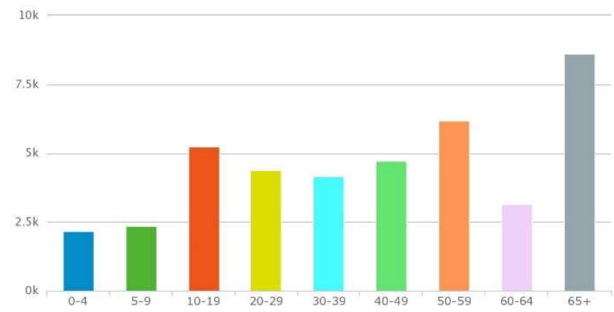

**Huron County Age Distribution (est. 2017)**



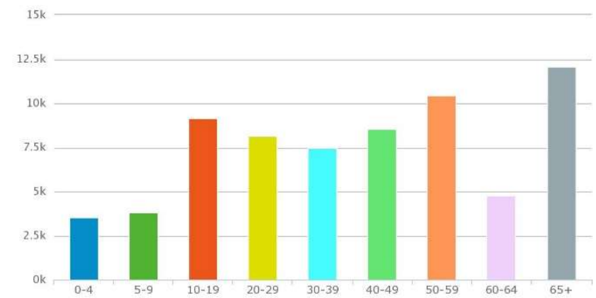
**Lapeer County Age Distribution (est. 2017)**



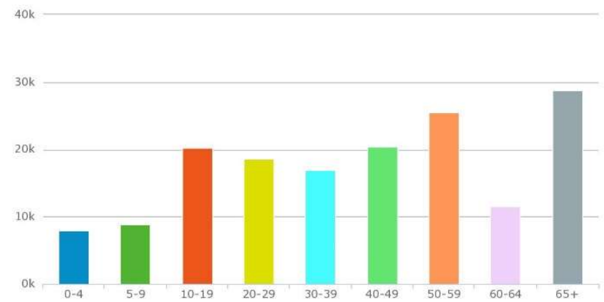

**Sanilac County Age Distribution (est. 2017)**



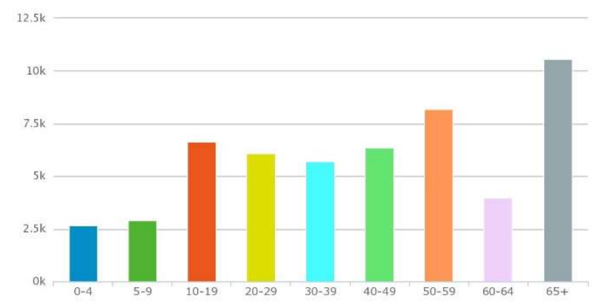

**Shiawassee County Age Distribution (est. 2017)**




**St. Clair County Age Distribution (est. 2017)**




**Tuscola County Age Distribution (est. 2017)**




By looking at the age distribution of each county, a clear picture begins to emerge regarding the demographics throughout the region. First, there are two groups that represent the largest portion of the population: those in the 10-29 and 50+ categories. The largest single age group in each county is the 65+. This is significant for a few reasons. Looking back at the last housing boom (1994-2005) the largest demographic would have been in the early 40's to late 50's. This is a time when we witnessed a significant amount of large home, large lot development where houses ranged from 1,800 – 3,000 square feet on 1/3 acre+ lot sizes. This was a period of time where the economy was thriving, unemployment was under 4.4% and the middle-income demographic had a good amount of disposable income to afford larger home payments and a greater variety of housing options. Second, this was also a time of extensive family creation, leading to the millennial generation, which is now the largest single demographic in the United States.

Moving forward to 2018, the US economy has mostly rebounded from the worst recession since the great depression, unemployment is back below 4.4%, the stock markets are closing at record highs and wages are beginning trend upward for the first time in 10 years. Yet middle-income Americans are struggling to enter the housing market for many reasons, with the primary one being the lack of  available housing in a price range this demographic can afford, being $125,000 to $225,000.

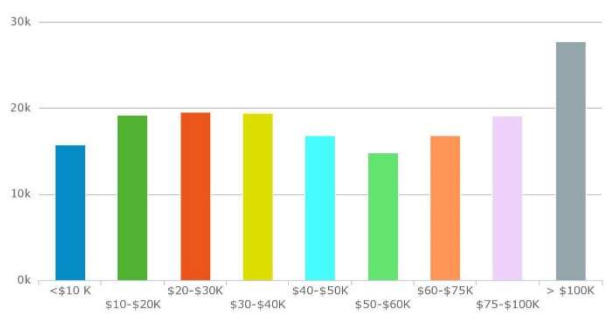
Looking at accessibility, there are four general characteristics lenders review when determining how much to loan for housing including 1) income 2) debt 3) funds available (down payment) and 4) credit score. From the focus groups we learned that credit scores are rebounding, but many buyers still lack great credit (720 +), have higher levels of debt (credit card, student loans…) and lack a significant amount of saved cash for down payments or closing costs. The table below highlights median household income, selected income with a mortgage and gross rents throughout the region.

**Figure. 3**

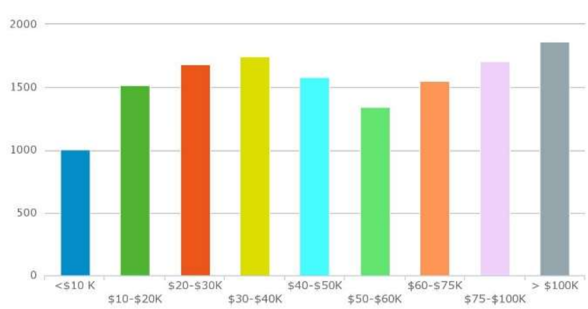
| MEDIAN HOUSEHOLD INCOME, MEDIAN MORTGAGE AND RENT (2016 CENSUS) | | | |
|---|---|---|---|
| | Median Income | Select Monthly Costs with Mortgage | Median Gross Rent |
| Genesee County | $43,246 | $1,145 | $720 |
| Huron County | $43,082 | $982 | $597 |
| Lapeer County | $54,174 | $1,262 | $793 |
| Sanilac County | $42,037 | $996 | $622 |
| Shiawassee County | $48,470 | $1,093 | $683 |
| St. Clair County | $50,930 | $1,211 | $751 |
| Tuscola County | $44,193 | $1,045 | $650 |

Applying the one-third principle, meaning that one-third of household income is spent on housing, the figure above shows that many households are at or near that mark for both mortgage payment or monthly rent. Looking at income distribution throughout the region will present a better picture of the size of the buyer's market based on the total percentage of the population. For this report, we are looking specifically at those incomes ranging between $30,000 and $75,000, which is the income range most likely associated with the middle-income buyer. As seen on the tables below, income varies greatly by county, however the $30,000 to $75,000 income group represents a large swath of potential buyers.

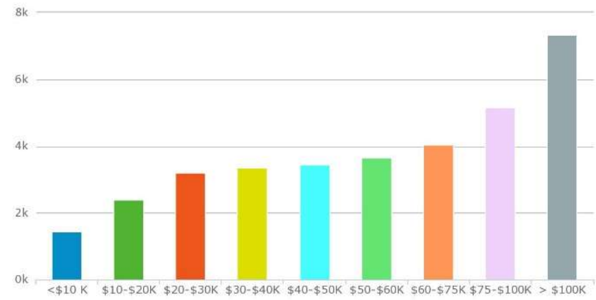
**Genesee County Household Income (est. 2017)**



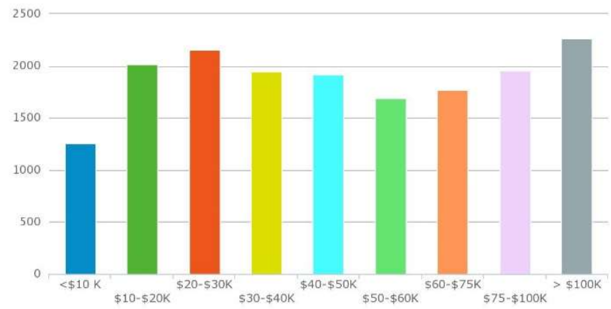

**Huron County Household Income (est. 2017)**



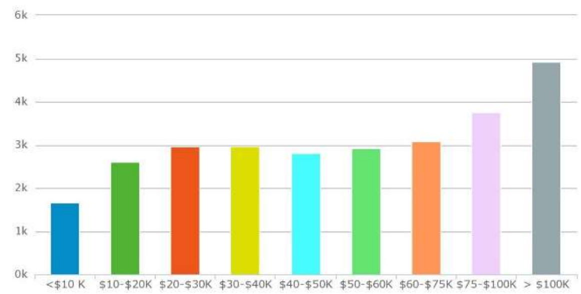
**Lapeer County Household Income (est. 2017)**



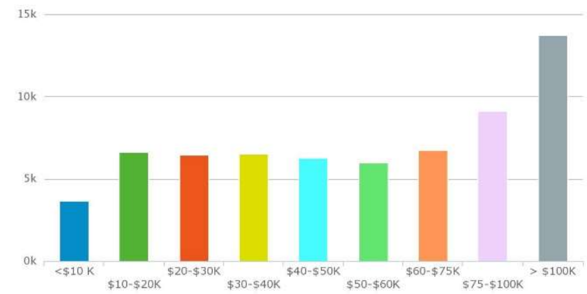

**Sanilac County Household Income (est. 2017)**



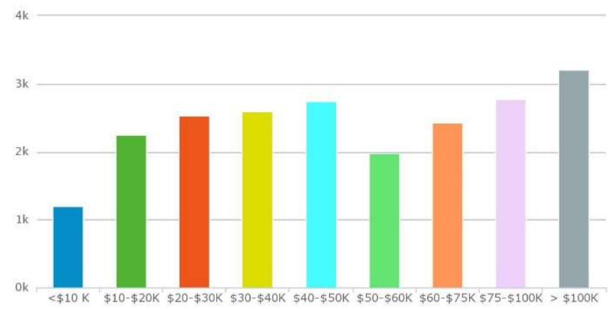

**Shiawassee Co. Household Income (est. 2017)**




**St. Clair County Household Income (est. 2017)**




**Tuscola County Household Income (est. 2017)**




Another statistic focused on is place of residence for individuals within the 7-county region. Having the appropriate supply and variety of housing types, in the appropriate price range, can be a net economic win for the region. It is not only a way to ensure that the local workforce has accessible housing; it can also be a means to attract new base employers to the community. Base employers are those that generally provide the highest-level employment in a community, a product or service that is exported from the community while retaining wages and taxes within the community, and a stable living both in wages and benefits for their employees. During the focus group sessions, it was emphatically stated by employers and economic developers that there are not enough housing options for the workforce, meaning that workers wanting to live in the region cannot because they are not finding access to housing within their income range.

As shown in the figure below from the Accelerate Regional Plan, we've learned that 47% of the region's working residents, commute outside of the region for employment. This is a large percentage of the employment base and might partly be indicative of higher housing costs outside the region.

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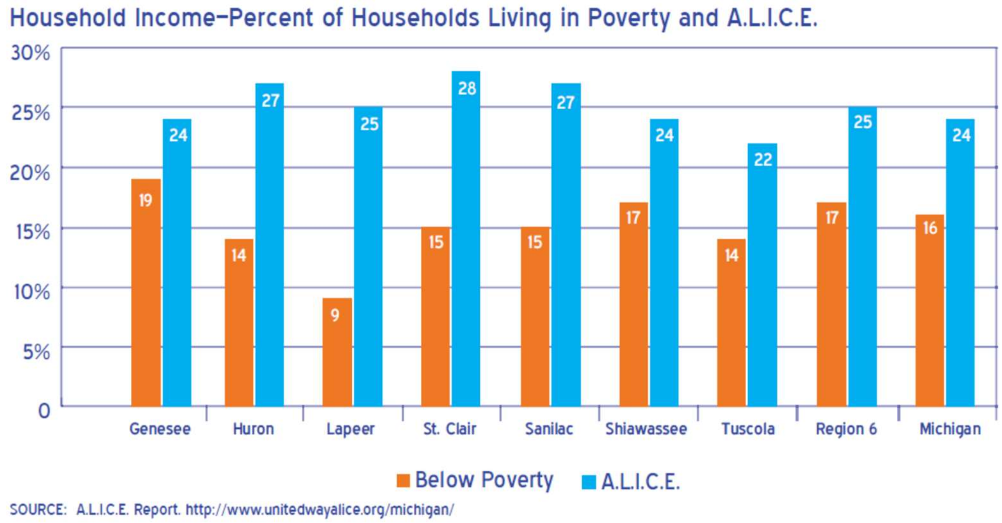
**Figure. 4**

| I-69 Thumb Region Commute Patterns (WIN Network & Census 2014) | | | |
|---|---|---|---|
| | | | |
| | Live Outside/Commute In | Live in/Work In | Live In/Commute Out |
| Genesee County | 52,879 | 67,849 | 69,997 |
| Huron County | 3,662 | 7,268 | 5,065 |
| Lapeer County | 9,454 | 8,796 | 26,834 |
| Sanilac County | 4,377 | 6,028 | 8,184 |
| Shiawassee County | 6,450 | 7,772 | 18,062 |
| St. Clair County | 14,479 | 26,661 | 44,087 |
| Tuscola County | 4,227 | 5,846 | 13,649 |
| **TOTAL** | 95,528 | 130,220 | 185,878 |

Likewise, 25% of the total workforce of the region commute into the region and based on feedback from focus group sessions, this percentage might be growing due to the shortage of available housing for workers where new jobs have been created. Understanding this will be key for making a case to builders and developers to construct new housing options in the region, specifically within the targeted buyers' market identified within this study.

Lastly, to make the case for the need for middle-income housing, we wanted to refer back to the A.L.I.C.E Report identified in the Accelerate Regional Prosperity Plan.

> "A.L.I.C.E is a state-wide Asset-Limited, Income Constrained Employee project sponsored by the Michigan Association of United Ways is one of the first attempts to identify the number of households that are simply surviving economically. A.L.I.C.E. is based on a locally determined household budget necessary for survival. As shown in the figure below, a full quarter of the households living in the I-69 Thumb Region are A.L.I.C.E., simply surviving on budgets that allow for no savings or vacations. This is on top of the 17% of the region's households that are struggling in poverty".

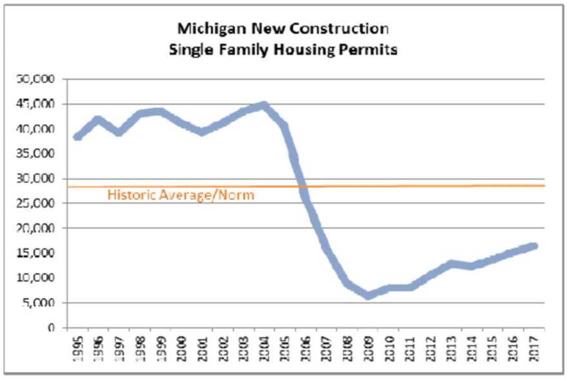


**FROM THE BUILDERS PERSPECTIVE**

Many times, a study will only look at the input data from the perspective of the end user. In this case we felt it was important to understand the real estate market from a builder's point of view. Since the purpose of this project is to create strategies that will help increase the supply of middle-income, workforce housing, it is imperative that we have an idea of why many builders are not currently or planning to build in the identified price range of the buyers.

**What is Being Built?**

The most recent economic downturn created massive complications for today's construction market. For one, much of the skilled workforce that supported the construction industry has left the State of Michigan for better opportunities out of state, particularly in the South and Southeast United States where hurricane reconstruction is taking place. Second, with the recession-created high foreclosure rates for existing housing across the region, the need for new construction has only recently emerged over the last 3 or so years as the existing housing stock has been bought up. Likewise, most of the unfinished subdivisions have been completed and the cost of infrastructure has increased to the point where builders are only focusing on single lot custom homes.




Third, the lending market is still not conducive to new speculative housing development. It has just been in recent months that construction lines of credit have reopened to new home buyers, but it is still lacking for the construction of new subdivisions. Fourth, the regulatory market has increased the overall cost of new construction. Every home being built is seeing anywhere from 20% to 30% of the cost of construction attributed to regulation, environmental design requirements, infrastructure improvement and development review costs. Lastly, the cost of raw materials has increased since the last housing boom. These factors contribute to the risk a developer incurs as new housing projects are considered. Those projects with higher margins of return are most likely to be built, many times leaving middle-income housing projects out of consideration. Many builders have decided to remain small and focus on the abundance of custom home demand rather than staffing up to take on production construction. They are fearful of the added risk and unwillingness of banks to lend money for speculative development. All of this is combined with the limited supply of builders and developers, post-recession.

**Figure. 5**

| NUMBER OF BUILDING PERMITS ISSUED FOR SINGLE FAMILY RESIDENTIAL | | | | | | | |
|---|---|---|---|---|---|---|---|
| County | Genesee | Huron | Lapeer | Sanilac | Shiawassee | St. Clair | Tuscola |
| 2016 | 322 | 21 | 139 | 39 | 40 | 188 | 38 |
| 2015 | 345 | 41 | 115 | 38 | 27 | 134 | 45 |
| 2014 | 271 | 47 | 116 | 39 | 18 | 113 | 23 |
| 2013 | 227 | 41 | 92 | 33 | 23 | 91 | 32 |
| 2012 | 112 | 29 | 29 | 16 | 19 | 78 | 17 |

Since 2012, new building permits have been on the rise across the entire region, which is expected coming out of a recession. What is troublesome however, is that construction is still occurring at a "snail's pace" across the region. One of the primary reasons discussed at the focus group sessions is an overwhelming lack of workers to support the construction industry.

According the Home Builders Association of Michigan, the state lost more than 60,000 workers supporting the construction industry between 2000 and 2009. That created a void so deep in the home construction industry, that in 2018, the state is still seeing substantial challenges facing the future of this multi-billion-dollar industry. To further challenge the industry, the median age of the remaining workforce is close to 57 years old, with no signs of improvement. With the current shortage in workers and increasing pressure to build more, wages have increased with many companies competing for the remaining workforce. This has added a considerable cost to the price of building new homes not just within the I-69 Thumb Region, but across the entire State of Michigan. Further, the overall workforce shortage is leading to longer construction delays. Pre-recession, several builders explained that their time of construction was anywhere between 3-6 months, where now it is closer to 6-9 months or more to complete a house, further increasing project costs. The table below shows the median new home price across selected Michigan MSA's and the income level required to purchase a home at the median price point.

| Area | Median New Home Price | Income Needed to Qualify |
|---|---|---|
| Ann Arbor, MI MSA | 295,743 | 84,838 |
| Battle Creek, MI MSA | 182,246 | 58,278 |
| Bay City, MI MSA | 232,843 | 70,830 |
| Detroit-Dearborn-Livonia, MI MSA | 306,619 | 93,296 |
| Flint, MI MSA | 240,639 | 75,667 |
| Grand Rapids-Wyoming, MI MSA | 286,087 | 79,957 |
| Holland, MI MSA | 278,514 | 77,530 |
| Jackson, MI MSA | 236,541 | 68,755 |
| Kalamazoo-Portage, MI MSA | 289,282 | 83,912 |
| Lansing-East Lansing, MI MSA | 270,613 | 81,198 |
| Midland, MI MSA | 204,865 | 58,740 |
| Monroe, MI MSA | 213,556 | 59,743 |
| Muskegon, MI MSA | 210,582 | 61,851 |
| Niles-Benton Harbor, MI MSA | 350,162 | 96,541 |
| Saginaw, MI MSA | 227,959 | 68,331 |
| Upper Peninsula, MI | 186,175 | 40,797 |
| Greater Grand Traverse Area, MI | 437,180 | 116,620 |

Through the focus group sessions with builders across the region, we have learned that the average cost to build a new house is at a price point between \$165 and \$200 per square foot. Given this, it is conceivable that construction of new 1,000 square foot home would be in the \$200,000 range, which meets the target range of the middle-income buyer, but is still a bit on the high end of the buying spectrum. We also heard that the profit margins on houses in this range are thin, due in large part to increased construction costs versus what the market can support.

**Regulatory Environment**

Another issue identified during the focus group sessions was the impact the local, state and federal regulatory environment is having on the bottom-line cost of new construction. The regulatory environment consists of local building permits, inspection fees, development review fees, sanitary and storm-sewer connection fees, water connection fees, state inspection fees, energy efficiency requirements and other costs associated with construction, not actually involving construction of the home. In some cases, these costs have added upwards of 30% to the cost of the new home. A challenge moving forward with any strategy will be looking at these costs and finding ways to improve the regulatory environment. By reducing these costs, there are better opportunities for builders to enter the middle-income marketplace to meet the demand for new housing within the region.

While much of the information presented above stacks unfavorably against new middle-income housing development, the good news is that several projects are underway or planned for future construction in multiple counties across the region. We will take a closer look at many of these projects later in this report as we discuss strategies to improve the chances of creating new middle-income development, however; some of the key points to consider include non-profits partnering with the development community to reduce holding costs, or communities selling bulk lots held in municipal ownership at a discounted rate to reduce costs to developers. Further, anytime developers can maximize density, they can reduce selling prices as an economy of scale.

# Implementation Strategy

The implementation strategy will be the guide going forward as we take what we have learned from the data analysis and the focus groups to identify tasks and projects that will help eliminate some of the barriers to new housing construction and improve housing availability across the spectrum of middle income groups , both for purchase and for rent.

As we look for strategies that can work, first we want to understand which projects have recently seen success, as well as which projects make sense for different areas throughout the region. For example, row-housing and other multi-family options may not make as much sense in rural or suburban areas, so we want to understand where the greatest need for multi-family housing is and how to incentivize developers to focus their efforts on those housing types.

While construction numbers are on the increase across the region, the primary housing types being built fall outside of the price range that is accessible to middle-income buyers. There are several projects that we wanted to highlight however that fall clearly within the price range of middle-income buyers or renters.

**SUCCESS STORIES**

| Project | Location | Housing Type/Costs per Month | Developer |
|---|---|---|---|
| Cavalier Green | City of Corunna | 1-2-bedroom apartments, $200-$600 per month | Woda Group |
| Osborne Lakes | City of Owosso | 1,200 – 1,700 sf single family homes and vacant lots from $150,000 | Public Private Partnership (PPP) with City of Owosso |
| Lexington Oaks | City of Fenton | 1,400 – 2,100 sf single family homes from $220,000 | PPP with City of Fenton and Mitchell Builders |
| Sleepy Hollow | Mundy Township | 1,200 – 1,600 sf duplex condos starting from $170,000 | |
| Mallard Ponds | City of Burton | 1,200 – 1,700 sf single family homes and vacant lots from $150,000 | PPP with City of Burton and VIP Homes |
| Habitat for Humanity | Region wide | New homes to qualified buyers at an accessible price. | Habitat for Humanity |
| Swayze Court Apartments | City of Flint | 1-2-bedroom apartments for low and moderate-income households | Collaborative effort between Communities First Inc., RAD Conversion Specialists, Michigan State Housing Development Authority, U.S. Department of Housing and Urban |

| | | | |
|---|---|---|---|
| | | | Development, City of Flint, Genesee County Land Bank Authority, Chase Bank, National Equity Fund, and Michigan LISC. |
| St. Clair Place Apartments | City of St. Clair | 107-unit, 3 story, brick apartment complex with 1 and 2 bedroom apartments ranging from 650 – 1,000 sf. | St. Clair Place II, LLC |
| New subdivision | City of Marysville | 150 – 200 new single-family condos between 1,400 and 1,600 sf starting from $175,000 to $225,000 | Boddy Construction Co. |
| Drakeshire Subdivision | Village of Almont | 118 single family homes, 1,600-2,200 sf starting around $155,000 | Multiple developers |
| Imlay Place Condominiums | Imlay City | 1,750 sf condos with garages starting at $115,000 | Unknown |
| New Apartments | City of Lapeer | 148 Units | Unknown |

While many additional projects are planned for construction, under construction or recently completed, the projects above only account for a fraction of the demand in the existing marketplace. The key question is: how can the region attract more builders and developers to build new housing within key income groups? The following are strategies that can be followed by communities to eliminate some of the barriers to housing development and improve the ability to construct new housing units that are in demand.

**SMALL COMMUNITIES**

***Understand the Market***

The first step in moving projects forward in smaller communities across the regions is to identify areas in the community that would be appropriate for new housing construction, both renter- and owner-occupied. For many builders, cost is the driving factor for determining when and where to build. Market information needs to be gathered indicating what the potential sales price or rent structure would be for new units. It would also be helpful to identify where potential buyers and renters will come from. A focus group meeting with area realtors and lenders would help with this.

Further, a survey of existing residents (mailed and/or Survey Monkey) in the community would also help asking the following questions, at a minimum, for example:

1. If newly constructed, for-sale houses were available in the community would you consider selling your existing house and moving?
2. Are you currently renting and if newly constructed, for-sale houses were available would you consider buying?
3. If you did move to a different house, what are some of the key things you would be looking for? (less maintenance, more bedrooms, etc.)
4. Do you know of, or is anyone in your household, currently looking for alternate housing but have been unable to find any?

***Encouraging New Housing Construction***

Developers are not likely to be interested in small, outlying communities because the incomes and housing values are lower. Instead, they will tend to focus on larger markets with higher values and the potential for greater profit margins. Small communities will have to find creative ways to generate new housing development, on both the construction and land development ends of the market.

This can come in the form of building capacity with local investors/builders ("home grown") and eliminating some of the hurdles that make housing development challenging. This can also be accomplished by creating Public/Private Partnerships (P3's) with local municipalities or non-profit entities. Either the community, the P3 or a regional consortium, must look for ways to encourage new housing construction including but not limited to:

1. Acquiring land. Since both lenders and developers are shying away from new developments, the community can acquire land for that purpose and eliminate one of the required steps. This land can be sold raw or if possible, with the necessary infrastructure indicated below. If land can be obtained at a reduced price through tax foreclosure, the savings can be passed on to the developer as an added incentive. If the community is acting as the developer, this will help lower development costs and the savings can be passed on to the individual builders.

2. Obtaining zoning approvals. The community can rezone and even site plan the project so a developer only has to install the infrastructure and then obtain building permits for the construction. Prior zoning approval would also help with alternate housing types, like townhouses, condominiums, apartments, etc., where residents in some communities oppose any type of housing that is not large lot, single-family.

3. Extending infrastructure to the site. This is one of the costliest parts of development so if the community can install utilities to the property already purchased, typically at a lower financing rate, this will greatly improve the ability to attract builders. With roads, sewer and water already installed, the community will then have the ability to sell individual lots to builders and eliminate the risk that comes with developing an entire subdivision. This also gives the community flexibility with the builder and ability to ensure high-quality construction; and

4. Establish a risk loan guarantee that will encourage banks to lend for speculative housing development, like subdivisions. The builders we spoke to said that even if they wanted to develop a subdivision, the risk would be too great and the lenders would be hesitant to participate. It would therefore be beneficial to create some form of loan risk guarantee pool that would protect the lenders from loss if the project failed. As a loan guarantee, funding would not have to be committed to each project; only for those projects that fail and the bank has to foreclose on the property. In those cases, the loan fund would cover an agreed upon percentage of the loan and then have the ability to sell the property to a new developer. Such a fund could be undertaken at the community level but would most likely be more effective at the regional level as part of a consortium of communities or economic development agencies.

With many of the successful projects noted above, builders have stated that they were able to offer lower-priced options because they could get higher densities creating an economy of scale. Others were able to acquire the land for development at a very low cost, generally purchasing the land from a municipal entity that obtained the land through the foreclosure process during the last recession. As noted earlier in this strategy, nearly 30% of the costs of new construction projects are regulatory, so finding ways to reduce those costs is critical.

**Additional Strategies**

1. The community should develop an "elevator speech" that promotes the assets of the community and why someone would want to invest there.

2. An inventory of available land should be prepared including ownership, tax and zoning information. The availability and location of public utilities should also be included.

3. It is critical that the community obtain ownership of tax foreclosure properties that have development/redevelopment potential for mixed-use or housing.

4. Where needed, properties that are targeted for development can be re-zoned in advance by the community, making it easier for prospective developers/builders to move forward.

5. Make sure that the zoning and building review process is quick and efficient to avoid unnecessary delays.

6. A strategy must be prepared for the development of residential properties, falling into four categories:

    1. Land suitable for subdivision into multiple lots;
    2. Individual, developable lots for sale to builders;
    3. Land suitable for multiple-family development; and
    4. Mixed-use and urban housing types, like townhouses, flats, etc.

7. Local companies and banks should be recruited as partners in housing development, including financially, since they depend upon the ability to attract quality employees and customers.

8. Review the option for allowing Accessory Dwelling Units and alternative types of housing such as “tiny homes” to increase density in smaller downtown areas

**MEDIUM TO LARGE COMMUNITIES**

These communities have a greater opportunity to attract developers but if they are unsuccessful, can recruit local investors to become developers. The key is highlighting data that proves market demand in the middle-income marketplace. Due to population size, it is far easier for builders to get densities needed to begin new construction projects, especially when it comes to middle-housing options such as duplexes, triplexes, row and townhomes and apartments.

The data also indicates a good opportunity to add new condominium and apartment complexes throughout the region, especially in areas with higher population densities, such as urban and suburban areas. With a push for more housing in downtowns, multi-family housing types, both for rent or purchase may make the most sense for new construction.

**Next Steps**

1. As with smaller communities, an “elevator speech” should be developed that promotes the assets of the community and why someone would want to invest there.

2. An inventory of available land should be prepared including ownership, tax and zoning information. The availability and location of public utilities should also be included.

3. A combination of Target Market Analysis and Market Analysis should be prepared to identify the specific housing needs of the community.

4. A direct marketing program should be established to promote the community and attract developers.

5. Hold a workshop for local business people/investors to encourage them to become developers. Follow-up with training sessions on topics such as pro-forma analysis, public incentives, understanding the real estate market, etc.

**Financing**

One of the common themes throughout the focus group sessions with builders and lenders was the lack of financing opportunities for new housing construction, especially for spec housing. While banks and mortgage lenders are financing new construction for home buyers to build individual home sites, there is still hesitancy to finance large construction projects. Some of the reasoning behind this includes tighter lending regulations since the recession. Other issues included low credit ratings, lack of capital and lack of collateral. The following strategies could help to assist with closing the financing gap:

1. USDA Rural Development Loan Programs – This program assists approved lenders in providing low- and moderate-income households the opportunity to own adequate, modest, decent, safe and sanitary dwellings as their primary residence in eligible rural areas. Eligible applicants may build, rehabilitate, improve or relocate a dwelling in an eligible rural area. The program provides a 90% loan note guarantee to approved lenders in order to reduce the risk of extending 100% loans to eligible rural homebuyers.

2. USDA Multi-Family Housing Loan Guarantee – This program works with qualified private-sector lenders to provide financing to qualified borrowers to increase the supply of affordable rental housing for low- and moderate-income individuals and families in eligible rural areas and towns.

3. MEDC Community Revitalization Program - The Michigan Community Revitalization Program (MCRP) is an incentive program available from the Michigan Strategic Fund (MSF), in cooperation with the Michigan Economic Development Corporation (MEDC), designed to promote community revitalization that will accelerate private investment in areas of historical disinvestment; contribute to Michigan's reinvention as a vital, job generating state; foster redevelopment of functionally obsolete or historic properties; reduce blight; and protect the natural resources of this state. The program is designed to provide grants, loans, or other economic assistance for eligible investment projects in Michigan.

4. Opportunity Zones - Opportunity Zones are a new concept recently enacted in the 2017 Tax Cuts and Jobs Act. The program is designed to incentivize patient capital investments in low-income communities nationwide that have been cut off from capital and experienced a lack of business growth. There are three types of tax incentives that relate to the treatment of capital gains, each of the incentives are connected to the longevity of an investor's stake in a qualified Opportunity Fund that provides the most upside to those who hold their investment for 10 years or more.

Preliminary information indicates an Opportunity Fund can be utilized as a primary investment in a variety of activities. Funds can be used to create new businesses, new commercial or residential real estate or infrastructure. Opportunity Funds can be used to invest in existing businesses if it doubles the investment basis over 30 months.

The incentive can also be combined with other incentives such as New Market Tax Credits (NMTC), Low-Income Housing Tax Credit (LIHTC) and historic rehabilitation tax credit, adding a valuable tool for economic and community development. State and local governments should also consider creating and targeting other resources, especially job training, that will play an important role in leveraging investments. Local activity will show that opportunities exist.

5. New Market Tax Credits - Historically, low-income communities experience a lack of investment, as evidenced by vacant commercial properties, outdated manufacturing facilities, and inadequate access to education and healthcare service providers. The New Market Tax Credit Program (NMTC Program) aims to break this cycle of disinvestment by attracting the private investment necessary to reinvigorate struggling local economies.

   The NMTC Program attracts private capital into low-income communities by permitting individual and corporate investors to receive a tax credit against their federal income tax in exchange for making equity investments in specialized financial intermediaries called Community Development Entities (CDEs). The credit totals 39 percent of the original investment amount and is claimed over a period of seven years.

6. Low Income Housing Tax Credit - The Low-Income Housing Tax Credit (LIHTC) is the most important resource for creating affordable housing in the United States today. The LIHTC database, created by HUD and available to the public since 1997, contains information on 45,905 projects and 2.97 million housing units placed in service between 1987 and 2015.

7. Municipal/Non-profit Public Private Partnerships – This opportunity would allow a municipality or non-profit agency the ability to partner with a for-profit builder to develop new housing options across the region. By partnering, it is possible for the developers/builders to get land at a lower cost, thereby reducing total construction costs. In theory, the municipality/non-profit could hold the land, reducing holding costs and taxes while the project is under construction. The P3 could also be instrumental with infrastructure development on the property and eventually recuperate initial costs upon final sale of property.

8. Collateral Support/Loan Participation – Currently the Michigan Economic Development Corporation offers two programs to support commercial and industrial expansion projects across the State of Michigan. The first, collateral support, provides cash collateral to a qualified lender to support projects with short collateral. The second is a loan

participation program where the State of Michigan will purchase a portion of a loan supporting commercial and industrial expansion for up to 36 months.

The I-69 Thumb Region should work with legislators and the MEDC to expand these programs to include housing development projects. Given the need for new, middle-income housing across the State of Michigan, along with workforce development and the economic development impacts of new housing construction, this should be an easy project for the region to get behind while making a case to the State of Michigan for expansion of this program.

**Workforce Development**

One of the primary reasons for housing costs rising across Michigan is a lack of qualified workers to meet the current construction demands. The Home Builders Association of Michigan has spent a considerable amount of time and effort focusing on this topic, and is seen as the biggest challenge to the construction industry in Michigan.

The I-69 Thumb Region has also spent considerable resources focusing on workforce development challenges facing the region. There are several reasons for the region to focus on workforce development, but for the purposes of this strategy, two are critical.

1. New Housing as an Attraction Tool – Industry across the region and the State of Michigan have stated that workforce attraction is the number one challenge they are facing in the new economy. Since the recession, many of the state's qualified workforce relocated with job opportunities outside of the State of Michigan. The result left many companies across Michigan struggling to find qualified workers, and how to train those that were not qualified for skilled positions.

   Since the end of the recession and the resurgence of manufacturing in Michigan, workers have begun to return to the state and region, but they are struggling to find housing options near their place of employment. New housing across the region could be a primary driver for attracting new workforce to the region. Looking back at commute patterns across the region, it is important to remember that nearly 30% of the workers in the region are commuting in for work. New housing can also assist with attracting and retaining those workers.

   There is an opportunity to partner with companies across the region that have identified housing as a major issue to assist with the cost of new construction. Essentially, a company could become a financial backer of a housing development project to ensure that their employees have a place to live. Additionally, a company could provide a financial incentive to their employees to assist with the cost of housing. This has been done in Flint with Diplomat Pharmacy along with Quicken Loans in the City of Detroit.

2. Workforce Training – As noted above, workers qualified to participate in the construction trades are few and far between in the State of Michigan. The I-69 Thumb Region should continue to partner with K-12 and Higher Education to develop new training programs specific to building trades. This could also be a tool to attract new workers to the region.

**Regulatory Environment**

The regulatory environment for new construction varies across the region. The regulatory environment consists of several items such as the development review process, costs for permitting, costs for utility connections, taxes, environmental factors and other regulations that can add costs to the development process.

It is well-known throughout the economic development world that time is money and time kills deals. While the Redevelopment Ready Communities Program (RRC) may not be ideal for all communities across the region, it can be used as a tool and model to improve the development climate across the region. The intent of the program is review all processes around redevelopment and align them to improve the overall development experience. The program can coordinate Master Plans and Zoning Ordinances to work cooperatively, along with identifying efficiencies for staff to improve the development review process; thereby reducing the time and cost associated with development review.

While there are no "one size fits all" options to improve the development review process, the following recommendations could focus efforts to improve the process.

1. Complete a Rate Study Across the Region – This project would focus on understanding development costs across the region by surveying communities about their rate structures for new construction permits, water and sewer tap fees and costs associated with development review and inspections. Throughout the focus groups, builders identified several communities that they will avoid due to high costs and complicated review processes. This study would help to understand those costs and why they may vary so much across the region.

2. Develop a Best Practices Guide Across the Region – This guide book would highlight communities utilizing best practices, demonstrating exemplary results throughout the region. It could also focus on capacity building measures to assist those communities that may be struggling due to low worker capacity.

3. Subdivision Control Act – This project would involve the region focusing on legislators to make amendments to the State of Michigan's Subdivision Control Act. As written, there is currently a challenge for builders looking to build traditional platted subdivisions due to processes outlined in the act. For new subdivisions built under the act, the approval process can take up to two (2) years. Alternately, a builder can develop a new condo

subdivision and receive approval in as little as six months. Aligning these two pieces of legislation could greatly improve the development review time for new subdivisions and lead to more traditional subdivision development across the region.

**Marketing**

The data presented above is only as good as the region's ability to utilize it for the purposes of attracting new investment. Telling the story is one of the single most important strategies for improving the image across the region and sharing the massive opportunity for new housing construction for middle-income buyers. The following projects should be completed to improve visibility of the region and highlight the market opportunity.

1. Complete a Priority Property Inventory – This project would focus on properties across the I-69 Thumb region that could be positioned for immediate development. As noted above, this should include property ownership (municipal/non-profit/private), taxes, infrastructure and other items important to potential developers. A focus should be placed on those properties held by municipalities that could be potentially sold at a lower cost to the builder. Upon completion of this inventory, a page should be created on the I-69 Thumb website with a sole focus on housing development for the region where the data from this study and others can be shown along with the available property inventory.

2. Prepare print material to specifically target home builders, developers and construction tradesman. Utilize key data across the region to create new materials to support attraction missions and target market development.

**Housing types**

Based upon Target Market Analyses and focus groups, the next several pages highlight housing types that the I-69 Thumb Region should target.

**Rural and Suburban Areas**

*Single Family*

*Single Family*

*Duplex*


*Apartments*

*Mixed Use Apartments*

*Mixed Use Apartments*

*Townhouse/Rowhouse*

*Accessory Dwelling Unit*

*High-Density Single Family*