

Affordable Housing Policy and Land Use

Prepared by Gary Heidel
Michigan State Housing Development Authority
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Michigan households make decisions about where to buy or rent, how much to spend, and the kind of housing they need. Their choices are influenced by priorities including proximity to work, neighborhood amenities, quality of schools, and a sense of safety. Lured by relatively lower tax rates and the pursuit of these priorities, families have been choosing to live in suburbs and rural areas than in cities and small towns.

The result of these decisions is that communities around many of Michigan's larger cities and small towns enjoy growth and prosperity, while the cities, inner suburbs, and small towns experience overall population loss, declining tax bases, and increased concentrations of poverty. This inequity is marked by the uneven distribution of affordable housing throughout the regional housing market. The challenge for state and community leaders is to work together to develop comprehensive investment strategies that promote economic diversity in housing opportunities within communities throughout a region.

There is clearly no single strategy to assure the wise use of vacant and underutilized land. Most regional markets have disinvestment in some areas and a lack of affordability for low-income households in others. Given this wide diversity, state and community leaders must develop strategies to address the individual challenges and opportunities presented in each regional market. Generally, larger cities need more market rate housing, and suburbs and small towns need more affordable housing.

A regional affordable housing investment strategy must address the following components:

- Regional collaboration
- Income diversity
- Mixed-use development
- Regulatory framework

These components are described below. A review of housing trends will help to better explain the context in which recommendations are made.

HOUSING TRENDS

Suburban Sprawl

After World War II, the increase in the number of families increased the demand for housing and automobiles. Investors elected to invest in projects outside cities, lured by

cheap land, expressway development, and utility expansion. Areas were zoned for a single purpose, separating single-family homes from apartments and housing from commercial services, placing neighborhoods miles away from shopping, jobs, and schools. These new bedroom communities, featuring tracts of new homes on large lots, attracted these new families. Eventually, commercial and other services followed the families to the suburbs.

Urban Disinvestment

Migration to the suburbs eventually resulted in widespread disinvestments in many large cities in southern Michigan. The population in these cities has decreased 5 percent in the last 10 years while increasing 10.6 percent in suburban communities. Property values in larger city neighborhoods stagnated or fell for decades. Faced with weak demand for their homes, some sellers decided to rent rather than sell, becoming reluctant landlords. When they did sell, the buyer was often an investor who paid little for the property and had no long-term stake in the neighborhood. By 2000, the percentage of homeowners in cities fell to approximately 55 percent as compared to 78 percent in suburbs. The average median value of a home in a central city is half that of a home in the suburbs.

This migration accelerated in the 1960s, in the wake of the Detroit riots and school desegregation orders that impacted many larger cities. The families leaving these cities were mostly white. They were seeking better schools and a greater sense of public safety. The families who remained were predominantly minority, especially African American, and low income. They found themselves trapped in the only housing they could afford, often without access to good jobs.

Owners were unmotivated or unable to maintain their properties. As values dropped, local property tax revenues failed to keep pace with rising expenses, and services suffered. Tax rates increased, further depressing demand and values. If an individual home burned, the cost of the repairs exceeded the value of the unit. The cash-strapped municipality did not demolish the home, it remained as an environmental eyesore, fueling additional flight and further discouraging investment. In the worst cases, entire neighborhoods were boarded up and abandoned. The infrastructure of the neighborhood, carefully managed for generations, was left underused and neglected.

While the scenario above describes the plight of many cities, it is replayed to some extent in many small towns throughout the state. In smaller towns, where the pressures of racial diversity, economic disparity, and loss of jobs are less extreme, the results remain similar. As households with discretionary income move out, economic incentives for businesses to remain downtown are reduced, stores close, and an impression of overall shabbiness discourages investment by entrepreneurs and new arrivals to the community. Once-stately homes were divided into two- to four-unit rental properties and many are showing signs of overdue maintenance.

RURAL EXPANSION

Sprawl of housing into rural areas is a result of a countervailing trend: the economic exclusion of lower income households from some cities and suburbs. Larger cities like Ann Arbor and Holland, along with the affluent cities of Oakland and Livingston

counties and Michigan's coastal resort communities, have been successful in retaining sufficient vitality to maintain and nurture a vital urban core attractive to more affluent households. To some degree, most small towns also suffer from a lack of affordable housing. Small city lots, carefully planned and fully supplied with water, sewer, curbs and sidewalks, cost more to develop than rural small acreage parcels. In suburban communities, large lot zoning effectively prohibits the construction of affordable housing.

Lower income households find these site costs prohibitive and are attracted by alternatives such as manufactured or other low-cost housing, either in manufactured home parks or on parcels located in rural areas. Manufactured home parks are among the most visible affordable housing strategies. They create controversy by providing housing for large numbers of families needing public services, but generate substantially less tax revenue than housing developed on fee-simple lots. Likewise, the presence of scattered units creates additional demands on public services such as school busing, snow plowing, police and fire protection, and home-based social services.

Most regional housing markets are a blend of the above conditions. Maximizing efficient use of land within a region involves developing strategies to address specific needs of the market. In cities and small towns, this means motivating persons with discretionary income to live in more densely developed neighborhoods. In suburbs, creating more affordable housing is needed. Whatever the strategies, development of affordable housing involves creating neighborhood and community environments where households with a broad range of incomes will choose to invest.

Developing successful regional strategies will require close collaboration between state government, multiple local governments, and other community leaders.

REGIONAL COLLABORATION

Regional collaboration is important to insuring an adequate supply of affordable housing throughout a region. Through collaboration, public agencies and private organizations can work together to share the responsibility of providing all types of affordable housing for all income levels. Local governments especially need to cooperate in the administration of planning, zoning, and development regulations. The region, rather than individual communities, is the operative economic and social unit.

Public agencies and private organizations in Michigan have begun working together to develop regional strategies to improve the quality of life in the Michigan's communities. For example, agencies serving the homeless use the Continuum of Care model for bringing groups together to identify the needs of the homeless, develop strategies, and apply for funds. Statewide housing and community development organizations have recently joined together to form "2020 Vision: The Michigan Challenge for Communities and Neighborhoods." 2020 Vision is an effort to encourage and support regional efforts to eliminate substandard housing and implement comprehensive community development strategies by 2020. The Michigan Conference on Affordable Housing, the second largest conference of its kind in the country, serves as a forum for agencies and organizations to network and learn more about developing affordable housing.

Recommendations

Encourage collaboration by offering state matching grants to regional alliances made up of public agencies and private organizations to develop and support regional housing and land use plans. This would include the sharing of master plans, zoning regulations, and other regulatory tools.

Reward collaboration by targeting a portion of state and local funding to regional collaborations that are cooperating to identify housing needs, developing strategies, and implementing improvement programs.

Establish a Governor’s “Best Practice” recognition for regional collaborations that show positive outcomes in addressing affordable housing needs and mixed-use development.

Create a state land bank authority to work with local governments to transfer tax reverted property for redevelopment in accordance with local and regional development plans.

Use technology to build stronger partnerships between local governments and community-based groups to monitor neighborhood conditions. Such a system can connect groups with information to help fight neighborhood deterioration. The system could include an online inventory of real property to make access to information simpler and more effective. Groups can find out about code violations, housing court cases, water bill arrears, property tax delinquencies, fire records, and real estate sales. This technology should span local government jurisdictions.

Provide incentives to employers to establish “live where you work” programs to create partnerships with local governments to support, instruct, and provide limited down payment assistance for employees choosing to live near their work. The state could take the lead by promoting such a program with state employees.

Develop a housing needs report of housing markets in Michigan. The report should define the market area, the demographics of the population, the number of homeowners and renters, and identify housing need.

INCOME DIVERSITY

Reducing concentrations of poverty in cities and small towns increases the confidence of current and future homeowners in the community. They are less motivated to leave for the suburbs and more drawn to the amenities that are located in urban settings. Increasing income diversity in most Michigan cities involves inducing households who can afford to make choices to choose the city. Conversely, there must also be opportunities for people with lower incomes to live in suburbs. Income diversity can be achieved throughout a region by promoting low-impact strategies to blend housing types. The state and local governments must develop investment strategies to encourage a wide range of housing choices.

The Michigan State Housing Development Authority (MSHDA) has a variety of programs to finance affordable housing for people with low and moderate incomes that

live in cities, suburban communities, and small towns. These programs finance single-family mortgages, home improvements, and multifamily rental developments. MSHDA collaborates with local governments, nonprofit organizations, developers, realtors, builders, and lenders to develop affordable housing throughout the state.

Recommendations

Establish a state housing and community development fund to make grants funds to for profit and nonprofit developers that agree to develop mixed-income rental and homeownership projects.

Increase affordable homeownership opportunities for people with low and moderate incomes in cities, suburban communities, and small towns by increasing the income and purchase price limits in MSHDA's single-family programs. These programs allow first time homebuyers with lower incomes to purchase a home.

Increase homeownership in cities in targeted areas among middle-income homebuyers by providing low interest rate loans through MSHDA.

Encourage redevelopment of tax reverted properties by calculating the taxable value of the property on its value before improvements are made.

Expand the Michigan Individual Development Accounts (IDA) program. The IDA program matches the savings of people with low incomes who are saving for a down payment for purchasing a home, improving their education, or starting a business.

Develop manufactured home designs that are more compatible with existing homes for infill development. These homes are less expensive to construct and as a result are more affordable to homebuyers.

Promote the creation of land trusts in high-cost markets. Land trusts allow nonprofit organizations to create a form of home ownership for families who could not otherwise afford it. While the owner enjoys some of the benefits of home ownership, the real estate is held in trust for the community to assure that there will always be some affordable housing in the local market.

MIXED-USE DEVELOPMENT

Affordable housing alone cannot create vibrant neighborhoods and communities. A full array of mixed uses and structures in close proximity are needed, including housing, office and commercial space with sufficient employment opportunities, quality schools, retail shopping, outdoor recreation opportunities, and some combination of civic and public spaces and buildings. On the one hand, residents provide a buying market and serve as employees for businesses. On the other hand, businesses provide the desired amenities and employment opportunities for residents.

MSHDA and the Michigan Economic Development Corporation (MEDC) have recently coordinated efforts to offer affordable housing and economic development assistance to support core communities in Michigan that develop downtown and gateway revitalization strategies. MSHDA, MEDC, and the Michigan Municipal League have established the

Downtowns in Michigan Network to help revitalize downtowns and other traditional centers of commerce.

Recommendations

Target state funds to mixed-use projects located in core communities. State funds for housing, commercial development, parks, and transit can serve as an important catalyst for comprehensive development projects.

Provide incentives to communities to encourage development where infrastructure is already in place, assuring that the true public cost to build and extend infrastructure is recovered through taxes or impact fees.

Provide incentives favoring the development of housing over existing retail in downtown areas to increase the amount of people supporting downtown businesses.

REGULATORY FRAMEWORK

Creating affordable housing and revitalizing neighborhoods and communities requires state and local governments to think dynamically about laws and regulations governing land use. Healthy communities are places that encourage pedestrian scale, diversity of incomes and race, and mixed uses. The current single-use zoning classification is outdated and ill suited to encourage creative market responses to community needs. The state and local governments must work together to adopt a system that goes beyond this traditional thinking and encourage a comprehensive approach to development. Such a system should keep decision-making local, but provide for regional oversight to insure fairness.

Recommendations

Explore traditional neighborhood development strategies for new development, increasing housing density while maintaining and increasing housing values. Emphasize areas where “walking distance” connects housing to jobs, services, commerce, recreation, and public transportation.

Develop a “scorecard” approach to streamline the local approval process and reduce or waive fees for mixed use projects meeting goals in areas such as design, income mix, transit-orientation, etc. Changes to existing processes and requirements can encourage developers seeking to create a wider range of housing choices.

Require fair-share housing strategies in the master plans of local governments in high-cost areas. The strategies would be targeted to households under 80 percent of median income and could include addressing exclusionary zoning requirements such as minimum lot size, minimum setbacks, minimum square footage, and prohibitions on rental housing.

Encourage renovation and reuse of existing buildings by promoting Michigan’s new Rehabilitation Code for Existing Buildings. The Michigan Association of Home Builders, the Michigan Housing Council, and the Community Economic Development Association of Michigan should work together to educate their members on the new code. In addition, the state through the Bureau of Construction Codes should require training of local building officials to facilitate use of the code.

Promote development of accessory dwelling units such as carriage houses. Accessory dwelling units are apartments created within an existing house, added on to an existing house or above a garage, built as a free-standing dwelling on existing property, or as part of a newly constructed housing development. They can make owning a home more affordable by providing owners with a source of income. They also increase the supply of affordable housing and enable elderly owners to stay in their neighborhoods and age in place.

Transfer the review of manufactured home parks from the Manufactured Housing Commission to local government, insuring that parks do not contribute to sprawl. Many times parks are developed in rural areas and local government subsidizes the cost. Furthermore, the development of parks, including their location, should be part of a regional affordable housing strategy.

CONCLUSION

Policies to encourage affordable housing can significantly improve the quality of life and economic competitiveness of a region. Policies that discourage affordable housing create deep economic and social divisions within regions and communities and limit economic opportunity and investment. To create more affordable housing government and community leaders must think and act regionally. They need to learn to deal with the fact that the region, rather than the individual community, has become the operative economic and social unit for real estate development and investment decisions.

The challenge facing state and community leaders is developing and promoting regional strategies that address the specific affordable housing needs of cities, suburban communities, and small towns.

- In cities with aging infrastructure and abandonment, the ability to attract a significant cross-section of middle-income homebuyers and market-rate renters is the greatest need. Affordable housing that is part of a mixed-use development can stabilize neighborhoods and encourage revitalization through increased private investment.
- Within suburban communities, current zoning laws have resulted in sprawling, single-use zoned and automobile-dependent communities. Affordable housing strategies and flexible zoning laws can improve affordable housing opportunities without burdening communities with large construction costs or concentrations of poor residents.
- Small towns are located in rural areas with have the most land area. The need here is to develop affordable housing and revitalize downtowns and traditional centers of commerce.

Collaborative strategies that promote a mix of affordable housing and market rate housing in conjunction with commercial, recreational, educational, and others in a neighborhood or places that are accessible can create vibrant and diverse communities. This mix will attract a broad range of people to live, shop, and meet friends. Such a

vibrant community will help support market decisions that will lead to wiser use of open space and other land available for development.

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