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Four Elements of Better Housing Policy

In a Nutshell

- Many housing affordability and equity issues are rooted in car reliance, disinvestment in the urban core, and reliance on underfunded and inefficient federal housing programs.
- A housing production program must tackle root causes to adequately address housing affordability and equity over the long term.
- The state government should provide rent assistance to low-income households and prioritize repairing vacant/blighted homes, housing that facilitates placemaking, and housing in areas where residents won't be overburdened by transportation costs.

Header

Michigan's first statewide housing plan, which was released in 2022, established a target to add or rehabilitate 75,000 housing units in the next five years. Millions of state and local dollars have been provided via construction subsidies to developers to spur new housing development.

While new construction is needed throughout the state, not all housing developments are equal. Subsidizing housing construction on previously undeveloped land, or in locations that necessitate car transportation, or without considering the elements of placemaking may increase the housing supply, but it won't address wider affordability and equity issues: car reliance, disinvestment in the urban core, and reliance on underfunded or inefficient federal programs to meet the housing needs of the lowest-income households. The state government should maximize its housing investments by focusing on four elements: 1) investing in vacant/blighted homes and infill development, 2) incentivizing housing that facilitates placemaking, 3) locating housing in areas where residents won't be overburdened by transportation costs, and 4) providing rent assistance to low-income households.

Invest in Vacant/Blighted Homes and Infill Development First

Michigan has a significant number of vacant and blighted housing units that can be repaired and put back to productive use, increasing the housing supply and density while also benefiting local governments and nearby property owners. Similarly, building housing on underutilized land within the urban core – called infill development – can increase housing supply and density, while avoiding continued urban sprawl.

According to the 2022 American Community Survey (ACS), Michigan has over 500,000 vacant housing units. A large majority of these units are vacant temporarily, including seasonal units and those in transition of ownership or in between occupants.

In addition to vacant seasonal and transitional units, the ACS tracks “other” vacant units, which include homes that are under foreclosure, being used for storage, needing repair, or are abandoned or condemned. Michigan has 163,374 “other” vacant units. Some of these units are preparing to be rented or sold (9,853 units) or are

in the process of being repaired (30,125 units), but many units are vacant because they need repair (30,356) or are abandoned (18,034). Notably, of the 163,374 “other” vacant units, over 31 percent are located in Detroit.

Many vacant homes will require significant rehabilitation, but rehabbing vacant and blighted homes provides several advantages over building new housing. Rehabbing homes will increase the supply of housing in neighborhoods where infrastructure already exists and was built to serve more homes than are currently occupied. Local governments also will benefit from increased tax revenues and more efficient service delivery. Additionally, addressing blighted and vacant homes should help increase nearby property values and reduce appraisal gaps that are a barrier for prospective buyers in blighted neighborhoods. The statewide housing plan recognizes the potential for using vacant housing units to address the housing shortage, but policymakers have not yet provided significant funding for the most severely impacted local governments to take action.

A related but separate goal should be incentivizing infill development in the urban core over greenfield development on the edges of Michigan’s urban areas. Greenfield development is building on previously undeveloped land, such as farmland or natural vegetation. Infill development, on the other hand, involves developing previously built-on land within existing urban areas that is vacant or underutilized. Developers are inclined to favor greenfield developments because they are generally less complicated than infill developments and are cheaper because of economies of scale enjoyed by building many units in the same place. Despite this preference, infill development offers wider benefits that greenfields do not: it increases density in existing urban areas, making walking, biking, and transit use more attractive and efficient; locates housing where infrastructure already exists; reduces urban sprawl and habitat degradation; and increases nearby property values.

Most communities face challenges attracting infill development because of the higher costs and complexity associated with it, but distressed communities in particular have a much harder time because developers do not generate adequate returns on investments to justify the risk. Public investments and incentives can make projects more attractive, but distressed communities do not have the financial resources to provide them – even when local governments do provide incentives, they are foregoing much-needed tax revenue.

Invest in Housing Where Residents Can Reduce Transportation Costs

In general, as households move further from job centers, transportation costs increase. For low- and moderate-income households, this tradeoff can result in transportation costs that meet or exceed the cost of housing. Encouraging the development of housing close to jobs, grocery stores, and healthcare will help low- and moderate-income households lower transportation costs, reduce commute times, and increase economic opportunity. In thriving downtowns, however, developable land is scarce, making it more expensive than land on the outskirts of existing development. Housing production programs will need to be designed with this added expense in mind.

Significantly reducing transportation costs will also require housing developments to be close to public transit. Local governments are part of a wider regional economy and, as a result, it is common for residents to conduct daily life throughout a region – living in one city, working in another, and shopping in a third. Without a car, participating in these activities is difficult because most communities are planned and zoned for car dependency, and, as a result, public transit is hard to come by in Michigan. When communities design streets for cars and plan for low-density residential neighborhoods separate from daily essentials, public transit and other forms of transportation are less feasible and appealing.

Improving public transit in the state will require changing the way Michigan citizens view, govern, and fund public transportation and will involve policymakers at the state, regional, and local levels. Integrated regional transportation systems that truly connect people across large geographic regions often require years of work, strong political champions, and private sector support, as well as cooperation and buy-in from local officials.

Housing Design Facilitates Placemaking

Housing that is sited close to daily activities and public transit is an essential element of housing policy, but the built form of housing is also important because it influences how residents interact with public spaces. Neighborhood design prior to World War II largely consisted of one-family and two-family homes located on small lots with front porches, narrow yards, detached garages in the backyard, and a “main street” within walking distance. This form of housing facilitated neighborhood engagement and quality public places. In contrast, residential developments today focus on the car and yard, with little emphasis on the potential of streets as quality public places.

An ideal housing policy would not over-emphasize auto-oriented land use patterns and would instead incentivize housing that is pedestrian scale, in walkable, bikeable, transit-oriented neighborhoods. Housing is a durable good that (hopefully) lasts for a long time – if state and local policymakers incentivize auto-oriented housing, whether through zoning, transportation policy, direct housing investments, or otherwise, neighborhoods will continue to attract auto-oriented development.

Provide Rent Assistance to Extremely Low-Income Households

Michigan is short 190,000 affordable housing units for extremely low-income households: those with household incomes at or below 30 percent of the area’s median income. This issue generally is addressed in two ways. The first way is building income-restricted housing units, like the federal Low-Income Housing Tax Credit (LIHTC) program. The second way is with tenant rent assistance, like the federal Housing Choice Voucher program.

Subsidizing new income-restricted housing units is often more costly than subsidizing rent in an existing unit. The Government Accountability Office (GAO) found that units subsidized through LIHTC cost 19 to 44 percent more than units subsidized through vouchers. Other studies evaluating LIHTC suggest that the LIHTC program increases costs because of financial complexity, the time-consuming process, and misrepresentation of contractor costs. Cost aside, new construction may not always be necessary.

The affordability problem facing many low-income households is not caused by exceptionally high housing costs but by relatively low incomes. In 2022, 72 percent of renter households paying more than 30 percent of their income on rent had a household income of less than \$35,000. Subsidizing the construction of new income-restricted housing units can certainly help these households, but these households may already be living in a desirable unit. If housing costs are too high but the housing is otherwise adequate, subsidizing the rent is the most cost-effective (and quickest) way to provide affordable housing and doesn’t require a household to move if they don’t want to.

Relying on the federal program to provide assistance to the lowest-income families has not led to vastly improved affordability outcomes for most low-income households. It has assisted some households but the federal programs are not funded at a level to assist a majority of households in need. Currently, only one in five eligible households receives rent assistance because need greatly outpaces supply. An ideal statewide housing policy would subsidize the rent of low-income households to maximize taxpayer dollars instead of relying exclusively on new income-restricted housing units or federal programs to address housing affordability.

Conclusion

The statewide housing plan presents numerous targets, goals, and strategies for addressing housing challenges in Michigan. In line with this plan, the state is investing in housing construction intended to increase the supply of housing and provide greater affordability for some households. Not all housing investments are equal, though. State housing policy can capitalize on the power that state investment has to facilitate neighborhood revitalization and placemaking and to improve the financial condition of low-income residents. Going forward, housing policy should be crafted to narrowly focus on infill development and rehabilitation of existing units, housing located near transit and with good form, and direct assistance to low-income households.

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