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Housing Affordability in Michigan: Public and Private Sector Tradeoffs

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Introduction

Housing is becoming increasingly unaffordable. The for-profit housing market is failing working class and low-income families. As a lingering effect of the 2007 foreclosure crises, over 36% of households now rent their home.[1] Rent continues to rise, placing undue burden on many Michigan households. In the state of Michigan, politicians and businesses promote private investment to increase housing supply. As exemplified by the trajectory of Detroit over the past decade, the influx of private capital has serious implications for municipalities. While private investment and development generate economic activity, housing affordability continues to plague many communities. To understand the issue at hand, public officials must weigh the tradeoffs between private and public investment. Ultimately, to address this growing crisis, localities should construct a large number of government-owned municipal housing complexes.

Background and Relevance

In the early 2000s, rapid economic growth, subprime mortgages, and other public policies designed to increase homeownership rates fostered a housing boom in America.[2] By 2007, the proverbial housing bubble began to burst. Throughout the duration of the Great Recession, the national unemployment rate approached 10% and gross domestic product shrunk by 4.3%.[3] As the subprime crisis continued, housing prices plummeted due to the influx of new homes on the market. Quickly, many homes were valued less than their total loan amounts. As the housing market softened, the labor market restricted, and the banking industry spiraled into crisis.

Although the recession was experienced nationally, the disastrous effects were felt acutely in the state of Michigan. Leading up to the 2008 crisis, Michigan was already experiencing a "lost decade."[4] From 2000 to 2009, per-capita income plummeted, jobs left the state at an alarming rate, and homes went into foreclosure.[5] In 2000, Michigan's per-capita income was the 18th highest in the United States. By 2009, the state's rank had fallen to 38th.[6] Michigan lost over 800,000 jobs between 2000 and 2009 — accounting for a 17.2% reduction in total employment.[7] The market crash in 2008 exacerbated the many fiscal and political issues already plaguing the state.

Michigan, and Southeast Michigan in particular, were once favorable regions for homeownership. In 2000, Michigan's homeownership rate was about 77% — 10% higher than the national rate. The great recession devastated the housing market. Thousands of families lost their homes and are still unable to find affordable alternatives. Over the course of the lost decade, Michigan's homeownership rate decreased to 72%.[8] In contrast, national homeownership rates fell by only 2.9%.[9]

Although black homeownership rates declined nationally in the wake of the great recession, Michigan experienced an unprecedented drop in black homeownership - from 51% in 2000 to just 40% in 2016.[10] This rate is even lower than before the passage of the Fair Housing Act in 1968.[11] Wayne, Macomb, and Oakland counties underwent the most drastic reduction, with black homeownership rates falling by 18 percentage points.[12]

The lost decade and the 2008 foreclosure crisis have had lasting impacts on Michigan's housing market and, more specifically, the greater Detroit area. The combination of general economic hardship and the over-assessment of property lead Wayne County to foreclose over a third of properties in the county since 2003.[13] This reality has pushed many previous homeowners into the rental market. Compounded by a general increase in the preference for rental properties, the demand for affordable rental housing units has skyrocketed.[14]

Rental demand has increased throughout the country. Nationally, over 43% of all US households were renters in 2016, up from 31% in 2005.[15] The Urban Institute projects that rental demand will continue to increase throughout Michigan in the upcoming decades. By 2040, rental demand will increase by an estimated 25,000 households in Detroit.[16] These trends are predicted to be consistent throughout the state, with the most significant increases in rental demand occurring in Oakland and Wayne counties.[17]

Problematically, housing supply in Michigan has not kept pace with demand. Specifically, Detroit and its surrounding areas are losing affordable and sufficient housing stock.[18] Often through demolition of housing or rapidly rising rents, once affordable properties are no longer affordable to lower-income households. A report by the National Low Income Housing Coalition found that Metro Detroit's housing supply lacks around 109,000 housing units for those with extremely low incomes (defined as 30% or less than the area median income). Further, the area lacks about 91,000 housing units for those making less than 50% of area median income. In reality, for every 100 extremely low-income households in Metro Detroit, there are only 31 affordable units available. In contrast, Cleveland, Ohio (a city that also struggles with housing supply) has 41 affordable housing units per 100 households in that income bracket.[19] It is abundantly clear that the lack of affordable housing is a serious problem facing the state of Michigan. As Michigan continues to recuperate from the lost decade and the great recession, attention to the housing crisis by local officials is particularly necessary.

Pertinent Stakeholders

There are a multitude of federal, state, and local actors who engage with issues of housing affordability. Local officials and community advocates must recognize the complexity of this network and leverage key actors effectively to precipitate meaningful change.

Federal Actors

The U.S. Housing and Urban Development's (HUD) role in Michigan is largely via grant funding. According to public records available from the Detroit Ledger, HUD has granted the city of Detroit and affiliated organizations almost five hundred million dollars since 2011.[20] This total does not even reflect a full, official record of all funding. Many of HUD's national programs are supported in the state of Michigan. HUD maintains a listing site for single-family properties throughout the state. The homes for sale are often 1-to-4 unit residential properties acquired by HUD as a result of foreclosure.[21] However, the supply of homes via this process is modest.[22] Additionally, HUD's regional midwest and Detroit field offices offer rental and homeownership assistance to Michigan residence.[23]

State Actors

At the state level, the Michigan State Housing Development Authority (MSHDA) is a quasi-public agency. Created as a result of the State Housing Development Authority Act of 1966, MSHDA engages in community economic development via financial and technical assistance.[24] MSHDA attempts to leverage private and public partnerships to ensure safe and affordable housing.[25] Although many state agencies promote housing affordability and community development, MSHDA's involvement spans multiple decades and is the state's primary vehicle for action.

Governor Snyder's action on housing affordability came largely via an emphasis on homelessness and job loss.[26] In 2015, Snyder created the Michigan Interagency Council on

Homelessness. This council's primary goal was to evaluate programs to meet the needs of the state's homeless population.[27] Further exemplifying his emphasis on homelessness, Snyder designated November 2018 as Homelessness Awareness Month in Michigan.[28] Although there were many substantive benefits of these policies, they focused explicitly on those without homes and not ensuring affordable conditions for all Michiganders.

Gretchen Whitmer, Michigan's governor-elect, emphasized poverty alleviation as a pillar of her campaign platform.[29] Whitmer discussed affordable housing as a critical piece to solving urban poverty.[30] Although her goals are lofty, the specificity of her plans remain unclear.[31] Especially given the political makeup of the state legislature in Michigan, it is reasonable to believe that Whitmer may face severe political roadblocks in implementing her policy plan.

Local Actors

There are also a myriad of local actors key to solving the affordability crisis. The Detroit Housing Commission (DHC) focuses on providing quality affordable housing for low and moderate-income individuals in the Detroit Metro area. DHC is the largest public housing agency in the state of Michigan. Focusing heavily on mixed-income communities, DHC's goal is to modernize current public housing stock in Detroit. DHC's annual operating revenue is over $71,000,000 — largely funded by HUD's annual operating subsidy, HUD's annual Capital Fund, and Section 8 fees. Rent from public housing residents also comprises a small portion of DHC's funding.[32]

In addition to public agencies and nonprofits, many private firms and capital ventures complicate the housing landscape of Detroit. Most notably, Dan Gilbert, founder of Quicken Loans and Rock Ventures, has had a significant impact on Detroit's development. Bedrock Detroit, Gilbert's real-estate firm, already owns over 15 million square feet of property in

Detroit.[33] Through vast real estate holdings and sweeping development plans, Gilbert hopes to expand his portfolio to 24.2 million square feet by 2022.[34] Although this certainly means increases in job opportunities and necessary capital investment in Detroit, it is also problematic for the affordability of the city. Gilbert's actions could have a negative longterm impact on Detroit, especially given Bedrock's emphasis on luxury buildings, apartments, and retail space.[35]

Review of National Approaches

The federal government allocates approximately $50 billion each year to means-tested housing programs.[36] Low-income assistance occurs both through spending programs and preferential tax treatment. Unlike many means-tested federal programs, housing assistance is not available to all individuals who are eligible.

<u>Low Income Housing Tax Credit</u>

An investment mechanism created by the federal Tax Reform Act of 1986, the Low Income Housing Tax Credit (LIHTC) acts as a federal subsidy to finance the construction and rehabilitation of low-income affordable rental housing.[37] The LIHTC attempts to incentivize investment that would otherwise be considered unprofitable. This is achieved via a dollar-for-dollar reduction in investor's federal tax liability.

<u>Choice Neighborhoods Initiative</u>

An Obama-era policy, The Choice Neighborhoods Initiative (CNI) employs grants to revitalize entire neighborhoods while taking affordability and accessibility into consideration.[38] CNI has received funding through annual appropriations bills. In terms of federal affordability initiatives, CNI aims to be more holistic — focusing on entire neighborhoods, the health of its inhabitants, and the sustainability (both economically and environmentally) of its housing.[39]

<u>New Markets Tax Credit</u>

Another initiative that seeks to bolster private investment in low-income areas is the New Markets Tax Credit (NMTC). Authorized as part of the Community Renewal Tax Relief Act of 2000, the NMTC was a bipartisan accomplishment. The NMTC incentivizes investment in low-income (both urban and rural) areas. Similar to the LIHTC, the NMTC offers private investors a federal tax credit for economic development projects. Projections claim that the NMTC has generated over one million jobs at an expense of less than $20,000 per jobs for the federal government. Although this initiative has helped increase stock of affordable housing, the positive job growth and economic activity is a significant co-benefit.[40]

Local Approaches to Affordable Housing

An example of successful affordable housing at the local level is Boulder, Colorado. In 2000, the city of Boulder implemented an inclusionary housing program which required that 20% of all new developments included permanently affordable units for low-income households.[41] Additionally, developers that include more than the required amount of affordable units in their building receive reduced building permit fees.[42] Inclusionary zoning will be discussed in detail later in this paper. Although the approach has reaped benefits in Boulder, inclusionary zoning has had mixed outcomes throughout the country.

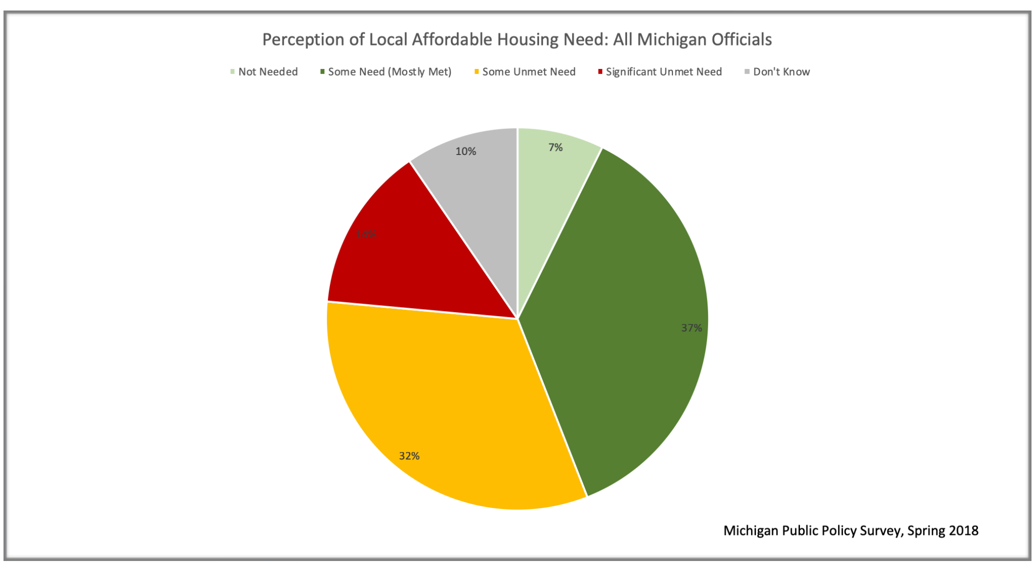
In addition to the federal programs administered in Michigan, multiple cities have attempted to alleviate housing strain on the local level. In 2017, the city of Detroit passed an Inclusionary Housing Ordinance (IHO).[43] The Detroit IHO is less ambitious than the one implemented by the city of Boulder, Colorado. While still stipulating that 20% of units be affordable, the IHO only applies to developments that received discounted land from the city or had been given at least $500,000 in public subsidies.[44] Similar ordinances have been discussed in both Kalamazoo and Ann Arbor, Michigan.

MPPS Data and Problem Definition

Research suggests that, while public concern exists, the political will to tackle the problem may be lacking. To gain a more nuanced understanding of opinions on affordable housing at the local level, the Michigan Public Policy Survey (MPPS) elicited local officials' opinions on housing, zoning, and land use. The data collected by the MPPS offers significant insight into the perspectives of local officials and their priorities regarding important policy decisions.[45] The Spring 2018 and Fall 2017 iterations of the MPPS included multiple questions regarding housing, affordability and development incentives.

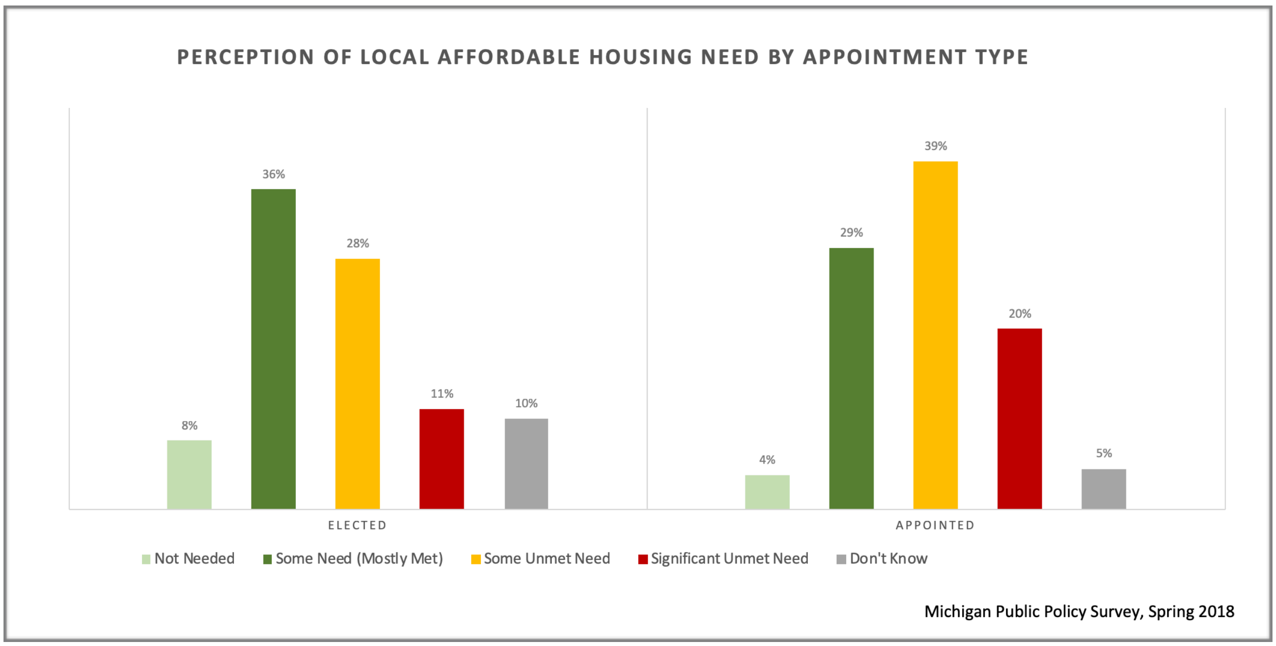
As shown in figure 1., the notion of need for affordable housing is widespread. According to the Spring 2018 wave of the MPPS, when asked if affordable housing is needed by residents to help make ends meet, only 7% of local officials responded that there was no need for affordable housing in their jurisdiction. In contrast, 46% of officials recognize that there are, to some degree, unmet affordable housing needs in their jurisdiction. Considering that this is a sample of all government officials in Michigan, this statistics suggests that a solid proportion of localities have tangible shortcomings in their affordable housing offerings.

Figure 1.



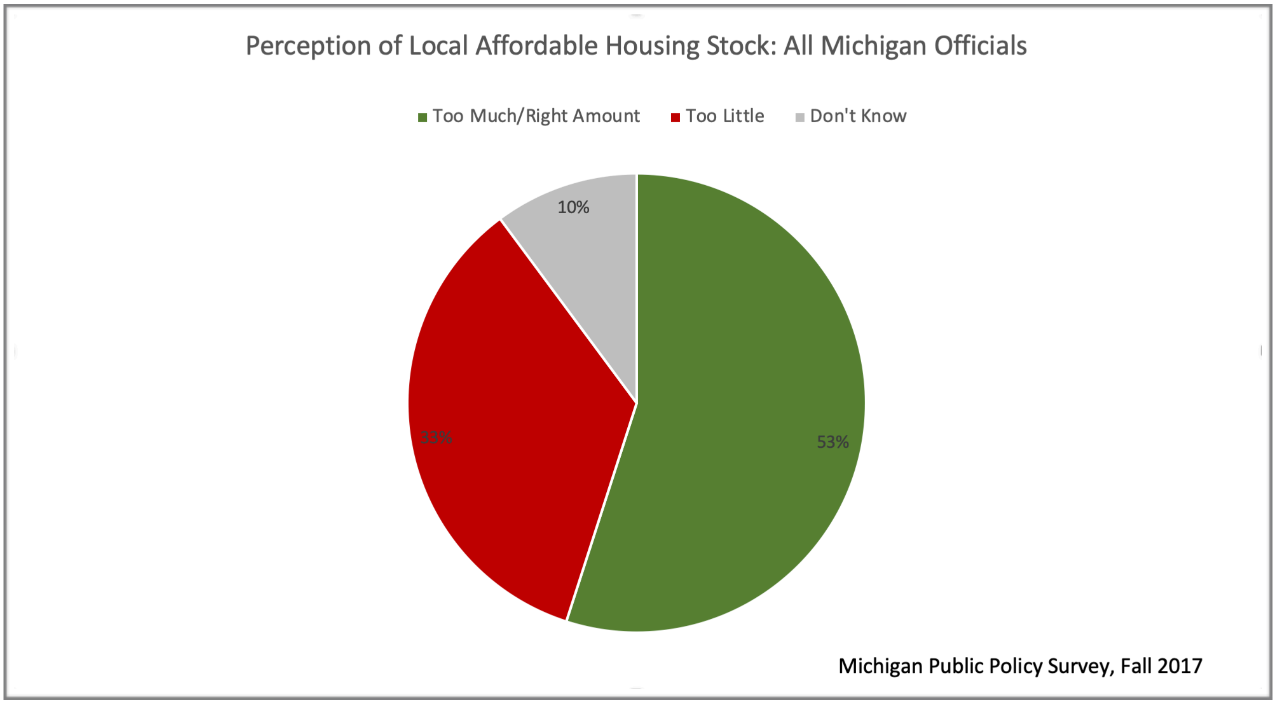
Even more surprisingly, these proportions change fairly drastically when broken down by the appointment type of the official. As shown in figure 2., only 39% of elected officials responded that there is some unmet or significantly unmet need in their locality. In contrast, 59% of appointed officials responded that there is some unmet or significantly unmet need in their locality. More inquiry needs to be conducted as to why this disparity exists, as it could be due to a fundamental different in appointment type or related to what type of official is appointed. Regardless, it is important to note that elected officials, those who are suppose to be most cognizant of their community's needs, may be underestimating the need for affordable housing stock.

Figure 2.



It is clear from the MPPS data that public officials perceive affordable housing need in their jurisdictions. However, the perception of affordable housing stock in jurisdictions is possibly contradictory. Whereas about half of public officials believe there is unmet affordable housing needs in their community, over half of all officials believe their jurisdiction has adequate housing stock (figure 3). This data suggests that, while public officials believe there is serious need for housing affordability, this does not translate into explicit concern over the housing stock in the jurisdiction.

Figure 3.



Current Political Debate

The political debate surrounding housing affordability is ongoing in many Michigan jurisdictions. According to Spring 2018 wave of the Michigan Public Policy Survey, 48% of government officials responded that affordable housing has been a current topic of debate in their jurisdiction.[46] While the debate is multifaceted, it is largely centered on oppositional beliefs in the free market to adequately supply affordable options. As demonstrated by the New Markets Tax Credit and the Low Income Housing Tax Credit, many governmental actors and politicians believe leveraging private investment is the most advantageous method of addressing the problem. Many conservative politicians and think tanks argue that, in actuality, government intervention restricts market-responsive entrepreneurs.[47] By freeing the real estate and development markets, competition would (theoretically) lead firms and consumers to a more beneficial, and complete, equilibrium.

In contrast, others argue that, although the role of government in the housing market is complex, it is necessary. Without regulation, landlords and developers will underproduce affordable units — instead focusing capital investment in luxury (and highly lucrative) ventures.[48] Under a capitalist economic system, firms do not necessarily stay in business based on the quality of the commodity produced. Instead, the margin of profit largely dictates the longterm viability of the firm. Thus, creating and maintaining affordable housing is not the primary goal of landlords or developers. In this framework, housing is simply a medium though which capital can accrue and reproduce. Proponents for heavy government regulation in the housing market argue that, under the current profit model, affordable housing will always be underproduced and under maintained.[49]

In Michigan, this exact debate is continuously occurring. Ann Arbor and Ypsilanti, Michigan exemplify the tension between free-market belief and a desire for intense regulation. Rep. Ronnie Peterson (D-Ypsilanti Township) has argued that the private sector, via tax incentives, must be leveraged to alleviate housing burden.[50] This position is held throughout the state. In contrast, many politicians and housing advocates argue that the profit motives currently involved in development should be removed altogether. Revenue neutral organizations exist throughout the state and have been successful. Governmental organizations, although currently underfunded, play a vital role in ensuring housing affordability. For instance, the Ann Arbor Housing Commission currently manages 16 properties, providing 412 affordable apartments.[51] Although beneficial, these units do not remotely satisfy demand in the city. Nonprofit organizations are also central to the debate. Avalon Housing, a 501(c)(3) services provider, has 288 affordable units at 24 locations in Washtenaw County.[52] As the affordable housing debate proceeds, it will largely boil down to one fundamental question: should focus be predominately on the private or public sector?

Policy Proposal

To adequately discuss potential policy options, both a private and public approach should be considered by local officials. This not only illuminates potential benefits and relative pitfalls of each policy, but offers a more nuanced understanding of the issue. Further, some localities may benefit from a private market approach while others may necessitate more government intervention.

<u>Private Market Proposal: Inclusionary Zoning</u>

If leveraging private investment is deemed the most politically advantageous avenue, Michigan officials should consider an ambitious inclusionary zoning policy. Inclusionary zoning (sometimes referred to as "inclusionary housing" or "IZ") was first introduced in the early 1970s. Initially adopted to alleviate issues of racial segregation, IZ remains a potential tool for maintaining neighborhood diversity and promoting affordability.[53] By subsiding development, IZ policies are intended to proliferate affordable housing throughout a municipality.[54]

IZ strategies incentivize (or require) private developers to designate a set proportion of units in a given development as below market rate (BMR). While IZ policies vary in stringency, the majority of them do serve as mandates for private developers.[55] The threshold of BMR is based on the area median income (AMI). By utilizing the AMI as a baseline, development can be done in a nuanced manner — offering a proportion of units to individuals in differing income brackets. The majority of IZ policies require developers to produce units that are considered affordable to households with incomes between 51-80% of AMI.[56]

For supporters of IZ, the policies achieve their goal of leveraging private incentives to increase investment throughout a locality. Most research suggests that IZ strategies increase (although marginally) low and middle-income housing stock. The main benefit is that the programs do so without significant, direct public subsidy.[57] While the magnitude of benefits may be modest, the policy is more politically feasible than other public housing initiatives. Additionally, a serious concern regarding other traditional (and public) affordable housing programs is that they are not financially sustainable. Since developers can recoup lost profits through adjacent incentives (like density bonuses), IZ policies do not often suffer from issues of insolvency.[58]

Another perceived benefit of IZ policies is that they foster economic and racial integration. IZ policies, by design, encourage developers to build the affordable units on site, effectively facilitating economic and racial integration. This stands as a significant benefit over many other housing policies, which often consolidate poor, minority communities into small, geographic spaces.[59]

Although beneficial in theory and potentially more feasible from a political perspective, IZ policies have not shown to significantly alleviate issues of housing affordability. This may be due to the modesty of the adopted policies. According to a report by the National Housing Conference, 40% of all IZ programs require less than 10% of units be designated as affordable. Further, 80% of all IZ programs require less than 20% of units to hit the affordability threshold.[60] Due to the significant need for affordable housing, it is reasonable to believe that a modest IZ proposal will not have a consequential effects on the housing market.

In an inclusionary zoning study of the San Francisco Bay Area, researchers found that very few affordable units were actually built (totally only about 4% of housing stock needed in the area). The costs of the program were also high, with significant costs shifted unto regional homebuyers.[61] Similar results have been found in studies across the country. In short, IZ policies appear to incentivize very little affordable development and are associated with cost increases to other consumers.[62] As clearly demonstrated by quantitative research, seemingly revolutionary market-based strategies may not have the desired effect. However, most research has been conducted in large, expensive cities. It is reasonable to believe that results may differ based on locality.

Public Sector Proposal: Social Housing

Due to the lackluster results of private incentives, local officials should seriously consider public housing proposals for their locality. Although currently stigmatized and underfunded in the United States, social housing units should be built and managed by municipal governments across the country. While free-market strategies appear to only marginally increase affordable housing stock, a significant influx of publicly owned and sustainably built apartments could drastically increase housing supply.

Municipalities could fund the construction of new housing units via municipal bond markets, federal grants, and loans from the federal government. A solid proportion of the finance scheme could mirror that already established under programs like the low-income housing tax credit. The planning and construction models would also be relatively simple. Similar to the process already used to build public facilities, local libraries, and infrastructure, social housing could be constructed by local developers and management firms. Once developed, social housing could either be managed via a local government authority or a (regulated and monitored) property management company.

This policy would also mitigate issues of displacement, gentrification, and socioeconomic stratification caused by luxury development projects. When luxury development proliferates a rental market, rent skyrockets in the immediate area and (often) falls in adjacent localities.[63] This leads to stratification by wealth. Low-income individuals are effectively displaced from the community while wealthy individuals migrate into the area.

Social housing could be built more efficiently and at a far lower cost than traditional housing developments. First, financing would be more sustainable due to the interest rates on government debt being lower than almost all private financing options.[64] Additionally, whereas private investors must acquire land, municipalities often already own a significant amount of land. On average, local governments own about a fifth of all the land within their municipalities (excluding public parks).[65]

Another significant benefit of social housing is that it ensures the public owns the land and capital assets rather than private investors and developers. As previously discussed, there is concern over the influx of private capital in Detroit. Although significant economic activity and development has occurred, the land and assets are owned by a private individual, Dan Gilbert, rather than the citizens of Detroit. With the current system, profits largely flow to the investors. In contrast, if any profits accrue via social housing, those funds are redistributed to the public. The permanence of private investment is also potentially volatile. In the future, if Dan Gilbert and Bedrock Financial decide that Detroit is no longer a profitable venture, they have less incentive to hold investments in the city limits.

Undoubtably, there are significant roadblocks to pursuing social housing in Michigan and the United States in general. With even private-sector approaches having mixed reception in Michigan, it is likely that a revolutionary uprooting of the housing market would be met with serious political blowback. However, housing affordability is becoming an increasingly salient issue in the Midwest. Social housing should first be piloted in localities with significant need that also have the political will for such a venture. Kalamazoo and Grand Rapids, Michigan could serve as beneficial pilot studies to demonstrate the potential of social housing.

Widespread social housing will also face social and economic stigmatization. Ideally, since social housing is not a means-tested program, stigmatization would be reduced relative to other housing programs. In America, the pervasive negative rhetoric surrounding welfare, housing assistance, and poverty will certainly pose a threat to the viability of social housing. To mitigate this concern, municipalities should seek to diversify the tenants in social housing units — ensuring a more cohesive integration than IZ strategies.

Finally, and perhaps most importantly, social housing will face barriers to funding. As with any policy that attempts to alleviate inefficiencies in the private market, funds must exist to pay for the proposal. As stated previously, leveraging municipal bond markets and federal grants will help alleviate the cost burdens. The costs are tangible and it must be recognized that the funds could be used elsewhere. To justify spending on such a program, local officials must emphasize housing affordability as a priority. Local officials and community members must reframe social housing as a community-wide resources that benefits all residents, not just those living within the units. Adopting a more communal and holistic rhetoric while discussing housing will be key to mitigating concerns over funding.

Conclusion

While public officials and the general population believe that housing affordability is a serious problem, few localities have seriously attempted to address the issue. Inclusionary Zoning is an intriguing policy, especially given the political feasibility of the strategy. However, the magnitude of the policy and its downstream implications must be recognized before pursuing IZ strategies at large. The current political climate is certainly not amenable to robust social policy solutions. Unfortunately, due to the incentive structures of private firms, it is clear that a public approach may be necessary to substantively alleviate housing burden. While social housing may seem like a far-fetched idea found only in Nordic countries, the benefits of the policy are substantial and proven. Housing affordability is a growing crisis. It is likely that a radical approach is necessary to create more equitable, accessible, and sustainable communities.

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