

# Housing Affordability

## GLOSSARY

### **Affordable housing**

*Housing that costs no more than 30 percent of household income.*

### **Housing needy**

*People who live in substandard or overcrowded housing or must spend more than 30 percent of household income for rent or mortgage payments.*

### **Substandard housing**

*Housing that has more than one person per room, lacks complete plumbing, does not have a private kitchen, has inadequate heating, or is physically deteriorated.*

## BACKGROUND

In 2000, after a decade of unprecedented economic growth, the Michigan State Housing Development Authority (MSHDA) estimated that more than 670,000 Michigan households may be classified as “housing needy”—meaning that their dwelling is overcrowded (has more than one person per room), is substandard (i.e., lacks complete plumbing, does not have a private kitchen, lacks adequate heating, or is physically deteriorated), or eats up more than 30 percent of household income in rent or mortgage payments. Recent U.S. Census figures suggest that the national number could be as high as one million households.

### **Home Ownership**

Home ownership is out of reach for a sizeable portion of the population: In Michigan the average sale price for new and pre-owned houses is \$134,058 (Michigan Board of Realtors, 2001). Manufactured housing is more reasonable than traditional housing, averaging \$31,800 for a new, basic unit and \$50,200 for a larger unit with more amenities (National Housing Conference); used units cost less, of course.

### **Rental Housing**

The demand for affordable rental housing is immense because many would-be homeowners have to settle for renting. At the same time, the amount of rental housing is decreasing and some of what exists is deteriorating badly.

One problem with privately owned rental housing is the difficulty in enforcing housing codes (for such reasons as agency understaffing, absentee landlords, and legal hurdles), which contributes to the deterioration and eventual loss of existing rental housing. Moreover, enforcement is inconsistent—too lax in some locales and too strict in others.

Much of the public rental housing was built in the 1930s and 1940s and badly needs replacement or major renovation, but government-funded new construction has nearly ended, and the U.S. Department of Housing and Urban Development (HUD) reports that federal funding for rehabilitation has been cut more than 60 percent over the past decade. The largest federal effort—the section 8 Housing Program—has been reduced significantly since 1980. Federal funding for rental-housing construction and for rent-subsidy assistance has been halved in the past 20 years, dropping from \$32 billion (1980) to \$16 billion (2000).

Moreover, as HUD acknowledges, conditions in many public housing developments are unacceptable: poor management, poor maintenance, deterioration, and high crime rates. As a result, vacancy rates are high—not because there is a lack of demand for such housing, but because people who ordinarily would live there are forced to choose between such conditions and looking elsewhere. HUD has been severely criticized for mismanaging public housing, and major steps have been taken to improve the agency’s efficiency and effectiveness.

Much privately owned rental housing that was subsidized by the federal government has been converted to market-rate units—which is permitted after a number of years follow-

ing construction (the length of time depends on how the mortgage was structured) if the owner forgoes further federal subsidies.

Either as a result of deterioration or through conversion, more than half of the nation's affordable rental units (one million of 1.9 million units) were lost in the late 1990s. In Michigan in 2002 alone, MSHDA reports that the state is at risk of losing some 6,700 affordable apartment units as a result of owners opting out of their contract with MSHDA and putting the units in the more lucrative open market. The agency reports that it is pursuing several strategies to prevent the loss.

There is little or no new construction in the private sector to replace the lost affordable rental units—although in 2001 MSHDA funded 1,228 new units and, through its Low-Income Housing Tax Credit program, helped to finance another 8,322.

### Addressing Michigan's Needs

Of the 3.8 million Michigan households, more than one-third (1.5 million) are low-income, and many live in housing that is overcrowded or substandard. HUD reports that 30 percent of all low-income housing in Michigan is considered substandard. Needy renters outnumber needy owners two to one.

Newly built or existing housing is not affordable for some middle-income and most low-income families. Michigan's efforts to address this need are coordinated through MSHDA. The agency was established in 1966 and is widely recognized for its innovative programs. It receives no state appropriations but instead sells tax-exempt bonds and notes and lends the proceeds at below-market interest rates to developers of rental housing, buyers of single-family homes, and others. In the past 20 years, the agency has

- financed more than \$1.8 billion for nearly 52,000 units of affordable rental housing in Michigan;
- helped to finance approximately \$3.5 billion in single-family mortgages, making it possible for Michiganians to purchase almost 80,000 homes; and
- allocated more than \$150 million in housing tax credits, primarily to developers, which has helped to create more than 40,000 additional rental units.

The housing authority also

- administers certain federal housing programs;

- provides grants to and works with neighborhood groups to finance construction and renovation of low-income housing;
- makes funds available to homeless shelters; and
- provides low-interest loans to help landlords make property repairs.

Michigan has roughly 149,000 low-cost, rent-subsidized housing units plus 18,000 covered under the section 8 low-income certificates and vouchers program—half in municipal housing developments; most are supported by federal programs and some have state subsidies.

Since passage of the National Affordable Housing Act in 1990, Michigan has received approximately \$200 million in Home Funds and is using it for housing rehabilitation and ownership programs and rental assistance. MSHDA administers most of the funds statewide, although some are allocated directly to communities for use in local programs. In addition, such federal programs as Community Development Block Grants, Emergency Shelter Grants, and Housing Opportunities for Persons with AIDS funneled nearly \$76 million into the state last year, with portions or all of each program being used to meet housing needs.

According to MSHDA, 62 percent of those with housing problems who live in central cities are renters. The Detroit Housing Commission reports that nearly half of its renters are inadequately housed and about a third of low-income homeowners live in substandard housing or are paying more than 30 percent of their income for housing. The Detroit Housing Commission provides about 5,800 public housing units, with a vacancy rate of 47 percent; some 1,100 of the total are scheduled to be demolished and 550 are undergoing renovation. Another 4,900 units are covered under the section 8 low-income rent certificates and vouchers program.

## DISCUSSION

Government at all levels is being criticized for failing to address the shrinking supply of affordable housing. In recent years, the federal emphasis has shifted from constructing and rehabilitating low-income housing to giving subsidies to low-income renters for the portion of their housing costs that exceeds 30 percent of income. Various tax reform measures since the mid-1980s have established incentives for developers and owners of low-income housing, but the absence of enough affordable housing stock in Michigan and the nation suggests to many that not enough is being done.

## HOUSING AFFORDABILITY

With diminishing federal responsibility, many believe that state government should expand its role in improving access to adequate low-income housing. Some argue that in limiting its role to that of a financing agency without state appropriations, MSHDA is restricted in its ability to address Michigan's low-income housing problems.

Various measures have been enacted in recent years to improve Michigan's stock of affordable housing. Public Act 147 of 1992, for example, created "enterprise zones"—an economic redevelopment tool under which rehabilitated housing is taxed at a lower rate than it would be elsewhere in the community. By designating up to 10 percent of their geographic area as enterprise zones for up to 12 years, about 30 of Michigan's larger municipalities have considerably increased rehabilitation in those areas.

Public Act 376 of 1996 made 22 "renaissance zones" possible. These provide virtually tax-free housing and business operations in depressed areas. Affordable housing opportunities are believed to have been created in these zones, but the number of units is unknown.

In 2000 the state directed \$25 million of federal Temporary Assistance to Needy Families (TANF) funds to provide housing help for families on public assistance. These funds are administered by MSHDA via an interagency agreement with the Michigan Family Independence Agency (FIA) and allocated as follows:

- \$9 million to Habitat for Humanity, to help 300 families reduce the principal owed on their home
- \$11 million to help with down payments, relocation, credit repair, and home inspections
- \$2.8 million to help people who (1) had never owned a home, (2) had not owned a home in the three years prior, or (3) were purchasing a home in a federally targeted area
- \$1 million to provide MSHDA's section 8 voucher program families with lead-safe rental units
- \$1.2 million to MSHDA for administrative costs

Nearly all of the funds have been expended, and the response to this program suggests to many that a significant number of Michiganders need help in getting affordable housing. Housing advocates feel that the key problem is finding homes for families below 25 percent of the state median income (\$43,448, according to the 2000 Census).

The *State and Local Sourcebook* (*Governing* magazine, 2001) ranks Michigan 48th among the states in state and local government per capita spending on housing. AL-

though the state does administer affordable rental and home ownership programs, much of the funding for it comes from federal resources.

Because some believe that the state needs to make more funding available for comprehensive affordable housing solutions, legislation (HBs 4682–84) has been introduced to create a state housing trust fund focused on the needs of low-income, very-low income, and extremely low-income households.

The bills would create the Affordable Housing Program in MSHDA and the Michigan Affordable Housing Fund in the Department of Treasury. The bills do not establish a revenue source for the fund, although they allow for potential appropriations and contributions and would create a single business tax credit as one way to encourage contributions (one analysis says the SBT credit could yield as much as \$28 million annually until the tax is phased out). The bills provide for grants or loans to eligible applicants (not-for-profit corporations, for-profit corporations, and MSHDA-approved for-profit/nonprofit partnerships) for

- land and building acquisition;
- new construction or rehabilitation;
- predevelopment and development costs;
- preservation of existing housing units;
- infrastructure and community facilities directly supporting housing development;
- insurance premiums;
- operating and replacement reserves;
- down-payment and security-deposit assistance; and
- support services.

Projects would have to fit into their surroundings, and a portion of the program's annual allocation would have to be directed at "special populations," including people who are homeless, have physical and mental disabilities, or live in a distressed or rural area.

Supporters of the bills say that Michigan has a severe housing problem and needs a comprehensive, long-term solution. They assert that a state program and trust fund comprise the best way to develop a responsible program and target those most in need. They point out that for every \$1 spent from a housing trust fund, another \$5–10 is leveraged in other public and private resources (National Low Income Housing Coalition). Proponents further assert that there are economic as well as humanitarian rea-

sons in support of affordable housing: Areas that lack affordable housing are unattractive to business because absence of such housing makes it difficult to maintain a suitable, stable work force.

The bills' skeptics fear that for-profits would use fund money to build and sell affordable housing and then use the profits, however modest, for more-lucrative, nonpublic ventures. The bills' proponents counter that even if some money were to "escape" in this way, including private-sector builders in the program would result in construction of many more affordable housing units than nonprofits could efficiently build on their own.

**FOR ADDITIONAL INFORMATION**

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*Investing in Affordable Housing in Michigan*  
Public Sector Consultants, Inc. (May 2001),  
[www.publicsectorconsultants.com/publications.html](http://www.publicsectorconsultants.com/publications.html)

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